



LANXESS

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LANXESS AG

FINANCIAL STATEMENTS 2009

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CONTENTS

FINANCIAL STATEMENTS 2009, LANXESS AG

- 1 Statement of Financial Position**
- 2 Income Statement**

- 3 Notes**
 - 3 General
 - 3 Accounting Policies
 - 3 Recognition and Valuation Principles
 - 4 Notes to the Income Statement
 - 5 Notes to the Statement of Financial Position
 - 8 Other Mandatory Disclosures

- 13 Changes in Non-Current Assets**
- 14 Disclosures pursuant to Section 160 Paragraph 1 No. 8 of the German Stock Corporation Act (AktG)**

- 15 Management Report**
 - 15 General
 - 15 Sales and Earnings Performance
 - 15 Asset and Capital Structure
 - 16 Employees
 - 16 Compensation Report
 - 17 Report Pursuant to Section 289 Paragraph 4 of the German Commercial Code
 - 19 Report Pursuant to Section 289 a of the German Commercial Code
 - 20 Risk Report
 - 25 Outlook
 - 25 Events After the End of the Fiscal Year

- 26 Responsibility Statement**
- 27 Auditor's Report**
- 28 Financial Calendar/Contact**

STATEMENT OF FINANCIAL POSITION

LANXESS AG

€ thousand	Note	Dec. 31, 2008	Dec. 31, 2009
ASSETS			
Non-current assets	(9)		
Intangible assets			
Acquired concessions, industrial property rights, similar rights and assets, and licenses thereunder		0	4
Property, plant and equipment			
Furniture, fixtures and other equipment		52	86
Financial assets			
Investments in affiliated companies	(10)	738,864	738,864
Other loans	(11)	18,214	17,678
		757,130	756,632
Current assets			
Receivables and other assets			
Receivables from affiliated companies	(12)	936,234	970,104
Other assets	(13)	112,438	50,250
		1,048,672	1,020,354
Securities		82,237	322,827
Liquid assets		223,234	187,677
		1,354,143	1,530,858
Prepaid expenses		1,216	1,008
Total assets		2,112,489	2,288,498
EQUITY AND LIABILITIES			
Equity	(14)		
Capital stock (conditional capital €42,310,000)		83,203	83,203
Capital reserves		806,195	806,195
Other retained earnings		141,420	141,420
Distributable profit		96,932	106,151
		1,127,750	1,136,969
Provisions			
Provisions for pensions and other post-employment benefits	(15)	24,520	27,554
Tax provisions		0	2,008
Other provisions	(16)	26,096	34,689
		50,616	64,251
Liabilities			
Liabilities to banks	(17)	423,943	235,884
Trade payables	(18)	2,306	1,914
Payables to affiliated companies	(19)	481,526	834,465
Other liabilities	(20)	26,348	15,015
		934,123	1,087,278
Total equity and liabilities		2,112,489	2,288,498
Contingent liabilities from guarantees	(21)	547,048	1,172,006

INCOME STATEMENT

LANXESS AG

€ thousand	Note	2008	2009
Sales	(1)	2,433	2,539
Cost of sales	(2)	(2,433)	(2,539)
Gross profit		0	0
General administration expenses		(44,192)	(30,949)
Other operating income		27	440
Other operating expenses		(258)	(1,755)
Operating result		(44,423)	(32,264)
Income from investments in affiliated companies		238,225	117,535
Expenses for loss transfer from affiliated companies		(991)	(25)
Income from other securities and loans included in financial assets		0	178
Interest income (expense) – net	(3)	1,223	(36,004)
Write-downs of financial assets and marketable securities		0	(2,221)
Other financial income and expenses – net	(4)	(27,870)	(25,350)
Financial result		210,587	54,113
Income before income taxes		166,164	21,849
Income taxes	(5)	11,166	28,972
Net income		177,330	50,821
Carryforward to new account	(14)	8,267	55,330
Allocation to retained earnings	(14)	(88,665)	0
Distributable profit		96,932	106,151

NOTES TO THE FINANCIAL STATEMENTS OF LANXESS AKTIENGESELLSCHAFT, LEVERKUSEN

FOR FISCAL 2009

GENERAL

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

ACCOUNTING POLICIES

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

To enhance clarity, certain items in the income statement and the statement of financial position are combined and are 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.

As the primary parent company of the LANXESS Group, LANXESS AG has prepared consolidated financial statements as of December 31, 2009 in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

RECOGNITION AND VALUATION PRINCIPLES

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

Property, plant and equipment is carried at the cost of acquisition. Assets subject to depletion are depreciated. Write-downs are made for any declines in value that go beyond the depletion reflected in depreciation and are expected to be permanent. Additions made in the reporting year are depreciated using the straight-line method. Low-value assets costing up to €150.00 are recognized as expense 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.

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 are computed using the projected unit credit method, taking into account future salary and pension rises, the Heubeck 2005 G mortality tables and using a discount rate of 5.00% for retirement pensions, 4.25% for benefits relating to early retirement and phased retirement programs, and 4.75% for other types of post-employment benefits.

Other provisions are established to cover all foreseeable risks and uncertain liabilities, based on reasonable estimates of such commitments as of the closing date. Where provisions are computed according to actuarial principles, the current interest rate is used.

Liabilities are stated at nominal value.

Income and expenses are accrued in the fiscal year.

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

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

NOTES TO THE INCOME STATEMENT

1 Sales

Sales revenues totaled €2,539 thousand (2008: €2,433 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 €2,539 thousand (2008: €2,433 thousand) comprised expenses relating to the services provided. These were mainly personnel and general administration expenses.

3 Interest income/expense – net

€ thousand	2008	2009
Other interest and similar income		
from third parties	9,090	9,133
from affiliated companies	9,513	6,275
	18,603	15,408
Interest and similar expenses		
to third parties	10,640	21,335
to affiliated companies	6,740	30,077
	17,380	51,412
Interest income (expense) – net	1,223	(36,004)

4 Other financial income (expenses) – net

€ thousand	2008	2009
Other financial expenses		
Expenses for forward commodity contracts	14,967	28,991
Exchange losses	562,570	285,436
Miscellaneous financial expenses	6,288	37,447
	583,825	351,874
Other financial income		
Income from forward commodity contracts	14,967	28,991
Exchange gains	537,075	295,970
Miscellaneous financial income	3,913	1,563
	555,955	326,524
	(27,870)	(25,350)

The miscellaneous financial expenses principally related to the premature closing-out of interest rate and currency hedging transactions and guarantees provided by affiliated companies. Miscellaneous financial income consisted mainly of guarantee commission payments received from affiliated companies.

5 Income taxes

The tax income of €28,972 thousand in 2009 (2008: €11,166 thousand) is the aggregate of €29,654 thousand in tax income for previous years and €682 thousand in tax expense for the year 2009.

6 Personnel expenses

€ thousand	2008	2009
Wages and salaries	17,187	18,088
Social expenses and expenses for pensions and other benefits	12,364	2,583
of which for pensions	[11,920]	[1,970]
	29,551	20,671

7 Number of employees

	Average 2009	Dec. 31, 2009	Dec. 31, 2008
General administration	125	125	107

The increase was mainly due to an organizational re-allocation of employees to staff functions concentrated at LANXESS AG.

8 Audit fees

All fees for the services of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft are published in the notes to the consolidated financial statements of the LANXESS Group.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

9 Non-current assets

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

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, 2009	Net income 2009
	%	€'000	€'000
LANXESS Deutschland GmbH, Leverkusen	100.0	1,499,423	0 ¹⁾
LANXESS International Holding GmbH, Leverkusen	100.0	25	0 ¹⁾

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 comprised 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 previous years under a contractual trust arrangement (CTA) to secure pension obligations.

The current income and expenses of LXS Trust are retained. A negative result of €536 thousand was recorded on these assets in 2009 (2008: negative result of €102 thousand). The fair value of the assets of LXS Trust exceeded their carrying amount at year end.

12 Receivables from affiliated companies

Receivables from affiliated companies totaling €970,104 thousand (2008: €936,234 thousand) almost exclusively comprised short-term loans receivable, including accrued interest, receivables from financial transactions and receivables under profit and loss transfer agreements. Trade receivables of €790 thousand related to the service agreement outlined in Note (1).

All receivables are due within one year.

13 Other assets

Other assets comprised the following:

€ thousand	2008	2009
Tax receivables		
from sales taxes	45,477	15,970
from claims for tax refunds	44,256	22,947
Option premiums paid	22,622	11,264
Other	83	69
	112,438	50,250
of which due in more than one year	11,264	0

The claims for tax refunds include €16,950 thousand relating to a tax audit for previous years, to which a legal entitlement only arises when the revised tax declarations for previous years are submitted.

14 Equity

Equity changed as follows in 2009:

€ thousand	Dec. 31, 2008	Withdrawal from	Allocation to	Dividend	Net income	Dec. 31, 2009
Capital stock	83,203	0	0	0	0	83,203
Capital reserves	806,195	0	0	0	0	806,195
Other retained earnings	141,420	0	0	0	0	141,420
Distributable profit	96,932	0	0	(41,602)	50,821	106,151
	1,127,750	0	0	(41,602)	50,821	1,136,969

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

The Annual Stockholders' Meeting on May 7, 2009, resolved to utilize the distributable profit for 2008, amounting to €96,932 thousand, as follows:

- to pay a dividend totaling €41,602 thousand (€0.50 per no-par share entitled to the dividend)
- to carry forward €55,330 thousand to new account.

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 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 3 and 4 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 price 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 option 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 option rights or the conversion of the mandatory bond.

Authorized Capital

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

15 Provisions for pensions and other post-employment benefits

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

16 Other provisions

The other provisions are established for vacation and overtime credits, the phased early retirement program, long-service anniversaries, bonuses, performance-related remuneration plans (LTIP) for employees and other uncertain liabilities. Other uncertain liabilities mainly comprised the expected cost of the Annual Stockholders' Meeting for fiscal 2009 and both the performance-related and fixed components of the remuneration of the Supervisory Board.

The long-term, performance-based component of the compensation system is the Long Term Incentive Program (LTIP). This comprises three-year tranches for the periods 2005 through 2007 and 2008 through 2010.

The LTIP for the period 2005 to 2007 comprised the Stock Performance Plan (SP) and the Economic Value Plan (EVP). Payments have been made under the 2005 through 2007 tranches of the LTIP since 2008.

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

The EVP is an incentive oriented toward an increase in the economic value of LANXESS. The reference base for the remaining tranche 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 AG 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 in the LTIP is contingent upon a personal investment in LANXESS AG shares, which must be held for a total of five years. Each tranche runs for a total of six years, comprising a three-year retention period and a three-year exercise period.

17 Liabilities to banks

Of the liabilities to banks totaling €235,884 thousand (2008: €423,943 thousand), €5,884 thousand are due within one year and €50,000 thousand mature in more than five years.

18 Trade payables

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

19 Payables to affiliated companies

Payables to affiliated companies amounting to €834,465 thousand (2008: €481,526 thousand) mainly comprise loans, including accrued interest, and liabilities relating to financial transactions.

All payables are due within one year.

20 Other liabilities

€ thousand	2008	2009
Option premiums received	22,622	11,264
Tax liabilities	526	398
Liabilities for social expenses	296	310
Miscellaneous liabilities	2,904	3,043
	26,348	15,015
Amount due within one year	15,124	15,015
Residual terms of more than one but less than five years (option premiums)	11,224	0

21 Contingent liabilities

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

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

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

€ thousand	2008	2009
to banks	40,225	55,394
to suppliers	6,823	15,007
to holders of the bonds issued by LANXESS Finance B.V.	500,000	1,101,605
	547,048	1,172,006

OTHER MANDATORY DISCLOSURES

22 Notification of interests held in the company (Section 160 Paragraph 1 No. 8 of the German Stock Corporation Act)

Notifications of interests held in LANXESS AG pursuant to Section 160 Paragraph 1 No. 8 of the German Stock Corporation Act (AktG) are set out in an annex to these notes.

23 Derivative financial instruments

The notional value of financial derivatives contracts concluded with external counterparties was €1,512 million as of December 31, 2009 (2008: €2,120 million). Opposite derivatives contracts with a notional value of €1,461 million (2008: €2,015 million) were concluded with Group companies. The notional value of derivative financial instruments totaled €2,973 million (2008: €4,135 million) on the closing date and comprised the following:

€ thousand	Notional value		Fair value		Carrying amount	
	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009
Forward exchange contracts						
– positive fair values	1,404,141	1,120,810	62,396	46,060	0	0
– negative fair values	1,311,356	1,170,326	78,272	47,748	11,624	0
	2,715,497	2,291,136	(15,876)	(1,688)	(11,624)	0
Currency options						
– positive fair values	504,397	294,029	51,218	14,586	22,622	11,264
– negative fair values	504,397	294,029	51,218	14,586	22,622	11,264
	1,008,794	588,058	0	0	0	0
Cross currency interest-rate swaps						
– positive fair values	200,000	0	53,762	0	0	0
	200,000	0	53,762	0	0	0
Forward commodity contracts						
– positive fair values	105,448	46,735	39,956	11,062	0	0
– negative fair values	105,448	46,735	39,956	11,062	0	0
	210,896	93,470	0	0	0	0
	4,135,187	2,972,664	37,886	(1,688)	(11,624)	0

The notional value of forward exchange contracts totaling €1,120 million (2008: €1,309 million) includes instruments with positive fair values of €15 million and negative fair values of €31 million (2008: positive and negative fair values of €34 million each) passed through to other Group companies (matching negative or positive fair values at other Group companies).

The currency option and forward commodity contracts with external counterparties as of December 31, 2009 were passed through to other Group companies via back-to-back transactions.

The fair values of forward exchange contracts were derived from their trading or listed prices using the "forward method." Currency options are valued using an asset pricing model based on that of Black & Scholes.

The fair values of forward commodity contracts were also derived from their trading or listed prices by the "forward method". If no market price is available, the value is determined using generally accepted valuation methods.

Wherever possible, derivative financial instruments were valued in closed positions with the corresponding underlyings or items in the statement of financial position, so no valuation results had to be recognized. Option premiums paid and received amounted to €11 million each (2008: €23 million) and are recognized in other assets and liabilities, respectively, as valuation units at cost of acquisition.

There were no derivatives with negative fair values on the closing date (2008: €12 million; recognized in other provisions).

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

In fiscal 2009 annual compensation totaling €3,592 thousand (2008: €5,087 thousand) was expensed for the members of the Board of Management of LANXESS AG. This comprised fixed salaries of €2,250 thousand (2008: €2,303 thousand) and bonus payments of €1,342 thousand (2008: €2,784 thousand). The actual payments to be made in 2010 may differ from this amount.

In addition, the members of the Board of Management received multi-year compensation under the Long-Term Incentive Program (LTIP). This amounted to €1,519 thousand (2008: €1,630 thousand), comprising €1,147 thousand (2008: €1,102 thousand) for the stock-based Stock Performance Plan and €372 thousand (2008: €528 thousand) for the non-stock-based Economic Value Plan.

A total of 2,203,750 rights were allocated to members of the Board of Management in 2009 under the stock-based Stock Performance Plan (2008: 2,203,750). The fair value of these rights at the grant date was €1,147 thousand (2008: €1,102 thousand).

In addition, expenses of €1,792 thousand (2008: €710 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 2009.

Remuneration of the Supervisory Board

€ thousand	Fixed compensation	Remuneration for committee membership	Attendance allowance	Total
2009	740	170	181	1,091
2008	740	170	210	1,120

In addition to the compensation payable for fiscal 2009, claims to compensation exist as follows:

The 2006 Annual Stockholders' Meeting amended Section 12 of the articles of association to introduce a long-term incentive based on the standard term of an individual's membership of the Supervisory Board (five years). Unlike the fixed compensation component, this variable compensation component is not paid every year, but only once at the end of the standard five-year term of office. If a Supervisory Board member serves a shorter term, the amount is prorated.

Payment of the variable compensation depends on how LANXESS's stock performs relative to the Dow Jones STOXX 600 ChemicalsSM index during a member's five-year term. The percentage changes in the stock price and the index over this period are calculated as follows: The average price of LANXESS stock and the average level of the index during the 90 trading days prior to the Annual Stockholders' Meeting at which the Supervisory Board members were elected are each compared to the respective average for the 90 trading days prior to the Annual Stockholders' Meeting at the conclusion of which the members' terms end. The variable compensation is only payable if the stock has outperformed the benchmark index. The exact amount of the variable compensation depends on the extent to which the stock price outperformed the benchmark index in the preceding five years. If LANXESS stock has outperformed 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.

The expected claims to compensation were valued at €1,549 thousand as of December 31, 2009 (2008: €1,466 thousand) and recognized as a provision.

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

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

Payments of €276 thousand (2008: €117 thousand) were made to former members of the Board of Management in 2009. In addition €95 thousand (2008: €353 thousand) was recognized as current pension expense.

Provisions of €6,830 thousand were recognized as of December 31, 2009 (2008: €6,735 thousand) for ongoing pensions and pension entitlements of former members of the Board of Management.

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

There were no loans or advances to members of the Board of Management or the Supervisory Board as of December 31, 2009, nor had any other financial commitments been entered into for these individuals.

27 Corporate Officers

Supervisory Board

Members of the Supervisory Board hold or held offices as members of the supervisory board or a comparable supervising body of the corporations listed in addition to the offices held on supervisory or similar boards of subsidiaries of companies in which they hold corporate office (as of January 29, 2010).

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. plc., London, U.K.

Former member of the Board of Directors of The British Petroleum Co. plc., London, U.K.

Further offices:

- Chairman of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Member of the Supervisory Board of Biesterfeld AG, Hamburg
- Member of the Board of Directors of Smith & Nephew plc, London, U.K.
- Member of the Board of Directors of JSC Severstal, Russia
- Vice Chairman of the Advisory Board of HOYER GmbH, Hamburg
- Member of the Advisory Board of KEMNA Bau Andrae GmbH & Co. KG, Pinneberg

Dr. Friedrich Janssen

Member of the Board of Management of E.ON Ruhrgas AG, Essen

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Member of the supervisory boards of various subsidiaries of E.ON Ruhrgas AG, Essen
- Member of the Advisory Board of HDI-Gerling Sach Serviceholding AG, Hanover
- Member of the Supervisory Board of National-Bank AG, Essen

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
- Member of the Advisory Board of Hörmann GmbH & Co. KG, Kirchseeon (until December 31, 2009)

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

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:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Chairman of the Supervisory Board of WCM Beteiligungs- und Grundbesitz AG i.L., Frankfurt am Main
- Chairman of the Supervisory Board of Petrotec AG, Duesseldorf
- Chairman of the Supervisory Board of BorsodChem Zrt, Kazincbarcika, Hungary
- Member of the Supervisory Board of MCE AG, Linz, Austria

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 (up to September 2009)
- 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 (up to January 21, 2010)

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Member of the Supervisory Board of Deutsche Telekom AG, Bonn (since January 1, 2010)
- Member of the Supervisory Board of Commerzbank AG, Frankfurt am Main
- Member of the Advisory Board of Hoberg & Driesch GmbH, Düsseldorf
- Member of the Supervisory Board of E.ON Ruhrgas AG, Essen
- Further offices at subsidiaries of ThyssenKrupp AG, Duisburg and Essen

Dr. Sieghard Rometsch

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

Former spokesman for the personally liable partners of

HSBC Trinkaus & Burkhardt KGaA, Düsseldorf

Further offices:

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

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

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Vice Chairman of the Supervisory Board of Vattenfall Europe Mining AG, Cottbus
- Vice Chairman of the Supervisory Board of Vattenfall Europe Generation AG, Cottbus
- Vice Chairman of the Supervisory Board of 50Hertz Transmission GmbH, Berlin
- Member of the Supervisory Board of Vattenfall Europa AG, Berlin
- Vice Chairman of the 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 INEOS Deutschland GmbH, Cologne
- Member of the Supervisory Board of INEOS Köln GmbH, Cologne

Werner Czaplak

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 AG 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, Mannheim

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 company's Board of Management are listed below:

Mandate des Vorstands

Member of the Board of Management	External offices	Offices within the LANXESS Group
Dr. Axel C. Heitmann Chairman of the Board of Management	<ul style="list-style-type: none"> Member of the Presidium of the German Chemical Industry Association (VCI) Member of the Asia-Pacific Committee of German Business (APA) Member of the Board of Trustees of Konvent für Deutschland e.V. Member of the Board of Trustees of the North Rhine-Westphalia chapter of Stifterverband für die Deutsche Wissenschaft Member of the Advisory Board of Goethe Institut e.V. 	<ul style="list-style-type: none"> Chairman of the Executive Board of LANXESS Deutschland GmbH Chairman of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd.
Dr. Werner Breuers Board of Management member	<ul style="list-style-type: none"> Member of the Supervisory Board of CURRENTA Geschäftsführungs-GmbH Member of the Board of Trustees of the VCI's Chemical Industry Fund Member of the Board of Trustees of the DWI at RWTH Aachen University Member of the German Committee on Eastern European Economic Relations 	<ul style="list-style-type: none"> Member of the Executive Board of LANXESS Deutschland GmbH Chairman of the Supervisory Board of SALTIGO GmbH Chairman of the Supervisory Board of ALISECA GmbH Chairman of the Board of Directors of LANXESS K.K. Chairman of the Board of Directors of LANXESS International S.A.
Dr. Rainier van Roessel Board of Management member, Industrial Relations Director	<ul style="list-style-type: none"> Member of the Board of the VCI Regional Association in North Rhine-Westphalia Member of the VCI Trade Policy Committee Member of the 1 b Experience-Exchange Group of the German Association for Personnel Management (DGFP) 	<ul style="list-style-type: none"> Member of the Executive Board of LANXESS Deutschland GmbH Chairman of the Board of Directors of LANXESS S.A. de C.V. Executive member of the Board of Administration of LANXESS N.V. Chairman of the Supervisory Board of Rhein Chemie Rheinau GmbH Chairman of the Board of Directors of LANXESS Hong Kong Ltd. Chairman of the Board of Directors of Holding Hispania S.L. Chairman of the Board of Directors of LANXESS Chemicals S.L. Chairman of the Board of Directors of LANXESS Corp. Chairman of the Board of Directors of LANXESS Pte. Ltd. Chairman of the Governing Board of LANXESS S.r.l. Member of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd. Chairman of the Board of Directors of LANXESS India Private Ltd.
Matthias Zachert Board of Management member, Chief Financial Officer	<ul style="list-style-type: none"> Member of the Board of Directors of Deutsches Aktieninstitut Member of the Advisory Board of Institut für Unternehmensplanung (IUP) Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU) 	<ul style="list-style-type: none"> Member of the Executive Board of LANXESS Deutschland GmbH Member of the Board of Directors of LANXESS Corp. Member of the Board of Administration of LANXESS N.V.

CHANGES IN NON-CURRENT ASSETS

LANXESS AG

€ thousand

	Gross carrying amounts				Amortization/depreciation and write-downs		Carrying amounts	
	Jan. 1, 2009	Additions	Disposals	Dec. 31, 2009	Accumulated, Dec. 31, 2009	2009	Dec. 31, 2009	Dec. 31, 2008
Intangible assets								
Software licenses	35	7	0	42	38	3	4	0
	35	7	0	42	38	3	4	0
Property, plant and equipment								
Furniture, fixtures and other equipment	80	52	0	132	46	18	86	52
	80	52	0	132	46	18	86	52
Financial assets								
Investments in affiliated companies	738,864	0	0	738,864	0	0	738,864	738,864
Other loans	18,214	173	0	18,387	709	709	17,678	18,214
	757,078	173	0	757,251	709	709	756,542	757,078
Total non-current assets	757,193	232	0	757,425	793	730	756,632	757,130

DISCLOSURES PURSUANT TO SECTION 160 PARAGRAPH 1 NO. 8 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Notified by	Date of change	Threshold	Voting rights		Attributable voting rights
		%	%	absolute	
TIAA-CREF Funds, New York, U.S.A.	Feb. 5, 2010	3.00	3.04	2,526,011	TIAA-CREF Funds, New York, U.S.A. (pursuant to Section 22 Paragraph 1 German Securities Trading Act, WpHG)
Teachers Advisors, Inc., New York, U.S.A.	Jan. 15, 2010	3.00	3.11	2,586,348	Teachers Advisors, Inc., New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act, WpHG)
JPMorgan companies					
JPMorgan Asset Management (UK) Limited, London, U.K. ¹⁾	Jan 14, 2010	5.00	5.06	4,209,975	JPMorgan Asset Management (UK) Limited, London, U.K. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 German Securities Trading Act, WpHG)
JPMorgan Investment Management Inc, New York, U.S.A. ¹⁾	Jan. 14, 2010	5.00	5.06	4,209,975	JPMorgan Investment Management Inc, New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 German Securities Trading Act, WpHG)
JPMorgan Asset Management (Taiwan) Limited, Taipei, Taiwan ¹⁾	Jan. 14, 2010	5.00	5.06	4,209,975	JPMorgan Asset Management (Taiwan) Limited, Taipei, Taiwan (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 German Securities Trading Act, WpHG)
JPMorgan Chase Bank, National Association, Columbus, U.S.A. ¹⁾	Jan. 14, 2010	5.00	5.06	4,209,975	JPMorgan Chase Bank, National Association, Columbus, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 German Securities Trading Act, WpHG)
Third Avenue Management LLC, New York, U.S.A.	June 4, 2009	5.00	4.94	4,109,699	Third Avenue Management LLC, New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act, WpHG)
Greenlight Group					
Greenlight Capital Qualified, LP, New York, U.S.A. ¹⁾	Oct. 6. 2008	5.00	5.01	4,169,050	Greenlight Capital Qualified, LP, New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 Sentence 1 German Securities Trading Act, WpHG)
Greenlight Capital, LP, New York, U.S.A. ¹⁾	Oct 6, 2008	5.00	5.01	4,169,050	Greenlight Capital, LP, New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 Sentence 1 German Securities Trading Act, WpHG)
David Einhorn, U.S.A. ¹⁾	Oct, 6, 2008	5.00	5.01	4,169,050	David Einhorn, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 1 German Securities Trading Act (WpHG) and Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 Sentence 1 WpHG)
DME Advisors, L.P., New York, U.S.A. ¹⁾	Oct. 6, 2008	5.00	5.01	4,169,050	DME Advisors, L.P., New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 Sentence 1 German Securities Trading Act, WpHG)
Greenlight Capital, LLC, New York, U.S.A. ¹⁾	Oct. 6, 2008	5.00	5.01	4,169,050	Greenlight Capital, LLC, New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 1 German Securities Trading Act (WpHG) and Section 22 Paragraph 2 Sentence 1 WpHG)
Greenlight Capital, Inc., New York, U.S.A. ¹⁾	Oct 6, 2008	5.00	5.01	4,169,050	Greenlight Capital, Inc., New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 Sentence 1 German Securities Trading Act, WpHG)
Dodge & Cox, San Francisco International Stock Fund, California, U.S.A.	Dec. 17, 2007	10.00	10.25	8,671,842	Dodge & Cox, San Francisco International Stock Fund, California, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act, WpHG)

1) The voting rights reported by the JPMorgan companies and the Greenlight group are not additive.

MANAGEMENT REPORT OF LANXESS AG

FOR FISCAL 2009

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 foreign activities acquired or established by the LANXESS Group since 2007. 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 determined largely by 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.

The sales revenues of €2,539 thousand (2008: €2,433 thousand) reported in the income statement relate to services provided for 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 €30,949 thousand (2008: €44,192 thousand) principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The decline was due to the absence of the one-time expense arising in the previous year from the change in the method of accounting for pensions. After other operating income of €440 thousand (2008: €27 thousand) and other operating expenses of €1,755 thousand (2008: €258 thousand), the company reported an operating loss of €32,264 thousand (2008: operating loss of €44,423 thousand).

The financial result, which comprises the balance of income and losses from investments in affiliated companies, the net interest position, income from loans classified as financial assets, write-

downs of financial assets and marketable securities, and other financial income and expense, was positive at €54,113 thousand (2008: €210,587 thousand). This positive result was due to the profit transfer of €117,535 thousand (2008: €238,225 thousand) from LANXESS Deutschland GmbH, while the other items diminished the financial result. The drop in earnings at LANXESS Deutschland GmbH was mainly due to the impact of the economic crisis and the related decline in business activity. Income from loans classified as financial assets amounted to €178 thousand, while write-downs of €2,221 thousand were made on financial assets and marketable securities. The company recorded net interest expense of €36,004 thousand (2008: net interest income of €1,223 thousand) and the balance of other financial income and expense was negative at –€25,350 thousand (2008: –€27,870 thousand). The negative interest result in 2009 was attributable to additional borrowings from subsidiaries. The negative balance of other financial income and expense reflects the costs of the premature closing-out of interest-rate hedges.

LANXESS AG reported income before income taxes of €21,849 thousand (2009: €166,164 thousand). The tax income of €28,972 thousand in 2009 (2008: €11,166 thousand) resulted from tax income of €29,654 thousand in respect of previous years less tax expense of €682 thousand for the year 2009. Net income was €50,821 thousand (2008: €177,330 thousand).

Including income of €55,330 thousand that was carried forward, the distributable profit amounted to €106,151 thousand.

ASSET AND CAPITAL STRUCTURE

In the light of its function as a strategic holding company and "liquidity pool", the statement of financial position for 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, 2009 were €2,288,498 thousand (2008: €2,112,489 thousand). This was €176,000 thousand or 8.3% more than at year end 2008.

Non-current assets amounted to €756,632 thousand, which was 33.1% of total assets. Financial assets include the interest in LANXESS Deutschland GmbH amounting to €738,839 thousand.

Current assets accounted for €1,530,858 thousand, which was 66.9% of total assets. Receivables from subsidiaries accounted for 42.4% of total assets and related principally to financial transactions and short-term loans. Securities accounted for 14.1% and liquid assets for 8.2% 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 as well as a further €100 million credit facility with a financial institution.

Equity was €1,136,969 thousand, while equity coverage of total assets decreased to 49.7% due to the increase in total assets. The main changes in the equity of LANXESS AG comprised a dividend payment of €41,602 thousand for 2008 and an increase of €50,821 thousand due to net income. Equity coverage of non-current assets was 150.3%.

On December 31, 2009 liabilities amounted to €1,151,529 thousand, which was 50.3% of total equity and liabilities.

The provisions of €64,251 thousand, amounting to 2.8% of total equity and liabilities, were mainly for employee pensions and other commitments, statutory obligations and expenses relating to fiscal 2009.

The liabilities totaling €1,087,278 thousand accounted for 47.5% of total equity and liabilities. Significant sources of financing were payables to subsidiaries (€834,465 thousand), amounting to 36.5% of total equity and liabilities, and liabilities to banks (€235,884 thousand), amounting to 10.3%.

EMPLOYEES

The number of employees rose slightly to 125 at year end (2008: 107). The average headcount in 2009 was 125 (2008: 102).

The increase was mainly due to an organizational re-allocation of employees to staff functions concentrated at LANXESS AG.

COMPENSATION REPORT^{*)}

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

In addition to an annual base salary, fiscal 2009 compensation included two performance-based components linked to LANXESS's annual performance (the Annual Performance Bonus, or APB) and multi-year performance (the Long Term Incentive Program, or LTIP).

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 €2,250 thousand in fiscal 2009.

The annual performance-based component is called the Annual Performance Bonus (APB), 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. The maximum APB is capped at 150% of the amount of the compensation component to be calculated in this way. The amount expended for performance-based APB payments totaled €1,342 thousand in fiscal 2009. Actual payments in 2010 may differ from this amount. The following table shows details of the compensation paid to individual members of the Board of Management of LANXESS AG:

Annual Compensation of the Board of Management

€ thousand	Base salary	Variable component ¹⁾	Total
Dr. Axel C. Heitmann	828	491	1,319
Dr. Werner Breuers	442	262	704
Dr. Rainier van Roessel	436	262	698
Matthias Zachert	544	327	871
	2,250	1,342	3,592

1) Payment in 2010

The LTIP is divided into three three-year tranches. For 2005 to 2007 it comprises the Stock Performance Plan (SP) and the Economic Value Plan (EVP). For 2008 to 2010, it consists only of the Stock Performance Plan.

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

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

In light of the development of LANXESS stock and the reference index, SP entitlements from the LTIP that are available for exercise would not result in any payment at the time of preparation of the annual financial statements.

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

^{*)}Abridged version of the information presented in the Management Report for 2009.

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

Long-Term Compensation of the Board of Management

	SP rights granted in 2009 (exercisable from 2012)		EVP rights (exercisable from 2011)
	Number of rights	Fair values € thousand	€ thousand
Dr. Axel C. Heitmann	806,250	419	120
Dr. Werner Breuers	430,000	224	86
Dr. Rainier van Roessel	430,000	224	86
Matthias Zachert	537,500	280	80
	2,203,750	1,147	372

Of the EVP rights shown in the above table, 160,000 (carrying amount: €117 thousand) pertained to Dr. Heitmann, 114,667 (carrying amount: €84 thousand) each to Dr. Breuers and Dr. van Roessel, and 106,667 (carrying amount: €78 thousand) to Mr. Zachert as of the reporting date.

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 APB 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.

In 2009 the pension expenses amounted to €887 thousand for Dr. Heitmann, €231 thousand for Dr. Breuers, €502 thousand for Dr. van Roessel and €171 thousand for Mr. Zachert.

Obligations to former members of the Board of Management totaled €6,830 thousand at December 31, 2009.

Payments of €276 thousand were made to former members of the Board of Management.

In fiscal 2009, the members of the Board of Management were entitled to indemnification should their service contracts terminate for defined reasons at the instigation of the company 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 APB.

No additional benefits have been pledged to any Board of Management member in the event of termination of their service. In 2009, no member of the Board of Management received benefits or assurances of benefits from third parties in respect of their duties as Board of Management members.

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

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, 2009 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 programs must observe a lock-up period before disposing 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 of LANXESS AG authorizes the Supervisory Board to resolve on amendments relating solely to the form of the articles of association.

7. Repurchase of own shares

On May 7, 2009, the Annual Stockholders' Meeting of LANXESS AG issued an authorization, valid through November 5, 2010, to the Board of Management to purchase shares of the company up to a total of 10% of the company's capital stock for any legally permissible purpose. The company's affiliates as well as any third parties acting on the company's or its affiliates' behalf may also exercise this authority. At the discretion of the Board of Management, such shares may be acquired on the stock exchange or via a public purchase offer. The Board of Management is authorized to use them for any purpose permitted by law. In particular, it can

retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interests in companies or in order to conclude mergers, 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 3 and 4 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 option 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 option rights or the conversion of the mandatory bond.

Authorized Capital

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

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the Compensation Report in this Management Report. Such agreements, albeit with different terms, also exist between the company and members of the first and second levels of upper management. In addition, the terms of the €500 million Euro Benchmark Bond issued by LANXESS Finance B.V. in 2005 contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. The bond was guaranteed by LANXESS AG. The same applies to the terms of the €500 million and €200 million Euro Benchmark Bonds issued by LANXESS Finance B.V. in the 2009 fiscal year, which are also guaranteed by LANXESS AG. The company has signed agreements for loans with two major banks, each in the amount of €100 million. 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 credit facility that is currently at €1,408 million. This agreement can also be terminated without notice if another company or person takes control over more than 50% of LANXESS AG. The same is true for four promissory note agreements in the aggregate amount of €130 million that the company arranged with four credit institutions. Furthermore, according to agreements between the company and LANXESS Pension Trust e.V., the company is obligated to make considerable payments to LANXESS Pension Trust e.V. in the event of a change of control.
9. The service contracts between the company and the members of the Board of Management of LANXESS AG as well as between the company and members of the first and second levels of upper management of LANXESS AG contain compensation agreements applicable in the event of a change of control, as such change is more particularly described in the respective contracts. A takeover bid in and of itself is not considered a change of control for these purposes.

REPORT PURSUANT TO SECTION 289 A OF THE GERMAN COMMERCIAL CODE

The Board of Management and Supervisory Board have issued the Declaration on Corporate Governance pursuant to Section 289a of the German Commercial Code (HGB). This declaration has been made available to the stockholders and the English version is permanently posted at www.lanxess.com, Investor Relations, Corporate Governance.

RISK REPORT

Risk management Risk management is important for LANXESS because business activity necessarily entails risks as well as opportunities. LANXESS'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 in the long term and ensuring its successful future development. LANXESS's risk management activities are based both on internal organizational workflows, which are managed by way of control and monitoring mechanisms, as well as on early warning systems that are used to closely observe changes in external conditions and systematically implement the appropriate measures. Like all methods for dealing with business risk, this system does not offer absolute protection. However, it does serve to prevent business risks from having a material impact on the company with a sufficient degree of certainty.

LANXESS's 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 committees of the 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.

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

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

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

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

There is also provision for immediate internal reporting on specific risk issues such as significant corporate compliance violations. In 2009, there was no cause for immediate reporting of this kind of significant risks at LANXESS.

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

LANXESS 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.

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

The Accounting Group Function, which reports to the CFO, is responsible for the accounting process and therefore for preparing the financial statements for LANXESS AG. The financial statements of LANXESS AG are subject to a full audit by the auditor.

The control and monitoring of LANXESS's accounting processes ensure that generally accepted accounting practices in line with the applicable laws and standards, particularly the German Commercial Code (HGB), are applied at LANXESS and guarantee the reliability of the company's financial reporting. The accounting-related internal control system used by LANXESS is based on generally accepted standards (COSO model). There were no material changes to this system during the period under review. Uniform accounting in compliance with the German Commercial Code is based on a structured process with appropriate organizational structures and workflows, including the related working instructions. The principle of the separation of functions as expressed in structured authorization and approval procedures and the dual-control principle as well as continual plausibility testing are applied throughout the process. On the IT side, the accounting process is supplemented by an integrated IT system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access. The correctness of the automatically generated postings and the master data required for them is regularly reviewed. Manual postings are based on a systematic voucher system, documented to the necessary extent and verified downstream.

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

The full Board of Management prepares the financial statements which are then forwarded to the Supervisory Board's Audit Committee without delay. Upon recommendation by the Audit Committee, the financial statements are approved by the Supervisory Board at its financial statements meeting. The Supervisory Board, and especially its Audit Committee, deal with major questions relating to LANXESS's accounting and risk management, the audit mandate and the areas of focus for the auditor's audit of the annual financial statements.

Monitoring of risk management and the internal control system

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

Risks of future development

Impact of the global economic crisis The chemical industry, which was heavily impacted by the global financial and economic crisis in 2009, showed initial signs of recovery in the final months of the year. Compared to 2009, this is cause for a somewhat more optimistic outlook in the challenging 2010 fiscal year. However, as long as no solid evidence exists for a sustained economic upturn, setbacks cannot be ruled out. For this reason, forecasting risk remains at an above average level. 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.

As long as the economy has not recovered fully, the problem of low demand will result in reduced revenues and an associated decline in margins. The chemical industry requires a lot of fixed assets. Therefore, LANXESS faces the risk of plant underutilization and lower fixed cost degression when orders decrease. We counter this development with active facility management, whenever possible temporarily shutting down plants that are not operating at capacity and thereby reducing the associated fixed costs.

As a result of the crisis, an increasing number of insolvencies by customers and suppliers could occur. This can still be the case even once we have passed the peak of the economic crisis and could result in additional risks to sales and earnings. Active contract management is practiced continually to minimize this risk. Measures include rigorous trade receivables management, adjustments to credit limits and increased use of receivables insurance, as well as the ongoing monitoring of our key suppliers' business situation. Risk provisions are additionally set up for current and pending customer insolvencies.

A sustained weakness 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 strongly affected LANXESS in the first six months of 2009 was the at times steep drop in the price of various petrochemical raw materials as well as other important basic chemicals. In the second half of the year, the most important raw materials again saw prices rise, sometimes significantly. This trend toward rising commodity prices is assumed again for 2010. However, if this trend were to reverse, LANXESS might have to recognize impairment losses on the value of its processed and unprocessed inventories. These would be in addition to the write-downs already reported in the financial statements. In order to limit this effect, LANXESS is practicing careful inventory management by reducing inventories that it does not need.

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 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. 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 hedging raw material and energy price risks. To guard against possible supply bottlenecks due to factors such as the failure of a supplier or of an upstream operation at a networked site, LANXESS pursues an appropriate inventory strategy and lines up alternative sources of supply.

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

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

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

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

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 LANXESS's future earnings.

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

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

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

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

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

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

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

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

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

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

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

OUTLOOK

In order to support our business performance in 2009, the LANXESS Group successfully implemented a comprehensive package of measures at the operating level that will be continued in the current fiscal year and which will yield further cost structure improvements. In addition, the LANXESS Group significantly enhanced its operating performance, even in the extremely challenging economic climate, by way of the forward-looking and rapid implementation of these measures. We have successfully positioned the Group during the crisis so that it can benefit from a recovery in the global marketplace.

The LANXESS Group is well-positioned in all segments worldwide and in the past year has also improved its presence in key growth regions, particularly in the rapidly expanding markets in Brazil, India and China.

We expect the ongoing recovery of our customer industries in fiscal 2010. However, there is still uncertainty concerning the extent and duration of this recovery, which will vary widely from region to region. It is expected to be strongest in Asia, particularly in China and India, in the coming fiscal year. In Latin America, especially Brazil, we also expect the economy to pick up at a faster pace. However, no prediction can yet be made concerning the sustainability and strength of the recovery in North America in the course of 2010. In Europe, we believe that demand will improve overall, although growth will trend very differently from country to country.

Against the backdrop of the successful alignment and positioning of the LANXESS Group and the expected improvement in demand, we are again generally more optimistic about the future and anticipate significantly better earnings in fiscal 2010 than in 2009. Provided that the global economy continues its recovery, the positive earnings trend that we expect for 2010 should also carry on into fiscal 2011.

LANXESS AG expects the expenses incurred for performing its tasks as a management holding company to be approximately the same as in 2009. Apart from this, the earnings position of LANXESS AG will be dominated by the financial result (net interest position, the balance of income and losses from investments in affiliated companies, and other financial income and expense). In 2010 we expect to report higher net interest expense, an improvement in the balance of income and losses from investments in affiliated companies and a reduction in other financial expenses. 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.

EVENTS AFTER THE END OF THE FISCAL YEAR

No events of material significance have occurred since the end of the 2009 fiscal year.

RESPONSIBILITY STATEMENT

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

Leverkusen, March 2, 2010

LANXESS Aktiengesellschaft, Leverkusen

The Board of Management

Dr. Axel C. Heitmann

Dr. Werner Breuers

Dr. Rainier van Roessel

Matthias Zachert

AUDITOR'S REPORT

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 1 January to 31 December 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis

within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Cologne, March 3, 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Peter Albrecht
Wirtschaftsprüfer
(German Public Auditor)

Jörg Sechser
Wirtschaftsprüfer
(German Public Auditor)

FINANCIAL CALENDAR 2010

MAY 11

Interim Report Q1 2010

MAY 28

Annual Stockholders' Meeting

AUGUST 6

Interim Report Q2 2010

SEPTEMBER 14/15

LANXESS Media Day

SEPTEMBER 15/16

LANXESS Capital Markets Day

NOVEMBER 10

Interim Report Q3 2010

FEEDBACK

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PLEASE DO NOT HESITATE TO CONTACT US
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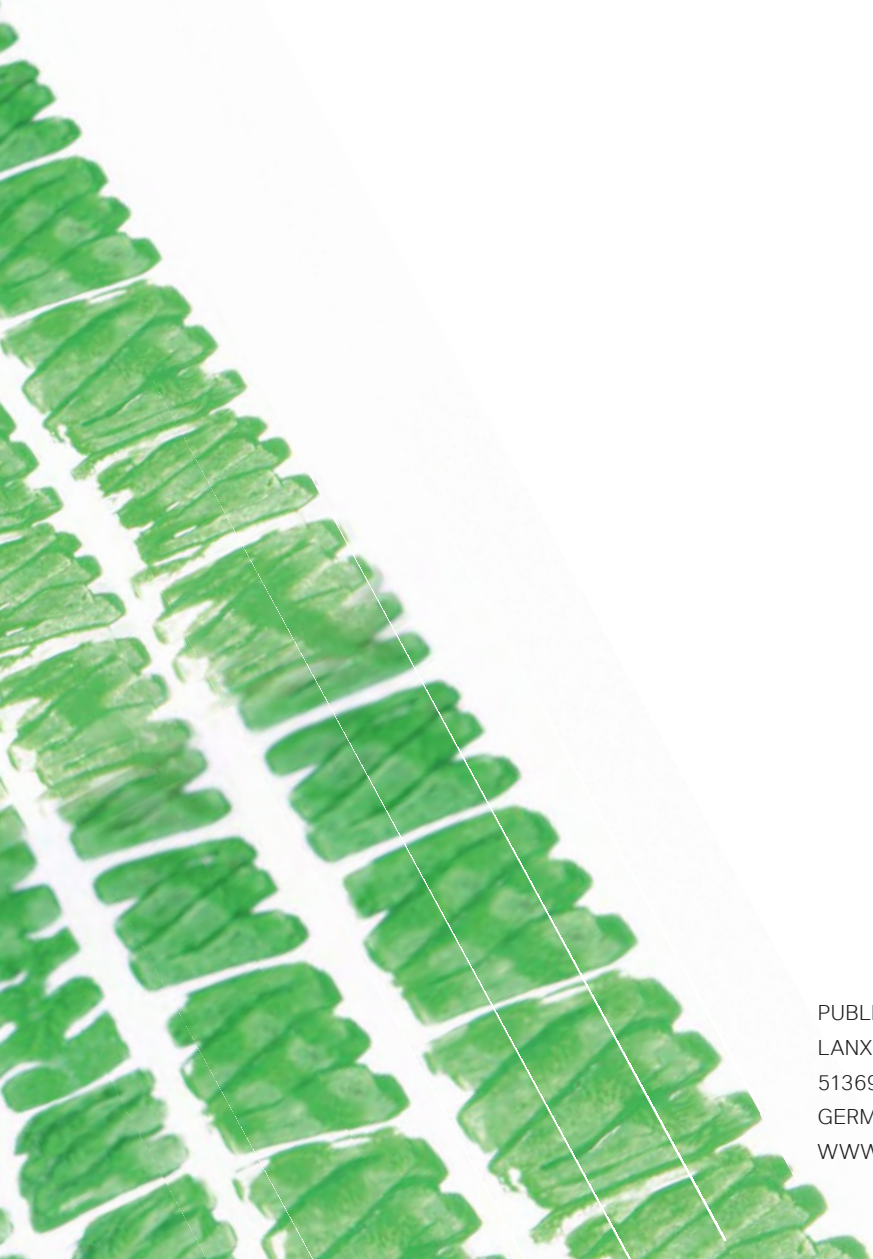
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