CONTINUITY MEETS FLEXIBILITY

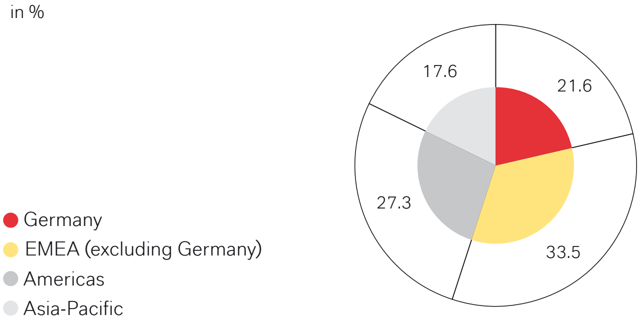
ANNUAL REPORT 2008

Key Data

€ million	2007	2008	Change in %
Sales	6,608	6,576	(0.5)
EBITDA pre exceptionals	719	721	0.3
EBITDA margin pre exceptionals	10.9%	11.0%	
EBITDA	513	601	17.2
Operating result (EBIT) pre exceptionals	472	461	(2.3)
Operating result (EBIT)	215	322	49.8
EBIT margin	3.3%	4.9%	
Net income	112	171	52.7
Earnings per share (€)	1.32	2.05	55.3
Dividend per share (€)	1.00	0.50	(50.0)
ROCE	17.7%	15.0%	
Cash flow from operating activities	470	506	7.7
Depreciation and amortization	298	279	(6.4)
Capital expenditures	284	356	25.4
Total assets	4,049	4,651	14.9
Equity (including minority interest)	1,525	1,407	(7.7)
Equity ratio	37.7%	30.3%	
Pension provisions	470	483	2.8
Net financial liabilities	460	864	87.8
Employees (as of December 31)	14,610	14,797	1.3
Training ratio	7.0%	6.6%	
Personnel expenses (€ million)	1,064	1,062	(0.2)
Occupational injuries resulting in at least 1 day's absence (per million hours worked)	3.6	3.1	(13.9)
Energy consumption (petajoules)	49	48	(2.0)
Total water consumption (in thousand cubic meters per day)	1,240	1,138	(8.2)
Emissions of greenhouse gases (CO_2 equivalents in thousand tons)	3,491	2,407	(31.1)
Emissions of volatile organic compounds (in thousand tons)	3.8	4.0	5.3
Total waste (in thousand tons)	320	273	(14.7)
Total wastewater (in thousand cubic meters per day)	92	88	(4.3)

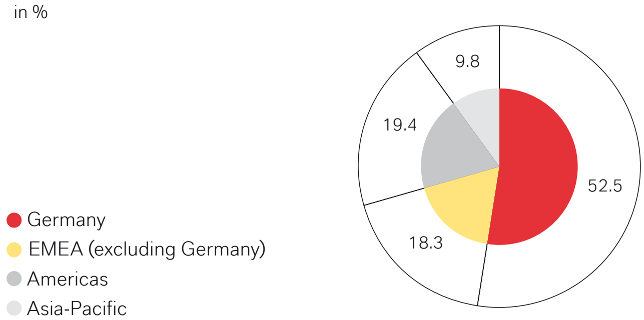
Sales by Region

in %



Employees by Region (as of December 31)

in %



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

PERFORMANCE POLYMERS

Market Position

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

< €200 million	–
€200–500 million	–
> €500 million	• Butyl Rubber • Performance Butadiene Rubbers • Technical Rubber Products • Semi-Crystalline Products

Performance Indicators

€ million	2007	2008	Change in %
Sales	2,680	3,280	22.4
Share of Group sales	40.6%	49.9%	
EBITDA[1]	376	413	9.8
EBITDA margin[1]	14.0%	12.6%	
Capital expenditures	139	178	28.1
Employees (as of Dec. 31)	4,334	4,672	7.8

1) pre exceptionals

ADVANCED INTERMEDIATES

Market Position

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

< €200 million	–
€200–500 million	• Saltigo
> €500 million	• Basic Chemicals

Performance Indicators

€ million	2007	2008	Change in %
Sales	1,204	1,310	8.8
Share of Group sales	18.2%	19.9%	
EBITDA[1]	174	186	6.9
EBITDA margin[1]	14.5%	14.2%	
Capital expenditures	52	76	46.2
Employees (as of Dec. 31)	2,450	2,530	3.3

1) pre exceptionals

PERFORMANCE CHEMICALS

Market Position

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

< €200 million	• Material Protection Products • Ion Exchange Resins	
€200–500 million	• Inorganic Pigments • Functional Chemicals • Leather	• Rhein Chemie • Rubber Chemicals
> €500 million	–	

Performance Indicators

€ million	2007	2008	Change in %
Sales	1,970	1,930	(2.0)
Share of Group sales	29.8%	29.3%	
EBITDA[1]	285	241	(15.4)
EBITDA margin[1]	14.5%	12.5%	
Capital expenditures	69	82	18.8
Employees (as of Dec. 31)	5,223	5,021	(3.9)

1) pre exceptionals

YESTERDAY In just four years since we were spun off from the Bayer Group in 2005 we have established a completely new corporate structure with a performance-oriented culture, divested operations that did not generate adequate margins, and charted a sustainable position for LANXESS. This enabled us to fully achieve in 2008 the goals originally envisioned for 2009.

TODAY LANXESS is a stable company at the core of the chemical industry, focused on Performance Polymers, Advanced Intermediates and Performance Chemicals. We actively support our customers' innovation processes and help them to generate measurable value. Safety, environmental protection, social responsibility, quality and economy are our major corporate goals.

TOMORROW Our stable foundation is the basis for sustainably and successfully producing innovative and high-quality specialty chemicals, even in a challenging environment. By acting quickly and consistently, we aim to be one of the first companies in the chemical industry to return to a path of long-term growth.

100 YEARS OF SYNTHETIC RUBBER

The century-old success story of synthetic rubber began on September 12, 1909, with the granting of the patent for "methyl rubber." The substance was invented by chemist Fritz Hofmann, who worked in the laboratories of "Elberfelder Farbenfabriken vorm. Friedr. Bayer & Co." Even today, there are few other materials with the same versatility and appeal. The advances in automotive technology, energy production and air and space travel would be inconceivable without this invention. As one of the world's largest producers of synthetic rubber, we are proud to carry Hofmann's legacy into the future.

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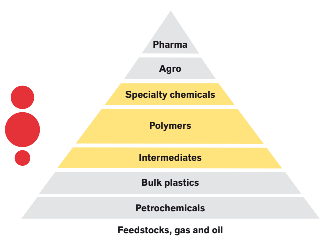

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All the important facts about the LANXESS Group's sustainable actions in respect of its employees, the environment and society.

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Information about LANXESS's positioning, the company's strengths and the strategic measures being taken to counter the economic crisis.

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Overview of the business units with detailed descriptions of events in fiscal 2008 – ranging from investment projects to product innovations.

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Review of LANXESS stock's performance in fiscal 2008, share performance data and information about the company's activities in respect of the capital market.

KEY

WEBLINKS

Ladies and Gentlemen,

Fiscal 2008 was another excellent year for LANXESS, and it gives me great pleasure to again present improved financial data. We met every goal we set for ourselves. The positive trends in the global economy that dominated the first half certainly helped, but undoubtedly of far greater importance was the wide range of measures and activities we have launched since the company was established in order to steer LANXESS toward lasting success.

However, the transition from good to bad was perhaps never as swift as in the year under review. The financial crisis that had been smoldering in the United States since the middle of 2007 grew much worse than anticipated from the second quarter of 2008 and very rapidly put growing strain on economic performance the world over. Our businesses also felt the effects of these developments to an ever greater extent as the end of the year approached. Demand for our products dropped sharply in the last quarter. Against this background, there is all the more reason to be proud of our results for 2008.

We are also particularly happy to report that, as announced, we reached all the targets originally envisioned for 2009 one year ahead of schedule despite the increasingly tense economic climate:

- at 11.0 percent, our margin is on a par with the average reported by our competitors,
- all LANXESS businesses achieved margins above five percent by the end of 2008 and
- we have retained our investment-grade rating.

In contrast, the performance of our stock in the reporting year can only be described as unsatisfactory. As in the second half of 2007, it was dominated by outside factors and regrettably did not reflect the successes LANXESS achieved. Nevertheless, we will rigorously pursue our corporate strategy, which you support, and hold steady on our course. We are confident that this will be rewarded in the form of a more favorable stock price when the situation on the international capital markets normalizes and the economy regains momentum.

In operating terms, the highlight of 2008 was our first major step in the way of external growth, namely the acquisition of one of Latin America's leading synthetic rubber producers, Petroflex S.A. of Brazil. Petroflex's business ideally complements our product mix and strengthens our presence in one of the world's top growth regions. The integration of the company's activities into our Group is proceeding on schedule, and Petroflex already made a solid contribution to earnings in 2008. In addition, the transaction has made LANXESS one of the largest international chemical companies in Brazil.

We set several milestones as part of our comprehensive "LANXESS goes Asia" growth program in 2008. For example, we announced the construction of a new chemical production site for synthetic rubber in Singapore for an investment of up to €400 million.

In India, we commenced construction of a new ion exchange resin plant at the new site in Jhagadia that is set to go on stream in 2010. Also, rubber chemicals production in India is to be relocated there from Thane. Altogether, LANXESS is investing some €50 million in Jhagadia.

LANXESS made its first acquisition in China in 2008. From our previous cooperation partner Jinzhuo Chemicals we have acquired one of the country's largest iron oxide pigment facilities, characterized by its state-of-the-art and environmentally compatible production methods.

We also increased our activities in central and eastern Europe in fiscal 2008.

At LANXESS, commercial success, a deep commitment to the environment and social responsibility are inseparable. In the context of our consistent strategy of sustainability, we continued in 2008 to invest in ideas, products and technologies that not only strengthen our market position, but also protect the environment and improve the quality of life. For the first time, additional information on this strategy and on our social involvement has been compiled into a separate chapter of the annual report. Our environmental performance figures are also provided there.

The slump in demand that began to grip the markets in the fourth quarter of 2008 has now evolved into a global recession that surpasses all other economic crises since the Great Depression of 1929. The crisis has spread to nearly all industry sectors and thus had a significant impact on almost all of LANXESS's business units. The steep drop in sales afflicting one of our chief markets, the automotive sector, has had a particularly adverse effect on our business. But other major customers, including the chemicals and construction industries, are also suffering under the strained economic situation.

In order to cushion the effects of the weak global demand on our company and strengthen the enterprise, we announced a global package of measures named "CHALLENGE 09" at the start of this year. This creates the basis for LANXESS to be one of the first companies to exit from the crisis.

It is now particularly clear that our decision to prepare LANXESS for stormy weather was both right and well timed. Over the past few years we have not relied on the chemical economy alone to advance our business but have worked actively and resolutely to place the company in a better position, both operationally and financially. Our healthy balance sheet and our secure long-term financing mean that we have no need to raise capital in today's very difficult financial market environment.

In addition, targeted restructuring has enabled us to build a lean and efficient specialty chemicals enterprise at the core of the chemical industry. The strength of our product portfolio is apparent, especially now when global demand is at a low level. We focus on:

- less cyclical customer industries such as tires and agrochemicals,
- strategic growth regions such as the BRIC countries and
- technology-driven quality products and processes.

Today, LANXESS is well positioned and competitive. Our innovative, high-quality products and services create value that also benefits you, our stockholders.

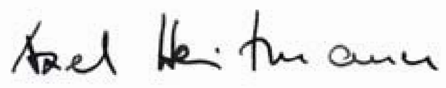
And as a final point, we have the innovative products our customers need to respond to ever more pressing challenges like saving energy, protecting the environment, improving the quality of drinking water and increasing food production.

In order to tap further growth potential and make full use of our innovative capacity, we established the new Innovation Group Function effective January 1, 2009, in which we have pooled our activities and expertise in the area of research and development.

Despite the challenges arising from the global economic crisis, 2009 will offer at least one highlight, as we celebrate 100 years of synthetic rubber, a material nearly unmatched in its versatility and appeal. The patent for "methyl rubber" was granted on September 12, 1909, following its discovery by chemist Fritz Hofmann, who worked in the laboratories of "Elberfelder Farbenfabriken vorm. Friedr. Bayer & Co." The world as we know it, with all the advances in automotive technology, energy production and even air and space travel, would be inconceivable without this invention. As one of the world's largest producers of synthetic rubber, we are proud to carry Hofmann's legacy into the future. Our chemists and technicians work tirelessly to find new uses for this material.

One thing is true, not just for synthetic rubber but for the Group as a whole: LANXESS has the creative will and innovative capacity to master the future. We owe much of this to our employees across the globe. They face up to new situations with commitment and see change as an opportunity for our company. On behalf of the entire Board of Management, I would like to express my gratitude and recognition to them for this. I would also like to thank our business partners for the trust-based cooperation, which we hope to continue. And I would like to extend my thanks to you, our stockholders, for your confidence in our company. The management team and employees at LANXESS will do everything they can to steer the company through the present crisis and return to the path of long-term growth as soon as the world economy recovers. The course is set and we believe we are well-positioned.

Yours sincerely,



DR. AXEL CLAUS HEITMANN
Chairman of the Board of Management

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

MANAGEMENT

MATTHIAS ZACHERT
Chief Financial Officer

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

DR. WERNER BREUERS
Member of the Board of Management

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

DR. RAINIER VAN ROESSEL
Member of the Board of Management

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

STRATEGY

A FOCUSED APPROACH

The willingness to critically review our own strategies and decisions at regular intervals has played a crucial role in our company's successful development. In view of the major challenges we now face, our reviews are becoming increasingly stringent.

Ewald Sobel
Saltigo Business Unit
Leverkusen, Germany

EWALD SOBEL JOINED WHAT IS NOW SALTIGO GMBH BACK IN 1996. HE TRAINED AS A CHEMICAL LABORATORY TECHNICIAN AND IS NOW RESPONSIBLE FOR MONITORING AND CONTROLLING PRODUCTS AND TECHNICAL EQUIPMENT – PRIMARILY IN THE PRODUCTION OF PHARMACEUTICAL ACTIVE SUBSTANCES.

"What I most like about my job is the variety. Unvarying daily routines are virtually unknown at Saltigo, unlike in other chemical production plants. This is because we manufacture to customers' specifications, which means we handle a wide variety of products and have to use a broad range of machines and apparatus. My motivation comes from this challenging work."

LANXESS – CONTINUITY MEETS FLEXIBILITY

Thanks to the systematic refocusing of our business in recent years, LANXESS's businesses now hold global leadership positions. We believe we are well-placed to tackle and overcome the major challenges of fiscal 2009 too.

The entire chemical industry is facing an exceptionally difficult year in 2009. The repercussions of what started out as the U.S. subprime crisis in 2007 have now hit the real economy with full force. In the last quarter of 2008, the global economic crisis caused a massive drop in demand on our markets too, leading to overcapacities on the supply side. This has affected both LANXESS and its competitors. However, the position we have built up through our hard work in recent years makes us confident that we can come through this difficult phase as well.

TRANSFORMATION IN RECORD TIME

In just four years since we were spun off from the Bayer Group in 2005 we have

- established a completely new corporate structure with a performance-oriented culture,
- divested operations that did not fit our new focus and
- positioned LANXESS at the core of the chemical industry.

At a time requiring rapid and resolute action, we are benefiting from our organizational structure, which comprises 13 business units that operate as "entrepreneurs within the enterprise" and manage their business activities autonomously. Short communication lines, flat hierarchies and motivated employees ensure that we can respond faster than many competitors to changes in market and business conditions.

Thanks to our structure, in 2008 we fully achieved the goals originally set for 2009: we brought our EBITDA margin into line with the average for our peer group and all our business units generated an EBITDA margin of at least five percent. Moreover, we maintained our investment-grade rating.

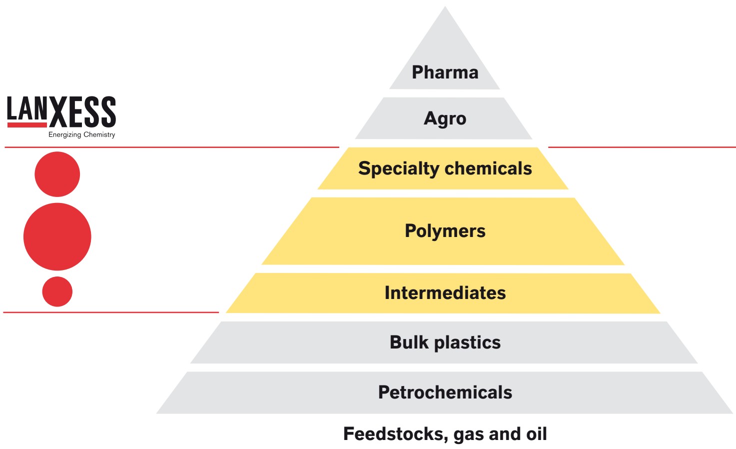
A STABLE COMPANY AT THE CORE OF THE CHEMICAL INDUSTRY

Today we are focused on what we do best: Performance Polymers, Advanced Intermediates and Performance Chemicals. That positions us at the core of the chemical industry, where we can optimally utilize our specialist expertise in chemicals and our applications know-how.

LANXESS sees itself as a premium supplier that not only reliably delivers products in optimal quality. We also actively support our customers' innovation processes and add measurable value. In this way we strengthen customer loyalty and differentiate ourselves clearly from our competitors.

As another central element in our strategy, in recent years we have taken action to significantly reduce the volatility and cyclical exposure of our portfolio. It is now clear that this was the right course. Several factors have contributed to putting LANXESS on a stable basis.

LANXESS Focuses on the Core of the Chemical Industry



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

We supply to a diverse customer base. Our main customers are in the chemical manufacturing, tire, automotive, construction and agrochemicals sectors. In addition, we supply products for electronics, leather processing, water treatment, medical supplies, coatings, furniture, printing technology, sports and leisure shoes, and packaging. Our business units are positioned among the leaders in their respective markets. Another positive effect of this diversification is that we are not dependent on key accounts. We do around 25 percent of our business with our ten largest customers.

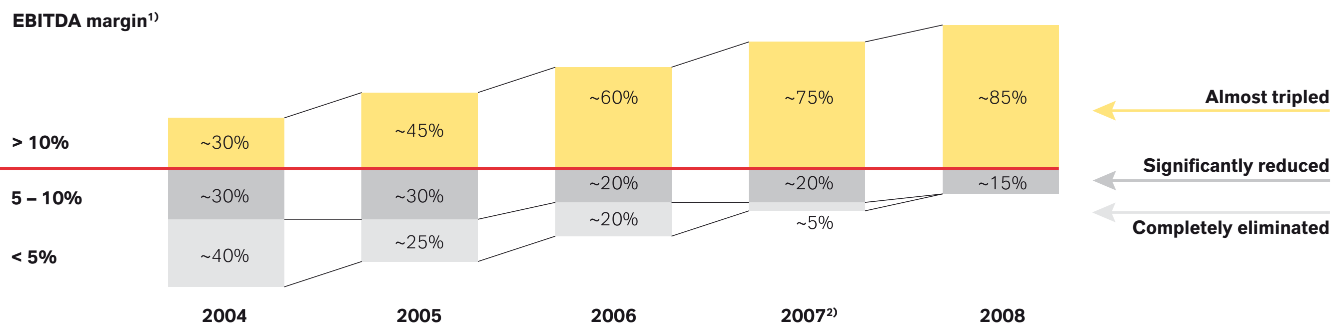
We have significantly improved our regional presence in recent years. As part of the "LANXESS goes Asia" initiative we have invested in selective expansion of our production capacity, especially in China and India. We have also strengthened our research and sales infrastructure. There is still enormous potential in the Asian markets and this extensive presence in the region should enable us to benefit from that in the medium term. In Latin America – another important growth market – the successful acquisition of Brazilian synthetic rubber producer Petroflex has enhanced our standing. Less than one year elapsed between the announcement that we had acquired a 70 percent interest in this company and completion of the squeeze-out giving us full ownership. On January 15, 2009, Petroflex was renamed LANXESS Elastômeros do Brasil S.A.

A clear improvement in profitability also places us on a sounder footing. When we started out five years ago, margins were unsatisfactory in more than two-thirds of our business units. Now all of our operations generate an EBITDA margin of at least five percent.

The benefits of our secure long-term financing are another important stabilizing factor, the significance of which is increasingly being appreciated in the present climate in which the trust between lenders and borrowers has been seriously undermined. In 2007, we already negotiated a credit facility on very attractive terms with a consortium of banks. Now worth a total of €1.4 billion, this runs until 2014 and was fully unutilized on the reporting date. LANXESS is one of the few companies included in Germany's MDAX index that has such strong long-term financing. LANXESS's liquidity situation was one reason why rating agencies Standard & Poor's, Moody's and Fitch confirmed our investment-grade rating in fiscal 2008.

All these factors strengthen our belief that innovative, high-quality specialty chemicals companies can be managed and operated sustainably and successfully, even in a challenging business environment.

Profitability Distribution (in % of Group Sales) 2004 to 2008



1) EBITDA pre exceptionals
2) excl. Lustran Polymers Business Unit Q4 2007

RESOLUTE CRISIS MANAGEMENT

An economic crisis on the present scale requires prompt and resolute action. We have therefore set up a crisis management team led by the Chairman of the Board of Management which assesses the impact of declining demand on our business on a daily basis and proposes appropriate action.

We hope to cushion the drop in demand primarily by means of flexible capacity management within our own structures. That will be helped by our flexible positioning and the elasticity of our cost structures.

We also need to cut operating costs and adjust capacity utilization in our plants. Measures include:

- bringing forward scheduled maintenance shutdowns,
- reducing overtime credit balances,
- bringing forward non-working shifts,
- shutdowns for vacation periods,
- flexible working shifts,
- temporary closure of production lines and
- temporary closure of entire plants.

We took action at our German sites in Leverkusen, Dormagen, Krefeld-Uerdingen and Brunsbüttel at the end of 2008. At around half of the 45 plants at these sites, production was scaled back or halted into 2009. Constructive negotiations with employee representatives enabled us to agree on uniform conditions for the approximately 1,400 workers affected. We had previously negotiated a temporary shutdown of one production line at the facility operated by the Technical Rubber Products Business Unit in Orange, Texas, United States. As a result of the continuing drop in demand in January 2009, we decided to reduce or temporarily shut down production of synthetic rubber at our plants in Zwijndrecht, Belgium, and Sarnia, Canada, and at the Petroflex site in Triunfo, Brazil, for several weeks.

We are also reviewing all investment projects, without any exceptions. Following careful analysis, in December 2008 we decided to postpone several capital expenditure projects in response to the altered market conditions. Moreover, this increases our financial headroom in the present difficult year. The construction of our new butyl rubber plant in Singapore is one of the projects affected by these decisions. As a consequence, the facility is not expected to come into operation until 2012. The planned relocation of our corporate headquarters from Leverkusen to Cologne has also been deferred by one year to 2012 and capacity expansion plans in Leverkusen and Antwerp have been put on ice.

The steps described are part of our global "CHALLENGE 09" package of measures. This also includes a range of technical process improvements and the personnel measures detailed next, which we announced at the end of January 2009. We expect these to reduce expenditures by around €50 million in 2009/2010.

For our roughly 5,000 non-managerial employees in Germany we reached agreement with employee representatives and the IG BCE labor union on the following measures:

- Starting in March 2009 we are introducing a 35-hour working week, initially for one year, with a corresponding pay cut.
- A variable compensation component will not be paid for fiscal 2009.

For the Board of Management and managerial employees in Germany, we have agreed on the following measures for 2009:

- The members of the Board of Management will take a reduction in variable income equivalent to 10 percent of their fixed annual salary.
- Variable income components for managerial employees will be adjusted and the annual review of salaries planned for 2009 will be postponed for at least six months.

Salary reviews around the world will be postponed for at least six months and in some countries there will be no pay rises for twelve months. Other action to cut personnel expenses has also been agreed within the legal framework in each country.

In addition to the cost-saving measures outlined above, we are continuing our proven "price before volume" strategy. Despite declining demand, we will do everything we can to avoid erosion of margins.

LONG-TERM GOALS ARE NOT AFFECTED

Despite these regrettably unavoidable measures, however, one thing remains unchanged: our primary goal is still sustainable growth. Even though present conditions mean that growth is likely to be zero in the near future, we are not losing sight of our long-term goals. Two initiatives introduced in 2008 highlight our growth ambitions.

We are still clearly focused on our competence in technology and the development of new products. To bring a lasting improvement in our position, we bundled key research and development functions in the new Innovation Group Function on January 1, 2009. Initially it is concentrating on improving existing processes and developing new ones, as well as on developing new products for future-oriented applications. At the present time, for example, production processes at all sites are being analyzed. The results will be drawn together in a global action plan. As well as yielding more efficient cost structures, we expect this to generate further growth potential.

We are continuing to expand our presence in the BRIC countries. Having paid particular attention to Brazil, India and China in recent years, leading to a significant improvement in our position there through both organic and external growth, we are now working to strengthen our activities in central and eastern Europe. The positive development in the region has been aided by LANXESS Central Eastern Europe s.r.o., a sales company based in Bratislava, Slovakia, which was established in 2007, principally to serve the markets in Slovakia, Poland, Hungary and the Czech Republic. This company posted a pleasing performance in its first full year of operation. Following on from this, we will develop our new sales and distribution organization in Russia, which started operating at the beginning of 2009 and will drive forward the positioning of all business units in this region. This should enable us to benefit far more strongly from economic development in Russia and the CIS.

LANXESS cannot escape the sharp deterioration in business conditions. However, an economic downswing cannot arrest the progress of global megatrends. The desire for increased mobility remains unbroken, especially in the emerging markets. Our society faces an ever more pressing need to save energy, combat pollution, provide clean drinking water and produce more food. LANXESS's high-quality, technology-driven products and processes, and its global presence enable it to play a valuable role in this.

OUTLOOK FOR 2009

Against the background of very low demand in early 2009, it is extremely difficult to make any accurate prediction for the rest of the year. We must assume that the global recession in many of our customer industries will also take hold in what until now have been growth markets, leading to a decline in growth rates there. We expect only a very slight improvement in the demand situation over the course of the year.

We aim to mitigate these negative influences as much as possible through the many measures that have already been implemented at operational level and further efficiency enhancements achieved by improving our cost structures. We are confident of emerging from this crisis strengthened for the long term.


CH_2OH
$CH_3CH_2-C-CH_2OH$
CH_2OH

Sara Carella
Human Resources
Leverkusen, Germany

Franjo Glasovac
Controlling Trainee
Leverkusen, Germany

ON COMPLETING HER TRAINING AT LANXESS IN NOVEMBER 2008, SARA CARELLA TOOK A POSITION AS TEAM ASSISTANT IN PERSONNEL DEVELOPMENT. IN OCTOBER 2007, BUSINESS STUDIES GRADUATE FRANJO GLASOVAC JOINED A TWO-YEAR CONTROLLING TRAINEE PROGRAM THAT GIVES HIM ASSIGNMENTS THROUGHOUT THE GROUP.

"LANXESS gives young people the ideal start to their careers. It is especially motivating that we are able to work independently, contributing both to daily operations and various projects. The open culture at LANXESS makes it easy to get to know the company and quickly establish contacts, also to colleagues in other countries."

SEGMENTS

HEADS FULL OF **IDEAS**

Our incentive is to help solve society's most pressing problems with innovative specialty chemicals. Each year, we launch many new products to ease the burden on the environment and improve our quality of life.

HEADS FULL OF **IDEAS**

JHAGADIA TO BE THE LARGEST PRODUCTION SITE IN INDIA

As a result of two major investment projects, Jhagadia will become our largest production site in India. The Ion Exchange Resins Business Unit is constructing a state-of-the-art manufacturing facility there, which is scheduled to come on stream in 2010. Overall we plan to invest €50 million at the site, which will provide 250 jobs in its first phase of construction. The Rubber Chemicals Business Unit will also be relocating its production plant within India, from Thane to Jaghadia. **P. 23**

INVESTMENT IN SINGAPORE

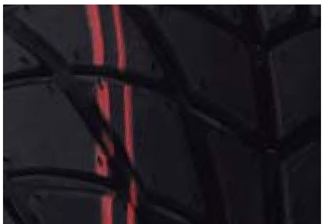
We plan to construct a new facility for the production of synthetic rubber at the Jurong Island Chemical Park – the biggest single investment to date in our company's history. With an annual capacity of up to 100,000 tons, the facility will be one of the largest of its kind in Asia. We have budgeted up to €400 million for this project. Production is scheduled to start in 2012. **P. 17**

ACQUISITION OF PETROFLEX SUCCESSFULLY COMPLETED

The acquisition of 70 percent of the shares of the largest Latin American rubber manufacturer Petroflex S.A., announced in December 2007, was approved by the relevant antitrust authorities in the first quarter of 2008. Closing was completed on April 1, 2008. Following a public takeover offer, we acquired a further 27 percent of Petroflex shares by October 2008. Just a few weeks later, the squeeze-out that was possible as a result and the delisting of Petroflex were completed. In mid-January 2009, Petroflex was renamed LANXESS Elastômeros do Brasil S.A. **P. 16**

FIRST ACQUISITION IN CHINA

Through the purchase of one of the largest iron oxide pigment facilities in China from our previous cooperation partner Jinzhuo Chemicals Company Ltd., we are expanding the Asian business of our Inorganic Pigments Business Unit. With a total annual capacity of 30,000 tons, the iron oxide yellow pigment facility in Jinshan, near Shanghai, is the largest in China, characterized by its state-of-the-art and environmentally compatible production methods. **P. 23**



FIRST CHOICE FOR GREEN TIRES

By 2012, the European Union plans to reduce carbon dioxide emissions for new cars from 173 to 130 grams per kilometer. This goal is virtually impossible to achieve without green tires, which are optimized under environmental aspects. No less than one quarter of a vehicle's fuel consumption is caused by the roll resistance of its tires. With our high-performance rubber products and additives, LANXESS offers the tire industry a highly attractive product portfolio that is subject to ongoing optimization for the manufacture of state-of-the-art, environmentally friendly tires. **P. 18**

NEW HIGH-TECH FACILITY FOR PHARMACEUTICAL ACTIVE SUBSTANCES

In February 2008, Saltigo commissioned a new multifunction facility at the Leverkusen site for the development, manufacture and quality control of pharmaceutical active substances and intermediates. Some €10 million was invested to create the high-tech cGMP (Current Good Manufacturing Practice) production unit from an existing facility. The unit's four production modules have an annual capacity of 200 tons of active substances and intermediates. **P. 21**

PERFORMANCE POLYMERS

The Performance Polymers segment brings together all our polymer activities, and comprises the Butyl Rubber, Performance Butadiene Rubbers, Technical Rubber Products and Semi-Crystalline Products business units.

OVERVIEW OF THE BUSINESS UNITS

The Butyl Rubber Business Unit is one of the world's leading manufacturers of high-quality butyl and halobutyl rubber for the tire and rubber industries. A key advantage of these rubber products is their high impermeability to gas and moisture. The Performance Butadiene Rubbers Business Unit (named Polybutadiene Rubber Business Unit until June 30, 2008) is a leading manufacturer of the synthetic rubbers polybutadiene rubber (PBR), emulsion styrene-butadiene rubber (ESBR) and solution styrene-butadiene rubber (SSBR). Through the Technical Rubber Products Business Unit, LANXESS offers its customers a broad range of technical rubber products. As one of the leading suppliers of synthetic rubbers for the rubber processing industry, this business unit delivers materials that are used in functional components in a wide range of applications – from seals, hoses, profiles and cable sheathings to special films and adhesives. The Semi-Crystalline Products Business Unit is successful with, for example, the plastics Durethan® and Pocan® and their strategically important precursors. These products are used in the automotive and electronics industries and in many other sectors. Thanks to our competitive production facilities and intensive product and application development, we are a leading provider on the relevant markets.

STRATEGIC MILESTONES REFLECT MARKET TRENDS IN THE RUBBER BUSINESS

In past years, we already reported on the increasing relocation of tire production from the established industrial nations, particularly the United States, to Latin America and China. This development gathered further pace during the reporting period. We responded with two key strategic decisions.

The acquisition of 70 percent of the shares in Petroflex S.A. – the largest rubber manufacturer in Latin America – that we announced in December 2007 was approved by the relevant antitrust authorities in the first quarter of 2008. The transaction was closed on April 1, 2008, and Petroflex was consolidated in the LANXESS Group's financial statement from the second quarter of 2008. Due to local regulations, we were required to make a public offer for the remaining shares of Petroflex. The offer met with great interest among the minority shareholders. By the end of the offer period on

October 16, 2008, we had purchased an additional 27 percent of Petroflex shares for a sum equivalent to some €60 million, which paved the way for LANXESS to acquire all the remaining shares by way of a squeeze-out. Just a few weeks later, the squeeze-out was concluded and Petroflex was delisted from the stock exchange. The takeover was thereby concluded quickly and successfully. With three manufacturing sites in Brazil and an annual capacity of around 440,000 tons, Petroflex ideally complements our product portfolio and strengthens our position in one of the world's most important growth markets.

A recent award confirms that we are on the right track with our commitment in South America. Brazilian trade journal "Borracha Atual" honored LANXESS with the Top Rubber Award 2008 as the best company on the rubber market. Our now wholly-owned subsidiary Petroflex also won an award in the category "Synthetic rubbers and elastomers."

The second strategic milestone was our decision to make the biggest single investment in the company's history in Singapore, where a new plant for the production of synthetic rubber is to be built at the Jurong Island Chemical Park. With an annual production capacity of up to 100,000 tons, it will be one of the largest facilities of its kind in Asia. We have budgeted up to €400 million for this project. After assessing potential locations, we opted for the Asian city state on account of, above all, its outstanding infrastructure, large seaport and excellent supply of raw materials. Other key aspects in favor of Singapore were the good supply of skilled workers and its existing logistics facilities. Production is scheduled to start in 2012. Cutting-edge environmental technologies will account for between ten and 15 percent of the expected construction costs. Initially, the project will create up to 200 new jobs.

The conclusion of a long-term supply contract with the Taiwanese company Cheng Shin Rubber Ind. Co. Ltd., one of the world's major tire manufacturers, also reflects the brisk demand for high-performance rubber in Asia. In the coming years we will supply solution SBR and polybutadiene rubber to Cheng Shin, with the volume of high-performance rubber increasing through the four-year term of the contract.

WORLDWIDE OPTIMIZATION OF CAPACITIES AND PROCESSES

In fiscal 2008 we implemented a wide range of measures to further improve our efficiency and productivity.

In the future, the Performance Butadiene Rubbers Business Unit is to manage its worldwide business from our Swiss site at Granges-Paccot. Our country company in Switzerland, LANXESS International S.A., has successfully managed our Butyl Rubber Business Unit from there for a number of years. The relocation is a further step in the internationalization of our activities, which received a significant boost from the Petroflex acquisition. This geographical consolidation not only strengthens the ties between the two business units, it also generates synergies through the shared use of an existing and proven infrastructure.

We are also strengthening our French production site at La Wantzenau near Strasbourg with an investment through 2009 of some €10 million in technical rubber production and infrastructure improvements. With the transfer of NBR production from the Sarnia site in Canada mid-2008 and from Brazil as part of the Petroflex acquisition, this site is now fully dedicated to NBR. This global consolidation makes La Wantzenau our only – and the world's largest – NBR production site. In the future, more than 100,000 tons of the specialty rubber could be produced there each year.

We launched an efficiency program at Sarnia at the start of fiscal 2008. In addition to the relocation of NBR operations described above, there are plans to streamline and adapt the service areas for butyl rubber production. By the end of the year, we had achieved more than 200 of the some 270 job cuts that are unfortunately necessary. According to preliminary calculations, the expected savings to be recognized in income from 2009 onwards will amount to a mid-range seven-digit sum. To improve the competitiveness of Sarnia, we started expanding the site's butyl rubber production back in 2006.

We are pressing ahead with the realignment of our Belgian subsidiary LANXESS Rubber N.V. at the Zwijndrecht site. We aim to cut production costs still further in order to enhance our competitiveness on the growing global market for butyl rubber. The realignment follows on from the efficiency program initiated at this site in 2006, which has already seen a range of measures introduced and implemented in order to raise productivity. The management team of LANXESS Rubber N.V. held constructive negotiations with the employee representatives to draw up workable and socially compatible solutions for cutting 130 jobs.

Having opened an R&D center for plastics in Wuxi, China, in 2007, a similar center for rubber research was inaugurated at our Qingdao site in 2008. The Rubber Research Center Qingdao is located in the immediate vicinity of the University for Science and Technology and covers the entire research spectrum, from basic research through technical customer support to preparing the commercial application of new developments. The center makes it possible to locally train highly-skilled employees and develop environmentally-friendly, high-quality products for the Chinese market – crucial factors for long-term success in this strategically important market. The Technical Rubber Products, Butyl Rubber and Performance Butadiene Rubbers business units have invested some €10 million in the joint project.

There is also good news from the aforementioned R&D center for plastics at the Wuxi site. In July 2008, the material testing laboratory for plastics (RDTC) was accredited to ISO 17025 for the next five years by the DAP (Deutsches Akkreditierungssystem Prüfwesen GmbH – German Accreditation System for Testing). As a result, the Semi-Crystalline Products Business Unit can now offer its customers accredited results for a total of 15 mechanical, physical and rheological (A) tests. The accreditation ensures that customers receive test results of the highest quality, and certifies that the results issued by the RDTC are comparable with those of other accredited laboratories worldwide. Accreditation to ISO 17025 ranks more highly than certification to ISO 9001, for example.

INNOVATION WITH LONG-TERM IMPACT

The Performance Polymers segment is linked to numerous innovations with excellent environmental benefits.

Climate protection is an important political and social issue. By 2012, the European Union aims to cut carbon dioxide emissions for new cars from 173 to 130 grams per kilometer. It will be practically impossible to achieve this goal without green tires, which are optimized with environmental aspects in mind. The roll resistance of tires accounts for a significant proportion of a vehicle's fuel consumption and thus also its CO_2 emissions. According to the calculations of a leading tire manufacturer, on average a quarter of fuel consumption is attributable to the roll resistance of the tires. The E.U. is therefore planning to introduce a tire label to provide accurate information on the roll resistance, braking power and noise level produced by rolling.

Our new high-performance rubber additive Nanoprene® is an important development for the production of green tires. This additive for the rubber mixture for tire treads greatly reduces wear with no detrimental effect on roll resistance or wet grip. The much longer service life that results also benefits the environment.

(A) Rheology is the science concerned with the deformation behavior and flow properties of substances.

The same applies to PBR4003, a special solution styrene-butadiene rubber we have developed. Tests conducted by a major international tire manufacturer demonstrated that summer tires produced using PBR4003 achieved significantly better results in terms of roll resistance and wear without impairing grip on wet and dry surfaces. PBR4003 provides tire manufacturers with a further option for meeting the ever-increasing demands placed on modern tires. The market launch is planned for mid-2009.

The solar industry offers further new potential applications for our products. In cooperation with Centrosolar Group AG, the European market leader in roof-mounted solar systems for private households, we have developed a production method for photovoltaic modules. This new development is based on our EVM rubber Levamelt®. During production of solar modules, the individual silicon wafers are aligned and fixed on the carrier. Previously, the wafers were embedded into rubber films before these were crosslinked at high temperatures. Levamelt® eliminates this complex step, making assembly much faster and, therefore, less expensive. Unlike many other rubbers, Levamelt® is permeable to light. UV radiation, important for generating electricity, is therefore not prevented from penetrating the sealed wafers. Another advantage is that Levamelt®, as a saturated polymer, is particularly weather-resistant and contains no components that yellow with time and could thus impair the performance of the assembly.

Intelligent lightweight assemblies are becoming increasingly popular in the automotive industry, as they help cut vehicle fuel consumption and CO_2 emissions significantly. Polyamide 6 and 66 grades in particular offer tremendous potential for reducing weight. This is demonstrated by a number of concepts – some already used in series applications – developed by the Semi-Crystalline Products Business Unit, often in cooperation with partners. These concepts are usually based on hybrid technology, i.e. plastic/metal composite technology. In the reporting year, for example, we succeeded in using our polyamide 6 Durethan® BKV 30 H2.0 to develop a brake pedal that was 40 percent lighter than conventional components. In a further example of its use, this material cuts the weight of the bodywork for the new Citroën C4 Picasso by some 12 kilograms, while considerably improving safety. The common feature of these innovations is that they don't just reduce weight – at the very least they cost no more than established series solutions. Moreover, further added value is often generated by integrating functions, such as other add-on body components, cable supports, guides and anchoring elements.

RFID (Radio Frequency Identification) transponders are considered the technology of the future by retail stores and the materials management industry. They provide information on the origin, contents and destination of containers, boxes and packaging, thus greatly simplifying and accelerating logistics processes. The biggest limitation of this technology in the past has been its restricted performance and range. However, this is set to change in the future thanks to our plastic Pocan® DP T7 140 LDS. As a substrate, it offers all the necessary prerequisites for laser-direct structuring, which can be used to produce a new generation of transponders. This new technology will make it possible to read and record data from a distance of up to five meters, even close to metals and liquids – performance features that seemed impossible before now.

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You can find further interesting information about our products and their applications in our WebMagazine.

ADVANCED INTERMEDIATES

The Advanced Intermediates segment comprises our activities in the area of basic and fine chemicals. The Basic Chemicals Business Unit is one of the world's leading suppliers of high-quality industrial chemicals. Saltigo is a major supplier on the custom synthesis market, specializing in products for the agrochemical and pharmaceutical industries.

EXTENSIVE PRODUCTION KNOW-HOW IN BASIC CHEMICALS

Basic chemicals are extremely important for the manufacture of a large number of chemical products, such as agrochemicals, pharmaceuticals, dyestuffs and coatings. They are mainly the result of highly complex chemical processes that demand extensive know-how and state-of-the-art technology. In addition to these factors, it is primarily the long-term supply reliability we provide that makes our offering attractive for customers across the globe. In recent years, we have invested some €60 million in the continued expansion of our production facilities. We are now making an additional investment in order to further strengthen our position.

We are investing around €35 million in the expansion of our globally unique integrated aromatics production network at the Leverkusen site, which supplies a wide range of products used as key precursors for agrochemical active ingredients, polymers and pigments, for example. This investment program is focused primarily on significantly increasing production capacities for cresols and their derivatives and for monochlorobenzene. We aim to complete the necessary construction measures by the start of 2010, with the expansion of monochlorobenzene capacity being concluded already in 2009. Contracts are in place to secure the sale of these additional volumes.

The high quality of our products was recognized several times during fiscal 2008.

For example, Swiss company Syngenta Crop Protection AG, one of the world's leading manufacturers of crop protection agents, presented us with its Supplier Award 2008 for outstanding service in terms of availability and reliability.

After extensive testing, the Fraunhofer Institute for Building Physics confirmed that screed flooring compounds made with calcium sulfate binders and screed additives from LANXESS have no negative health impacts.

Our new biodiesel stabilizer Baynox® Plus has been awarded the coveted certification from the AGQM (Arbeitsgemeinschaft Qualitätsmanagement Biodiesel e.V. - Biodiesel Quality Management Work Group). In a study lasting six months , the premium product proved its effectiveness in practice and showed no interaction with other additives. Baynox® Plus was developed to supplement Baynox®, previously the only biodiesel stabilizer to be approved by the German mineral oil industry. It is particularly suited for use in highly oxidation-sensitive biodiesel made from non-edible vegetable oils.

SALTIGO – CUSTOMER-FOCUSED AND INNOVATIVE

In 2008, Saltigo – an independent company operating as a business unit within the LANXESS group – continued its systematic transformation to become a global specialist for custom manufacturing.

In February 2008, we opened a new, state-of-the-art, multifunction facility for the development, manufacture and quality control of active pharmaceutical ingredients and intermediates at our production site in Leverkusen. Around €10 million have been invested to adapt and expand existing production units and create this new cGMP (Current Good Manufacturing Practice) facility. Its four production modules will enable us to manufacture more than 200 tons of active ingredients and intermediates each year. This new high-tech facility is part of an investment program with a total volume of some €50 million that is intended to further improve Saltigo's efficiency and competitiveness by the end of 2009 and to adapt our production base to the needs of the market.

We are also providing new impetus in the global market environment.

In January 2008, we opened the first U.S. site for our pharmaceutical business at Redmond near Seattle. With a workforce of 21 at the end of 2008, the laboratories acquired from ICOS Corporation – a subsidiary of U.S. pharmaceutical group Eli Lilly & Co. – provide us with a production and research base in the world's largest pharmaceuticals market. The cGMP-qualified facilities of the small-volume unit and pilot plant are used to produce active pharmaceutical ingredients for early clinical testing through to Phase IIa (A). The West Coast of the United States is particularly important in this regard because it is home to a large number of smaller pharmaceutical companies that are key innovators in the industry. Establishing an alliance with an experienced and reliable production partner like Saltigo is an extremely attractive proposition for such companies. A local presence makes it much easier for us to establish new business relationships in this interesting market.

We are also increasingly turning our sights to the Japanese pharmaceutical market. A study conducted by PricewaterhouseCoopers predicts that the Japanese market will grow to around US$ 70 billion in 2010, putting it in second place in the global ranking behind the United States. The amendment of Japan's pharmaceutical legislation in 2005 gave the country's pharmaceutical companies new opportunities for outsourcing their active ingredient production. We aim to utilize this potential and position our company as one of the leading western suppliers of active pharmaceutical ingredients in Japan. Saltigo offers customized services based on many years of experience in the area of Good Manufacturing Practice (cGMP) in line with the guidelines of the U.S. Food and Drug Administration (FDA) and corresponding European regulatory bodies. These services are tailored particularly to the needs of those Japanese pharmaceutical companies which are also seeking success abroad. We are one of a small number of western suppliers to already have technical service staff in place locally, thus ensuring a very close and intensive dialogue with our customers, which is especially important in the development phase.

(A) New drug products must pass through a three-phase test procedure (Phase I to III) that includes clinical trials before being granted regulatory approval.

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You can find further interesting information about our products and their applications in our WebMagazine.

PERFORMANCE CHEMICALS

The Performance Chemicals segment groups together our seven application-oriented business units in the field of process and functional chemicals: Material Protection Products, Inorganic Pigments, Functional Chemicals, Leather, Rhein Chemie, Rubber Chemicals and Ion Exchange Resins.

OVERVIEW OF THE BUSINESS UNITS

The Material Protection Products Business Unit is one of the leading global manufacturers of preservatives and biocidal active ingredients. Inorganic Pigments operates the world's largest production plant for iron oxide pigments, which are used to color a wide range of products. Functional Chemicals provides the plastics industry and many other industries with plastics additives, phosphorus-based and specialty chemicals, and organic and inorganic colorants. The Leather Business Unit is one of the few suppliers to the leather industry to offer all the products needed for leather processing. Rhein Chemie is a supplier to various industry segments, producing chemical specialties for the rubber, plastics and lubricants industries. Thanks to the outstanding quality and processing properties of its products, the Rubber Chemicals Business Unit is among the world's leading manufacturers and suppliers in its field. The Ion Exchange Resins Business Unit is one of the leading international producers of ion exchange resins. Thanks to their versatility, these products are becoming increasingly important, for example in the treatment of drinking water or the extraction of metals.

GLOBAL PRESENCE FURTHER STRENGTHENED

The Asian countries are becoming increasingly significant for us, not only as production bases and sales markets but also because they offer new opportunities for our procurement activities. The Material Protection Products Business Unit was the first to deliver evidence of this potential in fiscal 2008. An intensive search and selection process lasting almost two years resulted in the establishment of more than 10 new vendor relationships that will not only improve the reliability of our supplies with strategically important raw materials but will also significantly enhance our competitiveness. It goes without saying that we have made no compromises in terms of quality. Without exception, all the new vendors must comply with LANXESS's strict, globally standardized requirements.

Our Inorganic Pigments Business Unit has been able to step up its business activities in Asia through the acquisition from our previous cooperation partner Jinzhuo Chemicals Company Ltd. of one of the largest iron oxide pigment facilities in China. With a total annual capacity of 30,000 tons, the plant in Jinshan near Shanghai is the largest facility for iron oxide yellow pigments in China characterized by its state-of-the-art and environmentally friendly production methods. This acquisition – our first ever in China – not only enables us to expand our global production capacity for inorganic pigments but also safeguards the supply of raw materials to our pigment blending facility in Shanghai, thus securing our independence from local suppliers. Thanks to further construction activity in Asia, we expect demand for the products of our Inorganic Pigments Business Unit to continue to rise in the coming years.

As part of our ongoing Group-wide portfolio optimization process, the Functional Chemicals Business Unit will focus in the future on the three areas of phosphorus and specialty chemicals, polymer additives and organic colorants. At the same time, we also plan to restructure the global sales organization, production facilities, research and development and technical services to make them more competitive. Up to 120 jobs worldwide, including 80 in Germany, will be affected by these measures to improve our international competitiveness. The restructuring process is scheduled for completion by mid-2010.

In July 2008, the Leather Business Unit relocated its regional marketing headquarters in Asia from Hong Kong to Singapore. Since then, the logistics processes of relevance to the Chinese market have also been handled from here. Consolidating our sales and logistics activities in this Asian hub allows us to significantly optimize our processes and transport operations, and offer our customers first-class service to complement our premium products. Singapore is the largest and most efficient distribution hub for leather chemicals in Asia and is set to become one of the world's leading sales locations for the Leather Business Unit in the future.

The Rhein Chemie Business Unit commissioned its new facility for the manufacture of lubricant additives at the Qingdao site in China as scheduled in the fourth quarter of 2008. The facility will primarily manufacture customized additive formulations for the key Asian industrial lubricants market. Rhein Chemie invested a further €7 million at its German site to build a new production facility and modernize existing units for the manufacture of specialties and service products for the rubber industry. Construction was completed successfully at the end of 2008. At the same time, the restructuring programs initiated are progressing well.

Like China, India is a strong growth driver in Asia, which is why we are also strengthening our presence there. As a result of two important investment projects, Jhagadia in the state of Gujarat will become our largest production site in India. The Ion Exchange Resins Business Unit is currently building a new, state-of-the-art manufacturing facility there, which is scheduled to start operation in 2010. We intend to invest some €50 million at the new site, which will employ around 250 people in the first expansion phase. On the other hand, the Ion Exchange Resins Business Unit ceased production in Birmingham, New Jersey, in May 2008. The limited production capacities of this U.S. site meant that it was not properly able to respond to the fast-changing pace of the ion exchange market. Around 90 employees were affected by the closure. At the same time, the Rubber Chemicals Business Unit is relocating its production operations in India from Thane to Jhagadia. Likewise from 2010, this modern site will supply rubber chemicals to India's growing tire market.

MANY NEW PREMIUM PRODUCTS

The business units in this segment demonstrated their innovative capability many times in 2008.

The latest highlights in the product portfolio of the Material Protection Products Business Unit include two new formulations from the proven Preventol® range for the protection of wood and timber materials. Preventol® TX-CT 50 and Preventol® TX-CE 12 are extremely effective against termites, which are estimated to cause structural damage of between US$15 and 20 billion worldwide each year. The inclusion of the active substances from the chloronicotinyl chemical class in Annex I of the European Biocidal Products Directive was approved in May 2008, which meant we were able to push ahead with marketing these substances. Another new addition to the Preventol® product family is MPT 11, an additive that greatly prolongs the service life of wood plastic composites (WPCs). These are a comparatively new type of composite made of wood and thermoplastics which are recording high rates of growth worldwide due to their versatility and cost-effectiveness. We are also seeking regulatory approval for Preventol® MPT 11 in line with the European Biocidal Products Directive.

The Inorganic Pigments Business Unit has launched a number of new high-performance pigments in the established Bayferrox® product range. Bayferrox® 360, an iron oxide black, combines high tinting strength with a blue-black shade that is very popular with customers. Special high-performance yellow pigments, such as Bayferrox® 3910 LV or Bayferrox® 915, enable the formulation of the low-viscosity pigment preparations required by the paste industry.

The Functional Chemicals Business Unit offers the phthalate-free plasticizer Mesamoll® for the processing of nitrile-butadiene rubber (NBR), thereby providing an alternative to DEHP (A) which has been used until now.

In addition, the Functional Chemicals Business Unit has succeeded in developing a phthalate- and solvent-free bonding agent (TP LXS 51066) using a modified production process and a special catalyst.

(A) In August 2008, the European Chemicals Agency (ECHA) added DEHP (di-2-ethylhexylphthalate) to the list of “substances of very high concern.” It does not feature in LANXESS’s product portfolio.

The Leather Business Unit launched several product innovations, especially for the automotive industry. The X-Shield range, designed specifically to protect leather against soiling and facilitate cleaning, has been expanded to include AQUADERM® X-Shield L, a further component for optimizing the antisoiling properties of leather which is now being introduced to the market in specially tailored recipes. In addition, new developments based on LEVOTAN® L and LEVOTAN® X-Cel for the manufacture of lightweight leathers have been introduced and are generating a great deal of interest from the automotive and aviation industries. The Leather Business Unit also presented a new sulfone-based synthetic tanning agent, TANIGAN® VR, which is characterized by good fill capacity, embossability and very good fastness. This new syntan is designed to replace less lightfast and hydrolysis-sensitive vegetable-based tanning agents.

The Rhein Chemie Business Unit has developed a product suitable for fully substituting the toxic and carcinogenic hazardous substance ETU (B) in the rubber industry. Systems based on the new vulcanization activator Rhenogran® BCA-80 and the crosslinking agent Rhenogran® MTT-80 have enabled for the first time the development of a substitute that matches ETU in terms of processing, crosslinking characteristics and physical properties. The main applications will be in the automotive industry, for example in the production of V-belts, membranes, seals and fuel hoses.

Removing toxic trace contaminants – especially arsenic – is becoming increasingly important in the preparation of drinking water. Health studies show that long-term consumption of contaminated drinking water containing even the smallest amounts of arsenic can increase the risk of cancer or skin changes. Therefore, in accordance with recommendations from the WHO (C), many countries have set the maximum permissible threshold for arsenic in drinking water at 10 ppb (parts per billion). This specification has created an urgent need for action by many water suppliers around the world. The Ion Exchange Resins Business Unit has developed Lewatit® FO36 to safely remove this toxic metalloid from drinking water. Other, in some cases valuable, mineral substances remain in the drinking water even after treatment. Although Lewatit® FO36 was developed primarily for the removal of arsenic, it can also be used to remove other trace contaminants. To complement this product, the Inorganic Pigments Business Unit has extended its product range with a granular iron oxide called Bayoxide® E 33, which absorbs arsenic quickly and selectively. These products offer us further potential in a key growth market.

(B) Ethylene thiourea

(C) World Health Organization

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You can find further interesting information about our products and their applications in our WebMagazine.

CORPORATE RESPONSIBILITY

A HAND FULL OF **PERSPECTIVES**

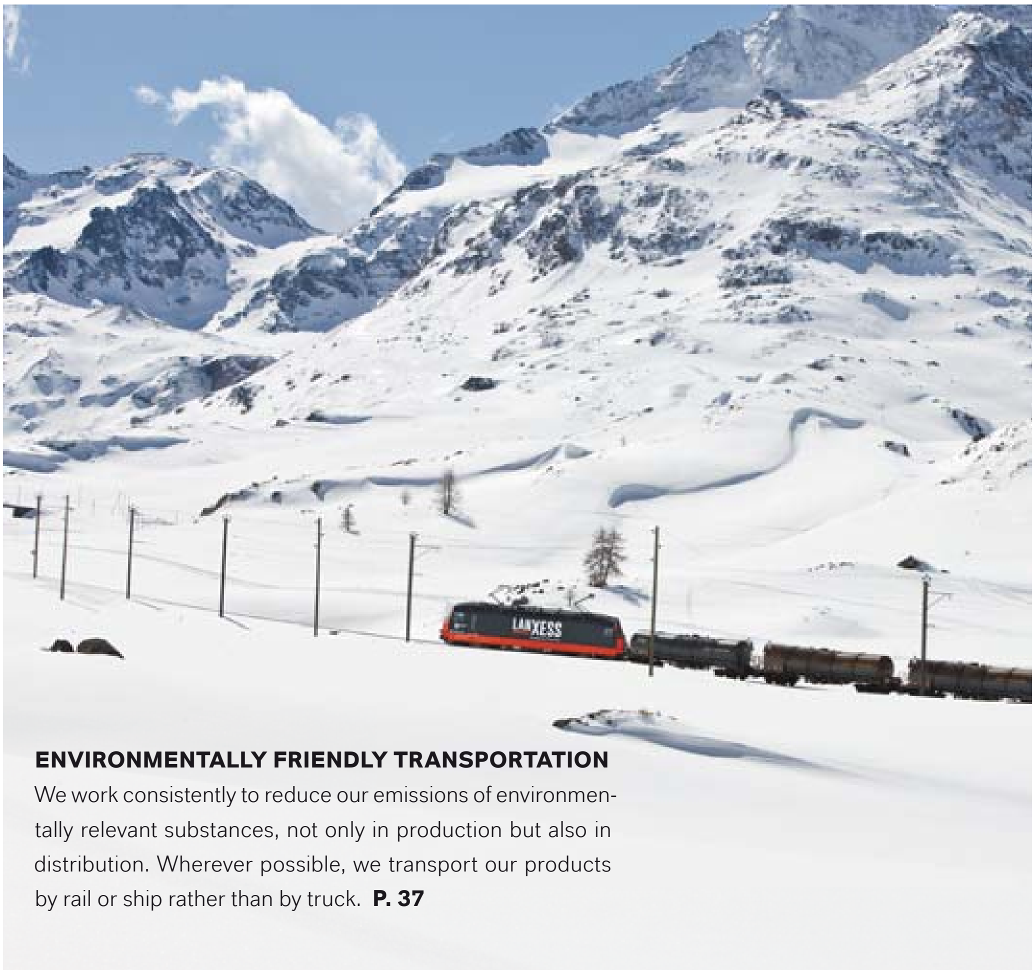
KUMI SANO HAS WORKED FOR LANXESS IN JAPAN SINCE JUNE 2008. SHE IS RESPONSIBLE FOR THE COUNTRY'S COMMUNICATION ACTIVITIES. ONE OF HER KEY ROLES IS MEDIA RELATIONS, FOR EXAMPLE.

"My work for a global enterprise gives me the opportunity to exchange views with people from different regions and cultural backgrounds. My colleagues at the various sites make up a large creative network which I find very enriching. One of the things I like about LANXESS is the flexible structures offering a great deal of space for individual development."

Kumi Sano
LANXESS K.K.
Tokyo, Japan

We don't just think of ourselves but also aim to open up new perspectives for others. That is why we apply our specific expertise in those places where we are a part of the community – working for the good of the people there and for the environment.

A HAND FULL OF **PERSPECTIVES**



ENVIRONMENTALLY FRIENDLY TRANSPORTATION
We work consistently to reduce our emissions of environmentally relevant substances, not only in production but also in distribution. Wherever possible, we transport our products by rail or ship rather than by truck. **P. 37**

GLOBAL HSE AWARD
The Global HSE Award, presented annually since 2006, honors special achievements in the areas of environmental protection and safety. **P. 34**

EDUCATION INITIATIVE
In 2008, we launched an extensive education initiative in North Rhine-Westphalia that underscores our clear commitment to Germany as a business location – and in particular to North Rhine-Westphalia as a base for the chemical industry. We provide funding to schools in Leverkusen, Dormagen, Cologne and Krefeld-Uerdingen and offer talented chemistry students the opportunity to gain work experience and take part in vacation courses in our training laboratories. **P. 40**

2,107

ideas related to occupational safety and environmental protection were submitted by our employees in 2008.

P. 34

Chairman of the Board of Management Dr. Axel C. Heitmann shows a model of the new nitrous oxide reduction plant at Krefeld-Uerdingen to North Rhine-Westphalia's State Premier Dr. Jürgen Rüttgers.

CLIMATE PROTECTION

Limiting the consequences of the greenhouse effect is one of the most pressing challenges faced by industry and society today. Two major projects will play a key role in helping to significantly reduce climate gas emissions in the years ahead. In Germany, we aim to cut emissions of climate gases through 2012 by around 80 percent compared to 2007 levels. To achieve this goal, we have realized Germany's first industrial joint implementation project. This centers on a new, second plant for the reduction of climate-damaging nitrous oxide (N_2O) emissions at our site in Krefeld-Uerdingen. Although the gas is completely safe for humans, it is over 300 times more damaging to the climate than CO_2. The new facility was commissioned at the start of 2009 and now ensures complete neutralization of LANXESS's nitrous oxide emissions. At our site in Porto Feliz, Brazil, we are constructing a new power plant that will run on bagasse, a fibrous component of sugar cane left over after sugar production and therefore completely CO_2-neutral. **P. 36**

SAFETY

The health and safety of our workforce are very high priorities. We protect our employees from accidents through high standards in health protection and plant safety, and continuous improvements in workplace safety precautions. Each incident is carefully analyzed so that measures can be developed to prevent similar accidents or disruptions in the future. **P. 34**

LANXESS AS AN EMPLOYER

We want each of our employees to identify with our corporate goals and work toward their achievement. We reward achievement with a fair and attractive compensation system linked to our company's success and employees' individual performance. With a broad-based HR marketing concept, we aim to enhance LANXESS's position as an attractive employer. With a view to the future, the training of young people is a high priority. The focus of our training activities is at our sites in Germany, where young people can opt to combine vocational training with university studies, or they can complete a traditional scientific, technical or commercial training program in our plants and departments. **P. 32**

CORPORATE RESPONSIBILITY

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

GOOD FOR BUSINESS, GOOD FOR SOCIETY

LANXESS's guiding principles are essentially shaped by a sense of corporate responsibility (CR). The company's objective is sustainable, forward-looking development which meets the demands of economics, ecology and society in equal measure – in short: sustainable development. Accordingly, this aspect is firmly anchored in LANXESS's organization, which requires all our employees to act responsibly when dealing with people, the environment and capital. In practice, this means that we always apply our high sustainable management standards when making entrepreneurial decisions.

"Good for business, good for society." This short sentence perfectly sums up our approach to business. It stands for the firm conviction that the greatest incentives for and benefits of corporate responsibility are achieved if they are balanced with entrepreneurial and, especially, economic objectives. All LANXESS's CR activities must therefore be linked to the company's core business or to its available expertise.

Indeed, we are increasingly using this expertise to develop innovative products that benefit society by helping to protect the environment, improve the quality of life or even make possible what was previously inconceivable. Moreover, what's good for society may also unlock new value creation potential for our company. The following pages and the section of this report dedicated to the individual segments (starting on page 12) describe numerous examples such as high-performance tires.

Comprehensive directives define a framework At first glance, the concept of sustainable development seems fairly abstract. A range of external and internal directives help us to bring the concept to life. They define a framework for action by our employees and provide guidance for decision making.

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You can now access interesting audio features about LANXESS online.

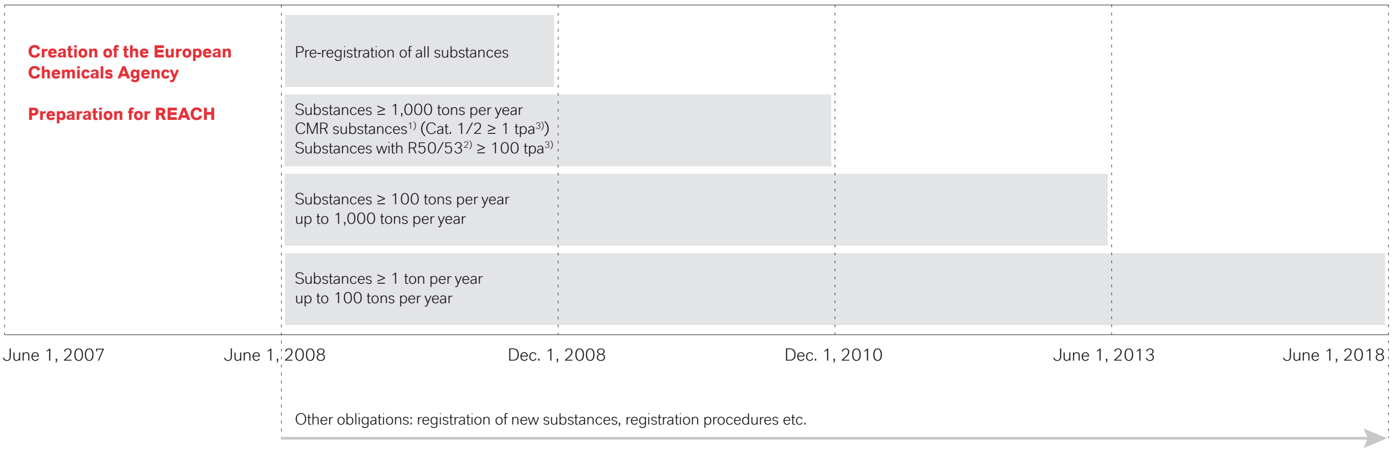
In spring 2006, LANXESS became one of the signatories to the Responsible Care® Charter adopted by the International Council of Chemical Associations as a significant step toward sustainable development. Responsible Care® is both an ethical initiative and a commitment and aspiration to boost trust in an industry that plays a key role in improving everyone's living standards and quality of life. Our corporate directives on quality and environmental policy ensure that the principles of the charter are central to the way we do business.

Moreover, our Corporate Compliance Directive is a code of legal compliance and responsible conduct that is binding on all LANXESS employees and commits them to act in accordance with the law, apply the principles of responsible care and demonstrate ethical conduct. It contains guidance on issues such as competition; occupational, product and plant safety; environmental protection and interactions with other people. The Board of Management established the Compliance Committee, comprising representatives from various specialist areas, to implement the Corporate Compliance Directive. This committee handles all referrals concerning compliance violations, with the goal of countering any illegal or unethical conduct by LANXESS employees at an early stage or introducing suitable measures to prevent improprieties altogether.

LANXESS views product stewardship as our responsibility to continually improve product safety for the sake of both people and the environment. For this reason, we expressly support the protection goals of E.U. chemicals policy and the implementation of the REACH Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals. LANXESS has prepared itself thoroughly for REACH registration. Since REACH prescribes the stewardship of substances over their entire life cycle, we work very closely with our suppliers and customers. We completed the first stage in the REACH process – the pre-registration of all relevant substances – on schedule, by December 1, 2008. We shall take advantage of the designated transition periods for full registration.

In order to fully describe our global management system, we continued to drive forward certification to ISO 9001 (quality management) and ISO 14001 (environmental management) throughout 2008. At the end of the year, most of our key sites had already been certified to at least one of these two ISO standards. It is our goal to obtain global certification to ISO 9001 and ISO 14001 for all LANXESS sites by the end of 2009.

REACH Implementation Schedule



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

EMPLOYEES

Our success is based primarily on the performance and commitment of our employees. Only through focused and sustainable employee training and development can we ensure that we achieve our corporate goals and safeguard LANXESS's competitiveness. Thanks to practiced social responsibility, attractive positions in an international environment, excellent development prospects, a performance-based and market-oriented compensation system, and a management culture based on open dialogue, LANXESS is well placed to attract the best candidates.

Honest, transparent and timely communication We want all LANXESS employees to identify with our corporate goals and work toward their achievement. However, this is only possible if they receive the necessary information. Alongside our external publications, which are naturally accessible to our employees, we utilize a range of internal communication tools to provide our workforce with the information it needs. The most important such tool is the LANXESS intranet, which provides timely information worldwide. Employees without direct online access receive information through notices that are regularly posted in the workplace. Another important tool is the LANXESS employee magazine, which is published every two months in eight languages.

Various employee events provide a forum for direct dialogue, as does the round table, which gives all employees the opportunity to share their ideas with the management team. A further important component in this dialogue, especially throughout the realignment process of the past years, is the cooperation between the management team and employee representatives.

Rewarding performance We strive for a fair compensation system linked to our company's success and employees' individual performance. Compensation systems that include variable compensation components in addition to fixed salaries have been set up for more than 80 percent of our employees. The stock participation program offered in Germany as a long-term incentive tool is being taken up by a growing number of employees and demonstrates their confidence in the sustainable development of our company and its goals.

Winning over potential employees Successful growth, particularly in areas requiring a high level of qualification, has driven up recruitment requirements. In Germany, we hired a total of 250 new employees in 2008. HR marketing activities throughout the year focused primarily on graduate recruitment, with LANXESS participating in graduate fairs at selected universities in Germany and abroad.

Safeguarding the future through training The training of young people is a high priority at LANXESS because it helps to safeguard the future of our company and represents a key element of our corporate responsibility. At our sites in Germany, young people can opt to combine vocational training with university studies, or they can complete a traditional scientific, technical or commercial training program in our plants and departments. With a view to leveraging expertise and synergies, we are supported by the Training Department of our affiliate CURRENTA for some aspects of theoretical training and in organizational and administrative issues. Through our presence at numerous training and graduate fairs, and by offering a range of student internships and organizing workshops for students from our partner schools, we establish early links with potential talents and endeavor to pass on to them our passion for chemistry.

Across Germany, 456 young people were being trained in 20 different career paths as of December 31, 2008. In 2008, we once again provided solid training opportunities for significantly more young people than were needed to meet the company's own requirements. We will also remain true to this philosophy in 2009 and 2010. With a training ratio of 6.6 percent, LANXESS outperformed the industry average in this regard and also significantly exceeded the ratio specified in the collective agreement on training in the German chemical industry.

Each year, under the motto "Prepare for the Future," our international trainee program attracts highly skilled university graduates. In September 2008, another ten new trainees began work in our various business units and group functions.

Motivation and challenges We consider it very important that, throughout their careers at LANXESS, our employees are motivated to improve their skills and take on new challenges within the company. To help nurture our talents, LANXESS has put in place a multi-tiered, systematic process of global HR development conferences, which enable us to regularly review the potential of managerial employees worldwide. The Development Centers implemented in Germany, China, Hong Kong, India, Japan and Singapore are additional instruments for assessing potential. We also use management workshops to analyze the potential of candidates for top management positions. The results yielded by these complex and proven tools form a key component of our standardized HR development measures, and also of our systematic succession planning.

The LANXESS Academy, which we founded in fiscal 2008, offers an international modular management development program. Using LANXESS's corporate values as the reference point, we provide our managerial employees with a framework for action and reflection that delivers a holistic approach to management. We also specifically foster a common understanding of our corporate strategy and the global challenges we face. Additional tools aimed at supporting dialogue include local programs such as the LANXESS Forum and the Summer Academy, which offer a platform for presentations and discussions in the various regions and also address unique cultural characteristics.

By adopting a differentiated approach to training, our service subsidiary Aliseca has pressed forward with the implementation of its new business model. More than 500 employees received training in both specialist and general topics during 46 seminars.

Development opportunities around the world A core component of our approach to HR development involves offering employees the opportunity to undertake a suitable foreign assignment. Besides enabling employees to acquire new expertise and intercultural skills, this also encourages global knowledge sharing within the LANXESS Group. At present, more than 160 employees are working outside their home countries. In regional terms, foreign assignments have so far centered on the United States, China and India, with the functional focus lying in sales, marketing and production management.

The company's ability to integrate employees from other countries into the LANXESS Group was impressively demonstrated following the acquisition of Brazilian company Petroflex S.A. An interdisciplinary project team succeeded in introducing key LANXESS structures in the newly acquired business entity by the second half of fiscal 2008. These included LANXESS's global job evaluation system for management functions.

LANXESS – AN ATTRACTIVE GLOBAL EMPLOYER

GERMANY
"Top Employer 2008"
Award presented by research company CRF and Junge Karriere magazine

CHINA
"Top Employer 2009"
Ranking by research company CRF

BRAZIL
"Great Place to Work for"
Award presented by the Great Place to Work Institute

UNITED STATES
"Best Place to Work in Pennsylvania"
Award presented by the Best Companies Group

GLOBAL HSE AWARD 2008

The Global HSE Award, presented annually since 2006, honors special achievements in the areas of environmental protection and safety.

1ST PLACE

(PRIZE OF €10,000)

"No Excuses Initiative" – Saltigo Business Unit

For achieving a significant cultural change in the way safety and environmental protection are handled at all levels of the hierarchy.

2ND PLACE

(PRIZE OF €5,000)

"Phthalate-free PVC Bonding Agents" – Functional Chemicals Business Unit

For producing the world's first phthalate- and solvent-free bonding agent.

3RD PLACE

(PRIZE OF €2,500)

"Forklift Cup" – Basic Chemicals Business Unit

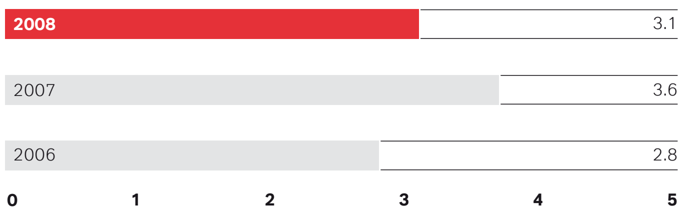
For using a creative approach to raise awareness of occupational safety among forklift truck drivers.

As a company, LANXESS is committed to developing a versatile, international workforce. Key aspects of this commitment in the coming years include a further expansion of local management teams and making greater use of the potential offered by our female employees. In 2008, 16.7 percent of management positions worldwide were held by women. Against this backdrop, the development of new models that facilitate a work/life balance is also top of our agenda.

Safety The health and safety of our workforce are among our top priorities. We aim to protect our employees from accidents through high standards in health protection and plant safety, and continuous improvements in workplace safety precautions. Thanks to our global electronic Incident Reporting System (IRS), we are able to record accidents and incidents using standardized procedures. The incidents that are documented include accidents involving people, transport accidents, environmental incidents and downtime caused by bad weather or strike action. Each incident is carefully analyzed so that measures can be developed to prevent similar accidents or disruptions in the future.

The lost time injury frequency rate (LTIFR), known in Germany as the MAQ (accident rate per million work hours), is the key indicator used to assess occupational safety within the LANXESS Group. The LTIFR in 2008 was 3.1, which represents a clear improvement on the previous year (3.6). This trend shows the positive impact of our "A Greater Sense of Safety" campaign, which aims to encourage all employees to give more consideration to occupational safety issues and our HSE directives.

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



Open to ideas When LANXESS employees have good ideas for improving work procedures, plant and processes, those ideas pay off. An idea management system systematically encourages the development, processing and implementation of suggestions for improvements to ensure that LANXESS will constantly receive proposals for enhancing cost-effectiveness, occupational safety and environmental protection. In 2008, our employees submitted a total of 2,107 new suggestions (A), a rate of 424 (A) per thousand employees. In the same period, 922 ideas were implemented, yielding total savings of €2.1 million. Of these, 461 (A) suggestions were related to occupational safety and environmental protection. As a further incentive to attract ideas, the LANXESS Ideas Competition was initiated in 2008. Each year, the company's organizational units can measure themselves in terms of team benefit. The focus is on realizing further cost savings and on increasing both implementation and participation rates. With its attractive, performance-related bonus system, our idea management system will continue to play a key role in our company's future success.

(A) Excluding Saltigo

ENVIRONMENT

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

Global HSEQ management In fiscal 2005, we initiated the global process of aligning and controlling the HSEQ management system (HSEQ = Health, Safety, Environmental Protection, Quality) to ensure that the same environmental and safety standards are applied at all LANXESS locations throughout the world. We largely completed this process by the end of fiscal 2006. Our quality and environmental policies were revised, and global responsibilities were assigned in LANXESS directives that are binding at all our sites.

The HSEQ Committee, under the direction of Board of Management member Dr. Werner Breuers, is the central body for steering LANXESS'S global HSEQ management, the purpose of which is to further improve our company's performance in this area. The committee has global responsibility for initiating and monitoring the implementation of all necessary HSEQ directives, strategies and programs, as well as for defining and tracking the progress on meeting the HSEQ objectives. It also defines the global strategy for the LANXESS Group's integrated quality and environmental management system in accordance with ISO 9001 and ISO 14001. The committee includes all heads of business units and group functions. The Industrial and Environmental Affairs Group Function supports the HSEQ officers in our business units in the implementation of our HSEQ objectives and monitors global compliance with these objectives.

Systematic recording of key performance indicators In 2007, we introduced an improved electronic system for the systematic global recording of key performance indicators (KPIs) B in the areas of health, safety and environmental protection. This system enables us to record a broad range of KPIs for each business unit and location. These provide a valid database for internal and external reporting and map the progress we are making toward achieving HSEQ objectives (see table on page 39). Data are gathered from all sites in which the Group has a holding of at least 51 percent, and all LANXESS production sites are included. In May 2008, auditors Deloitte verified the validity of the data recording system and the data it generates (limited assurance).

Environmental and Safety Performance Data

	2007[1]	2008[2]
SAFETY		
Occupational injuries to LANXESS employees resulting in at least 1 day's absence (per million hours worked)	3.6	3.1
VOLUME SOLD (in thousand tons)	6,258	5,922
EMISSIONS, WASTE AND WASTEWATER		
Emissions into air (in thousand tons)		
Emissions of greenhouse gases as CO_2 equivalents	3,491	2,407
Emissions of volatile organic compounds	3.8	4.0
CO emissions	0.6	0.65
NO_x emissions	2.4	2.0
SO_2 emissions	1.8	1.1
NH_3 emissions	2.4	4.9[3]
Particulate emissions	0.4	–[4]
Emissions into water (in thousand tons)		
Total nitrogen	0.95	0.71
Total organic carbon (TOC)	1.95	1.6
Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc)	0.0058	0.0063
Waste (in thousand tons)		
Total waste generated	320	273
• Hazardous waste	210	186
• Non-hazardous waste	110	87
Wastewater (in thousand cubic meters per day)		
Total wastewater	92	88
CONSUMPTION OF RESOURCES		
Total water consumption (in thousand cubic meters per day)	1,240	1,138
Cooling water consumption (in thousand cubic meters per day)	838	800
Process water consumption (in thousand cubic meters per day)	402	338
Energy consumption (petajoules)	49	48

1) Up to September 2007, the KPIs include data for the former LANXESS business units Lustran Polymers and Borchers.
2) From April 2008, the KPIs include data from Petroflex S.A.
3) The deviation is due to a prolonged shutdown of a production unit in fiscal 2007.
4) Not recorded.

Uniform standards for process and plant safety LANXESS operates at 44 production sites in 21 countries across the globe (as of December 31, 2008). The diversity of the Group's product portfolio necessitates the use of many chemical and technical processes. Uniform standards for planning, constructing and operating facilities are applied to ensure the maximum possible process and plant safety. We use a systematic approach to identify risks and

B Key performance indicators (KPIs) are data used to measure the progress toward or achievement of important objectives within an organization.

hazard potential and to reduce these to an acceptable and controllable level by implementing safety measures. To help us achieve this, we have established a comprehensive safety management system (SMS) that governs procedures in all safety-critical processes in our production facilities. Regular monitoring and employee training ensure systematic implementation of the SMS. We have been carrying out compliance checks at LANXESS facilities in Germany since 2005. Experts conduct specific spot checks to assess whether all necessary measures are being taken to ensure the safe operation of facilities. Since 2007, compliance checks have also been carried out at key sites operated by LANXESS subsidiaries. In a successive process, all LANXESS facilities around the world will be required to verify their safety standards with a certificate.

The integration of Petroflex is another major task in this area. Immediately after the acquisition, we initiated a detailed audit, the results of which have since been incorporated into a gap analysis (A). Following on from this, we set ourselves the goal of upgrading performance in the areas of plant and process safety, occupational safety, environmental protection and incident management to match established LANXESS standards within a period of three years.

Product stewardship over the entire life cycle At LANXESS, product safety is a top priority in all processes along the value creation chain – from research and development, through production and transportation, to downstream processing and disposal. For us, product stewardship begins with the procurement of raw materials and services. We carry out regular supplier audits in Germany and abroad to ensure that our vendors operate in compliance with applicable laws and regulations on environmental protection and occupational safety, and with social standards. Our Product Stewardship Directive steers global monitoring of the health and ecological impacts of raw materials and products to help prevent harm to both health and the environment. Our product portfolio also includes substances that are classified as hazardous. In order to prevent possible harm to health, we systematically test the properties of our products and draw our customers' attention to the risks associated with their use.

Climate protection – the main challenge Limiting the consequences of the greenhouse effect is one of the most pressing challenges faced by industry and society today. As a driving force in the chemical industry, LANXESS invests in climate-friendly technologies and processes. In 2008, we implemented two major projects that will play a key role in helping to significantly reduce climate gas emissions in the years ahead.

In Germany, we aim to cut emissions of climate gases through 2012 by around 80 percent compared to 2007 levels. Measured in terms of CO_2 equivalents, this equates to reducing emissions from some 1.9 million tons in 2007 to around 0.35 million tons in 2012.

To achieve this goal, we have realized Germany's first industrial joint implementation project, an innovative type of climate protection initiative. A joint implementation project is a tool for emissions trading between industrial countries that is provided for in the Kyoto Protocol. Our project centered on the construction of a new, second plant for the reduction of climate-damaging nitrous oxide (N_2O) emissions at our site in Krefeld-Uerdingen. Nitrous oxide is produced during the manufacture of adipic acid, a precursor for plastics. Although the gas is completely safe for humans, it is over 300 times more damaging to the climate than CO_2. The adipic acid production facility in Krefeld-Uerdingen is the only such plant operated by LANXESS worldwide and is therefore crucial with respect to reducing nitrous oxide emissions. The project was approved in May 2008 by the DEHSt (B). The new facility was commissioned at the start of 2009 and now ensures complete neutralization of LANXESS's nitrous oxide emissions. Our investment of up to €10 million in the construction and operation of the plant will be entirely refinanced through the sale of emissions allowances.

We also aim to further reduce our annual CO_2 emissions in Germany by some 10,000 tons through 2012 by achieving lasting improvements in the energy efficiency of our production facilities.

At our site in Porto Feliz, Brazil, we are constructing an innovative, highly efficient cogeneration plant for the production of electricity and steam. The new, on-site power plant with a capacity of 4.5 MW will run on bagasse, a fibrous component of sugar cane that is left over after sugar production. Thanks to the use of this sustainable, environmentally friendly raw material, energy can be produced on a completely CO_2-neutral basis. The amount of CO_2 released is exactly the same as that absorbed by the sugarcane plants during growth. The gradual switchover from fossil fuels to renewable raw materials for power generation at the site began back in 2003. The start-up of the new power plant will enable us to cut CO_2 emissions at the site to virtually zero from 2010. As a result, our climate gas emissions will decrease by around 44,000 tons of CO_2 per year compared to 2002 levels. An added bonus is that the new plant will deliver a long-term, reliable and cost-effective power supply for our site – thereby safeguarding our competitiveness.

Switching from fossil fuels to biomass generated from agricultural waste products has already worked extremely well for us at our site in Thane, India, where we have been able to cut our energy costs by more than 30 percent.

(A) Gap analysis is a tool for identifying strategic and operational gaps. It compares a company's targets with the present situation and then analyzes the reasons for the gaps

(B) German Emissions Trading Authority at the Federal Environment Agency in Berlin

Another outstanding example of a climate-friendly production process is the cutting-edge facility for waste air treatment which went into operation at our French production site in Port Jérôme in December 2008. Rubber production at the site generates some 130,000 cubic meters of waste air every hour. Besides fine rubber particles, this also contains solvents in the form of hydrocarbon compounds, mostly hexane. The new high-tech purification plant, which represents an investment of around €6 million, first removes all rubber particles from the waste air. The hydrocarbons are then filtered out, concentrated and incinerated. This innovative process combination – specially developed for LANXESS – enables incineration of the hydrocarbons virtually without the need for fossil fuels such as natural gas. It cuts the CO_2 emissions from incineration by approximately 50 percent compared to conventional methods. Operating costs are also much lower.

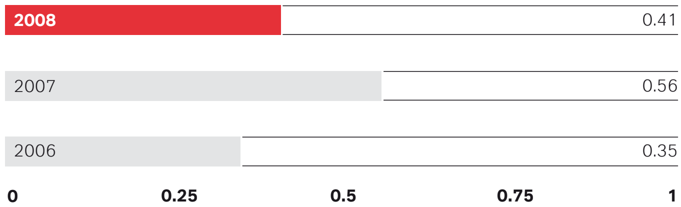
LANXESS has been involved in the Carbon Disclosure Project since 2006, sharing data and information on climate protection and the reduction of emissions.

We work consistently to reduce our emissions of environmentally relevant substances, not only in production but also in distribution. Wherever possible, we transport our products by rail or ship rather than by truck.

For example, since June 2008, the NBR products manufactured at the La Wantzenau site in France are no longer transported by truck to the port of Antwerp in Belgium but are moved without interim storage by ship along the Rhine. Should low water prevent the movement of shipping, an alternative rail route is used. This measure has not only halved the site's CO_2 emissions, it has also cut freight costs by around 30 percent. Moreover, the elimination of transshipping processes has significantly reduced the risk of transport damage.

Greenhouse Gas Emissions in Relation to Volumes Sold

CO_2 equivalents in tons per ton of product

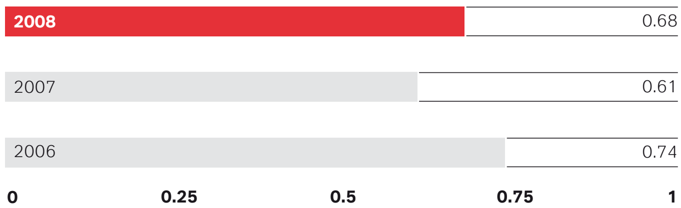


In 2008 we significantly reduced our emissions of greenhouse gases. Alongside many smaller individual measures, increasing the availability of our existing nitrous oxide reduction plant at the Krefeld-Uerdingen site to 97.99 percent had a particularly positive impact on this trend.

Other atmospheric emissions The European Union's NEC (National Emission Ceiling) Directive has set maximum limits for the release of the atmospheric pollutants sulfur dioxide (SO_2), nitrogen oxides (NO_x), ammonia (NH_3) and volatile organic compounds. These limits may no longer be exceeded after 2010. We specifically monitor sites that release relevant emissions and work to ensure that the same environmental standards are in place at all these sites, whether they are in Europe or elsewhere in the world.

VOC Emissions in Relation to Volumes Sold

VOC in kilograms per ton of product



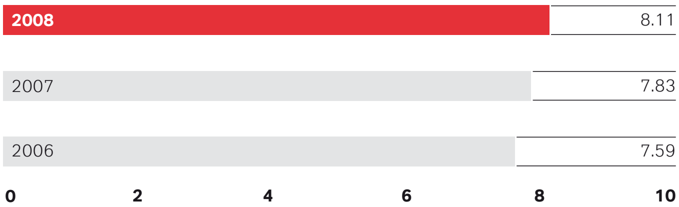
In the year under review, VOC (C) emissions increased in relation to the volumes sold. However, they remained at the prior-year level in absolute terms. This rise was due to changes in our product portfolio.

WWW.LANXESS.COM
You can find further interesting information about our projects online.

(C) VOC = volatile organic compounds

Energy Consumption in Relation to Volumes Sold

in gigajoules per ton of product



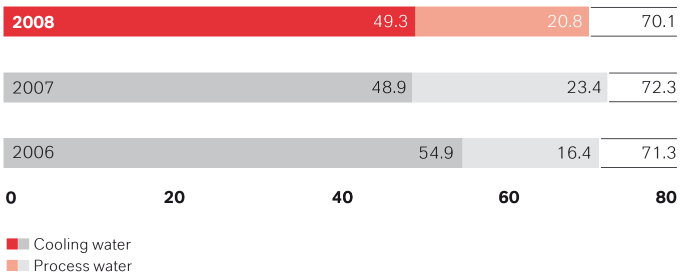
Energy consumption In the year under review, our energy consumption increased slightly in relation to volumes sold. In light of significantly higher energy prices in 2008, we see the review of all our processes to identify potential energy savings as an ongoing task. This not only relieves the burden on the environment but also improves our cost position.

Water LANXESS is responsible for numerous sites at which chemicals have been produced for 140 years or more. We are therefore also held liable for any contamination at these locations that may have been caused long before LANXESS was established. We are committed to ensuring that remediation work is carried out to the highest possible standards and that future contamination is avoided, a commitment we have demonstrated at our site in Merebank, South Africa.

In 2004, hexavalent chrome associated with much earlier production activities at this location was discovered in the groundwater outside the site boundary. In June 2008, we commissioned a groundwater extraction facility that represents a critical milestone in the remediation operation. In simple terms, this facility pumps groundwater contaminated with hexavalent chrome from the affected area to the site, where it is used as process water in production processes. Throughout the entire project, the safety of residents was our top priority. The remediation concept was developed and implemented in accordance with internationally recognized methods and LANXESS's commitment to Responsible Care®. The success of the operation was due in no small part to the involvement of a team put together by LANXESS in 2004 and comprising representatives from local, regional and supraregional authorities, non-governmental organizations (NGOs), the Merebank residents' initiative, interested and affected parties, and LANXESS employees. We will pursue the groundwater remediation project and continue to ensure that Merebank residents' safety is not compromised.

Water Consumption in Relation to Volumes Sold

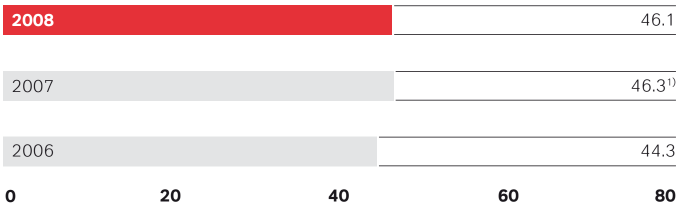
in cubic meters per ton of product



The reduction in water consumption related to volumes sold reflects above all our efforts to cut the amount of process water used.

Total Waste in Relation to Volumes Sold

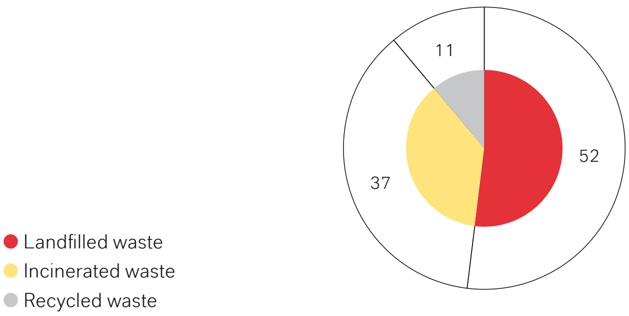
kilograms of waste per ton of product



1) Adjusted for one-time effects related to a production closure at the Krefeld-Uerdingen site.

Waste for Disposal

in %



Waste After adjustment for one-time effects of around 30,000 tons related to the closure of a production unit at the Krefeld-Uerdingen site in 2007, the total amount of waste generated in relation to volumes sold remained at the prior-year level. Some two thirds of our waste is classified as hazardous. Around half is sent to landfill, while about one third is recycled thermally.

HSEQ targets The table below provides an overview of our targets for the coming years.

HSEQ targets

Target	Program/Measures	Target Date
1. Improved occupational safety	Initiation of further projects and measures aimed at achieving zero accident rates	Ongoing
2. Reduced consumption of resources	Development of a concept to reduce specific energy consumption (steam, electricity, fossil fuels)	2009
3. Climate protection	Reduction of climate-damaging emissions in Germany by 80 percent compared to 2007 levels	2012
	Identification of further global climate protection projects	Ongoing
4. REACH	Continuation of the REACH registration process; formation of consortia for data exchange and joint registration	Ongoing
5. Global Harmonized System (GHS)	Implementation of GHS in the E.U.	2009
6. HSE data system	Global harmonization of HSE data systems	2009
7. Continuous improvement of the HSE KPI system	Implementation of a global Group directive	2009
	Further optimization of HSE KPI recording and the energy data recording system	Ongoing
8. Safe transportation of (dangerous) goods	Establishment of a global transport safety system and expansion of the SQAS[1] management system	2009
	Consistent derivation and implementation of a new Dangerous Goods and Transportation Safety Directive	2009
9. Completion of the global management system in accordance with ISO 9001 and ISO 14001	Integration of all relevant sites in the LANXESS matrix certificate	2009
10. Improved customer satisfaction with complaint handling	Program of continuous improvement in the efficiency and effectiveness of the complaint management system	Ongoing

1) SQAS (Safety and Quality Assessment System)

SOCIETY

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

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

In 2008, we launched an extensive education initiative in North Rhine-Westphalia that underscores our clear commitment to Germany as a business location – and in particular to North Rhine-Westphalia as a base for the chemical industry. We provide funding to schools in Leverkusen, Dormagen, Cologne and Krefeld-Uerdingen. School chemistry rooms in particular are often poorly equipped, with laboratory chemicals, special equipment, laptops and data projectors in short supply. The high schools we sponsor use our funding to purchase scientific supplies. LANXESS also offers talented chemistry students the opportunity to gain work experience and take part in vacation courses. Our Rhein Chemie Business Unit operates a similar concept to support schools close to its site in Mannheim.

LANXESS has been a partner to the International Chemistry Olympiad since 2005. This annual competition for high school students, which was first launched in 1968, challenges particularly talented young scientists to think outside the classroom and come to grips with current issues in chemistry. We support the work that goes into preparing participants from North Rhine-Westphalia by offering a comprehensive theoretical and practical training program that includes seminars, tours and lab days at LANXESS's plants. We also help students in Argentina, France, Italy and Singapore to prepare for the competition.

For six years we have been supporting a weekend campaign in the United States organized by the United Way charitable organization. LANXESS employees set up a holiday camp for children from disadvantaged backgrounds. They clean, garden, build and stitch so that over 350 children can get away from the city and experience nature in a community.

We also support scientific education in high schools at other LANXESS locations around the world.

In the United States, our subsidiary LANXESS Corporation has established the "Xplore Science with LANXESS" program. This program aims to show young people that science can be exciting and that learning can be fun by introducing interactive and stimulating learning experiences. By getting involved in the classroom and supporting teachers, LANXESS employees are helping to build bridges with the scientists of the future.

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

(A) Corporate citizenship describes a company's commitment to society and to ecological and cultural issues.

In Argentina, we are committed to two major initiatives. Science and industry have joined forces in the Proquimia program to ensure that the chemists of the future have the skills needed by the market. LANXESS sponsors a range of educational activities that combine basic concepts in chemistry with socially relevant issues such as the environment and technology. Proquimia also supports high school students who wish to participate in the Argentinean Chemistry Olympiad. The Educate to Grow initiative aims to promote development in the Zárate region by supporting not-for-profit organizations engaged in educational and social activities there. As part of this initiative, LANXESS provides funding for sustainable educational projects and helps those wishing to launch social projects by providing the fundamental know-how they need. In 2008, nine NGOs (B) received funding generated by a paper recycling project operated by LANXESS employees.

We are also committed to promoting intercultural exchanges between young people. The young.euro.classic German-Chinese Festival Orchestra brings together in one ensemble some of the most talented young musicians from China and Germany. They have so far taken their contemporary repertoire to an international music festival in Berlin and on numerous concert tours in China.

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

The best time to educate young people about access to clean water and to help them in their endeavors is during their first years at school. That is why we are supporting the African Medical & Research Foundation Germany (AMREF) which is using our financial assistance to establish water supplies for 25 Tanzanian schools attended by approximately 10,000 students and provide the sanitary facilities they need. AMREF also provides vital hygiene education for teachers and children. The students can then take this knowledge home with them and spread the safe water message in their daily lives.

We also plan to work closely with high school students in Leverkusen, Bitterfeld, Krefeld and Cologne in an effort to raise awareness in Germany of the situation in Africa and life in other cultures. The first step in this collaboration will be a project week devoted to the subject of water, which LANXESS is organizing in close cooperation with teachers from the schools. Besides focusing on natural science, social science and geography, the project will also involve the participation of an AMREF worker who will explain to students the organization's work in Tanzania. We hope that this collaboration will encourage young people in Germany to adopt a responsible attitude to using water.

We are also involved in a water project in Bangladesh. Since 2006, we have been working with students from the Brandenburg Technical University in Cottbus to remove highly toxic arsenic from the drinking water supply of a village south of Dhaka. The specially developed filter systems are easy to use, require no maintenance, and clean the water quickly and economically.

44
LANXESS employees take responsibility for people in the communities at all the company's 44 locations worldwide.

3,000
The Educate to Grow initiative has already provided direct or indirect support to 3,000 Argentinean children.

4,500,000
In 2008, LANXESS provided funding of €4.5 million for CR projects with a social focus.

(B) A non-governmental organization is a not-for-profit organization with a specific social objective. NGOs provide a range of services and fulfill humanitarian functions.

INVESTOR INFORMATION

AN OPEN **WORD**

DR. GERD ZELESNY HAS BEEN WITH LANXESS RIGHT FROM THE START AND HAD WORKED FOR BAYER BEFORE THAT. HE JOINED THE NEWLY FORMED INVESTOR RELATIONS TEAM IN 2004. SINCE JUNE 2008 HE HAS WORKED FOR THE BASIC CHEMICALS BUSINESS UNIT.

"LANXESS gives each employee the opportunity to broaden his or her personal horizon. My switch from IR to Basic Chemicals is an example of the varied perspectives offered by the company. I'm pleased that, despite a difficult starting position, we have been able to make LANXESS a strong chemical company with high recognition value."

Dr. Gerd Zelesny
Basic Chemicals BU
Leverkusen, Germany

We place great importance on ongoing transparent communication with institutional and private investors and analysts, especially in times of stock market upheaval. In this activity, we deploy the full spectrum of investor relations tools.

INVESTOR INFORMATION

For the international equity markets, 2008 was a year of dramatic movements in stock prices. The escalation of the financial market crisis, which triggered a global economic downturn, made for one of the weakest and most turbulent years in stock market history.

Markets were under pressure right from the beginning of the year. The DAX, Germany's leading index, fell 14 percent in January, while the MDAX also suffered a considerable loss of around 10 percent. The Dow Jones STOXX 600 Chemicals℠ started the year with a double-digit slide of roughly 11 percent. The principal triggers for January's massive losses were the billions in write-downs taken in the financial sector, the collapse of banks and mounting fears that the turmoil would spread to the real economy in the form of a recession in the United States. These developments continued the substantial consolidation set off by the U.S. subprime crisis in the second half of 2007.

Falling stock prices remained the norm for the rest of the first quarter of 2008. It was April before equity markets began to recover on perceived improvements in the credit markets and news of positive quarterly results from U.S. companies. The DAX and MDAX advanced more than 6 percent; the Dow Jones STOXX 600 Chemicals℠ posted a gain of more than 7 percent.

The markets continued to exhibit extreme volatility in the ensuing months, until September, when stock prices again moved sharply lower. Weak economic data, the collapse of U.S. investment bank Lehman Brothers and an increasingly tight liquidity situation, which led to fire sales in the equity markets and ultimately fueled economic worries around the globe, touched off a fresh round of hefty losses on the world's stock markets. The situation grew even worse in October, as key economic indicators, including the Ifo and ISM indices, plummeted. Fears of a global recession increased. Several major multinationals issued profit warnings after the third quarter reporting season. As a result, the pressure on the stock markets intensified. Even sweeping measures like the approval of a roughly US$ 790 billion rescue plan in the U.S., the package of measures designed to prop up the financial system in Germany and further interest rate cuts by central banks did little to reassure the markets.

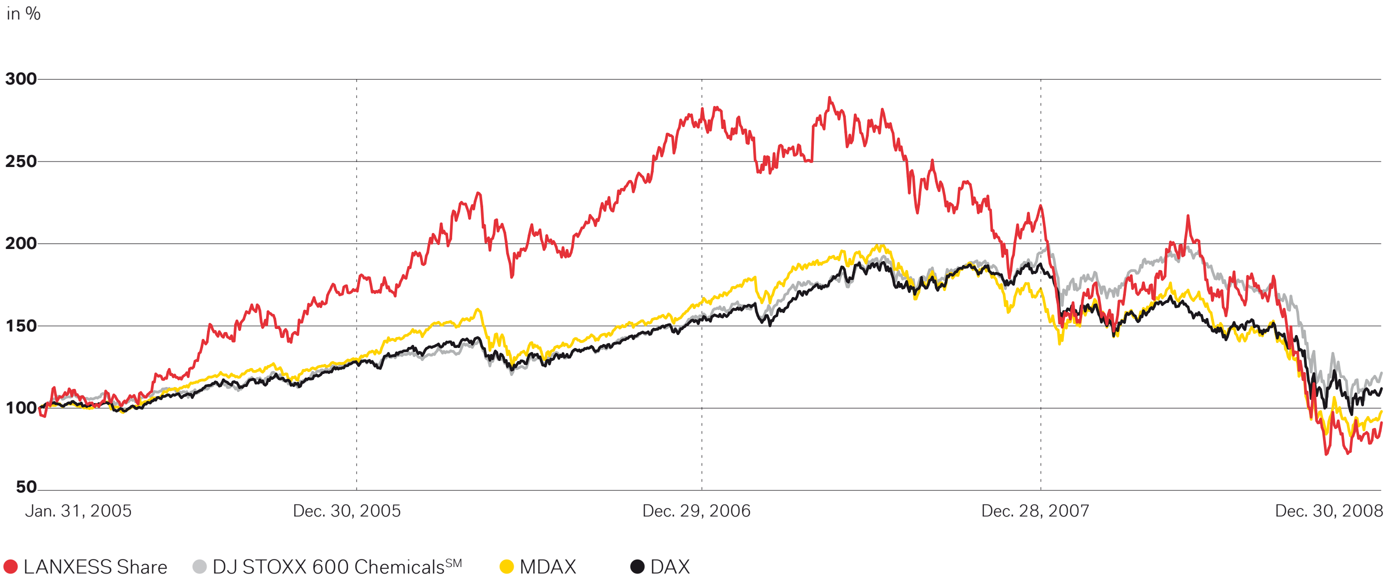
The DAX closed 2008 at 4,810 points, down a staggering 40 percent. The MDAX lost 42 percent to 5,602 points as of December 30. The Dow Jones STOXX 600 Chemicals℠, which ended the year at 321 points, shed 38 percent.

The heaviest losses on the German indices in 2008 were suffered by financial equities, notably banks and insurance companies, the automotive sector and cyclical sectors. LANXESS stock, a mid-cap equity in one of the more cyclical sectors, was therefore also hard hit by the market turmoil.

The price of LANXESS shares fell below €30 at the beginning of January, then slid down past €20 amid the steep market plunge that started in September. Our shares closed the year at €13.73, down 59 percent from the end of the previous year, a stock performance completely in contrast to the performance of our business. For example, despite the increasingly difficult market environment, LANXESS made its earnings targets and defined corporate goals for fiscal 2008, thus closing the profitability gap to its peers much sooner than anticipated. The EBITDA margin for 2008, at 11 percent, was on a par with the average for the company's competitors, all businesses in the portfolio achieved an EBITDA margin of at least 5 percent, and LANXESS retained its investment-grade rating. Fitch confirmed its investment-grade rating for LANXESS in December 2008, while Standard & Poor's and Moody's reaffirmed their ratings for the company, in place since 2007, in the summer of 2008. In addition, LANXESS bolstered its global market position in the year under review, especially by successfully completing its acquisition and integration of the Petroflex chemicals group, Brazil.

At no time during 2008 did the price of LANXESS shares reflect these achievements. Stock market developments were clearly driven by the financial market crisis and slumping world economy.

Stock Performance



Performance Data 2008

		Q1 2008	Q2 2008	Q3 2008	Q4 2008	Year 2008
Capital stock/no. of shares[1)]	€/no. of shares	83,202,670	83,202,670	83,202,670	83,202,670	83,202,670
Market capitalization[1)]	€ billion	2.12	2.17	1.61	1.14	1.14
High/low for the period	€	34.37/20.77	32.68/25.01	27.53/18.50	19.80/10.28	34.37/10.28
Closing price[1)]	€	25.43	26.08	19.36	13.73	13.73
Volatility[2)]	%	–	–	–	–	59.5
Trading volume	million shares	57.301	44.129	50.426	57.442	209.299
Average daily trading volume	shares	924,210	689,516	764,030	941,672	824,012
Price/earnings ratio[1),3)]		–	–	–	–	6.70
Price/cash flow ratio[1),3),4)]		–	–	–	–	2.26

1) end of quarter:
Q1: March 31, 2008, Q2: June 30, 2008, Q3: September 30, 2008, Q4 and full year: December 31, 2008
2) Source: Thomson Financial
3) Data, especially cash flow, are influenced by exceptionals, which restricts the significance accordingly.
4) reference value: operating cash flow

Capital Market Information

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

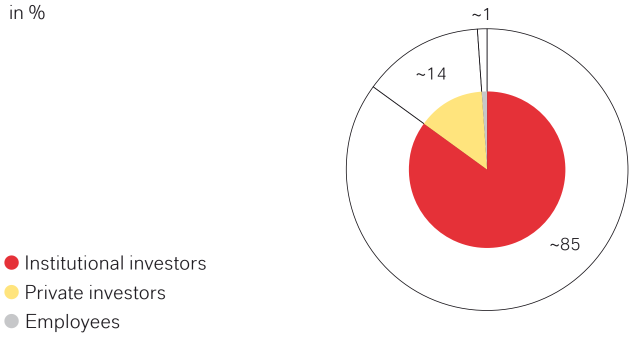
STRENGTHENING THE GEOGRAPHICAL FOCUS OF OUR OWNERSHIP STRUCTURE

Investors throughout the world made major adjustments to their portfolios and sold off large positions during 2008 in response to the financial market crisis. This increased the frequency of mandatory filings by our stockholders relating to reportable changes in the proportion of voting rights held and also led to a relative increase in share ownership in certain regions as the year went on.

Value-oriented institutional investors continue to hold the vast majority of LANXESS's shares. This trend, which began in 2006, persisted even in the challenging climate of 2008. Some 85 percent of the company's 83,202,670 shares are in the hands of institutional investors, both in and outside Germany. The remaining 15 percent are held by private investors and LANXESS employees. LANXESS's free float is 100 percent.

Stockholder Profile as of December 31, 2008

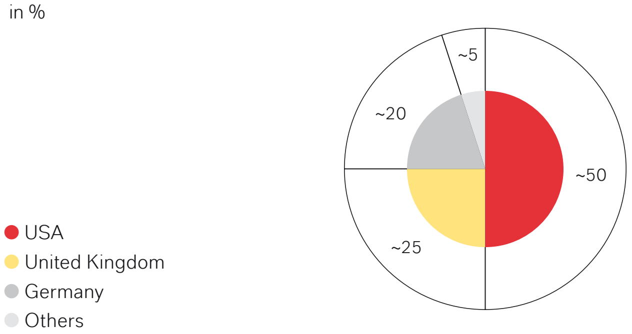
in %



In geographical terms, the largest number of our stockholders, around 50 percent (2007: 45 percent), reside in the United States. The United Kingdom is home to 25 percent of LANXESS investors, a figure unchanged from the previous year. Germany, where apart from institutional stockholders most of our private stockholders reside, is home to 20 percent of our investors (2007: 25 percent).

Geographical Breakdown as of December 31, 2008

in %



PROPORTIONS OF VOTING RIGHTS REPORTED BY INSTITUTIONAL INVESTORS

Stockholders are required by law to report their shareholdings in listed companies if the number of voting rights attributable to those shares reaches, exceeds or drops below 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent of the company's total number of voting rights.

U.S.-based Dodge & Cox, a traditional institutional investor, has held 10.25 percent of LANXESS's shares since December 2007. Third Avenue, another value-oriented U.S. fund, held 5.01 percent of our shares as of the reporting date. U.S.-based Greenlight Capital gave notice in 2008 of holding the same proportion of voting rights. At the beginning of 2009, traditional U.S. fund JP Morgan also raised its existing stake in LANXESS to 5.01 percent.

All required notices regarding shareholdings in LANXESS are available under the menu item "Shares" in the Investor Relations section of our website.

Reported Holdings of 3 Percent or Above by Institutional Investors (up to and including January 20, 2009)

Dodge & Cox, San Francisco (USA)	10.25%
Greenlight Group, New York (USA)	5.01%
JP Morgan Asset Management Holding Inc., New York (USA)	5.01%
Third Avenue Management LLC, New York (USA)	5.01%

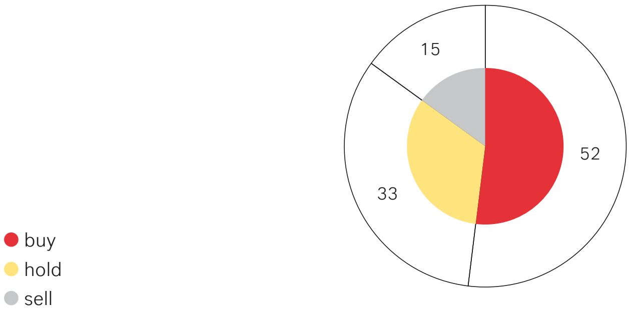
ANALYSTS CONTINUE TO ISSUE POSITIVE RECOMMENDATIONS

As in previous years, numerous sell-side analysts issued reports on LANXESS in fiscal 2008. Analysts changed their earnings expectations in the course of the capital market turmoil and onset of the global economic slowdown, but the majority of their recommendations for the LANXESS Group as of the December 31, 2008 reporting date remained positive. 52 percent (2007: 67 percent) issued a buy recommendation on LANXESS shares. 33 percent (2007: 25 percent) said to hold our shares, while 15 percent (2007: 8 percent) gave a sell recommendation.

Summaries of analyst recommendations, which have been compiled by an independent service provider, are available in the Investor Relations section of our website under the menu item "Shares."

Recommendations as of January 20, 2009

in %



UNANIMITY AT THE 2008 ANNUAL STOCKHOLDERS' MEETING

At LANXESS's Annual Stockholders' Meeting on May 29, 2008, 57.68 percent of the voting capital was present (2007: 57.04 percent), corresponding to 47,991,901 shares and the same number of votes. All the agenda items were passed by majorities of over 99 percent. The next Annual Stockholders' Meeting takes place on May 7, 2009, in the LANXESS arena at Willy-Brandt-Platz 1, 50679 Cologne.

Information can be obtained online at www.stockholdersmeeting.lanxess.com.

DIVIDEND POLICY CONTINUED

The Board of Management and Supervisory Board of LANXESS want our stockholders to benefit once again from the company's success. Accordingly, they will propose to the Annual Stockholders' Meeting on May 7, 2009, that a dividend of €0.50 per share be declared for fiscal 2008. LANXESS is thus continuing its dividend policy, while adjusting the level of the proposed dividend to reflect the present general lack of predictability in the global economy and our most important sales markets. In light of this situation, we consider it our entrepreneurial responsibility to seek the greatest possible financial flexibility for the LANXESS Group. Relative to the price at which LANXESS shares ended 2008, this equates to a dividend yield of 3.64 percent.

INVESTMENT-GRADE RATINGS REAFFIRMED IN DIFFICULT MARKET ENVIRONMENT

The world's major rating agencies, Standard & Poor's, Moody's Investor Services and Fitch, all have LANXESS at a "BBB" or "Baa2" investment-grade rating with stable outlook.

Fitch Ratings confirmed its "BBB" investment-grade rating with stable outlook for LANXESS, in place since May 2006, in December 2008. Fitch attributed the rating to LANXESS's solid cost structure, enhanced business profile and improved cost position, themselves the result of measures the company has successfully implemented over the past years. Fitch believes that LANXESS is in a good position to weather the global downturn in 2009 because of these qualities.

Moody's and Standard & Poor's each raised their ratings for LANXESS in fiscal 2007: the former from "Baa3" to "Baa2" with stable outlook and the latter from "BBB-" to "BBB," also with stable outlook. These ratings were also reaffirmed in the summer of 2008.

In the broader view, these confirmations mean that LANXESS has sustained its investment-grade rating on the capital markets even in a difficult environment. Retention of its investment-grade rating remains one of LANXESS's strategic objectives.

EURO BENCHMARK BOND ALSO IMPACTED BY THE FINANCIAL CRISIS

The Euro Benchmark Bond from LANXESS was launched on the European capital market in 2005. It has a volume of €500 million and a term of seven years, maturing on June 20, 2012. The annual interest coupon is 4.125 percent. The LANXESS bond is traded on the Luxembourg Stock Exchange under securities identification number AOE6C9. Its performance in 2008 was also affected by the financial market crisis. Further information about the bond can be found on page 70.

INVESTOR RELATIONS ACTIVITIES STRENGTHENED

LANXESS deploys a wide range of investor relations tools to give capital market players specific information about the company. Behind all of these tools stands a commitment to cultivate and maintain a meaningful and consistent dialogue with institutional investors, private investors and analysts. Key tools include roadshows, capital market conferences, investor news, the Annual Stockholders' Meeting and financial reports. LANXESS strengthened and individualized its contact with investors and analysts amid the market upheaval in 2008.

In-depth exchanges at roadshows LANXESS continued to use roadshows in fiscal 2008 as a vital instrument for addressing institutional investors in person. LANXESS's Board of Management and Investor Relations team sought a detailed dialogue with investors at one-on-one and group meetings held on a total of 60 days throughout the world. In addition to the international financial centers of Frankfurt, London, New York and Boston, roadshow stops again included European destinations like the Benelux countries, France, Italy, Switzerland and Scandinavia. Through roadshows, LANXESS's Board of Management and Investor Relations team stayed in constant contact with institutional investors and provided an ongoing opportunity for an in-depth discourse, raising the bar on the level of detail and breadth of information made available to equity markets mired in uncertainty.

With the challenges still facing the markets in 2009, roadshows with the strong, personal presence of Board of Management members and the Investor Relations team will remain a key investor relations tool for LANXESS and a valuable way of communicating with investors from the various regions.

Conferences an important communication forum Various external conferences served as another important way to communicate with investors about current and recent company developments in 2008. The LANXESS Board of Management and the Investor Relations team took advantage of well-known, internationally focused capital market conferences hosted by banks as venues for presenting LANXESS to the public and reaching as many potential investors as possible. Many of the external conferences took place in the financial centers of Frankfurt, London and New York. The presentations given at these events are available at http://corporate.lanxess.com/investor-relations/events-presentations/events-presentations-2009/.

The company also prepared and presented comprehensive information about topics of central concern to the Group in 2008. At these forums, LANXESS management gave analysts detailed insight into the company's strategic goals and operating developments and opened the floor for discussion and direct questions and answers about the information presented. LANXESS's next briefing for investors, analysts and bank representatives will take place on March 19, 2009.

As well as drawing on face-to-face contact, LANXESS uses conference calls, e.g. on the days it releases results or announces major strategic developments, as a means of providing real-time information about what is currently happening at the company. Conference calls are held with LANXESS's Board of Management and can be followed by any interested investors live via the Investor Relations section of the company's website. Recorded versions are available for one year.

Apart from Board of Management presentations and conference call audio, LANXESS's financial reports, voting rights notifications, corporate governance disclosures (e.g. directors' dealings) and investor news are among the other types of up-to-the-minute information made available in the Investor Relations section of the LANXESS website. Extensive information about the company is also available online in the form of the LANXESS Fact Book and Business Profile. LANXESS is committed to using its full range of investor relations activities as a way of supplying investors and analysts with the latest information about operating, strategic and financial issues related to the company and the markets in which it operates as well as maintaining an ongoing, long-term dialogue with the entire capital market community.

LANXESS once again received excellent marks in outside rankings of capital market communications in 2008. Chemical Week Magazine named Matthias Zachert CFO of the Year, mainly for his exemplary reporting to the capital markets. In the annual survey conducted by the U.K.'s Institutional Investor Research Group (IIRG), LANXESS was honored for the best investor relations work of any European chemical company. LANXESS also made it into the top 10 ranking of German companies, the only non-DAX entity to do so. The study elicited responses on companies active in a wide range of industries from more than 1,300 analysts at investment and brokerage firms.

The Investor Relations team serves as the point of contact for day-to-day communications:

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PRIVATE INVESTORS, ANNUAL STOCKHOLDERS' MEETING

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FINANCIAL INFORMATION

A KEEN **MIND**

We consider transparent reporting and prudent control to be essential to our entrepreneurial success. We aim to be predictable – in the positive sense – to our employees, business partners and stockholders.

Rekha Kumar
LANXESS India
Thane, India

REKHA KUMAR HAS WORKED AT THE HEADQUARTERS OF LANXESS INDIA IN THANE SINCE DECEMBER 2007. AMONG HER RESPONSIBILITIES ARE BRANDING, CORPORATE RESPONSIBILITY, THE EMPLOYEE MAGAZINE AND EVENTS.

“My job offers me exciting opportunities to actively help develop the young LANXESS brand in India. I have the impression that LANXESS looks after its employees and that their satisfaction is given high priority. I also think it’s good that environmental protection is not merely an issue that is anchored in our corporate values but is practiced reality.”

FINANCIAL INFORMATION

GROUP MANAGEMENT REPORT

THE LANXESS GROUP

Business and strategy The LANXESS Group is a globally operating chemicals enterprise with a portfolio ranging from basic, specialty and fine chemicals to polymers. Following the spin-off from the Bayer Group, it was first necessary to implement lean, straightforward structures and systematically optimize plants and processes. In our core businesses, all of the conditions are now in place for long-term success. These include a flexible asset network, a diversified customer base, a global presence with regional flexibility and an entrepreneurial management structure.

We see ourselves as a premium company that is not only a reliable supplier of products in optimal quality. We also actively support our customers' innovation processes and add measurable value. This enables us to strengthen customer loyalty and set ourselves apart from the competition.

Demand for LANXESS products declined dramatically as the global economic crisis worsened in the fourth quarter of 2008 and in early 2009. This prompted us to set up a crisis management team headed by the Chairman of the Board of Management that analyzes the effects of flagging demand on our business and draws up proposals for suitable countermeasures.

As far as possible we will attempt to compensate reduced demand within our own structures through variable capacity management, flanked by our flexible alignment and the elasticity of our cost structures. We are also taking steps to lower operating costs and adapt the capacity of our facilities. The "Procurement and Production" section of this Group Management Report provides an overview of the measures implemented in this regard.

We are reviewing all investment projects, without any exceptions. Following careful analysis, in December 2008 we decided to postpone several capital expenditure projects in response to the altered market conditions. This increases our financial headroom in the present difficult year. The construction of a new butyl rubber plant in Singapore is one of the projects affected. As a consequence, the facility is not expected to come into operation until 2012. The planned relocation of our corporate headquarters from Leverkusen to Cologne has also been deferred by one year to 2012 and capacity expansion plans in Leverkusen and Antwerp have been put on ice.

Furthermore, we expect our "CHALLENGE 09" package of measures announced at the end of January 2009 to cut spending by around €50 million in 2009/2010. This package encompasses a number of technical process improvements and human resources measures. These are described in detail in the Outlook section of this Management Report.

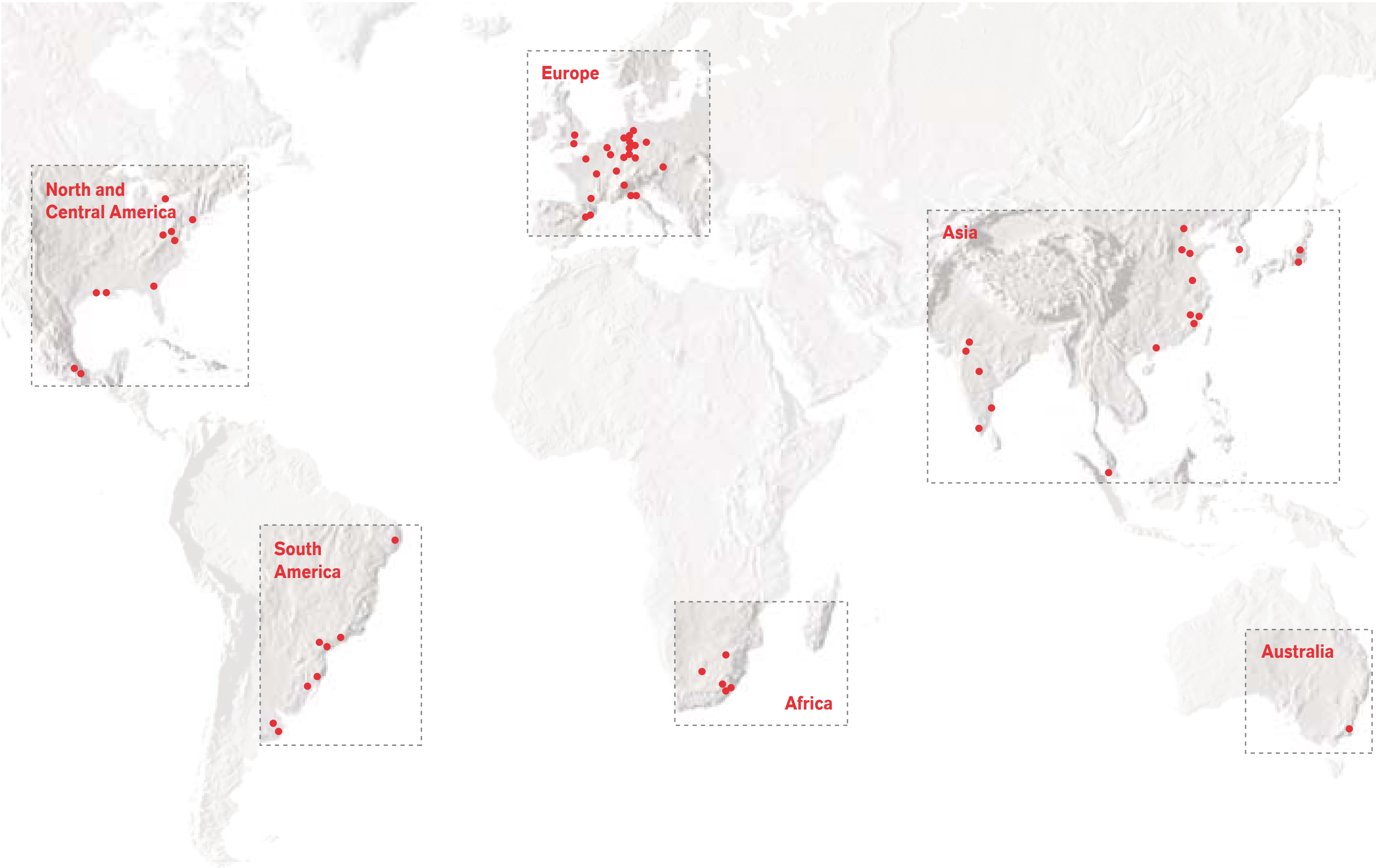
The segments in brief Since 2007, LANXESS's 13 business units have been grouped in three segments: Performance Polymers, Advanced Intermediates and Performance Chemicals.

Our synthetic rubber and plastics manufacturing activities are combined in the **Performance Polymers** segment. Here, LANXESS offers a broad portfolio of innovative products that holds a leading position internationally. The segment comprises the Butyl Rubber, Performance Butadiene Rubbers (up to June 30, 2008: Polybutadiene Rubber), Technical Rubber Products and Semi-Crystalline Products business units. The Performance Polymers segment's production facilities are located in Dormagen, Krefeld-Uerdingen, Leverkusen, Hamm-Uentrop and Marl, Germany; Antwerp and Zwijndrecht, Belgium; La Wantzenau and Port Jérôme, France; Sarnia, Ontario, Canada; Orange, Texas, United States; and Wuxi, China. With our acquisition of synthetic rubber manufacturer Petroflex in 2008, we also acquired its three production facilities in Cabo, Duque de Caxias and Triunfo, Brazil. Rubber products have applications in various areas, particularly the automotive and tire industry, construction materials, leisure equipment, machinery and chewing gum. The plastics that LANXESS produces are used in particular in the automotive industry, electronics and electrical engineering, and medical equipment.

The business activities that LANXESS combines in its **Advanced Intermediates** segment make it one of the world's leading suppliers of basic and fine chemicals. The business units in this segment are Basic Chemicals and Saltigo. The Advanced Intermediates segment's production sites are situated in Brunsbuettel, Dormagen, Krefeld-Uerdingen and Leverkusen, Germany, and Baytown, Texas, United States. Its products are used in such diverse sectors as agrochemicals, construction, dyes and pharmaceuticals.

The **Performance Chemicals** segment embraces the Group's application-oriented specialty chemicals operations. The business units in this segment are Material Protection Products, Inorganic Pigments, Functional Chemicals, Leather, Rhein Chemie, Rubber Chemicals and Ion Exchange Resins. The segment's production sites are in Bitterfeld, Brunsbuettel, Dormagen, Krefeld-Uerdingen, Leverkusen and Mannheim, Germany; Antwerp, Belgium; Branston, United Kingdom; Filago, Italy; Vilassar de Mar, Spain; Isithebe, Merebank, Newcastle and Rustenburg, South Africa; Burgettstown, Pennsylvania, Bushy Park, South Carolina and Chardon, Ohio in the United States; Lerma, Mexico; Porto Feliz, Brazil; Zárate, Argentina; Qingdao, Tongling, Shanghai, Wuxi and Weifang, China; Madurai and Thane, India; Toyohashi, Japan; and Sydney, Australia. The segment's varied products are used in areas such as disinfectants, colorants, wood preservatives, the food and beverage industry, water treatment, construction and the leather industry.

LANXESS has a Presence Throughout the World



Organization LANXESS AG functions largely as a management holding company. Each business unit has global responsibility for its own operations. The business units are complemented by group functions with international responsibility for providing services.

LANXESS Deutschland GmbH and LANXESS International Holding GmbH are wholly owned subsidiaries of LANXESS AG, and in turn control the other subsidiaries and affiliates both in Germany and elsewhere.

The following are the principal companies wholly owned by LANXESS AG directly or indirectly:
- LANXESS Deutschland GmbH, Leverkusen: production and sales, all segments
- LANXESS Corporation, Pittsburgh, Pennsylvania, United States: production and sales, all segments
- LANXESS Elastomères S.A.S., Lillebonne, France: production and sales, Performance Polymers
- LANXESS Holding Hispania, S.L., Barcelona, Spain: holding company, all segments
- LANXESS Inc., Sarnia, Ontario, Canada: production and sales, Performance Polymers
- LANXESS International SA, Granges-Paccot, Switzerland: sales, all segments
- LANXESS N.V., Antwerp, Belgium: production and sales, Performance Polymers and Performance Chemicals
- LANXESS Rubber N.V., Zwijndrecht, Belgium: production and sales, Performance Polymers
- LANXESS Elastômeros do Brasil S.A. (formerly: Petroflex Industria e Comercio S.A.), Rio de Janeiro, Brazil: production and sales, Performance Polymers
- Rhein Chemie Rheinau GmbH, Mannheim, Germany: production and sales, Performance Chemicals
- SALTIGO GmbH, Leverkusen, Germany: production and sales, Advanced Intermediates

On December 13, 2007, we announced the acquisition of Brazilian chemicals enterprise Petroflex. Petroflex is one of the world's major producers of synthetic rubber. We initially acquired nearly 70% of the company's shares at a purchase price equivalent to around €200 million. The transaction was completed on April 1, 2008 following the approval of the antitrust authorities, and Petroflex has been included in the LANXESS consolidated financial statements since the second quarter of 2008. In compliance with local regulations, we then made a public tender offer to the minority stockholders. By the end of the offer period on October 16, 2008, we had acquired a further 27% of Petroflex shares, which made a rapid squeeze-out possible. LANXESS has held all shares in Petroflex since November 13, 2008. The price for the full block of shares including net debt amounted to approximately €370 million. The successful takeover also ended Petroflex's stock market listing.

In the second quarter of 2008, we expanded the Asian activities of our Inorganic Pigments Business Unit by purchasing one of China's largest iron oxide pigment facilities from our previous cooperation partner Jinzhuo Chemicals Company Ltd. This acquisition not only expands our production capacity, but also secures the supply of raw materials for our pigment blending facility in Shanghai. The transaction was completed in October 2008.

VALUE MANAGEMENT AND CONTROL SYSTEM

Value Management and Control System

		2004	2005	2006	2007	2008
EBITDA pre exceptionals	€ million	447	581	675	719	721
EBITDA margin pre exceptionals	%	6.6	8.1	9.7	10.9	11.0
Capital employed	€ million	2,914	2,578	2,640	2,660	3,065
ROCE	%	5.4	12.9	15.9	17.7	15.0
Days of sales in inventories (DSI)	Days	61.2	53.8	56.1	54.5	66.9
Days of sales outstanding (DSO)	Days	60.4	53.6	49.5	49.3	44.6
Net financial liabilities	€ million	1,135	680	511	460	864
Net debt ratio		2.5x	1.2x	0.8x	0.6x	1.2x
Investment ratio	%	4.1	3.5	3.8	4.3	5.4

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

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

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

Net Financial Liabilities

€ million	2004	2005	2006	2007	2008
Non-current financial liabilities	140	688	632	601	959[1]
Current financial liabilities	1,074	141	62	59	168
Less					
Liabilities for accrued interest	(7)	(13)	(12)	(11)	(14)
Cash and cash equivalents	(72)	(136)	(171)	(189)	(249)
	1,135	**680**	**511**	**460**	**864**

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

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

In fiscal 2006, we implemented return on capital employed (ROCE) as a key controlling parameter at Group level. ROCE is a profitability ratio that indicates how effectively we utilize our capital. This makes it an important criterion in investment decisions, for example. All new investment projects must substantially exceed the Group's ROCE. ROCE is the ratio of EBIT pre exceptionals to capital employed. Capital employed can be derived from balance sheet data; it is defined as total assets less deferred tax assets and interest-free liabilities. Interest-free liabilities comprise provisions (except those for pensions), tax liabilities, trade payables, and material items included under "other liabilities." In addition, we use a simplified variant of ROCE, called "business ROCE," for planning and management of our business units.

With both these ROCE variants, value increases as soon as ROCE exceeds the weighted average cost of capital (WACC), following conversion of this parameter to a comparable basis. WACC is a weighted average of the cost of raising equity and debt capital. From the cost of debt capital we first deduct the tax advantage resulting from the tax deductibility of interest incurred on borrowed capital. The individual financing components are generally weighted at market value.

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

At 15.0%, ROCE in 2008 exceeded our adjusted weighted average cost of capital, which amounted to 8.4% after tax as of December 31, 2008. The net debt ratio rose from 0.6 in the previous year to 1.2 as of December 31, 2008 in connection with the financing of the Petroflex acquisition through debt.

Expenditures for property, plant and equipment are subject to rigorous capital discipline and are aligned systematically with those product areas with the greatest potential for success.

BUSINESS CONDITIONS

The economic environment During 2008 the global economy experienced a sharp decline. While in the first six months it still seemed as if the financial crisis would hamper the real economy less than initially anticipated, demand fell away toward the end of 2008, impacting virtually all industry sectors and regions.

In the fourth quarter of 2008, many of the world's largest economies, including Germany, the United States and Japan, saw their economic performance slump. Growth rates tumbled in China and India, consistently two of the main driving forces of the global economy in recent years. Consequently, over the year as a whole, all regions posted weaker growth than we had forecast.

Trends on the stock markets clearly mirror this negative trend. All benchmark indices suffered heavy losses in 2008, the Dow Jones and the DAX shedding around 34% and 40% of their values, respectively. Losses on the Asian markets were even higher.

Governments around the world unveiled multi-billion dollar rescue packages to stabilize the money markets and prop up the economy, helped by the central banks' slashing of interest rates. The U.S. Federal Reserve, for instance, cut its key interest rate from 4.25% to between 0.00% and 0.25% over the course of the year, while the European Central Bank halved its key rate from 4% to 2% in several stages. By year-end, however, these measures had not translated into a noticeable improvement in economic data.

The U.S. dollar gained around 8% against other key currencies during the year, partly due to the tendency to invest in relatively safe U.S. government bonds. At the close of 2008, the euro was worth US$1.39. However, its average value for the year was around US$1.47. Due to the positioning of our business, a stronger U.S. dollar generally has a positive effect on LANXESS's earnings.

Developments in the prices of raw materials, especially oil, reflect the recessionary trend in the global economy. After reaching a new historic high of US$146 per barrel in July 2008, the oil price came under enormous pressure in the second half of the year, falling to just US$42 at year-end. As a purchaser of petrochemical raw materials, LANXESS generally benefits from a drop in oil prices, which leads to lower production costs.

The chemical industry The upswing in the chemical industry that began in 2003 came to an abrupt stop in the second half of 2008 as a result of the downturn in the global economy. At only around 1%, growth in global production for the year as a whole fell considerably short of our forecast.

In the EMEA (Europe, Middle East and Africa) region, chemical production dipped slightly everywhere except in the Middle East and Africa, with Germany seeing the strongest decline. In the Americas, stable growth in Latin America, especially in Brazil, was unable to compensate entirely for the contraction in the NAFTA region. The Asian economy also lagged significantly behind our expectations, the slowdown in growth being especially apparent in China and India.

GDP and Chemical Production in 2008

Change vs. prior year in real terms (%) (projected)	Gross domestic product	Chemical production
Americas	1.7	(1.2)
NAFTA	1.1	(2.3)
Latin America	5.2	5.6
EMEA	1.7	0.1
Germany	1.2	(2.2)
Western Europe	0.9	(1.3)
Central/Eastern Europe	5.3	(0.5)
Asia-Pacific	3.3	3.3
Japan	(0.1)	(0.1)
China	7.4	5.5
India	6.3	6.0
World	**2.2**	**1.0**

Evolution of major user industries Among our most important user sectors, the **automotive industry** was hardest hit by the global recession. While the growth regions continued to expand, this was not nearly enough to absorb the historic slumps in North America and western Europe. U.S. automakers in particular are being affected by the trend toward smaller, more fuel-efficient vehicles, which has put a deep dent in their sales figures. Under the bottom line, the automotive industry contracted globally by 2.9%, after expanding by 4.9% in 2007.

The **tire industry** posted growth only in Asia in 2008, confirming the sustained trend toward relocating production to emerging nations. This industry's performance in North America remained sluggish, and even Latin America experienced a downturn. The EMEA markets also declined across the board, resulting in a global decrease of 0.3%.

Compared to the previous year, which had already been fairly weak, the downturn in the **construction industry** in fiscal 2008 was moderate at just 0.6%. Improved performance by the industry was hampered by declines of 9.0% in Japan and 5.0% in the NAFTA region. This contrasts with double-digit growth in some of the emerging economies of central and eastern Europe, Latin America and Asia.

The chemicals manufactured for the **agricultural industry** benefited from the brisk demand for food and the speculation about the use of agricultural products as the raw materials for manufacturing fuel. Driving growth of 1.9% were the Middle East and Africa (10.4%), as well as Latin America (9.8%).

Evolution of Major User Industries in 2008

Change vs. prior year in real terms (%) (projected)	Automotive	Tires	Construction	Agrochemicals
Americas	(10.7)	(5.8)	(3.4)	0.6
NAFTA	(15.5)	(6.3)	(5.0)	(2.1)
Latin America	9.0	(4.3)	8.6	9.8
EMEA	(2.9)	(5.2)	(0.4)	2.4
Germany	(3.1)	(5.3)	0.4	(5.6)
Western Europe	(7.9)	(6.8)	(2.0)	(0.7)
Central/Eastern Europe	8.8	(3.2)	8.1	0.9
Asia-Pacific	2.1	5.2	1.9	2.4
World	**(2.9)**	**(0.3)**	**(0.6)**	**1.9**

LEGAL ENVIRONMENT

German corporate tax reform The major components of Germany's Corporate Tax Reform Act, passed in mid-2007 to make the country a more attractive international location for business, started to take effect in fiscal 2008. The reduction in the corporate income tax rate from 25% to 15% and in the basic rate for trade tax from 5% to 3.5% together decreased the average nominal income tax liability of corporations from some 38.8% previously to around 29.8%. However, the broadening of the assessment base, which took effect at the same time, largely eroded the reduction of pressure on LANXESS as a capital-intensive corporation with international operations.

REACH Regulation December 1, 2008 was the final day of the pre-registration period for substances that are subject to the European Union's REACH Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals. We pre-registered all the relevant substances in the LANXESS product portfolio by the due date and will now make use of the designated transition periods for full registration.

BUSINESS PERFORMANCE OF THE LANXESS GROUP

- Operational sales growth of 5.9% in fiscal 2008
- EBITDA pre exceptionals up 0.3% to €721 million
- EBITDA margin pre exceptionals on prior-year level at 11.0%
- Operating result weighed down by exceptional items for efficiency programs in Canada and Belgium
- Functional Chemicals Business Unit to be realigned to increase international competitiveness
- Net income of €171 million after €112 million in previous year
- Solid balance sheet and financing structure
- Net financial liabilities increase to €864 million following acquisition of Petroflex

Key Financial Data

€ million	2007	2008	Change in %
Sales	6,608	6,576	(0.5)
Gross profit	1,461	1,460	(0.1)
EBITDA pre exceptionals	719	721	0.3
EBITDA margin pre exceptionals	10.9%	11.0%	
EBITDA	513	601	17.2
Operating result (EBIT) pre exceptionals	472	461	(2.3)
Operating result (EBIT)	215	322	49.8
EBIT margin	3.3%	4.9%	
Financial result	(43)	(93)	> 100
Income before income taxes	172	229	33.1
Net income	112	171	52.7
Earnings per share (€)	1.32	2.05	55.3

Summary of the fiscal year 2008 was an economically sound and strategically successful year for LANXESS. However, by the end of the year, we also had begun to feel the effects of the financial and economic crisis with a dramatic slump in sales. While we had expected this development, the downturn was more severe than could have been anticipated. Over the year as a whole, we lifted sales by a gratifying 5.9% after adjusting for portfolio and currency effects. In spite of negative currency and raw material price effects, our operating result before depreciation and amortization (EBITDA) pre exceptionals was slightly higher than in the previous year at €721 million – placing it in the middle of our earnings guidance of €710 million to €730 million that we confirmed on publication of the third-quarter results. The EBITDA margin rose by 0.1 percentage points to 11.0%, thus reaching the average level of our competitors as we had predicted. The operating result (EBIT) pre exceptionals fell 2.3% year-on-year to €461 million. The operating result increased by a substantial 49.8%, which is partly attributable to the significant decrease in exceptional charges in the past fiscal year. In 2007, the unusually high exceptionals stemmed from the divestment of the Lustran Polymers business. Consistent application of our value-based "price before volume" strategy, the systematic implementation of our restructuring programs and the successful integration of Petroflex were key factors in the development of the operating result.

The Petroflex acquisition in particular and the purchase of one of China's largest iron oxide pigment facilities, coupled with portfolio adjustments in recent years, have continually strengthened the Group's position. All our businesses now show an EBITDA margin pre exceptionals of at least 5%. As of April 1, 2008, we had acquired 70% of the shares in Petroflex, the largest rubber manufacturer in Latin America, purchasing the remaining 30% by November. The acquisition ideally complements our product portfolio in the Performance Polymers segment and crucially strengthens our position in one of the world's most important growth markets. The acquisition of the pigment facility in Jinshan, close to Shanghai, increased our global production capacity for inorganic pigments by 5% and secured the supply of raw materials for our pigment blending unit in Shanghai, eliminating our dependence on local suppliers.

The financial result declined by €50 million year-on-year, mainly because of the non-recurring income received in the previous year from the sale of investments as well as a write-down on our financial interest in Lustran Polymers in 2008. As a consequence of the operating performance described and the above-mentioned portfolio adjustments and restructuring measures, net income for the Group increased by 52.7% to €171 million. Given the stable development of the operating result pre exceptionals, the Board of Management and Supervisory Board will propose to the Annual Stockholders' Meeting on May 7, 2009 that a dividend of €0.50 per LANXESS share be paid.

Sales and earnings In fiscal 2008, sales of the LANXESS Group largely matched 2007 levels, with a decrease of just 0.5%. After adjusting for negative currency and portfolio effects, LANXESS posted operational sales growth of 5.9%.

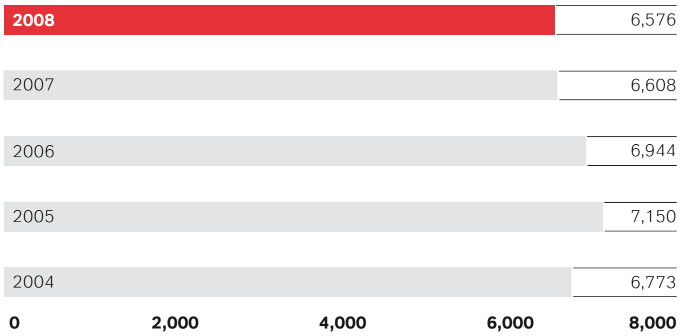
Effects on Sales

Approximate data in %	2008
Price	8.7
Volume	(2.8)
Currency	(2.7)
Portfolio	(3.7)
	(0.5)

This resulted from price increases of 8.7% coupled with a 2.8% decline in volumes. In all segments, especially Performance Polymers, selling prices were raised to compensate higher raw material costs. All segments with the exception of Advanced Intermediates saw their volumes decrease at year-end in the wake of the marked economic downturn. The negative currency effects of 2.7% were mainly attributable to the continuing weakness of the U.S. dollar against the euro throughout the year. The negative portfolio effects of 3.7% relate to the absence of sales following the divestment of Lustran Polymers at the end of September 2007, which were not fully offset by the additional income from the Petroflex acquisition in fiscal 2008.

Group Sales

€ million



Sales by Segment

€ million	2007	2008	Change in %	Proportion of Group sales in %
Performance Polymers	2,680	3,280	22.4	49.9
Advanced Intermediates	1,204	1,310	8.8	19.9
Performance Chemicals	1,970	1,930	(2.0)	29.3
Other/Consolidation	754	56	(92.6)	0.9
	6,608	**6,576**	**(0.5)**	**100.0**

Sales in the Performance Polymers segment were driven upward by price increases and boosted by a strong portfolio effect resulting from the acquisition of the Petroflex group from April 2008. The Advanced Intermediates segment achieved price and volume growth in much the same range despite slightly negative currency effects. The decrease in sales in the Performance Chemicals segment was due to currency and volume factors that were largely compensated by the price adjustments undertaken. The sales reported for the Other/Consolidation segment in the previous year are not comparable because they contain the revenue of the Lustran Polymers business, prior to its transfer to a new company effective September 30, 2007.

In regional terms, sales grew particularly strongly in Asia and also continued to climb in the Americas. In Asia-Pacific, after adjusting for currency and portfolio effects, LANXESS recorded sales growth well into double digits in a mostly favorable environment during the first three quarters. Sales in the Americas region rose by a mid-single-digit percentage compared with the previous year, adjusted for portfolio and currency effects. Sales also increased in the EMEA region (excluding Germany), while sales in Germany were impacted by the fallout from the economic crisis toward year-end and were down on the prior-year figure.

Gross profit In parallel with sales revenues, the cost of sales decreased by 0.6% to €5,116 million compared to the previous year. Due to portfolio changes, the prior-year figure includes production costs of the divested Lustran Polymers business for nine months, while the 2008 figures contain the production costs of the Petroflex group, also for a period of nine months. Gross profit stood at €1,460 million, matching the year-earlier figure. As in the previous year, price increases, especially for petrochemical raw materials, were passed on to the market. Efficiency enhancements and active capacity management were among the factors which helped strengthen the improvements in the gross profit margin achieved by portfolio measures. At 22.2%, the gross profit margin was slightly higher than the prior-year figure of 22.1%. The effects of the financial and economic crisis and the associated decline in volumes in the fourth quarter prevented a further increase. The gross profit margin was supported by the consolidation of production sites and measures taken to reduce the cost of energies and raw materials, for example in the Performance Polymers segment.

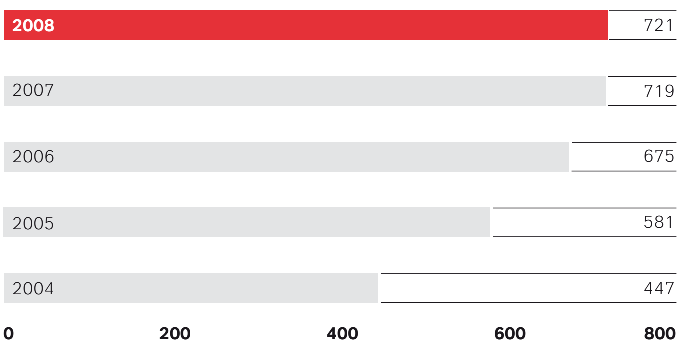
EBITDA and operating result (EBIT) At €658 million, selling expenses in fiscal 2008 remained almost level with the prior-year figure of €659 million. The ratio of selling expenses to sales held steady at 10.0%.

Research and development costs increased by 10.2% year on year to €97 million, primarily due to the planned broadening of our research activities. R&D expenses accounted for 1.5% of sales, after 1.3% in 2007. The number of employees in R&D increased from 408 in the previous year to 453.

General administrative expenses rose by €14 million in 2008 to €270 million in connection with the portfolio effects in the year under review as well as the Group-wide introduction of IT systems. These expenses accounted for 4.1% of sales, up from 3.9% in the previous year.

EBITDA Pre Exceptionals

€ million



Other operating expenses, net of other operating income, fell by a substantial €243 million to €113 million, including net exceptional items of €139 million, which related mainly to restructuring and portfolio measures. In the previous year, we reported significant net exceptional charges of €257 million, which were also attributable to restructuring and portfolio measures. These were associated primarily with the divestment of the Lustran Polymers business.

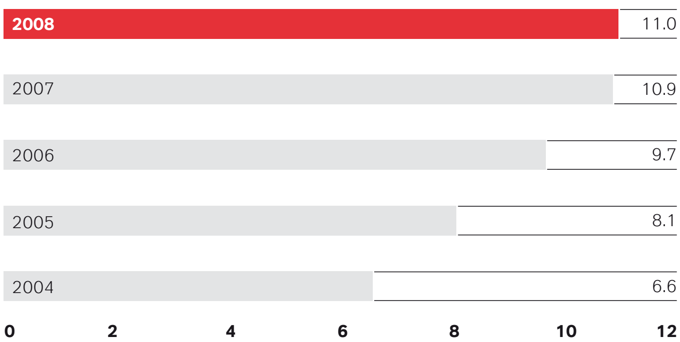
EBITDA Pre Exceptionals by Segment

€ million	2007	2008	Change in %
Performance Polymers	376	413	9.8
Advanced Intermediates	174	186	6.9
Performance Chemicals	285	241	(15.4)
Other/Consolidation	(116)	(119)	(2.6)
	719	**721**	**0.3**

The operating result before depreciation and amortization (EBITDA) pre exceptionals edged up €2 million in the year under review to €721 million. We were able to counteract the cost pressure caused by higher raw material and utility costs at Group level through price increases. The earnings contribution from Petroflex, which was acquired during the year, also more than compensated for the absence of earnings from the 2007 sale of the Lustran Polymers activities. The EBITDA margin increased by 0.1 percentage points, to 11.0%.

EBITDA Margin Pre Exceptionals

in %



EBITDA pre exceptionals of the Performance Polymers segment moved ahead strongly, due especially to the first-time inclusion of the Petroflex group as well as to the success in passing on high raw material prices to the market. In the Advanced Intermediates segment, the prior year's high earnings were improved through a value-based pricing policy with further growth in margins. EBITDA pre exceptionals of the Performance Chemicals segment declined considerably owing to negative currency effects and lower volumes, particularly in the course of the fourth quarter.

The operating result (EBIT) swelled by €107 million to €322 million from the 2007 figure of €215 million, principally due to the sharp drop in exceptional charges in 2008. These totaled €139 million, of which €120 million impacted EBITDA, and were incurred in particular for the efficiency enhancement programs launched by the Performance Polymers segment at the sites in Sarnia, Canada, and Zwijndrecht, Belgium, in early 2008. Other exceptional charges were incurred by the Performance Chemicals segment, where measures included the realignment of operations in the Functional Chemicals Business Unit and the closure of a facility in the Ion Exchange Resins Business Unit.

Total exceptional charges of €257 million in 2007 were chiefly related to the divestment of the Lustran Polymers operations.

Reconciliation of EBIT to Net Income

€ million	2007	2008	Change in %
Operating result (EBIT)	**215**	**322**	**49.8**
Income (loss) from investments in associates	(1)	20	> 100
Net interest expense	(20)	(36)	(80.0)
Other financial income and expenses – net	(22)	(77)	> 100
Financial result	**(43)**	**(93)**	**> 100**
Income before income taxes	**172**	**229**	**33.1**
Income taxes	(60)	(58)	(3.3)
Income after income taxes	**112**	**171**	**52.7**
of which:			
attributable to minority stockholders	0	0	
attributable to LANXESS AG stockholders (net income)	**112**	**171**	**52.7**

Financial result The financial result came in at minus €93 million in 2008, compared to minus €43 million for the prior year. Income from investments accounted for using the equity method contains our interest in the net income of CURRENTA GmbH & Co. OHG. Net interest expense rose by €16 million to €36 million, due in particular to higher interest expenses for the financing of the Petroflex acquisition. The decline in the balance of other financial income and expenses was largely attributable to a write-down of the financial investment in INEOS ABS (Jersey) Limited, made in light of the continuing negative outlook for this business. 2007 had also been dominated by a gain from the divestment of financial investments in the amount of €18 million.

Income before income taxes Despite the deterioration in the financial result, income before income taxes rose by €57 million to €229 million on the back of a significant increase in EBIT.

Income taxes Tax expense in fiscal 2008 amounted to €58 million, down €2 million on the year-earlier figure of €60 million in spite of higher pre-tax income. The effective tax rate was 25.3%, after 34.9% the year before. This was caused by a change in the tax rate applicable to German companies from fiscal 2008 as well as a larger proportion of non-tax-deductible expenses in the previous year.

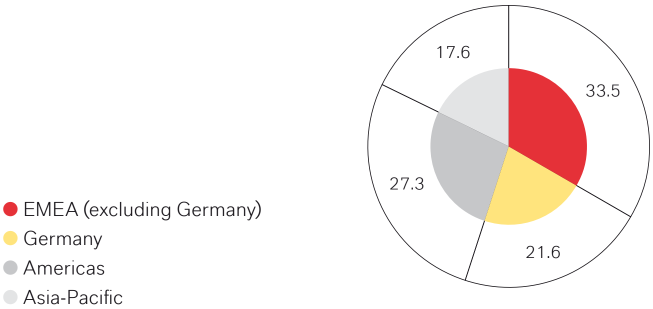
Net income/Earnings per share After recording net income of €112 million in 2007, the LANXESS Group posted net income of €171 million in the period under review. As in the previous year, no significant minority interests were required to be recognized following the prior year's portfolio adjustments. Instead of a dividend, third-party Petroflex stockholders received a mandatory interest payment on the shares they transferred to LANXESS on conclusion of the takeover process at the end of 2008 in accordance with the provisions of local law. The corresponding interest expense is contained in the financial result. The earnings of Petroflex S.A. were therefore attributable in full to LANXESS AG stockholders effective April 1, 2008, and no minority interests had to be recognized for 2008 as a whole.

Based on a weighted average number of shares, earnings per share for 2008 came to €2.05, compared with €1.32 the year before.

BUSINESS TRENDS BY REGION

Sales by Region

in %



Sales by Market

	2007		2008		Change
	€ million	%	€ million	%	in %
EMEA (excluding Germany)	2,196	33.2	2,201	33.5	0.2
Germany	1,614	24.4	1,421	21.6	(12.0)
Americas	1,584	24.0	1,798	27.3	13.5
Asia-Pacific	1,214	18.4	1,156	17.6	(4.8)
	6,608	**100.0**	**6,576**	**100.0**	**(0.5)**

In the **EMEA** region (Europe, Middle East, Africa), excluding Germany, sales remained virtually level with the previous year, up 0.2% to €2,201 million. Adjusted for portfolio and currency effects, sales rose by 10.0%. The principal driver of this improvement was the Advanced Intermediates segment, with a growth rate well into double digits, followed closely by the Performance Polymers segment, which also posted double-digit growth. The Performance Chemicals segment maintained its market position with low-single-digit growth. The highest percentage growth was recorded in Africa, most notably in South Africa. Eastern Europe also posted healthy double-digit growth, especially in Slovakia, Hungary and the Czech Republic. The EMEA region (Europe, Middle East, Africa), excluding Germany, accounted for 33.5% of Group sales, the same proportion as in 2007.

In **Germany**, the Group's sales contracted by a considerable 12.0% to €1,421 million, compared with €1,614 million in the previous year. Adjusted for portfolio effects, prices and volumes fell by 4.7%. On account of the slowdown in demand and the slump in the fourth quarter, the Group suffered decreases in the single-digit percentage range in all of its operating segments. This trend is also reflected in Germany's share of the Group's total sales, which slid to 21.6% from 24.4% in 2007.

In the **Americas** region, LANXESS generated sales of €1,798 million in fiscal 2008, an increase of 13.5% from the previous year. This improvement was primarily attributable to the sales revenue of the Petroflex group acquired in April 2008. Adjusted for currency effects and portfolio changes, sales rose by 4.9%, with a particularly strong contribution by the Performance Polymers and Advanced Intermediates segments. The Performance Chemicals segment also followed this trend, lifting its sales figures year on year. The highest increases were recorded in the United States. Latin America posted gratifying sales growth, particularly in Brazil and Mexico. The proportion of the Group's total sales accounted for by the Americas region climbed from 24.0% over the year to 27.3%, due mainly to the inclusion of Petroflex sales.

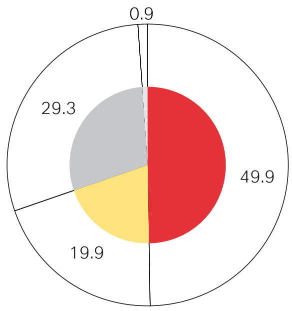
Sales in the **Asia-Pacific** region were down 4.8% on the prior-year level at €1,156 million. Adjusted for currency effects and the proportionate sales of the business units divested in the previous year, sales actually advanced by 18.5%. This growth was led by the Performance Polymers segment, followed at some distance by the other two operating segments. Extremely gratifying growth rates were recorded once again in countries such as China, Japan, Korea and India. The Asia-Pacific region's share of total sales fell slightly year on year from 18.4% to 17.6%.

SEGMENT INFORMATION

- Performance Polymers: positive development in difficult times
- Advanced Intermediates: two resilient business units
- Performance Chemicals: weak fourth quarter drags down full-year earnings

Sales by Segment

in %



Performance Polymers

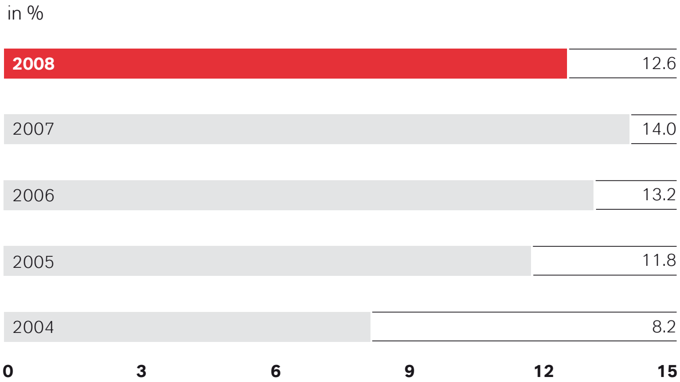
	2007 € million	2007 Margin %	2008 € million	2008 Margin %	Change in %
Sales	2,680		3,280		22.4
EBITDA pre exceptionals	376	14.0	413	12.6	9.8
EBITDA	376	14.0	347	10.6	(7.7)
Operating result (EBIT) pre exceptionals	273	10.2	285	8.7	4.4
Operating result (EBIT)	273	10.2	208	6.3	(23.8)
Capital expenditures[1]	139		178		28.1
Depreciation and amortization	103		139		35.0
Number of employees (December 31)	4,334		4,672		7.8

1) intangible assets and property, plant and equipment

The **Performance Polymers** segment showed an exceptionally positive trend in fiscal 2008, which was nevertheless marred by a severe slump in demand in the fourth quarter of the year. Sales gained 22.4% over the year as a whole. Prices had a 14.1% positive effect on sales owing to a sharp rise in procurement prices. Volumes were impacted to a considerable degree by the decline in demand in the fourth quarter, shaving 5.0% off sales. A slightly negative currency effect reduced sales by a further 3.7%. The acquisition of the Petroflex group in April 2008 led to a portfolio effect of 17.0%.

All business units in this segment, especially Butyl Rubber and Performance Butadiene Rubbers, were able to pass on the higher procurement costs for raw materials and energies to the market through price increases. This effect was partially offset, however, by lower volumes – particularly in the Semi-Crystalline Products Business Unit – chiefly caused by the marked slump in demand in the fourth quarter. Only the Performance Butadiene Rubbers Business Unit was able to buck the general trend and lift volumes slightly in the course of the year. It was helped by, for example, the additional capacity available at the facilities in Orange, Texas, United States, that were recommissioned in the past year, although they were forced to shut down in the third quarter on account of Hurricane Ike. Likewise, the Technical Rubber Products Business Unit was impacted by lost output in the aftermath of this hurricane that hit the United States. Volumes were also significantly affected by the massive scaling back of production in the automotive industry as a result of the crisis. The Semi-Crystalline Products Business Unit was impacted by the downturn in sales at year-end and saw declines for its caprolactam and ammonium sulfate products in particular.

EBITDA Margin of Performance Polymers



EBITDA pre exceptionals of the Performance Polymers segment was lifted from €376 million to €413 million, an increase of 9.8%. This segment's EBITDA margin slipped back 1.4 percentage points year on year to 12.6% as a consequence of demand trends. The Performance Butadiene Rubbers and Butyl Rubber business units were the main earnings drivers. Performance Polymers succeeded in passing on the very high raw material prices in full to the market during the year under review. Earnings also brightened perceptibly on the inclusion of the Petroflex group. The Semi-Crystalline Products Business Unit, on the other hand, was impacted by production adjustments at the end of the year necessitated by customers' higher inventories and a sharp fall in demand. Although the U.S. dollar strengthened in the fourth quarter, exchange rates throughout the year were unfavorable on the whole. The high energy costs also put a strain on earnings in this segment. The structural and efficiency enhancement measures that are being implemented as planned had a compensatory effect.

Exceptional charges of €77 million were incurred in fiscal 2008, €66 million of which impacted EBITDA. These principally related to the efficiency enhancement programs launched at the sites in Sarnia, Canada, and Zwijndrecht, Belgium, in early 2008. The primary aim of the program implemented at the Canadian Butyl Rubber and Technical Rubber production site in Sarnia is to further streamline and align service areas and to close the NBR unit there. NBR production is being transferred to La Wantzenau, France. The Technical Rubber facility in Marl will also be optimized. The efficiency enhancement program for Butyl Rubber production in Zwijndrecht, Belgium, principally involves reducing production costs further and making the facility more competitive in the growing global butyl rubber business. Segment earnings pre exceptionals were also depressed by one-time write-downs of inventories on account of market price trends at the end of 2008.

Advanced Intermediates

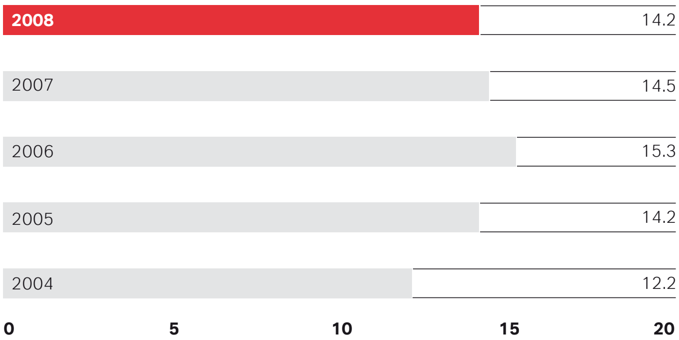
	2007		2008		Change
	€ million	Margin %	€ million	Margin %	in %
Sales	1,204		1,310		8.8
EBITDA pre exceptionals	174	14.5	186	14.2	6.9
EBITDA	174	14.5	186	14.2	6.9
Operating result (EBIT) pre exceptionals	137	11.4	142	10.8	3.6
Operating result (EBIT)	137	11.4	142	10.8	3.6
Capital expenditures[1)]	52		76		46.2
Depreciation and amortization	37		44		18.9
Number of employees (December 31)	2,450		2,530		3.3

1) intangible assets and property, plant and equipment

Sales in the **Advanced Intermediates** segment rose by €106 million in fiscal 2008 from €1,204 million to €1,310 million, an increase of 8.8% that was exclusively due to remarkable operational growth. Negative currency effects of 1.8% were easily compensated by volume growth of 5.5% and price increases of 5.1%. The price increases were implemented largely to cover higher raw material costs and were backed by corresponding raw-material-price and exchange-rate clauses in supply agreements, especially in the Basic Chemicals business unit. Volume expansion during the year was primarily driven by the buoyant demand for agrochemicals experienced by both of the segment's business units. In addition, the Saltigo Business Unit profited from the lively demand for pharmaceutical precursors, which held up even in the crisis-dominated fourth quarter. The Basic Chemicals Business Unit posted strong volume growth in its agricultural business, most notably for precursors for fungicides and herbicides, and in other areas. In the last quarter of the year, volumes declined significantly due to the drop in demand, especially for products for the coatings and automotive industries.

EBITDA Margin of Advanced Intermediates

in %



EBITDA pre exceptionals in the Advanced Intermediates segment increased by 6.9% from €174 million to €186 million. Assisted by the consistent application of LANXESS's "price before volume" strategy, the Basic Chemicals Business Unit succeeded in offsetting the higher cost of raw materials, energies and logistics services. The Saltigo Business Unit benefited in particular from the steps taken to reduce fixed costs and increase flexibility at its production plants. This business unit's more flexible operations facilitated a significant expansion of volumes in the area of pharmaceutical precursors.

The segment's EBITDA margin decreased only slightly, by 0.3 percentage points to 14.2%.

Performance Chemicals

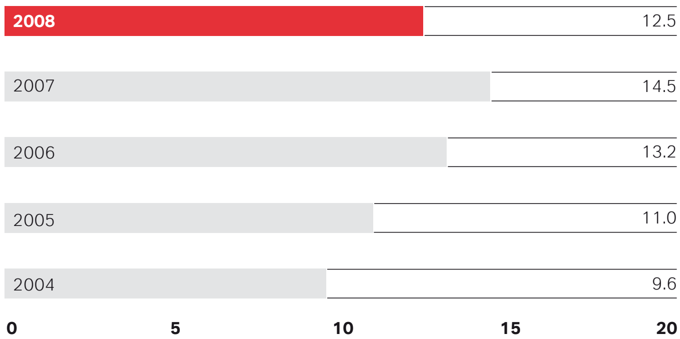
	2007		2008		Change
	€ million	Margin %	€ million	Margin %	in %
Sales	1,970		1,930		(2.0)
EBITDA pre exceptionals	285	14.5	241	12.5	(15.4)
EBITDA	271	13.8	211	10.9	(22.1)
Operating result (EBIT) pre exceptionals	199	10.1	167	8.7	(16.1)
Operating result (EBIT)	183	9.3	129	6.7	(29.5)
Capital expenditures[1]	69		82		18.8
Depreciation and amortization	88		82		(6.8)
Number of employees (December 31)	5,223		5,021		(3.9)

1) intangible assets and property, plant and equipment

Sales in the **Performance Chemicals** segment declined 2.0% in the reporting period from €1,970 million to €1,930 million. Price increases of around 7.0% failed to compensate for a 6.1% shortfall in volumes and negative currency effects of 2.9%. Adverse exchange rate movements impacted all of the segment's business units, especially the Leather and Rubber Chemicals business units – partly because of specific invoicing procedures. However, most of the segment's business units managed to increase prices to customers in keeping with the "price before volume" strategy. This was especially true of the Leather and Rubber Chemicals business units. While the Leather Business Unit benefited in particular from the demand-driven price trend for chrome ore, especially in the first nine months of the year, the Rubber Chemicals Business Unit profited from the withdrawal of competitors as well as from gratifying growth in the Asia-Pacific region during the first three quarters. By contrast, the Material Protection Products Business Unit experienced a drop in prices for wood preservatives. Volume trends in this segment were affected significantly by the difficult economic situation in the fourth quarter, leading to a decline in sales in most business units. This is because many of the segment's customers are in sections of the automotive, construction and furniture industries that are substantially affected by the drop in demand. This situation was exacerbated by an unplanned temporary shutdown at the production plants in South Africa. Rhein Chemie – another business unit that works closely with the automotive industry – also saw volume sales tail off. The Inorganic Pigments Business Unit was impacted by depressed construction activity in North America, though this was counterbalanced by the gratifying trends in the growth regions of Latin America, central and eastern Europe, and Asia throughout much of the year. This business unit's sales therefore remained steady against 2007.

EBITDA Margin of Performance Chemicals

in %



EBITDA pre exceptionals of the Performance Chemicals segment fell sharply by 15.4% from €285 million to €241 million. The value-based pricing policy, which more than compensated for increased raw material costs and adverse currency movements during the fiscal year, did not fully offset the huge drop in volumes, especially in the fourth quarter. This decline dampened EBITDA pre exceptionals. The Material Protection Products Business Unit saw volumes and prices for wood preservatives fall and also had to bear higher costs for product registration and market development. The Inorganic Pigments Business Unit was impacted by the decline in demand in North America, but the effects were compensated by the growth regions of Latin America, central and eastern Europe, and Asia. With the goal of further expanding its business in Asia, LANXESS acquired two production facilities from its former cooperation partner Jinzhuo Chemicals Company Ltd. in Jinshan, near Shanghai, in June 2008. LANXESS had already been using one of these plants since 2007. The acquisition increases this business unit's production capacities for inorganic pigments by around 5%. While the Functional Chemicals Business Unit was just about able to compensate for the increase in raw material costs, especially for phosphorus chemicals, by raising its selling prices, it came under pressure due to severe volume losses and adverse exchange rate effects. This pressure on margins, further aggravated by the economic and financial crisis, led to the decision to realign this business unit. Its international competitiveness is to be improved by enhancing the efficiency of the global sales organization, production facilities, research and development, and technical services. Up to 120 jobs worldwide, 80 of them in Germany, will be affected by these measures. The segment's EBITDA margin pre exceptionals narrowed perceptibly from 14.5% to 12.5%, due for the most part to the negative volume and currency trends.

The segment's exceptional charges of €38 million, €30 million of which impacted EBITDA, included costs relating to the closure of the Ion Exchange Resins Business Unit's plant in Birmingham, New Jersey, United States. This figure also includes the cost optimization program initiated in the Rhein Chemie Business Unit and costs relating to the realignment of the Functional Chemicals Business Unit. At the end of 2008, this segment's earnings pre exceptionals were also impacted by one-time write-downs of inventories attributable to market price trends.

Other/Consolidation

	2007		2008		Change
	€ million	Margin %	€ million	Margin %	in %
Sales	754		56		(92.6)
EBITDA pre exceptionals	(116)	(15.4)	(119)	(212.5)	(2.6)
EBITDA	(308)	(40.8)	(143)	(255.4)	53.6
Operating result (EBIT) pre exceptionals	(137)	(18.2)	(133)	(237.5)	2.9
Operating result (EBIT)	(378)	(50.1)	(157)	(280.4)	58.5
Capital expenditures[1]	24		20		(16.7)
Depreciation and amortization	70		14		(80.0)
Number of employees (December 31)	2,603		2,574		(1.1)

1) intangible assets and property, plant and equipment

Please refer to the segment disclosures in the Notes to the Consolidated Financial Statements for adjustments of the prior-year figures resulting from the inclusion of the activities of the former Engineering Plastics segment.

The exceptional charges of €24 million attributable to the **Other/ Consolidation** segment in 2008 primarily related to expenses for restructuring activities and portfolio adjustments. These expenses mainly included personnel adjustment costs, expenses for closures or partial closures of facilities, and costs for the preparation and execution of corporate transactions, to the extent that these expenses and income cannot be allocated accurately among the segments or business units.

FINANCIAL CONDITION

- Solid balance sheet structure provides the basis for facing the challenges of 2009
- Total assets up as a result of Petroflex integration
- Receivables reduced thanks to improved working capital management
- Net financial liabilities increase to €864 million due to acquisitions

Balance Sheet Structure

	Dec. 31, 2007		Dec. 31, 2008		Change
	€ million	in %	€ million	in %	in %
Assets					
Non-current assets	1,806	44.6	2,228	47.9	23.4
Current assets	2,243	55.4	2,423	52.1	8.0
Total assets	**4,049**	**100.0**	**4,651**	**100.0**	**14.9**
Equity and liabilities					
Equity (including minority interest)	1,525	37.7	1,407	30.2	(7.7)
Non-current liabilities	1,456	35.9	1,944	41.8	33.5
Current liabilities	1,068	26.4	1,300	28.0	21.7
Total equity and liabilities	**4,049**	**100.0**	**4,651**	**100.0**	**14.9**

Balance sheet structure Total assets rose by €602 million, or 14.9%, from the previous year to €4,651 million, primarily because of the acquisition of the Brazilian synthetic rubber manufacturer Petroflex. For further details of the acquired assets and liabilities, please refer to the Notes to the Consolidated Financial Statements. The jump in non-current assets is balanced by higher non-current liabilities. The proportion of total assets accounted for by non-current assets – in other words, the non-current asset ratio – increased from 44.6% to 47.9%. Equity coverage of non-current assets – asset coverage I – diminished from 84.4% to 63.2% due to the Petroflex transaction which was financed through debt. The balance sheet ratios are defined in the following table.

Non-current assets rose by €422 million, or 23.4%, to €2,228 million and match the non-current items on the liabilities side. This change was principally attributable to the increase in property, plant and equipment and intangible assets, mainly due to the first-time consolidation of Petroflex during the year under review. The goodwill from the acquisition amounted to €80 million as of December 31, 2008. Capital expenditures for property, plant and equipment and intangible assets rose significantly in line with our investment planning to €356 million in 2008, compared with €284 million the year before. Depreciation and amortization of €279 million (2007: €298 million) was incurred in the same period, including €19 million in impairments (2007: €51 million) reported as exceptional items. The increase in the carrying amount of the equity interest in CURRENTA GmbH & Co. OHG in the year under review was primarily attributable to this company's positive earnings.

Non-current financial assets increased by €30 million to €115 million. Higher market values of hedging transactions at the balance sheet date were offset by a write-down of our financial interest in INEOS ABS (Jersey) Limited, which also was reclassified as a current financial asset. Additions from the integration of the Petroflex group further increased this figure.

Other non-current assets increased by €32 million compared with the previous year to €134 million, mainly due to higher assets from pension obligations. This can also be attributed to the acquisition of Petroflex.

Current assets increased by €180 million to €2,423 million. The ratio of current assets to total assets fell from 55.4% in the previous year to 52.1%, due in particular to higher inventories, cash and cash equivalents, which were offset by a reduction in trade receivables. The increase in inventories of €153 million to €1,048 million is attributable to the acquisition of Petroflex, but also to raw material prices, which were higher than in the previous year. The sharp drop in demand in the fourth quarter also impacted inventories, increasing days of sales in inventories (DSI) from 54.5 to 66.9. The €84 million decrease in trade receivables can be attributed to a reduction in operating activities at the end of the year as well as to a further improvement of our working capital management. Days of sales outstanding (DSO) improved accordingly from 49.3 to 44.6.

Equity, including minority interest, amounted to €1,407 million, down from €1,525 million in the previous year. The equity ratio was 30.3%, compared with 37.7% in the prior year. Equity decreased in particular as a result of the changes in the values of hedging transactions recognized directly in equity and the dividend payout to LANXESS AG stockholders for fiscal 2007. In addition, the negative currency effects were only partly compensated by the considerable increase in net income compared with the previous year.

Non-current liabilities increased by €488 million, or 33.5%, to €1,944 million, primarily because the acquisition of Petroflex was largely financed through debt and LANXESS AG took out a long-term investment loan of €100 million.

Current liabilities climbed by €232 million, or 21.7%, to €1,300 million, due in part to higher current liabilities to banks as well as to the increase in the negative fair values of the hedging transactions. The deferral of advance payments received in connection with the divestment of the Lustran Polymers Business Unit also contributed to the increase in current liabilities.

Net financial liabilities rose by €404 million, or 87.8%, from the previous year to €864 million, chiefly as a consequence of the acquisition of Petroflex during the year. Strict capital management and the stability of our operating cash flow partially offset this increase.

The Group's key balance sheet ratios developed as follows:

Ratios

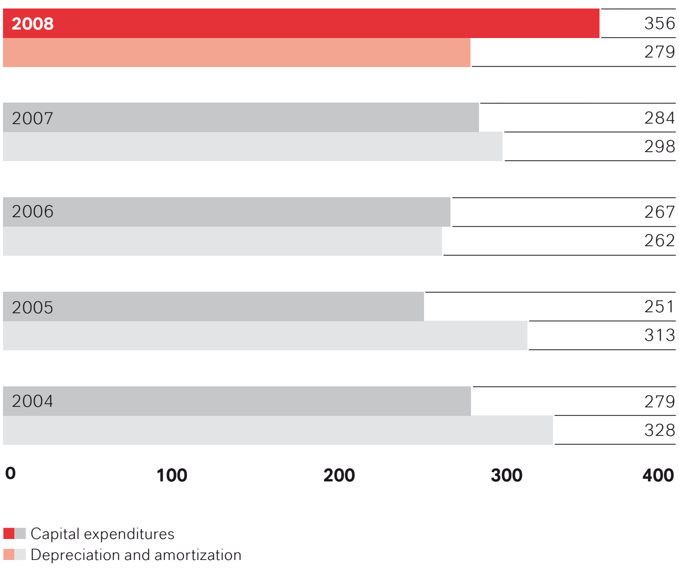
in %		2004	2005	2006	2007	2008
Equity ratio	Equity[1] / Total assets	29.8	28.9	34.0	37.7	30.3
Non-current asset ratio	Non-current assets / Total assets	43.4	42.3	41.1	44.6	47.9
Asset coverage I	Equity[1] / Non-current assets	68.7	68.4	82.5	84.4	63.2
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	112.8	154.3	172.4	165.1	150.4
Funding structure	Current liabilities / Total liabilities	72.7	48.9	44.0	42.3	40.1

1) including minority interest

Capital expenditures We made selective capital expenditures to increase our international competitiveness, focusing on profitable businesses with attractive growth opportunities. The goal was to enhance the premium nature of our products and services. Capital expenditures were made primarily in areas where the long-term perspectives are good and the expenditures sustainably improve our position. In regional terms, that means the major growth regions as well as Germany. Capital expenditure budgets were allocated to individual operating segments in keeping with strategic targets. As a rule, capital expenditures are financed out of the cash flow from operating activities or, if that is insufficient, from other available liquidity or credit lines.

Capital Expenditures vs. Depreciation and Amortization

€ million



In 2008, capital expenditures for property, plant and equipment and intangible assets rose considerably to €356 million, compared with €284 million the year before. Depreciation and amortization of €279 million (2007: €298 million) were incurred in the same period, including €19 million (2007: €51 million) in impairments reported as exceptional items. Adjusted for these impairments, capital expenditures therefore exceeded depreciation and amortization by 37% (2007: 15%).

Capital expenditures focused primarily on measures to expand or maintain facilities or to enhance plant availability, and projects to improve plant safety, enhance quality or comply with environmental protection requirements. About 63% of the capital expenditures in 2008 went towards expansion or efficiency improvement measures, while the rest went to replace existing facilities. The unchanged high proportion of investment in expansion measures compared with the previous year underlines our goal of generating further organic growth through investment.

In regional terms, 46% of capital expenditures in 2008 were made in Germany, 24% in the EMEA region (excluding Germany), 19% in the Americas, and 11% in Asia-Pacific. The figure for Germany rose by 23% compared with the previous year and underscores our clear acknowledgement of Germany's importance as a location. It mainly comprised our investments to increase capacities and modernize facilities at the German sites of the Saltigo and Basic Chemicals business units. We also expanded our investments in the Asia-Pacific region by a substantial €23 million.

Capital expenditures in the Performance Polymers segment, at €178 million (2007: €139 million), exceeded depreciation and amortization of €139 million (2007: €103 million). Part of this capital spending went toward repairing our production facilities in Orange, Texas, United States, which were badly damaged by Hurricane Ike. Capital expenditures in the Advanced Intermediates segment amounted to €76 million (2007: €52 million), also topping depreciation and amortization of €44 million (2007: €37 million). This figure includes initial investment by the Saltigo Business Unit to prepare for the construction of facilities for major customers, who provided investment grants for this purpose. In the Performance Chemicals segment, capital expenditures came to €82 million (2007: €69 million). These equaled depreciation and amortization in the amount of €82 million (2007: €88 million).

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

Major Capital Expenditure Projects 2008

Segment	Site	Description
Performance Polymers		
Butyl Rubber	Sarnia, Canada	Second phase of production facility for butyl rubber
Technical Rubber Products	La Wantzenau, France	Increase in NBR production capacity
	Qingdao, China	New center for rubber research
Semi-Crystalline Products	Krefeld-Uerdingen, Germany	Second facility for the reduction of nitrous oxide, a climate gas
Advanced Intermediates		
Basic Chemicals	Leverkusen, Germany	Expansion of the cresol facility
Saltigo	Leverkusen, Germany	Commissioning of a new multi-functional cGMP (current Good Manufacturing Practice) plant for pharmaceutical active ingredients
	Leverkusen, Germany	Construction and expansion of facilities for major customers in the fields of pharmaceuticals and agrochemicals
Performance Chemicals		
Inorganic Pigments	Porto Feliz, Brazil	Construction of a CHP plant for power generation from renewable resources
Rhein Chemie	Mannheim, Germany	Upgrading of existing production facilities and construction of new plants
	Qingdao, China	Commissioning of a new plant for the production of lubricant additives
Rubber Chemicals	Antwerp, Belgium	Modification of the Vulkacit production plant
Ion Exchange Resins	Jhagadia, India	Start of construction of a new facility for ion exchange resins used in water treatment and the production of ultra-pure water

Acquisitions After acquiring around 70% of the shares in Latin America's largest synthetic rubber producer Petroflex Industria e Comercio S.A., Rio de Janeiro, Brazil, in April 2008 and including this company in the consolidated financial statements from the second quarter of 2008, we were able to make a public tender offer for the remaining 27% of the shares, following which the company was delisted from the stock market. The squeeze-out of the remaining stockholders was concluded in November 2008. The total cost of the acquisition was €259 million. So far, the integration has taken place according to plan. The acquisition ideally complemented our product portfolio and strengthened our Performance Polymers segment in one of the world's most important growth markets.

By purchasing one of the largest iron oxide pigment plants in China from our previous cooperation partner Jinzhuo Chemicals Company Ltd., we expanded the Asian business of LANXESS's Inorganic Pigments Business Unit. This acquisition increases LANXESS's production capacity and safeguards the raw material supply for our pigment mixing unit in Shanghai. The transaction was completed in October 2008.

Liquidity and capital resources

- Operating cash flow improved
- Capital expenditures financed out of operating cash flow
- Net financial liabilities increased as expected due to acquisition of Petroflex
- Secured liquid funds in the Group

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

Cash Flow Statement

€ million	2007	2008	Change
Income before income taxes	172	229	57
Depreciation and amortization	298	279	(19)
Other items	79	(28)	(107)
Net cash provided by operating activities before change in working capital	**549**	**480**	**(69)**
Change in working capital	(79)	26	105
Net cash provided by operating activities	**470**	**506**	**36**
Net cash used in investing activities	**(335)**	**(557)**	**(222)**
Net cash provided by (used in) financing activities	**(115)**	**115**	**230**
Change in cash and cash equivalents from business activities	20	64	44
Cash and cash equivalents as of December 31	189	249	60

Cash provided by operating activities, before changes in working capital, decreased by €69 million in fiscal 2008 to €480 million. Income before income taxes improved markedly compared with the previous year, with depreciation and amortization down €19 million. Pre-tax income in 2007 had also been impacted by high non-cash one-time expenses for restructuring activities and portfolio adjustments.

The change in working capital compared with December 31, 2007 resulted in a cash inflow of €26 million. Adjusted for portfolio and currency effects, the increase in inventories, which resulted from higher raw material prices and the slump in demand in the fourth quarter, was more than compensated by a significant decrease in trade receivables. This was mainly due to a slowdown in operating activities at year-end and better receivables management.

LANXESS's investing activities in fiscal 2008 resulted in a cash outflow of €557 million, €222 million higher than in the previous year. Cash outflows for additions to property, plant and equipment and intangible assets were up €72 million, or 25.4%, to €356 million, attesting to the increase in the capital spending volume announced for fiscal 2008. Sales of property, plant and equipment and intangible assets brought in cash of €33 million, compared with €8 million the year before. LANXESS spent €245 million in 2008 on the acquisition of subsidiaries. These related to the Brazilian rubber manufacturer Petroflex, after adjusting for acquired cash, as well as the yellow pigment production operations of a former cooperation partner in China. There was a cash inflow of €27 million from the divestment of the Lustran Polymers Business Unit.

Cash provided by financing activities for 2008 came to €115 million, contrasting with an outflow of the same amount in 2007. There was an inflow of €246 million from net borrowings (2007: net loan repayments of €12 million), principally for the Petroflex acquisition. However, an €84 million (2007: €22 million) outflow was accounted for by the dividend paid in 2008 and a further €47 million (2007: €31 million) went for interest payments and other financial disbursements.

Cash and cash equivalents at the closing date amounted to €249 million, which was a substantial €60 million, or 31.7%, above the prior-year figure of €189 million.

LANXESS Group financing and ratings LANXESS's financing and rating strategies are defined simultaneously under the company's financial policy and are therefore mutually dependent. An investment-grade rating in the BBB range is among the strategic corporate goals formulated by the Board of Management and Supervisory Board. After the successful restructuring and realignment of the business portfolio and the resulting improvement of all key financial performance indicators, both Standard & Poor's and Moody's Investors Service raised LANXESS's rating in July 2007 by one notch to BBB and Baa2, respectively. The rating agency Fitch issued its BBB rating in June 2006. All three rating agencies have issued their ratings with a stable outlook and confirmed them in the 2008 rating reviews. LANXESS thus achieved its strategic corporate goal of retaining an investment-grade rating.

Development of LANXESS Ratings and Rating Outlook Since October 2004

	2004	2005	2006	2007	2008
Standard & Poor's	BBB–/stable Oct. 29, 2004 (initial rating)	BBB–/stable	BBB–/positive May 18, 2006 BBB–/stable Sept. 18, 2006	BBB/stable July 31, 2007	BBB/stable May 16, 2008
Moody's Investors Service	./.	Baa3/stable May 31, 2005 (initial rating)	Baa3/positive June 12, 2006	Baa2/stable July 17, 2007	Baa2/stable July 25, 2008
Fitch Ratings	./.	./.	BBB/stable June 15, 2006 (initial rating)	BBB/stable May 31, 2007	BBB/stable Dec. 4, 2008

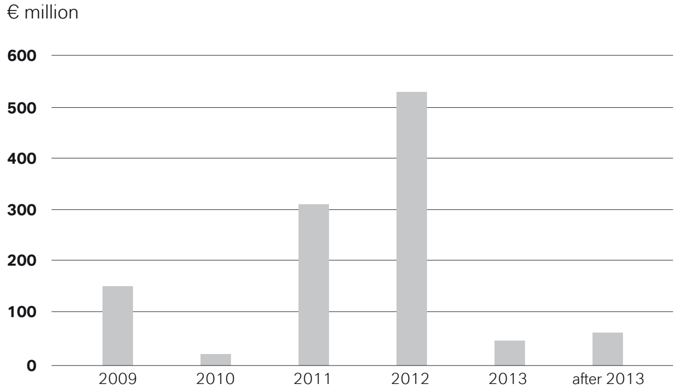
The dramatic deterioration on the international financial markets during 2008 once again underlined the importance of having a secure long-term liquidity position. The syndicated credit facility arranged in November 2007 and unutilized by the reporting date remains a core component of the LANXESS Group's liquidity reserve. Following the bankruptcy of Lehman Brothers Bankhaus AG, the sum of the banking syndicate's loan commitments will probably decrease by €92 million from an original €1,500 million to €1,408 million. The credit facility is designed as an operating line of credit and to provide funds for capital investment and is valid until November 2014.

The purchase price for the acquisition of Brazilian rubber manufacturer Petroflex was financed for the most part with a bilateral bullet loan of €250 million. The loan agreement expires in April 2011. In addition, an investment loan of €100 million was arranged in December 2008 with a term of ten years in total and an amortizing structure. This will be used to finance investment projects within the LANXESS Group. Both lines of credit had been drawn on in full as of December 31, 2008. No further material financing-related transactions were entered into during fiscal 2008.

On the reporting date, LANXESS had unutilized liquidity reserves comprising cash and short-term cash investments of €0.2 billion as well as committed and unutilized credit lines of €1.5 billion. This represents a liquidity reserve of €1.7 billion. Given the change in business conditions, expiring short-term credit lines were not extended; new credit facilities with a longer term were arranged instead. The sizeable liquidity reserve safeguards the LANXESS Group's long-term solvency and, particularly against the backdrop of increased volatility on the capital markets, is evidence of our forward-looking financing policy.

We expect the turmoil on the finance markets to continue in fiscal 2009 but believe that the LANXESS Group is well positioned in view of the maturity profile of its financial liabilities. Significant repayments are not scheduled until 2011 (€312 million) and 2012 (€531 million).

Maturity Profile of LANXESS Financial Liabilities



The asset-backed securities program of LANXESS Deutschland GmbH with an initial volume of €200 million, implemented in 2004, was not utilized in fiscal 2008. Due to the drain on liquidity and the poor shape of the ABS commercial paper markets since the onset of the financial market crisis in July 2007, we do not regard this financing program as a reliable source of funding for the time being.

Finance leases are used to further diversify financing sources. These are reported as financial liabilities on the balance sheet. As of December 31, 2008, this item amounted to €62 million, against €63 million in the previous year.

As of December 31, 2008, LANXESS had no material off-balance-sheet financing in the form of factoring, asset-backed structures or project financing, for example. Operating leases amounted to €70 million, against €66 million in 2007, and play only a secondary role in LANXESS's overall financing structure.

Of the €1,154 million in total financial liabilities as of December 31, 2008, some 90% bears a fixed interest rate over the term of the financing, matching the prior-year figure. Interest rate changes therefore do not have a material effect on LANXESS's financial condition considering the current financing structure.

In fiscal 2005, LANXESS launched a bond that in light of its €500 million issue volume qualified as a benchmark bond for inclusion in the major European bond indices. The bond was issued with a seven-year maturity ending June 21, 2012 and a 4.125% annual interest coupon by LANXESS Finance B.V., an indirectly wholly owned subsidiary of LANXESS AG. The bond is guaranteed by LANXESS AG and received investment-grade ratings of BBB from Standard & Poor's and Baa2 from Moody's Investors Service. The bonds are traded on the Luxembourg Stock Exchange under the securities identification code A0E6C9.

Bond performance – Evolution of credit spread in 2008 An important indicator for corporate bonds, apart from the absolute change in price, is the relative valuation of the risk specific to the issuer in comparison to a reference interest rate. This valuation is expressed in what is known as the "credit spread." The chart below shows the evolution of the credit spread of the LANXESS bond in comparison to the interest-rate swap curve.

LANXESS Eurobond Spread vs. BBB Corporates Index (bps)

The wide fluctuations in credit spreads last year were a key indicator of investors' increased aversion to risk, coupled with the fact that the bond markets were closed at times, even to debtors with credit ratings in the higher investment grade segment. This downturn also impacted the credit spread of the LANXESS bond, which largely tracked the general trend for BBB bonds.

EMPLOYEES

As of December 31, 2008, the LANXESS Group had a total of 14,797 employees. This was 187 more than a year earlier, due primarily to the acquisition of the Petroflex group. By contrast, the headcount in the United States, Canada, Belgium and Germany decreased as a result of ongoing efficiency enhancement programs.

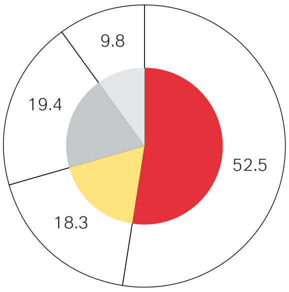
In the EMEA region (not including Germany), the number of employees as of December 31, 2008 hovered around the prior-year level (2,734) at 2,703. The same trend was seen in Germany, where the headcount edged down slightly from 7,847 to 7,772. The significant increase in the workforce in the Americas region from 2,650 to 2,876 resulted from the acquisition of Petroflex. At the reporting date, we also had a higher payroll in Asia-Pacific, where the increase in the number of employees from 1,379 to 1,446 reflects the expansion of our activities in this region, especially in China.

Personnel expenses totaled €1,062 million in fiscal 2008 (2007: €1,064 million). Wages and salaries, at €832 million (2007: €813 million), accounted for the greater part of this figure. Social security contributions were €166 million (2007: €183 million), while pension plan expenses totaled €60 million (2007: €65 million), and social assistance benefits came to €4 million (2007: €3 million).

Working conditions Our success is fundamentally based on the performance and commitment of our employees. The only way to reach our corporate goals and ensure our competitiveness is through focused and sustainable training and development of our employees. LANXESS has positioned itself favorably in the competition for the best skilled employees by encouraging an active sense of social responsibility, providing attractive jobs in an international environment and development opportunities, offering performance-based, market-rate compensation, and promoting a management culture based on open dialogue. The company's recruiting activities in 2008 targeted universities and included, for example, participation at graduate fairs held at selected universities in Germany and India.

Employees by Region

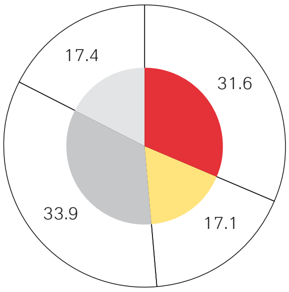
in %



- Germany
- EMEA (excluding Germany)
- Americas
- Asia-Pacific

Employees by Segment

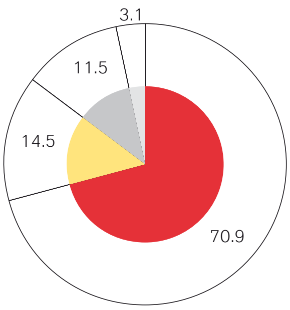
in %



- Performance Polymers
- Advanced Intermediates
- Performance Chemicals
- Other

Employees by Functional Area

in %



- Production
- Marketing
- Administration
- Research

Compensation and Stock Plan We strive for a fair compensation system linked to our company's success and employees' individual performance. Compensation systems that include variable compensation components in addition to fixed remuneration have been implemented for more than 80% of our employees. More than 10,000 LANXESS employees around the world shared the company's success in 2008 through a uniform Stock Plan. Offered in Germany as a long-term incentive tool, the Stock Plan is becoming increasingly popular and is testament to our employees' confidence in the sustainable development of the company. In 2008, for example, 73% (2007: 64%) of the nearly 8,000 non-managerial and managerial employees eligible to participate had the opportunity to acquire LANXESS stock at a 50% discount. The shares acquired through the LANXESS Stock Plan carry dividend rights and are subject to a three-year lock-up period which began on June 1, 2008 for last year's plan. 78% of managerial staff participated in the Stock Performance Plan, which has been running for three years.

Vocational training Providing vocational training for young people is a high priority at LANXESS. It helps to safeguard the company's future and is an element of our social responsibility. In Germany, young people can opt to combine vocational training at LANXESS with university studies, or they can complete a traditional scientific, technical or commercial training program in our plants and departments. With a view to leveraging expertise and synergies, we are supported by the Training Department of our affiliate CURRENTA GmbH & Co. OHG for some aspects of theoretical training and for organizational and administrative functions.

Across Germany, 456 young people were being trained in 20 different career paths as of the reporting date December 31, 2008. In 2008, LANXESS once again provided solid training opportunities for significantly more young people than were needed to meet the company's own requirements. We will also remain true to this philosophy in 2009 and 2010. With a training ratio of 6.6%, LANXESS outperformed the industry average in this regard and also significantly exceeded the ratio specified in the collective agreement on training in the chemical industry.

Under the slogan "Prepare for the future," we attract particularly highly skilled university graduates for our international trainee program every year. September 2008 saw another ten trainees starting their first jobs in the various business units and group functions.

Employee development We assign great importance to motivating employees throughout their entire career at LANXESS to undertake continuing professional development and accept new challenges within the Group. To promote the talents of individual employees, LANXESS has established a systematic, multi-stage process of global employee development conferences where managerial employees from all countries are evaluated with regard to their potential. In fiscal 2008, we established the LANXESS Academy as an international, modular management development program.

Occupational safety The lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, is the key indicator used to assess occupational safety within the LANXESS Group. The LTIFR in 2008 was 3.1, a substantial improvement on the previous year (3.6). This shows a clear initial impact of our "Greater Sense of Safety" campaign which aims to encourage all employees to give more consideration to health and safety issues and our HSE directives.

Idea management When LANXESS employees have good ideas for improving work processes, safety and environmental protection, or for preventing errors, those ideas pay off. An idea management program systematically encourages suggestions for improvements to ensure that we will constantly be provided with new ways to improve cost-effectiveness, occupational safety and environmental protection. Our employees submitted 2,107 suggestions in 2008, 461 of which related to occupational safety and environmental protection. The savings LANXESS achieved as a result totaled approximately €2.1 million.

COMPENSATION REPORT

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

In addition to a market-oriented annual base salary that is broadly in line with that paid by comparable companies, their compensation contains two variable components based on LANXESS's short-term and long-term performance.

The fixed compensation comprises the annual base salary and remuneration in kind, the latter consisting mainly of the tax value of perquisites such as the use of a company car. The aggregate amount of these components came to €2,303,000 in 2008.

The short-term, performance-based component is called the Short Term Incentive (STI), which is based on the Group's attainment of defined EBITDA targets and is equivalent to 115% of the annual base salary in the event of 100% target attainment. Maximum target attainment for 2008 is capped at 150%. The amount expensed for performance-based STI payments totaled €2,784,000 in fiscal 2008. Actual payments in 2009 may differ from this amount. Beside the expenses reported for 2007, additional payments were made in an amount of €64,000 for Dr. Heitmann, €62,000 for Dr. Breuers, €34,000 for Dr. van Roessel and €42,000 for Mr. Zachert.

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

Short-Term Compensation of the Board of Management

in € '000	Base salary	Variable component[1)]	Total
Dr. Axel C. Heitmann	839	1,019	1,858
Dr. Werner Breuers	463	543	1,006
Dr. Rainier van Roessel	446	543	989
Matthias Zachert	555	679	1,234
	2,303	**2,784**	**5,087**

1) payment in 2009

The long-term, performance-based component of the compensation system is the Long Term Incentive Program (LTIP). The first LTIP is divided into three three-year tranches that were issued in the years 2005 to 2007. It comprises the Stock Performance Plan (SP) and the Economic Value Plan (EVP). The second LTIP, for the years 2008 to 2010, consists of a Stock Performance Plan only. The first award from the LTIP is made after three years, provided defined conditions are satisfied.

The SP is linked to the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 Chemicals^{SM}. The EVP is an incentive oriented toward an increase in the economic value of LANXESS. The reference for all three tranches of the EVP is the business plan for 2005 through 2007. The requirement for participation in the LTIP is a prior personal investment in LANXESS shares, which are subject to a five-year lock-up period.

For more information, particularly regarding the valuation parameters applied, please see Note [21] to the Financial Statements.

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

Long-Term Compensation of the Board of Management

	Compensation in the form of SP rights granted in 2008		SP rights as of Dec. 31, 2008		Compensation in the form of EVP rights[1]	EVP rights as of Dec. 31, 2008	
	Number of rights	Fair values in € '000	Number of rights	in € '000	in € '000	Number of rights	in € '000
Dr. Axel C. Heitmann	806,250	403	1,526,250	94	317	320,000	511
Dr. Werner Breuers	430,000	215	688,000	46	0	114,667	144
Dr. Rainier van Roessel	430,000	215	688,000	46	0	114,667	144
Matthias Zachert	537,500	269	1,017,500	62	211	213,334	341
	2,203,750	**1,102**	**3,919,750**	**248**	**528**	**762,668**	**1,140**

1) payment in 2009

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

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

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

LANXESS has set up provisions for the future claims of Board of Management members. The total service cost recognized in the 2008 annual financial statements for this purpose was €698,000.

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

Pensions of the Members of the Board of Management

in € '000	Service cost	Annual pension benefits from date of entitlement	Accumulated interest-bearing capital
Dr. Axel C. Heitmann	225	240	1,290
Dr. Werner Breuers	179	100	261
Dr. Rainier van Roessel	76	100	356
Matthias Zachert	218	125	860
	698	**565**	**2,767**

Obligations to former members of the Board of Management totaled €5,384,000 at December 31, 2008.

Payments of €117,000 were made to former members of the Board of Management.

The members of the Board of Management receive indemnification should their service contracts terminate for defined reasons at the instigation of the company before they reach the age of 60 or in the event of a material change of control over the company. The terms depend on the respective circumstances and, in addition to contractual compensation for the remaining term of the service contract or transition benefits, also include severance payments amounting to up to two times the annual base salary plus the STI.

No additional benefits have been pledged to any Board of Management member in the event of termination of their service. In 2008, no member of the Board of Management received benefits or assurances of benefits from third parties in respect of their duties as Board of Management members.

In 2008, no loans were granted to members of the Board of Management.

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

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

1. The capital stock of LANXESS AG amounted to €83,202,670 as of December 31, 2008 and is composed of 83,202,670 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share. The rights and obligations arising from the shares are governed by the German Stock Corporation Act.

2. We are not aware of any restrictions affecting voting rights or the transfer of shares. However, participants in employee stock plans are subject to a lock-up period on disposal of their shares.

3. Pursuant to Section 21 Paragraph 1 of the German Securities Trading Act, Dodge & Cox, San Francisco, California, USA 94104, informed us that, as of December 17, 2007, they had exceeded the threshold of 10% of the voting rights of LANXESS AG. We received no other reports of direct and indirect equity investments in the capital of LANXESS AG exceeding 10% of total voting rights.

4. No shares carry special rights granting control authority.

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

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

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

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

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

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

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

Authorized Capital I

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

Authorized Capital II

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

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

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

PROCUREMENT AND PRODUCTION

Procurement LANXESS uses a centrally managed global procurement organization to ensure a reliable supply of materials and services. Procurement teams coordinate with the business units to pool requirements. A worldwide procurement network helps them leverage purchasing synergies, so that LANXESS can move efficiently in the market and exploit price advantages. We avoid delivery bottlenecks or reliance on individual suppliers using techniques like multiple sourcing. LANXESS systematically applies best-practice processes. These include e-procurement tools, such as e-catalogs and electronic marketplaces, many of which are integrated into the company's internal IT systems. About 43% of all items ordered are now handled through e-procurement.

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

Procuring chemical raw materials is a significant priority at LANXESS. The biggest suppliers here in 2008 included BASF, Bayer, BP, Chevron Phillips, Evonik, Exxon Mobil, INEOS, LyondellBasell, Nova Chemicals, Sabic, Shell Chemicals, Texas Petrochemicals and Total.

Among the most important strategic raw materials by far for our production operations in 2008 were ammonia, 1,3-butadiene, crude butadiene, crude raffinate II, chlorine, cyclohexane, isobutylene, caustic soda, toluene and sulfur. In all, strategic raw materials accounted for a purchasing volume of about €2.4 billion in fiscal 2008 (2007: about €2.4 billion), or around 75% of the LANXESS Group's total expenditure for raw materials and goods in 2008, which amounted to approximately €3.2 billion. The total procurement volume in 2008 was around €5 billion.

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

Each of the Group's production facilities is organizationally assigned to an individual business unit. The most important production sites are at Leverkusen, Dormagen and Krefeld-Uerdingen, Germany; Antwerp, Belgium; Baytown, Texas, and Bushy Park, South Carolina, United States; Sarnia, Ontario, Canada; and Weifang and Wuxi, China. LANXESS also has other production sites in Argentina, Australia, Belgium, Brazil, China, France, Germany, India, Italy, Japan, Mexico, South Africa, Spain, the United Kingdom and the United States. We gained three more production sites in Brazil with the acquisition of the Petroflex group in 2008.

In the past fiscal year, we invested €356 million, primarily in maintaining and expanding our production capacities. Additional information is given under "Capital expenditures" in the Financial Condition section.

In response to the dramatically declining demand for our products as a result of the global economic crisis, we took steps at the end of 2008 to reduce operating costs at our German sites in Leverkusen, Dormagen, Krefeld-Uerdingen and Brunsbuettel. Production was scaled back or discontinued into the new year at around half of the 45 facilities. Prior to this, we had temporarily shut down a production line of the Technical Rubber Products Business Unit in Orange, United States. When the downturn in demand became more acute, we then decided in January 2009 to reduce or suspend the production of synthetic rubber at Zwijndrecht, Belgium; Sarnia, Canada; and at the Petroflex facility in Triunfo, Brazil, for several weeks.

SALES ORGANIZATION AND CUSTOMERS

Sales organization LANXESS sells its products all over the world, to several thousand customers in more than 150 countries across all continents. LANXESS's long-standing customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers' needs, we have set up very flexible marketing and sales structures. Sales are managed throughout the world through 43 companies owned by LANXESS itself. In countries where LANXESS does not have its own company, we work with local sales partners.

In Asia we relocated the sales organization for leather chemicals from Hong Kong to Singapore in mid-2008 because of the numerous logistical advantages this location affords. In order to increase our presence in the growth markets of eastern Europe, we had already established LANXESS Central Eastern Europe s.r.o. with headquarters in Bratislava, Slovakia, in 2007. The next step was the opening of our new sales company in Russia in early 2009.

Orders worth some €1.1 billion, or 17.3% of total sales, were processed via e-business in fiscal 2008. This capability is provided by the "LANXESS one" and "LANXESSDirect" Internet tools and the ELEMICA Web portal for chemical products. Compared to the previous year, the share of total sales accounted for by e-business dropped by 6.9 percentage points. The decline resulted from the decreased sales volumes in the fourth quarter of 2008 and the divestment of the Lustran Polymers business. Altogether, over 260,000 orders in the areas of purchasing, sales and logistics are handled as e-business.

To keep as close as possible to customers and ensure they receive individual support, the LANXESS business units each manage their own sales organizations. Another competitive advantage for LANXESS is provided by our 44 production sites in 21 countries. Wherever possible, customers are supplied from production sites in the same region, which saves them both time and money.

Selling costs for fiscal 2008 came to 10.0% of LANXESS Group sales, the same as in the prior year.

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

LANXESS serves the following industries in particular: tires, automotive supply, chemicals, plastics, electronics, agrochemicals, pharmaceuticals, food, water treatment, construction and furniture. The appreciable growth in the share of sales generated by the automotive and tire industries compared with the previous year is primarily attributable to the acquisition of Petroflex.

Shares of Sales by Industry Sector

in %	2008
Automotive/tires	> 40
Chemicals	> 15
Construction, electrical/electronics, life science, leather/footwear	5 – 15
Others (cumulative share)	~ 5

In fiscal 2008, the LANXESS Group's top ten customers accounted for about 25% of total sales (2007: around 23%). 30 (2007: 37) customers accounted for annual sales in excess of €20 million. This decrease can be attributed to the sale of the Lustran Polymers business as of September 30, 2007, which was dominated by relationships with major customers.

The number of customers in each segment varied widely. The Performance Polymers segment had some 4,400 customers in 2008, while Advanced Intermediates and Performance Chemicals had about 3,400 and 18,000, respectively. The increase of 400 in the number of customers in the Performance Polymers segment as against 2007 can be attributed to the acquisition of Petroflex. Customer figures remained virtually constant in the other two segments. Each segment includes all customer groups and sales volumes. However, one customer may do business with more than one segment.

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

RESEARCH AND DEVELOPMENT

Our research and development activities continued to focus on optimizing and further developing our existing products and processes in 2008.

Our total research and development expenditures in 2008 amounted to €97 million, or 1.5% of sales (2007: €88 million, or 1.3% of sales). The Saltigo, Butyl Rubber, Semi-Crystalline Products and Technical Rubber Products business units accounted for the largest share of these expenditures, at 58% (2007: 46%).

The high level of spending in the Saltigo Business Unit is predominantly related to its custom manufacturing services, which involve the development of tailor-made manufacturing processes for customer-specific intermediates as well as the actual production of the corresponding products. Development services are an integral part of Saltigo's portfolio. The customers for these services are primarily pharmaceutical companies, manufacturers of agrochemicals, and companies that market chemical specialties such as electronic chemicals, fragrances and flavorings.

In 2008 LANXESS announced the relocation of its butyl rubber research and development group to the research park at the University of West Ontario in London, Canada. A new global center of excellence for materials research will be opened in these new surroundings in 2009. Growth through worldwide production and research is part of the strategic focus of remaining a pioneer and leader in the polymer industry. The relocation of this development group underscores the importance LANXESS attaches to innovation and growth in butyl rubber. It is hoped to extend the uses of butyl rubber beyond the inner liners of tubeless tires to include high-performance tread with better grip and reduced rolling resistance.

One focal point of research in the Semi-Crystalline Products Business Unit is the development of solutions and materials for use by the automotive industry in lightweight vehicle constructions designed to cut fuel consumption. Innovative new materials from the Durethan® and Pocan® product lines offer the potential for high-performance, cost-effective and weight-optimized solutions and replace traditional automotive materials such as metals and thermosetting plastics. Novel truck bumpers are an example of the substitution of a thermosetting plastic. Specially developed for this application, Pocan® TS 3220 enables this very large plastic component to be produced in a single process without post-molding treatment. The resulting bumper is around 20% lighter than the previous SMC component. The surface quality of the final product is so good that the bumper can be used without a coating in some variants.

The Technical Rubber Products Business Unit teamed up with our customers' development departments in 2008 to develop and successfully deliver to the market innovative new types of Levapren® for use in applications outside of the automotive industry. After restructuring of NBR production in La Wantzenau resulted in the world's largest facility with a capacity in excess of 100,000 tons, research and development activities in this area were strengthened with the aim of further growing the specialty business. Therban® AT, a new line of Therban® products, was launched in 2006 and awarded an innovation prize by the German Rubber Association. Since then, new catalyst systems have also been brought into the production process, yielding even more favorable properties.

LANXESS research and development laboratories worldwide had 453 employees as of December 31, 2008, compared with 408 the previous year. The company maintains research and development units at the sites in Leverkusen, Krefeld-Uerdingen and Dormagen, Germany; Sarnia, Ontario, Canada; and Qingdao and Wuxi, China.

In 2008, we conducted approximately 110 research and development projects, around 80 of which aimed to develop new products or improve existing ones. The remaining 30 projects concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacities. Roughly 80% of the research and development projects started in 2008 are scheduled to reach the market or technical implementation stages by the end of 2009.

The results of our research and development work are protected by patents, where this is possible and expedient. In the course of 2008, we submitted 100 priority applications worldwide (2007: 90). As of December 31, 2008, the full patent portfolio includes approximately 1,050 patent families covering approximately 6,350 property rights.

Organizationally, the LANXESS Group's research and development units are assigned to the individual business units. This approach is intended to ensure that development activities are always closely allied to the business units' own strategies, markets and customers. For example, business units with a large proportion of commodities (products in very mature markets), such as Basic Chemicals, concentrate on constantly improving their production facilities and processes (process optimization). To support process optimization, headcount in the central Process Engineering department was increased by about 25% in 2008. Other business units, such as Material Protection Products, Semi-Crystalline Products and Leather, focus their research and development activities more on optimizing products and product quality, and developing new products to meet market requirements and customers' special needs. There is also a Board initiative to coordinate research and development work across business unit boundaries.

LANXESS does not conduct fundamental research. Instead, nearly all business units enter into project-specific research and development partnerships with external partners to leverage expertise not available in-house for innovative product development. In 2008, the company had a total of 36 major research and development partnerships, 16 of which were with universities, 13 with suppliers or customers, and 7 with research institutes.

The Saltigo Business Unit participates in particularly intensive research cooperations with external partners. In an effort to continually improve its own expertise in the field of synthesis and ensure the swiftest possible implementation of scientific innovations, the Saltigo Business Unit seeks out and partners top universities on a contractual basis. The list of collaborating institutions includes the University of Kaiserslautern, the Leibniz Institute for Catalysis in Rostock and the Max Planck Institute for Coal Research in Mülheim.

Overall, research and development plays a significant role in increasing LANXESS's competitiveness and expanding the company's business through the development of innovative, original processes and products. This is particularly true during economically challenging times.

The decision was made, therefore, to strengthen LANXESS's research organization and the associated human resources: The new Innovation Group Function was launched on January 1, 2009. Its task is to develop new processes and products as part of medium- to long-term projects conducted outside of the company's day-to-day business operations. The planning of research goals is aligned with foreseeable global megatrends such as the dwindling supply of energy, water and raw materials, and climate change. Use is made of innovative future technologies like biotechnology, nanotechnology and microtechnology. Since the primary motivation is to identify and tap new technological opportunities for LANXESS, focused cooperations with universities, institutes and suitable industrial enterprises are envisioned.

CORPORATE RESPONSIBILITY

LANXESS's guiding principles are characterized to a great extent by corporate responsibility. The company's objective is sustainable, forward-looking development that combines the demands of economy, ecology and society. This issue is therefore firmly anchored in our organization, requiring all employees to act responsibly in respect of people, the environment and capital. In practice, this means that we always apply our high sustainable business standards in making entrepreneurial decisions.

In spring 2006, LANXESS became one of the signatories to the Responsible Care® Charter that was adopted by the International Council of Chemical Associations as a significant step toward sustainable development. We brought the principles of the Charter into sharper focus with our internal quality and environmental policies. In addition, our Corporate Compliance Guideline is a code of legal compliance and responsible conduct that is binding on all LANXESS employees and commits them to act in accordance with the law, apply the principles of responsible care and demonstrate ethical conduct.

Product responsibility and quality management We expressly support the protection goals of E.U. chemicals policy and the implementation of the REACH Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals. LANXESS has prepared itself thoroughly for REACH registration. We completed the first stage in the REACH process – the pre-registration of all relevant substances – on schedule, by December 1, 2008. We will take advantage of the designated transition periods for full registration.

In order to extend our quality management system, we continued to drive forward certification to ISO 9001 (quality management) and ISO 14001 (environmental management) throughout 2008. At the end of the year, most of our key sites had already been certified to at least one of these two ISO standards. It is our goal to obtain global certification to ISO 9001 and ISO 14001 for all LANXESS sites by the end of 2009.

Environment data In 2007, we introduced an improved electronic system for the systematic, global recording of key performance indicators (KPIs) in the areas of health, safety and environmental protection. Data are gathered from all sites in which the Group has a holding of at least 51%, and all LANXESS production sites are included. In May 2008, auditors Deloitte verified the validity of the data recording system and the data it generates (limited assurance).

Social commitment Our not-for-profit activities focus on providing support for education in schools and universities. In 2008, we launched an extensive education initiative in North Rhine-Westphalia that underscores our clear commitment to Germany as a business location – and in particular to North Rhine-Westphalia as a base for the chemical industry. We provide funding to schools in Leverkusen, Dormagen, Krefeld-Uerdingen and Cologne. Additionally, LANXESS arranges internships and summer courses in the field of chemistry for talented high-school students. We also champion the promotion of scientific knowledge among students at our international locations.

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

RISK REPORT

Risk management Risk management is important for LANXESS because business activity necessarily entails risks as well as opportunities. The LANXESS Group's success is significantly dependent on identifying both opportunities and risks and actively managing them. Effective risk management is therefore a core element in safeguarding the company's existence for the long term and ensuring its successful future development.

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

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

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

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

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

There is also provision for immediate internal reporting on specific risk issues such as significant corporate compliance violations. In 2008 there was no cause for immediate reporting of this kind on significant risks at LANXESS. In addition to the standard risk reporting system required by the German Commercial Code and German Stock Corporation Act, LANXESS has a hierarchical reporting system for appraising potential opportunities and risks and making them known to the Board of Management.

To supplement the central risk database, corporate planning is another core element of opportunity and risk management at LANXESS. During the planning process, information about developments expected in the future is collected and mapped across the Group. Forecasts are prepared and those risks and opportunities considered relatively likely to materialize are presented as worst-case/best-case scenarios. The processes for corporate planning and intrayear forecasting as well as the corresponding analyses and suggestions for action are steered by the Corporate Controlling Group Function, which works closely in this regard with the business units. Certain Board of Management meetings are dedicated to discussing and adopting corporate planning, including the associated opportunities and risks. Each fiscal year, the annual plan is adjusted and monitored by regularly recording current expectations. Significant and strategic opportunities and risks are systematically analyzed and evaluated by the Corporate Development Group Function with the goal of ensuring that the Group is pursuing the correct long-term strategy.

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

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

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

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

Risks of future development

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

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

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

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

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

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

Market risks LANXESS is inherently exposed to the general economic and political opportunities and risks of the countries and regions in which the LANXESS Group operates. As a chemicals enterprise, LANXESS is subject to economic risks and the risks typical of this industry sector. The volatility and cyclicality of the global chemical and polymer markets and their dependence on developments in customer industries harbor opportunities and risks with respect to LANXESS's business volume. The risks the company currently faces in this connection were discussed above in the section entitled "Impact of the global financial and economic crisis".

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

On the procurement side, the principal risk lies in the volatility of raw material and energy prices. If the price of the materials we use increases, our production costs increase. If the price of the materials we use decreases, impairment losses may need to be recognized on inventories (see the section entitled "Impact of the global financial crisis" above). LANXESS mitigates this type of procurement risk by following a sensible inventory and procurement policy. Most of the company's raw material needs are met with long-term supply contracts that have price escalation clauses, and many agreements with customers contain price escalation clauses. LANXESS also hedges this risk in some cases via derivatives transactions if liquid futures markets are available for the respective raw materials and energy. Detailed information is contained in the section headed "Raw material price risk" under Note [31], "Financial instruments," to the Consolidated Financial Statements. To guard against possible supply bottlenecks due to factors such as the failure of a supplier or of an upstream operation at a networked site, LANXESS pursues an appropriate inventory strategy and lines up alternative sources of supply.

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

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

The preparatory work for investments that exceed a specified significance threshold is the responsibility of the relevant business units. After review by an Investment Committee set up for this purpose, this information is presented to the Board of Management for a decision. This procedure ensures that investments are in line with our corporate strategy and satisfy our profitability and security requirements.

Overall, we believe that our investments and portfolio adjustments actively contribute to the further development of LANXESS because of the care exercised when weighing the associated opportunities and risks.

Financial risks Financial risks are centrally managed by the Treasury Group Function. The chief financial risks that are analyzed, measured and steered are liquidity risks, interest rate risks, exchange rate risks, energy and raw material price risks, default risks with banks, customer risks and investment risks associated with pension assets. Detailed information about our financial risks and how we manage them is contained in Note [31], "Financial instruments," to the Consolidated Financial Statements.

Legal risks Companies in the LANXESS Group are parties to various litigations. The outcome of individual proceedings cannot be predicted with assurance due to the uncertainties always associated with legal disputes. To the extent necessary in light of the known circumstances in each case, LANXESS has set up risk provisions for the event of an unfavorable outcome of such proceedings.

Taking into account existing provisions and insurance, as well as agreements reached with third parties in respect of liability risks arising from legal disputes, the company currently estimates that none of these proceedings will materially affect the future earnings of the LANXESS Group.

In our reporting in previous years, we referred to heightened risks relating to certain antitrust proceedings brought by regulatory authorities or civil courts in the United States, Canada and Europe concerning certain products of the former Rubber Business Group, which was transferred to the LANXESS Group in the course of the spin-off from Bayer AG. LANXESS AG and Bayer AG agreed on specific rules governing their respective share of the liabilities in connection with these proceedings. The rules provide that LANXESS will bear 30% and Bayer AG 70% of such liabilities. LANXESS's total liability was limited to an amount that has now been exhausted by the payments which have since been made. However, LANXESS still faces the possibility of having to bear 30% of any ongoing defense costs and 30% of additional taxes that may be payable if the tax deductibility of expenses is restricted.

Additional information on legal risks can be found in Note [21], "Other current and non-current provisions," to the Consolidated Financial Statements.

Production and environmental risks Although LANXESS applies high technical and safety standards to the construction, operation and maintenance of production facilities, interruptions in operations, including those due to external factors, such as natural disasters or terrorism, cannot be ruled out. These can lead to explosions, the release of materials hazardous to health, or accidents in which people, property or the environment are harmed. In addition to systematically monitoring compliance with quality standards aimed at avoiding such stoppages or accidents, LANXESS is also insured against the resulting damage to the extent usual in the industry.

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

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

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

Other risks In the course of the spin-off from Bayer, LANXESS acquired structures and circumstances that will in the future be subject to assessment by the tax authorities. Even if LANXESS believes that all circumstances have been reported correctly and in compliance with the law, the possibility cannot be ruled out that the tax authorities may come to a different conclusion in individual cases.

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

LANXESS's activities depend on its employees. With regard to human resources risks, industrial actions in some countries resulting from disputes about the implementation of restructuring measures or in connection with negotiations concerning future collective pay agreements cannot be ruled out. We counter this risk by fostering open communication with our employees and their representatives.

Another human resources risk we face is the anticipated increase in our personnel expenses because of future wage increases. If the rate of increase is particularly high, we may not be able to raise productivity enough to compensate for the higher costs.

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

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

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

EVENTS AFTER THE BALANCE SHEET DATE

No events of particular significance took place after December 31, 2008 that could be expected to have a material effect on the cash flows, financial condition and results of operations of the LANXESS Group.

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

OUTLOOK

Expected changes in business conditions The global recession that grew out of the financial crisis is expected to characterize the situation in all branches of industry in 2009. We do not anticipate a major recovery any time soon. Given the many uncertainties in the current macroeconomic environment, it is not possible at this juncture to issue a reliable quantitative forecast of how the global economy will develop.

What is relatively certain is that the severity of the recession will vary from region to region. We expect continued economic growth in China, India and Brazil, though at a much slower pace than before. Europe and America, on the other hand, are unlikely to see positive year-on-year growth. At best, individual sectors will display signs of a recovery as the year progresses.

Both raw material prices and exchange rates will remain volatile in the foreseeable future. We believe that the sharp drop in raw material prices witnessed in the fourth quarter of 2008 and at the start of the first quarter of 2009 will not be sustainable because suppliers will adjust their output to match the lower demand. For the moment, however, it is unlikely that prices will return to the high levels seen in the first half of 2008.

Future performance of the chemical industry LANXESS expects global production in the chemical industry to contract in 2009. The regions with the highest growth rates in past years will also be affected by this downturn, though not as critically as western Europe and North America. Nonetheless, we expect the very low level achieved at the end of 2008 to pick up in the course of the year. For 2010, LANXESS is forecasting a return to slightly positive growth rates in all regions. On account of the reasons described above, it is also not possible to provide definite forecasts of chemical production trends.

Future evolution of selling markets The long-term demand trends on our customer markets can be expected to remain in place regardless of the ongoing recession. At the present time, however, we are unable to foresee with any degree of certainty when selling markets will rally and to what extent. Since the start of 2009, the recession has spread to almost all sectors worldwide, and it is impossible to predict right now when we will see a turnaround.

There is no doubt that 2009 will be an extremely difficult year for the automotive industry and that this will also affect the performance of the tire industry to a certain degree. Developments in the construction industry will depend on the extent to which the investments in infrastructure provided for in governments' economic stimulus packages can compensate for the decline in private construction activity.

Future focus of the LANXESS Group LANXESS is well positioned worldwide and has once again substantially strengthened its presence in Asia, Latin America and central and eastern Europe. It will continue to drive expansion of its market positions there. Our increasing presence in these key economic regions gives us the opportunity to benefit from future positive economic momentum in the individual regions.

An important step for the further expansion of our position in Latin America was the successful acquisition of Brazilian chemicals group Petroflex S.A., one of the world's leading manufacturers of synthetic rubber. Petroflex S.A. became a wholly owned subsidiary of LANXESS in November 2008. By completing the takeover, LANXESS is pressing ahead systematically with the integration of Petroflex S.A. into the Group, significantly reinforcing its market position in Latin America in the process. Petroflex has been included in LANXESS's consolidated financial statements since April 1, 2008.

LANXESS has also continued to enhance its positioning in central and eastern Europe. Since it opened a new sales and marketing company named OOO LANXESS in Moscow, Russia, in January 2009, LANXESS has been driving forward the positioning of all of its business units in this region, which will enable it to derive greater benefit from Russia's future economic development. Through the sales company LANXESS Central Eastern Europe s.r.o., established in Bratislava, Slovakia, in 2007, LANXESS is also focusing on Slovakia, the Czech Republic, Poland and Hungary and consolidating its presence in these important future economic regions.

LANXESS further strengthened its presence in Asia with its first acquisition in China. In June 2008, LANXESS took over two production facilities in Jinshan, near Shanghai, from its former cooperation partner Jinzhuo Chemicals Company Ltd. This move will enable LANXESS to increase its global production capacities for the Inorganic Pigments Business Unit and broaden this unit's Asian operations.

Also in Asia, the planned construction of a world-scale butyl rubber plant will give us an important basis for further expanding our market position in the region and responding to the increasing global demand for butyl rubber. Our presence in Asia will additionally be bolstered by the new production facility to be built in Jhagadia, India, for the Ion Exchange Resins Business Unit, which is assigned to the Performance Chemicals segment. Once this major project is completed in 2010, LANXESS will have a local facility for the direct supply of Asia's growing demand for products used in fields like industrial water treatment.

As well as enhancing our operating business, this globally expanded positioning has above all facilitated the successful implementation of the restructuring measures initiated. The associated improvement in our cost structures has made the LANXESS Group structurally and financially stronger in the long term.

Streamlining our business portfolio has also contributed substantially to strengthening and realigning the Group. This included divestiture of the low-earning Fibers, Paper and Textile Processing Chemicals businesses in 2006 and transferring our Lustran Polymers Business Unit to a joint venture in 2007, a step that greatly sharpened our focus as a specialty chemicals enterprise. With the remaining 13 business units regrouped into three segments, we are focusing on offering premium products, processes and services.

In light of the global economic downturn, which took a dramatic turn for the worse at the end of 2008, LANXESS has additionally implemented extensive measures to mitigate the effects on the company of the weak demand worldwide, to make the LANXESS Group even stronger during this period and to safeguard its financial headroom for the current, difficult year 2009. As well as adjusting plant capacities and technical process improvements, capital expenditures will be postponed and the Functional Chemicals Business Unit will be realigned. Extensive human resources measures have also been introduced.

Postponement of capital expenditures One of the projects postponed is the above-mentioned construction of the world-scale butyl rubber facility in Singapore. Under the revised planning, the new butyl rubber plant is now expected to come on line in 2012. Capacity expansions in Leverkusen and Antwerp as well as the plans to relocate Group headquarters from Leverkusen to Cologne have also been deferred.

Realignment of the Functional Chemicals Business Unit
Owing to the economic and financial crisis, customer demand in this business unit has declined significantly, especially in the construction and the chemical industry. Functional Chemicals generates over half of its sales in these sectors. The business unit is therefore to be realigned to focus it on three instead of four business areas. Its global sales organization, production facilities, research and development, and technical services are to be made more competitive. Up to 120 jobs worldwide, 80 of them in Germany, will be affected by these measures.

LANXESS began to implement the planned measures at the end of 2008. The realignment of the Functional Chemicals Business Unit is scheduled to be completed by mid-2010.

Human resources measures LANXESS adopted a number of human resources measures in January 2009 that affect the Board of Management, management staff and employees, as well as non-managerial employees of the LANXESS Group.

In negotiations with the employee representatives and the IG BCE labor union, the following arrangements were made for non-managerial employees in Germany for 2009 that are subject to the approval of all relevant committees.

A 35-hour week will be introduced in March 2009, initially for one year, with a corresponding reduction in remuneration. Furthermore, no variable compensation components will be paid for fiscal 2009.

The following measures are anticipated in 2009 for the Board of Management as well as for the Group's managerial employees in Germany:

- The members of the Board of Management of LANXESS AG will take a reduction in variable income equivalent to 10% of their fixed annual salary.
- Variable income components for managerial employees will be adjusted and the annual review of salaries planned for 2009 will be postponed for at least six months.

Salary reviews around the world will be postponed for at least six months and in some countries there will be no pay rises for twelve months. Other action to cut personnel expenses has also been agreed within the legal framework in each country.

By implementing these measures, which will initially be effective over the next twelve months, the Group intends to cut its disbursements by around €50 million in 2009/2010.

If the economic crisis worsens in the coming months of the present fiscal year, LANXESS's management and employee representatives will discuss further measures at regular joint meetings.

These steps will also help LANXESS to further enhance its efficiency, consolidate its market position as a specialty chemicals enterprise in the premium segment, make its businesses more stable and efficient, and thereby increase the value of the company for its stakeholders.

Product portfolio LANXESS's presence in all key customer industries is ensured by its extensive product portfolio. The broad diversification of this portfolio makes LANXESS independent of any one product or process. In that regard, no product or process innovations are expected in 2009 that would individually have a significant influence on the LANXESS Group's performance.

In spite of this, there are products in our portfolio that may benefit particularly positively from strategic market trends at the moment. These include neodymium polybutadiene rubber (NdPBR) and solution styrene butadiene rubber (SSBR), which are used to manufacture high-performance tires. Without these, automakers would find it almost impossible to comply with the E.U. requirements for lower CO_2 emissions in vehicles defined for 2012. For mid-2009 we are planning the roll-out of PBR4003, a special solution styrene butadiene rubber that achieved remarkable improvements in rolling resistance and abrasion in tire tests. Considerable potential is offered by our Durethan® plastic for hybrid components used to achieve weight reductions in automotive engineering and ion exchange resins for the treatment of drinking water.

Research and development We intend for innovations to continue playing a large role in generating organic growth and cementing our competitive positions as a premium supplier. Our research and development budget for fiscal 2009 is slightly higher than in 2008.

The task of the new Innovation Group Function launched on January 1, 2009 is to develop innovative processes and products as part of medium- to long-term projects conducted outside of the company's day-to-day business operations. The planning of research goals is aligned with foreseeable global megatrends such as the dwindling supply of energy, water and raw materials, and climate change. Use is made of innovative future technologies like biotechnology, nanotechnology and microtechnology. Since the primary motivation is to identify and tap new technological opportunities for LANXESS, focused cooperations with universities, institutes and suitable industrial enterprises are envisioned.

Around 80% of the research and development projects from 2008 are scheduled to be brought to market or incorporated in technology by the end of 2009.

Expected results of operations Our expectations of global economic development in 2008 were tinged with doubt from the start due to growing uncertainty about the long-term impact of the U.S. subprime crisis on the various sectors of the real economy.

Now, at the start of 2009, it is apparent that most regions around the world are in recession. At the same time, the uncertainty surrounding future trends on the global markets and in the world banking system has continued to grow.

In view of this situation, LANXESS expects many of its user industries worldwide to report negative growth rates in 2009. We also anticipate a marked slowdown in the Asian, Latin American and eastern European economies, which had previously enjoyed dynamic growth.

Another important trend in the current fiscal year that began to emerge towards the end of 2008 is the continued rapid decline in raw material costs. Coupled with a general downturn in demand, this effect, which essentially reduces our cost burden, will lower the Group's operational sales level in 2009 and possibly also lead to further write-downs of inventories in the next quarter.

Due to the efforts made by our customers well into the first quarter of 2009 to reduce their inventory levels, and as a consequence of the pronounced drop in overall demand, LANXESS also expects a change to seasonal fluctuations in income during fiscal 2009. While in recent years the highest income was posted in the first two quarters, the company anticipates diminished economic activity in the first quarter of 2009, possibly even below the level of the fourth quarter of 2008.

Our performance forecasts for the three segments are as follows:

In the **Performance Polymers** segment, the long-term trend for mobility, which is particularly strong in Asia and Latin America, will generally continue to drive growth in the tire industry, but here, too, the pace of growth in 2009 will be slower than in 2008. To counter this downturn in demand in our key user industries projected for 2009, LANXESS took numerous steps in the fourth quarter of 2008 to adjust production capacities, increase efficiency and improve cost structures. In the Butyl Rubber Business Unit, for example, we reduced capacities by closing parts of our facilities on a temporary basis or by cutting the number of hours worked by our production staff. In Brazil and Belgium, we implemented measures to bring capacities into line with the reduced demand for various products. However, overall we are confident that the underlying demand trends will remain intact in the long term.

In the **Advanced Intermediates** segment, the end markets for agrochemical precursors are continuing to provide our business units with greater stability than other markets. For this reason, the Basic Chemicals Business Unit, which is generally sensitive to cyclicality, is currently feeling the effect of declining demand to a lesser extent than generally anticipated. As expected, the Saltigo Business Unit, which tends to be less cyclical in any case, has proved to be quite robust in early 2009 and is comparatively unaffected by the downswing in demand from its customer industries. Thanks to the successful restructuring achieved to date, Saltigo has also implemented progressively improved cost structures. Overall, Advanced Intermediates presents itself at the beginning of 2009 as a more stable segment in an environment that is rapidly losing momentum.

The business units of the **Performance Chemicals** segment are dominated by the user industries that experienced the most dramatic slumps in demand in recent months. The Inorganic Pigments Business Unit, for example, has seen a significant drop in demand from the construction industry. In the backward integrated Leather Business Unit, the end markets for leather chemicals, i.e. the clothing, furniture and automotive industries, are strongly impacted by the contraction of demand. Sales of chrome ore are down as well on account of the slump in demand from the steel industry. The Rhein Chemie and Rubber Chemicals business units have a significant proportion of their customers in the automotive industry. We therefore believe that the Performance Chemicals segment will be unable to avoid a substantial loss of revenue year on year on account of its segment-specific customer industries. LANXESS has already reacted to this situation in the Functional Chemicals Business Unit, where an efficiency enhancement program has been initiated to realign the business. This will unfortunately affect some 120 jobs.

A number of other factors are likely to affect the anticipated earnings of the **LANXESS Group**. In 2009, the net income of LANXESS will for the first time include a full-year earnings contribution from the Brazilian Petroflex group that was consolidated as of April 1, 2008. After earnings were negatively impacted by the weakness of the U.S. dollar in 2008, LANXESS expects continued exchange-rate volatility, though our active currency management is expected to mitigate any risks that arise. We also expect the prices for energies and the raw materials we use to continue falling, in some cases substantially.

It is entirely possible that LANXESS's earnings in fiscal 2009 will be impacted by restructuring expenses that might prove necessary to counteract the effects of the economic crisis.

In spite of the economic downturn, which is expected to persist, we are confident that our immediate and comprehensive response to the crisis in the form of technical improvements, capacity management and reductions in compensation will enable us to exit this crisis stronger than before.

As in the past, we will provide a more detailed earnings forecast when we publish our results for the first quarter of 2009.

Expected financial condition LANXESS will continue its strategy of targeted investment and growth in the current fiscal year. The postponement of several investment projects to a later date puts our planned capital expenditures of around €350 million for 2009 more or less at the prior-year level.

Around half of the above-mentioned investment volume will benefit the **Performance Polymers** segment. However, work on the largest investment project – a butyl rubber production plant in Singapore – is being delayed. LANXESS will strengthen the **Advanced Intermediates** segment with capital expenditures in the range of €30 million. In the **Performance Chemicals** segment, the investment projects already begun at the Jhagadia site in India for the Ion Exchange Resins and Rubber Chemicals business units will be continued.

The financing for these and other capital expenditures is expected to come from future cash flow, current liquidity and existing lines of credit. Financing needs that arise in connection with our operating business, the anticipated dividend payment and other planned restructuring and efficiency enhancement measures will also be met out of these resources. We believe that our consistent implementation of restructuring projects in recent years, our various portfolio measures, the investment in efficient, new production processes and the long-term nature of our financing place the LANXESS Group in a fundamentally sound position to weather a global recession.

Summary of Group's projected performance LANXESS expects the global recession to reduce the growth rates in many of its user industries, also in Asia, Latin America and eastern Europe, which previously saw dynamic expansion.

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

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

CORPORATE GOVERNANCE

Declaration pursuant to Section 161 of the German Stock Corporation Act regarding the German Corporate Governance Code

After careful consideration, the Board of Management and the Supervisory Board hereby issue the following declaration:

"LANXESS AG fundamentally complies with the recommendations of the Government Commission on the German Corporate Governance Code (the "Code") as amended on June 6, 2008, which was published by the Federal Ministry of Justice in the official portion of the electronic version of the Federal Gazette. It also fundamentally complied with the Code's recommendations during the period from January 1, 2008, to August 8, 2008 (Code version of June 14, 2007) and thereafter to December 31, 2008 (Code version of June 6, 2008, published on August 8, 2008).

Only the following recommendation was not, and is not being, met:

1. **Section 3.8, Paragraph 2**
   If the company takes out a D&O (directors' and officers' liability insurance) policy for the Board of Management and Supervisory Board, a suitable deductible shall be agreed.

   We have a D&O insurance policy for the members of our Board of Management and Supervisory Board, but it does not provide for a deductible. LANXESS believes that a deductible is not a suitable way of influencing the Board of Management and Supervisory Board members' awareness of their responsibilities."

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

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

"LANXESS AG fundamentally complies with the suggestions of the Government Commission on the German Corporate Governance Code (the "Code") as amended on June 6, 2008, which was published by the Federal Ministry of Justice in the official portion of the electronic version of the Federal Gazette. It also fundamentally complied with the Code's suggestions during the period from January 1, 2008, to August 8, 2008 (Code version of June 14, 2007) and thereafter to December 31, 2008 (Code version of June 6, 2008, published on August 8, 2008).

Only the following suggestions were not, and are not being, met:

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

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

2. **Section 2.3.4**
   The company should make it possible for stockholders to follow the Stockholders' Meeting using modern communication media (e.g. Internet).

   The Stockholders' Meeting is broadcast on the Internet through and including the report of the Board of Management. Continued broadcasting of the proceedings thereafter could be seen as a violation of the stockholders' rights to privacy. Therefore, there are no plans to broadcast the speeches made by individual stockholders, or any other part of the meeting following the Board of Management's report.

3. Section 5.4.6 (Code version of June 14, 2007)
The election or reelection of members of the Supervisory Board on different dates and for different terms of office enables changing requirements to be taken into account.

At LANXESS AG's Annual Stockholders' Meeting on June 16, 2005, the stockholder representatives on the Supervisory Board were elected to hold office until the end of the Stockholders' Meeting that votes on the ratification of the actions of the Supervisory Board members for the 2009 fiscal year. The employee representatives had been previously appointed by the court for the same term of office. We believe that the uniform term of office is also an effective way of ensuring the continuity of the Supervisory Board's work."

Leverkusen, March 16, 2009/March 3, 2009

For the Supervisory Board
Dr. Rolf Stomberg

For the Board of Management
Dr. Axel C. Heitmann
Matthias Zachert

CORPORATE GOVERNANCE STRUCTURE

The Board of Management and Supervisory Board of LANXESS AG work closely together in a relationship of mutual trust for the benefit of the company. The Board of Management reports to the Supervisory Board on a regular, timely and comprehensive basis about all relevant issues relating to corporate planning, the progress of business, and the situation of the Group, including potential risks. The responsibility for conducting the company's business rests with the Board of Management. The Supervisory Board's role is to advise the Board of Management in its management of the company and to monitor its conduct of the business. Therefore, transactions and other measures of major or long-term importance must be discussed in advance with the Supervisory Board and receive the Supervisory Board's endorsement. In addition, the rules of procedure of the Supervisory Board contain a list of the types of measures that require the Supervisory Board's approval. Measures requiring approval include, but are not limited to: adoption of the corporate planning; the acquisition, sale, or encumbrance of real property, shareholdings or other assets valued at or above €50 million; borrowings of €100 million or more; and certain other types of financial transactions. There were no consulting or other service or work contracts between Supervisory Board members and the company during the reporting period, nor were we notified of any conflicts of interest for members of the Board of Management or Supervisory Board that would have required immediate disclosure to the Supervisory Board.

COMPOSITION OF THE SUPERVISORY BOARD

Gisela Seidel, Wolfgang Blossey, Werner Czaplik, Ralf Deitz, Dr. Rudolf Fauss, Ulrich Freese, Rainer Hippler, and Hans-Jürgen Schicker have served as the employee representatives on the Supervisory Board since their appointment by the Cologne Local Court on March 14, 2005. The stockholder representatives, as confirmed at the Annual Stockholders' Meeting on June 16, 2005, are Dr. Friedrich Janssen, Dr. Jürgen F. Kammer, Robert J. Koehler, Rainer Laufs, Lutz Lingnau, Dr. Ulrich Middelmann, Dr. Sieghardt Rometsch, and Dr. Rolf Stomberg. The Chairman of the Supervisory Board is Dr. Rolf Stomberg. The Vice Chairman is Ulrich Freese (effective March 14, 2007).

COMMITTEES OF THE SUPERVISORY BOARD

At its meeting on April 4, 2005, the Supervisory Board formed a Presidial Committee, a Human Resources Committee, an Audit Committee, and the Committee pursuant to Section 27 (3) of the Codetermination Act from among its members. Pursuant to the recommendations contained in the German Corporate Governance Code, the Supervisory Board formed a Nominations Committee at its meeting on December 13, 2007. Additional committees can be formed as needed. Decision-making powers may be conferred on the committees to the extent permitted by law.

Presidial Committee: The Presidial Committee discusses key issues and prepares the meetings and resolutions of the Supervisory Board. It also makes decisions on other matters for which it is responsible under the rules of procedure for the Supervisory Board, especially matters that cannot be deferred.

Members: Dr. Rolf Stomberg (Chairman), Werner Czaplik, Ulrich Freese, Rainer Hippler, Dr. Jürgen F. Kammer, Rainer Laufs

Human Resources Committee: The Human Resources Committee regularly discusses the company's management succession planning. It also prepares the personnel decisions of the Supervisory Board and the Supervisory Board's discussions concerning the structure of the compensation system for the Board of Management, including key contract elements, and the Supervisory Board's regular review of this system.

Members: Dr. Rolf Stomberg (Chairman), Wolfgang Blossey, Ulrich Freese, Dr. Jürgen F. Kammer, Rainer Laufs, Gisela Seidel

Audit Committee: The Audit Committee supports the Supervisory Board in overseeing the conduct of the business and deals with matters relating to accounting and risk management. It prepares the Supervisory Board's resolutions concerning the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group.

Members: Dr. Friedrich Janssen (Chairman), Ralf Deitz, Dr. Rudolf Fauss, Rainer Hippler, Rainer Laufs, Dr. Sieghardt Rometsch

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

Members: Dr. Rolf Stomberg (Chairman), Ulrich Freese, Hans-Jürgen Schicker, Dr. Jürgen F. Kammer

Nominations Committee Pursuant to Section 5.3.3 of the German Corporate Governance Code: This committee proposes candidates for the Supervisory Board to nominate for election as members of the Supervisory Board by the Annual Stockholders' Meeting.

Members: Dr. Rolf Stomberg (Chairman), Dr. Friedrich Janssen, Dr. Ulrich Middelmann

SYSTEM OF COMPENSATION FOR THE SUPERVISORY BOARD

The compensation of the Supervisory Board is governed by Article 12 of the company's articles of association. The members of the Supervisory Board of LANXESS AG receive fixed compensation of €40,000 per year. The Chairman of the Supervisory Board receives three times, and the Vice Chairman one and a half times, this amount. Serving as the chair or a member of Supervisory Board committees is compensated separately in accordance with the German Corporate Governance Code. Supervisory Board members who belong to a committee receive one quarter of the fixed compensation amount in addition, and those who chair a committee receive a further quarter. However, no member may receive in total more than three times the fixed compensation amount. The compensation paid to Supervisory Board members in fiscal 2008 is stated in the table on page 93. Supervisory Board members are reimbursed for their expenses in addition and also receive an attendance allowance of €1,200 for each Supervisory Board meeting and each committee meeting they attend, with the exception of meetings of the Committee formed pursuant to Section 27 (3) of the Codetermination Act and meetings of the Nominations Committee. With respect to their membership on the supervisory boards of LANXESS Group companies, the members of the Supervisory Board were remunerated only for their service on the Supervisory Board of LANXESS Deutschland GmbH.

As resolved by the 2006 Annual Stockholders' Meeting, a long-term incentive based on the company's performance during the standard term of an individual's membership on the Supervisory Board (five years) was introduced for the Supervisory Board effective January 1, 2006. Unlike the fixed compensation component, this variable compensation component is not paid every year, but only once at the end of the standard term of office. If a Supervisory Board member serves a shorter term, the amount is prorated.

Whether the variable compensation is paid or not depends on how LANXESS's stock price performs compared to the Dow Jones STOXX 600 Chemicals^{SM} benchmark 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 the Dow Jones STOXX 600 Chemicals[SM] 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.

As of December 31, 2008, a provision of €1,466,000 was recognized for the long-term incentive payment.

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

Compensation of the Supervisory Board for the 2008 Fiscal Year[1)]

in €	**Fixed compensation** LANXESS AG	**Remuneration for committee membership** LANXESS AG	**Attendance allowance**	**Fixed compensation** LANXESS Deutschland GmbH	**Total**
Dr. Rolf Stomberg, Chairman	120,000	0	16,800	5,000	141,800
Ulrich Freese, Vice Chairman	60,000	20,000	16,800	5,000	101,800
Wolfgang Blossey	40,000	10,000	12,000	5,000	67,000
Werner Czaplik	40,000	10,000	13,200	5,000	68,200
Ralf Deitz	40,000	10,000	9,600	5,000	64,600
Dr. Rudolf Fauss	40,000	10,000	13,200	5,000	68,200
Rainer Hippler	40,000	20,000	19,200	5,000	84,200
Dr. Friedrich Janssen	40,000	20,000	13,200	5,000	78,200
Dr. Jürgen F. Kammer	40,000	20,000	16,800	5,000	81,800
Robert J. Koehler	40,000	0	7,200	5,000	52,200
Rainer Laufs	40,000	30,000	22,800	5,000	97,800
Lutz Lingnau	40,000	0	8,400	5,000	53,400
Dr. Ulrich Middelmann	40,000	0	6,000	5,000	51,000
Dr. Sieghardt Rometsch	40,000	10,000	14,400	5,000	69,400
Hans-Jürgen Schicker	40,000	0	8,400	5,000	53,400
Gisela Seidel	40,000	10,000	12,000	5,000	67,000
Total	**740,000**	**170,000**	**210,000**	**80,000**	**1,200,000**

1) all figures excluding value-added tax

SYSTEM OF COMPENSATION FOR THE BOARD OF MANAGEMENT

The compensation received by the members of the Board of Management is closely dependent on LANXESS's performance. In addition to a fixed, market-oriented annual base salary that is broadly in line with that paid at comparable companies, their compensation contains two further components that vary according to short-term and long-term corporate performance, respectively: the Short-Term Incentive linked to the Group's attainment of defined EBITDA goals, and the Long-Term Incentive Program. The latter comprises the virtual Stock Performance Plan and the Economic Value Plan for the years 2005 through 2007, and the virtual Stock Performance Plan only for the years 2008 through 2010. First payments under the Long-Term Incentive Plan are made after three years under certain specified conditions. While awards under the Economic Value Plan require the creation of value on the basis of the medium-term business plan, the Stock Performance Plan is linked to the performance of LANXESS stock in relation to the Dow Jones STOXX 600 Chemicals[SM] index. Participation in the 2005-2007 and subsequent 2008-2010 Long-Term Incentive Plans, each of which is divided into three annual tranches, requires a personal investment in LANXESS shares, which must be retained until 2010 and 2013, respectively. The first payments from this Long-Term Incentive Plan were made in 2008. The Board of Management members' total compensation as reported in this annual report also includes certain compensation in kind, consisting mainly of the tax value of fringe benefits such as the use of a company car.

Details of the compensation of the Management Board are given in the Compensation Report, which forms part of the Group Management Report.

DIRECTORS' DEALINGS

Pursuant to Section 15a (4) of the German Securities Trading Act (WpHG), the trading of securities by certain parties, including members of a management board or supervisory board, must be reported if the total sum of the transactions undertaken in any given calendar year exceeds €5,000.

Individuals who are closely related to these parties (e.g. spouses, registered partners and first-degree relatives) are also subject to this reporting requirement.

Securities transactions subject to the reporting requirement can be viewed at any time in the Investor Relations section of our website at www.lanxess.com.

The following reportable securities transactions took place between January 1, 2008, and January 31, 2009:

Directors' Dealings – Reportable Securities Transactions Pursuant to Section 15a of the German Securities Trading Act (WpHG)

Date	Name	Position	Description of the securities	International Securities Identification Number (ISIN)	Type of trans-action	Price in €	Quantity	Trans-action-volume in €
Fiscal 2008								
January 11	Matthias Zachert	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	28.00	1,000	28,000.00
January 16	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	26.83	2,000	53,660.00
January 17	Dr. Rudolf Fauss	Supervisory Board member	No-par ordinary shares	DE0005470405	Purchase	26.04	153	3,984.12
January 21	Dr. Rainier van Roessel	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	23.49	1,000	23,490.00
January 21	Matthias Zachert	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	23.72	1,000	23,720.00
January 24	Dr. Werner Breuers	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	23.25	2,500	58,125.00
January 24	Dr. Rainier van Roessel	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	22.96	1,000	22,960.00
January 25	Dr. Rainier van Roessel	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	23.91	1,500	35,865.00
May 14	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	28.50	2,500	71,250.00
May 23	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	30.01	2,500	75,025.00
June 2	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	28.73	2,500	71,825.00
June 19	Dr. Werner Breuers	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	29.13 [1]	3,000	87,381.00
June 20	Matthias Zachert	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	28.83	1,000	28,830.00
June 23	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	28.39 [1]	2,500	70,963.25
June 30	Matthias Zachert	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	25.10	2,000	50,200.00
July 9	Dr. Rainier van Roessel	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	25.75	1,000	25,750.00
July 11	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	24.46 [1]	2,500	61,140.75
July 11	Dr. Rainier van Roessel	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	24.99	1,500	37,485.00
September 11	Matthias Zachert	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	23.07 [1]	2,000	46,136.00
September 18	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	21.40	2,000	42,800.00
September 23	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	19.87 [1]	2,000	39,735.80
September 23	Dr. Werner Breuers	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	19.87 [1]	4,000	79,471.60
September 23	Matthias Zachert	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	20.00	3,000	60,000.00
September 24	Dr. Rainier van Roessel	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	20.00	3,000	60,000.00
October 8	Matthias Zachert	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	15.50	5,000	77,500.00
October 13	Dr. Rainier van Roessel	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	13.94	3,000	41,826.90
October 13	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	13.75	2,000	27,500.00
October 13	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	14.10	2,000	28,200.00
October 13	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	14.25	3,000	42,750.00
November 14	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	12.28 [1]	80,000	982,000.00
November 17	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	11.25 [1]	20,000	224,894.00
November 18	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	11.00	18,202	200,222.00
December 3	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	11.80 [1]	20,000	235,934.00
December 22	Dr. Rudolf Fauss	Supervisory Board member	No-par ordinary shares	DE0005470405	Purchase	12.30	182	2,238.60
December 23	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	12.20	9,696	118,291.20
Fiscal 2009								
January 15	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	12.10	1,699	20,557.90
January 15	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	12.30	20,000	246,000.00
January 20	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	11.90	20,000	238,000.00
January 23	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	10.90	20,000	218,000.00

1) rounded up

The number of LANXESS shares acquired in reportable securities transactions between 2004 and January 31, 2009, totaled:

Function	Name	Total number
Chairman of the Board of Management	Dr. Axel C. Heitmann	250,097
Board of Management member	Dr. Werner Breuers	10,880
Board of Management member	Dr. Rainier van Roessel	15,000
Board of Management member	Matthias Zachert	19,264
Chairman of the Supervisory Board	Dr. Rolf Stomberg	800
Supervisory Board member	Dr. Rudolf Fauss	335
Supervisory Board member	Lutz Lingnau	200

As of January 31, 2009, there was no reportable share ownership – as defined in Section 6.6 of the German Corporate Governance Code – by members of the Board of Management or the Supervisory Board.

OFFICES HELD BY BOARD OF MANAGEMENT MEMBERS

Offices Held by Board of Management Members

Member of the Management Board	External offices	Offices within the LANXESS Group
Dr. Axel C. Heitmann	• Member of the Presidium of the German Chemical Industry Association (VCI) • Member of the Asia-Pacific Committee of German Business (APA) • Member of the Board of Trustees of Konvent für Deutschland e.V. • Member of the Board of Trustees of the North Rhine-Westphalia chapter of Stifterverband für die Deutsche Wissenschaft	• Chairman of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd.
Dr. Werner Breuers	• Member of the Supervisory Board of CURRENTA Geschäftsführungs-GmbH • Member of the Board of Trustees of the VCI's Chemical Industry Fund • Member of the Board of Trustees of the DWI of RWTH Aachen University	• Member of the 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	• Member of the Board of the VCI Regional Association in North Rhine-Westphalia • Member of the VCI Trade Policy Committee • Member of the 1 b Experience-Exchange Group of the German Association for Personnel Management (DGFP)	• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS S.A. de C.V. • 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.
Mr. Matthias Zachert	• Member of the Board of Directors of Deutsches Aktieninstitut • Member of the Board of Directors of INEOS ABS Ltd.	• Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Directors of LANXESS Corp. • Member of the Board of Administration of LANXESS N.V. • Chairman of the Supervisory Board of LANXESS SAS

SUPERVISORY BOARD

Dr. Rolf Stomberg (Chairman)

Former Chief Executive of the Shipping, Refining und Marketing Division of The British Petroleum Co. p.l.c., London, U.K.
Former member of the Board of Directors of The British Petroleum Co. p.l.c., London, U.K.

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

Ulrich Freese (Vice Chairman)

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

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Vice Chairman of the Supervisory Board of Vattenfall Europe Mining AG, Cottbus
- Vice Chairman of the Supervisory Board of Vattenfall Europe Generation AG, Cottbus
- Vice Chairman of the Supervisory Board of Vattenfall Europe Transmission GmbH, Berlin
- Member of the Supervisory Board of Vattenfall Europa AG, Berlin
- Vice Chairman of the Advisory Board of Evonik Wohnen GmbH, Essen
- Vice Chairman of the Advisory Board of Evonik Immobilien GmbH, Essen
- Vice Chairman of the Supervisory Board of DMT GmbH, Essen
- Vice Chairman of the Supervisory Board of GSB – Gesellschaft zur Sicherung von Bergmannswohnungen mbH, Essen
- Vice Chairman of the Supervisory Board of GSG Wohnungsbau Braunkohle GmbH, Cologne

Wolfgang Blossey

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

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

Werner Czaplik

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

Ralf Deitz

Member of the LANXESS Works Council in Leverkusen

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Member of the Supervisory Board of SALTIGO GmbH

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

Rainer Hippler

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

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

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
- Various Supervisory Board positions at 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
- Member of the Supervisory Board of Villeroy & Boch AG, Mettlach
- Member of the Administrative Board of Wittelsbacher Ausgleichsfonds, Munich

Robert J. Koehler

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

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH
- 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/Ruhr

Rainer Laufs

Self-employed consultant
Former Chairman of the Management Board of Deutsche Shell AG
Former Chairman of the Management Board of Shell Chemicals Europe
Former Chairman of the Management Board of Shell Europe Oil Products

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Chairman of the Supervisory Board of WCM Beteiligungs- und Grundbesitz AG i.L., Frankfurt am Main
- 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
- Member of the Board of Directors of Micropharma Ltd., Montreal, Canada
- Member of the Board of Directors of Nektar Therapeutics, San Carlos, United States

Dr. Ulrich Middelmann

Vice Chairman of the Executive Board of ThyssenKrupp AG

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

Dr. Sieghardt Rometsch

Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt AG, Duesseldorf
Former spokesman for the general partners of HSBC Trinkaus & Burkhardt KGaA, Duesseldorf

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

Hans-Jürgen Schicker

Chairman of the LANXESS Works Council in Uerdingen

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH

Gisela Seidel

Chairwoman of the LANXESS Works Council in Dormagen

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH

REPORT OF THE SUPERVISORY BOARD

Dear Stockholders:
Fiscal 2008 was another successful year for LANXESS. Despite the decrease in demand brought about by the global financial and economic crisis in the fourth quarter, LANXESS increased its earnings compared with the previous year. Bolstered by the strategic realignment implemented over the last few years, the expansion of its market positions, targeted improvements in the cost structure and sound financial management, the company believes it is well prepared to meet the challenges that lie ahead.

As in previous years, the Supervisory Board took the utmost care in 2008 while exercising the duties incumbent on it under the law and the articles of association. It advised the Board of Management regularly on the management of the company and monitored its conduct of the business. The Supervisory Board was directly involved in all decisions of fundamental importance for the company. The Board of Management informed us regularly in both written and oral reports about business performance, the situation of the Group, including the risk situation and risk management, and about current issues. On the basis of these reports, we discussed significant business transactions in detail. We thoroughly examined and discussed the reports and proposals of the Board of Management and voted on them when required by law, the articles of association or other provisions. As Chairman of the Supervisory Board, I was in regular contact with the Chairman of the Board of Management outside of the Supervisory Board's meetings. We regularly discussed the present state and future development of the company as well as material events.

Meetings of the Supervisory Board and its Committees
There were six regularly scheduled meetings and one special meeting of the Supervisory Board in fiscal 2008.

One of the focuses of the Supervisory Board's deliberations was the company's decision to invest in the construction of a new butyl rubber plant in Singapore. The Supervisory Board discussed this investment at length and endorsed it at its special meeting on February 11, 2008. As in previous years, the Supervisory Board also discussed the company's strategic direction and development, corporate planning, risk management and financial policy at its meetings. Other key topics included the action to acquire the remainder of the shares of the Brazilian Petroflex group, the relocation of the Group's headquarters to Cologne and, more recently, the effects of the financial crisis on the company.

All members of the Supervisory Board performed their duties diligently and conscientiously. No member of the Supervisory Board attended fewer than half of the meetings. On average, meetings were attended by 95% of the membership. The stockholder representatives and the employee representatives regularly held separate meetings at which they prepared the meetings of the full Supervisory Board.

The Supervisory Board has five committees. The membership of these committees is shown on page 92. The committees are tasked with preparing the topics and resolutions to be discussed at meetings of the full Supervisory Board. They also, at times, exercise decision-making powers conferred on them by the Supervisory Board. Dr. Janssen is Chairman of the Audit Committee. I chair all of the other committees.

The Presidial Committee convened four times during 2008 to prepare the plenary meetings.

The Audit Committee met five times during the year. It dealt in particular with the annual financial statements and management report of LANXESS AG for fiscal 2007, the consolidated financial statements and Group management report for fiscal 2007, the interim reports issued during fiscal 2008, the condensed consolidated financial statements and interim management report included in the half-year financial report, the company's risk management and the internal control system. Other topics discussed were the amendments made to the German Corporate Governance Code and the determination of the principal areas of focus for the audit of the 2008 consolidated financial statements. The auditor attended all of the Audit Committee's meetings and reported on the auditing activities.

The Human Resources Committee met three times during the year, mainly addressing matters relating to the compensation and performance targets of the Board of Management. At its March meeting in particular the committee assessed the achievement of these targets for purposes of determining the Board of Management's variable compensation.

The Committee formed pursuant to Section 27 (3) of the Codetermination Act and the Nominations Committee did not convene in fiscal 2008.

The chairmen of the committees each reported in detail on the meetings and the work of the committees at the meetings of the full Supervisory Board.

Financial Statements of LANXESS AG and Consolidated Financial Statements of the LANXESS Group

The financial statements and management report of LANXESS AG for the 2008 fiscal year, which were prepared by the Board of Management in accordance with the rules of the German Commercial Code, as well as the consolidated financial statements and Group management report for fiscal 2008, which were prepared by LANXESS AG in accordance with the International Financial Reporting Standards (IFRS), were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the auditor appointed by the Annual Stockholders' Meeting and engaged by the Supervisory Board. The auditor issued an unqualified opinion in each case.

The Supervisory Board satisfied itself of the independence of the auditor and the persons acting on the auditor's behalf. The audit reports and the documents relating to the financial statements were discussed with the Board of Management and the auditor at the Audit Committee meeting held on March 12, 2009. They were also discussed in detail on the basis of the required documents and notes at the Supervisory Board's financial statements meeting held on March 16, 2009. The responsible auditor was present for the discussions concerning the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. He reported on the material results of the audits and was available to the Audit Committee and full Supervisory Board to provide additional information.

Based on the recommendation of the Audit Committee as well as on its own review and in-depth discussions about the financial statements and management report of LANXESS AG, the consolidated financial statements of the LANXESS Group and the Group management report and the proposal for appropriation of the profit, the Supervisory Board endorsed the auditor's conclusions and had no objections to raise. The Supervisory Board has approved the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, which were prepared by the Board of Management. The financial statements of LANXESS AG, thus, have been adopted. The Audit Committee and the full Supervisory Board endorsed the Board of Management's proposal for use of the distributable profit after close examination and extensive deliberations that carefully weighed the best interests of the company and the stockholders.

Composition of the Board of Management and Supervisory Board

The company's Supervisory Board is composed in accordance with the provisions of the German Codetermination Act of 1976. The composition of the Supervisory Board did not change during fiscal 2008. The employee representatives are Gisela Seidel, Wolfgang Blossey, Werner Czaplik, Ralf Deitz, Dr. Rudolf Fauss, Ulrich Freese, Rainer Hippler, and Hans-Jürgen Schicker; the stockholders' representatives are Dr. Friedrich Janssen, Dr. Jürgen F. Kammer, Robert J. Koehler, Rainer Laufs, Lutz Lingnau, Dr. Ulrich Middelmann, Dr. Sieghardt Rometsch, and Dr. Rolf Stomberg. I continue to serve as the Chairman of the Supervisory Board.

There were no changes in the composition of the Board of Management in fiscal 2008. Its members are Dr. Axel C. Heitmann, who serves as Chairman, Dr. Werner Breuers, Dr. Rainier van Roessel, who serves as Industrial Relations Director, and Matthias Zachert, who serves as Chief Financial Officer.

The Supervisory Board would like to thank the Board of Management and all Group employees for their hard work and dedication in fiscal 2008.

Leverkusen, March 17, 2009

The Supervisory Board

Dr. Rolf Stomberg
Chairman

INCOME STATEMENT
LANXESS GROUP

€ million	Note	2007	2008
Sales	(1)	**6,608**	**6,576**
Cost of sales		(5,147)	(5,116)
Gross profit		**1,461**	**1,460**
Selling expenses		(659)	(658)
Research and development expenses		(88)	(97)
General administration expenses		(256)	(270)
Other operating income	(2)	317	404
Other operating expenses	(3)	(560)	(517)
Operating result (EBIT)		**215**	**322**
Income (loss) from investments accounted for using the equity method		(1)	20
Interest income		13	19
Interest expense		(33)	(55)
Other financial income and expense		(22)	(77)
Financial result	(4)	**(43)**	**(93)**
Income before income taxes		**172**	**229**
Income taxes	(5)	(60)	(58)
Income after income taxes		**112**	**171**
of which attributable to minority interest		0	0
of which attributable to LANXESS AG stockholders (net income)		112	171
Earnings per share (€)	(6)	**1.32**	**2.05**

BALANCE SHEET
LANXESS GROUP

€ million	Note	Dec. 31, 2007	Dec. 31, 2008
ASSETS			
Intangible assets	(9)	33	145
Property, plant and equipment	(10)	1,459	1,646
Investments accounted for using the equity method	(11)	33	49
Investments in other affiliated companies	(12)	1	2
Non-current derivative assets		0	43
Other non-current financial assets	(13)	85	72
Deferred taxes	(5)	93	137
Other non-current assets	(14)	102	134
Non-current assets		**1,806**	**2,228**
Inventories	(15)	895	1,048
Trade receivables	(16)	809	725
Cash and cash equivalents	(17)	189	249
Current derivative assets		72	34
Other current financial assets	(13)	128	155
Current income tax receivables		5	56
Other current assets	(18)	145	156
Current assets		**2,243**	**2,423**
Total assets		**4,049**	**4,651**
EQUITY AND LIABILITIES			
Capital stock and capital reserves		889	889
Other reserves		811	840
Net income		112	171
Accumulated other comprehensive loss		(304)	(509)
Equity attributable to minority interest		17	16
Equity	(19)	**1,525**	**1,407**
Provisions for pensions and other post-employment benefits	(20)	470	483
Other non-current provisions	(21)	242	261
Non-current derivative liabilities		0	30
Other non-current financial liabilities	(22)	601	986
Non-current income tax liabilities		36	91
Other non-current liabilities	(23)	47	46
Deferred taxes	(5)	60	47
Non-current liabilities		**1,456**	**1,944**
Other current provisions	(21)	371	395
Trade payables	(24)	487	484
Current derivative liabilities		6	79
Other current financial liabilities	(25)	59	168
Current income tax liabilities		16	12
Other current liabilities	(23)	129	162
Current liabilities		**1,068**	**1,300**
Total equity and liabilities		**4,049**	**4,651**

STATEMENT OF CHANGES IN EQUITY
LANXESS GROUP

€ million	Capital stock	Capital reserves	Other reserves	Income after income taxes	Accumulated other comprehensive loss		Equity attributable to LANXESS AG stockholders	Equity attributable to minority interest	Total
					Currency translation adjustment	Derivative financial instruments			
Dec. 31, 2006	**85**	**804**	**685**	**197**	**(367)**	**(1)**	**1,403**	**25**	**1,428**
Repurchases of own shares for retirement	(2)	2	(50)				(50)		(50)
Dividend payments				(21)			(21)	(1)	(22)
Allocation to retained earnings			176	(176)			0		0
Financial instruments						44	44		44
Deferred taxes						(11)	(11)		(11)
Other changes in equity						14	14	(27)	(13)
Income after income taxes				112			112	0	112
Exchange differences					17		17	20	37
Dec. 31, 2007	**83**	**806**	**811**	**112**	**(350)**	**46**	**1,508**	**17**	**1,525**
Dividend payments				(83)			(83)	(1)	(84)
Allocation to retained earnings			29	(29)			0		0
Financial instruments						(123)	(123)		(123)
Deferred taxes						33	33		33
Other changes in equity						0	0		0
Income after income taxes				171			171	0	171
Exchange differences					(115)		(115)		(115)
Dec. 31, 2008	**83**	**806**	**840**	**171**	**(465)**	**(44)**	**1,391**	**16**	**1,407**

CASH FLOW STATEMENT
LANXESS GROUP

€ million	Note	2007	2008
Income before income taxes		**172**	**229**
Depreciation and amortization		298	279
Gains on disposals of intangible assets and property, plant and equipment		(3)	(15)
Loss (income) from investments accounted for using the equity method		1	(20)
Financial (gains) losses		(4)	71
Income taxes paid		(114)	(120)
Changes in inventories		(32)	(113)
Changes in trade receivables		(59)	173
Changes in trade payables		12	(34)
Changes in other assets and liabilities		199	56
Net cash provided by operating activities	(32)	**470**	**506**
Cash outflows for purchases of intangible assets, property, plant and equipment		(284)	(356)
Cash outflows for financial assets		(65)	(35)
Cash outflows for the acquisition of subsidiaries, less acquired cash and cash equivalents		(23)	(245)
Cash inflows from sales of intangible assets, property, plant and equipment		8	33
Cash inflows from divestments of subsidiaries and other businesses, less divested cash and cash equivalents		68	27
Interest and dividends received		21	19
Cash outflows for external financing of pension obligations (CTA)		(60)	0
Net cash used in investing activities	(32)	**(335)**	**(557)**
Proceeds from borrowings		18	442
Repayments of borrowings		(30)	(196)
Interest paid and other financial disbursements		(31)	(47)
Dividend payments		(22)	(84)
Disbursements for repurchases of own shares		(50)	0
Net cash provided by (used in) financing activities	(32)	**(115)**	**115**
Change in cash and cash equivalents from business activities		**20**	**64**
Cash and cash equivalents as of January 1		171	189
Other changes in cash and cash equivalents		(2)	(4)
Cash and cash equivalents as of December 31	(32)	**189**	**249**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

The consolidated financial statements of the LANXESS Group as of December 31, 2008 were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (E.U.), and the corresponding interpretations, together with the additional requirements of Article 315a paragraph 1 of the German Commercial Code (HGB). The prior-year figures were determined according to the same principles.

The consolidated financial statements comprise the income statement, balance sheet, statement of changes in equity, cash flow statement, and the notes, which include the segment information.

The consolidated financial statements of the LANXESS Group were prepared entirely in euros (€). Amounts are stated in millions of euros (€ million) except where otherwise indicated. Assets and liabilities are classified on the balance sheet as current or non-current. In some cases, a detailed breakdown by maturity is given in the notes.

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

The fiscal year for these consolidated financial statements is the calendar year.

The annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, to which the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have issued an unqualified auditor's report, are published in the electronic version of the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements of the LANXESS Group for fiscal 2008 were drawn up by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on March 3, 2009. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and declare whether or not it approves them.

CONSOLIDATION METHODS

Capital consolidation is performed according to IFRS 3. All business combinations are accounted for using the purchase method. The cost of a business combination is stated as the aggregate of using fair values, at the date of acquisition, of the assets given, liabilities incurred or assumed, and any equity instruments issued in exchange for control of the acquiree plus any costs directly attributable to the business combination. The cost of acquisition is compared to the balance of the acquired assets and liabilities stated at fair values. Any difference to the purchase price paid is recognized as goodwill and tested annually for impairment – or more frequently where events or changes in circumstances indicate a possible impairment. Negative goodwill is immediately expensed after re-examining the purchase price allocation for possible errors.

Intragroup profits, losses, sales, income, expenses, receivables and payables are eliminated.

Joint ventures are included by proportionate consolidation according to the same principles.

By contrast, investments in entities in which the LANXESS Group exerts significant influence, generally through an ownership interest between 20% and 50%, are accounted for using the equity method. The cost of acquisition of such an entity (associate) is adjusted annually by the percentage of any change in its equity corresponding to LANXESS's percentage interest in the entity. Any goodwill arising from the first-time inclusion of companies at equity is accounted for in the same way as goodwill relating to subsidiaries.

CURRENCY TRANSLATION

In the financial statements of the individual companies that form the basis for the consolidated financial statements of the LANXESS Group, all foreign currency receivables and payables are translated at closing rates, irrespective of whether they are hedged. Forward contracts serving as economic hedges against fluctuations in exchange rates are reflected at their respective fair values.

The financial statements of foreign entities are prepared in their respective functional currencies in accordance with IAS 21. By far the majority of foreign companies are financially, economically and organizationally autonomous and their functional currencies are therefore the local currencies. The assets and liabilities of these companies are translated at closing rates, while income and expense items are translated at average rates for the year.

Goodwill arising on the acquisition of a foreign entity is translated at the closing rate, irrespective of the date of acquisition.

Since equity (excluding income and expenses recognized directly in stockholders' equity) is translated at historical rates, the differences arising on translation at closing rates are shown separately as a currency translation adjustment in the statement of changes in equity.

If a company is disposed of, the relevant exchange differences are reversed and recognized in income.

Where the operations of a foreign company are essentially integrated into those of the parent company, the functional currency is that of the parent company. In these cases, currency translation is carried out by the temporal method and recognized in income.

The exchange rates for major currencies against the euro changed as follows:

Exchange Rates

€ 1		Closing rate, Dec. 31		Average rate	
		2007	2008	2007	2008
Argentina	ARS	4.64	4.81	4.27	4.64
Brazil	BRL	2.61	3.25	2.67	2.67
China	CNY	10.75	9.50	10.42	10.23
United Kingdom	GBP	0.73	0.95	0.68	0.80
India	INR	57.85	67.39	56.39	63.60
Japan	JPY	164.93	126.14	161.25	152.37
Canada	CAD	1.44	1.70	1.47	1.56
South Africa	ZAR	10.03	13.07	9.66	12.07
United States	USD	1.47	1.39	1.37	1.47

RECOGNITION AND VALUATION PRINCIPLES

Sales and other operating income Sales are recognized at the time the goods are delivered to the customer or the services are rendered, and are reported net of sales taxes and deductions. Revenues from contracts that contain customer acceptance provisions are only recognized when customer acceptance occurs or the contractual acceptance period has expired. Allocations to provisions for rebates to customers are recognized in the period in which revenue recognition legally occurs. Received payments relating to the sale or licensing of technologies or technological expertise are recognized in the income statement as of the effective dates of the respective agreements, provided that all rights and obligations relating to the technologies concerned are relinquished under the contract terms. However, if rights to the technologies continue to exist or obligations resulting from them still have to be fulfilled, the payments received are recorded in line with the actual circumstances. Revenues such as license fees, rental payments, interest income and dividends are recognized according to the same principles.

Research and development expenses According to IAS 38, research costs cannot be capitalized, whereas development costs must be capitalized if, and only if, specific narrowly defined conditions are fulfilled. Development costs must be capitalized if it is probable that the future economic benefits to the company will cover not only the usual production, selling and administrative costs but also the development costs themselves. There are also several other criteria relating to the development project and the product or process being developed, all of which must be met to justify asset recognition.

Income taxes This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Computation is based on local tax rates.

Income tax liabilities comprise the liabilities relating to the year under report and any liabilities relating to previous years.

Intangible assets Acquired intangible assets with definite useful lives are recognized at cost and amortized over their respective useful lives by the straight-line method. The amortization period varies from 3 years for software to 20 years for concessions, industrial property rights, similar rights and assets and licenses to such rights and assets. Write-downs are made for impairment losses. Write-backs are made if the reasons for previous years' write-downs no longer apply. Such write-backs (reversals of impairment losses), however, must not cause the carrying amounts of the assets to exceed either the amortized cost at which they would have been recognized if the write-downs had not been made, or their current recoverable value. The lower of these two amounts is recognized. Amortization for 2008 has been allocated to the respective functional cost items. Intangible assets with indefinite useful lives are not amortized. They are tested for impairment annually, or more often if events or a change in circumstances indicate a possible impairment.

Goodwill, including that arising from capital consolidation, is capitalized and tested annually for impairment – or more frequently where events or changes in circumstances indicate a possible impairment. In compliance with IAS 36, impairments of goodwill are determined by comparing the goodwill to the discounted cash flows expected to be generated by the assets to which it can be ascribed. Any impairments of capitalized goodwill are included in other operating expenses. IFRS does not permit write-ups of impairment charges on goodwill. Goodwill is not amortized.

The costs incurred for in-house software development at the application development stage are capitalized and amortized over the expected useful life of the software from the date it is placed in service.

Property, plant and equipment Property, plant and equipment is carried at the cost of acquisition or construction less depreciation for wear and tear. Write-downs are made for impairments that go beyond normal depreciation. In compliance with IAS 36, impairment losses are measured by comparing the carrying amounts to the discounted cash flows expected to be generated by the assets in the future. Where it is not possible to allocate future cash flows to specific assets, the impairment loss is assessed on the basis of the discounted cash flows of the cash-generating unit to which the asset belongs. Appropriate write-ups are made if the reasons for the original impairments no longer apply.

The cost of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation and impairments of assets used in construction. It also includes the shares of expenses for company pension plans and discretionary employee benefits that are attributable to construction.

Where an obligation exists to decommission or dismantle assets at the end of their useful life or to restore a site to its original condition, the present value of the liability is capitalized along with the cost of acquisition or construction and a liability in the same amount is recognized.

If the construction phase of property, plant or equipment extends over a long period, the directly attributable borrowing costs incurred up to the date of completion are capitalized as part of the cost of acquisition or construction.

Expenses for repairing property, plant and equipment are charged to the income statement. They are capitalized retroactively as acquisition or construction costs if they will result in future economic benefits and can be accurately determined.

Where assets comprise material components with different purposes, different properties or different useful lives, the components are recognized separately and depreciated over their useful lives.

When property, plant or equipment is sold, the difference between the net proceeds and the carrying amount is recognized as a gain or loss in other operating income or expenses.

Assets are depreciated by the straight-line method based on the following useful lives, which are applied uniformly throughout the Group:

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	6 to 20 years
Machinery and equipment	6 to 12 years
Laboratory and research facilities	3 to 5 years
Storage tanks and pipelines	10 to 20 years
Vehicles	5 to 8 years
Computer equipment	3 to 5 years
Furniture and fixtures	4 to 10 years

In accordance with IAS 17, leased assets in cases where substantially all risks and rewards incidental to ownership are transferred (finance leases) are capitalized at the lower of their fair value or the present value of the lease payments at the date of addition. The leased assets are depreciated over their estimated useful lives except where subsequent transfer of title is uncertain, in which case they are depreciated over their estimated useful life or the lease term, whichever is shorter. The future lease payments are recorded as financial liabilities.

In the case of leasing contracts that do not transfer substantially all risks and rewards incidental to ownership (operating leases), the lease payments are recognized as current expenses.

Financial instruments Financial instruments are contracts that give rise simultaneously to a financial asset for one party and a financial liability or equity instrument for the other. Under IAS 32, financial instruments include primary instruments, such as trade receivables or payables and financial assets or liabilities, as well as derivative financial instruments that are used to hedge risks arising from changes in currency exchange rates, raw material prices and interest rates. Further details of financial instruments are given in Note [31].

Trade accounts receivable and other financial receivables are recognized at amortized cost using the effective interest method. Write-downs for amounts unlikely to be recovered are recognized via impairment accounts.

Investments in affiliated companies and the equity instruments included in non-current assets are classified as “available-for-sale” financial assets and recognized at fair value in accordance with IAS 39, except where their fair value cannot be reliably determined. In this case they are measured at cost. Where evidence exists that such assets may be impaired, they are written down as necessary on the basis of an impairment test. Appropriate write-ups are made if the reasons for the original impairments no longer apply. Write-ups are not made for investments accounted for at cost.

Investments in companies included at equity (associates) are recognized at the amounts corresponding to LANXESS’s share in their equity in accordance with IAS 28.

Financial assets held for trading are recognized at fair value. Any gain or loss arising from subsequent measurement is reflected in the income statement.

All other primary financial assets are classified as “available-for-sale” and recognized at fair value except if they are allocable to loans and receivables. Any gain or loss resulting from subsequent measurement, with the exception of impairments and currency translation gains and losses, is recognized in equity until the financial asset is derecognized.

LANXESS does not utilize the option of carrying financial instruments at fair value through profit or loss.

In the case of regular-way purchases and sales, the performance date is the relevant date for first-time recognition or derecognition in the financial statements.

Derivative financial instruments and hedging transactions In accordance with IAS 39, the LANXESS Group recognizes derivative financial instruments as assets or liabilities at their fair value on the balance sheet date. Gains and losses resulting from changes in fair value are recognized in income. Where foreign currency derivatives or forward commodity contracts used to hedge future cash flows from pending or forecasted transactions qualify for hedge accounting under this standard, changes in the value of such instruments are recognized separately in equity until the underlying transactions are realized and thus do not affect the income statement. The amounts recognized here are subsequently released to other operating income/expenses or cost of sales, as appropriate, when the hedged transaction is recognized in the income statement. Any portion of the change in the fair value of such derivatives deemed to be ineffective with regard to the hedged risk is recognized directly in the income statement. Any change in the fair value of interest-rate derivatives used to hedge long-term liabilities with variable interest rates are recognized in equity with no impact on income, providing they qualify for hedge accounting, and subsequently released to interest income/expense in the income statement at the same time as the income from the hedged transaction is recognized.

Inventories In accordance with IAS 2, inventories encompass assets held for sale in the ordinary course of business (finished goods and merchandise), assets in the process of being manufactured for sale (work in process) and assets consumed during the production process or the rendering of services (raw materials and supplies). In accordance with IAS 2, inventories are valued by the weighted-average method and recognized at the lower of cost or net realizable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

The cost of production comprises the direct cost of materials, direct manufacturing expenses and appropriate allocations of fixed and variable material and manufacturing overheads, where these are attributable to production.

It also includes expenses for company pension plans, corporate welfare facilities and discretionary employee benefits that can be allocated to production. Administrative costs are included where they are attributable to production.

In view of the production and distribution sequences characteristic of the LANXESS Group, work in process and finished goods are grouped together.

Non-current assets and liabilities held for sale Assets are recognized as held for sale if it is very likely that they can be sold in their current condition. Such assets may be individual non-current assets, groups of assets (disposal groups) or complete business entities. A disposal group may also include liabilities if these are to be divested together with the assets as part of the transaction.

Assets and disposal groups classified as held for sale are no longer depreciated. They are recognized at the lower of fair value less costs to sell or the carrying amount.

Deferred taxes In accordance with IAS 12, deferred taxes arise from temporary differences between the carrying amounts of assets or liabilities in the balance sheet and its tax base, from consolidation measures and from realizable tax loss carryforwards. Deferred taxes are calculated at the rates which – on the basis of the statutory regulations in force, or already enacted in relation to future periods, as of the closing date – are expected to apply in the individual countries at the time of realization. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Only the amount likely to be realizable due to future taxable income is recognized. Deferred tax assets on loss carryforwards are recognized if it seems probable that the carryforwards can be utilized.

Deferred tax assets and liabilities are offset if they relate to the same tax authorities.

Further information is given in the section on income taxes above.

Provisions Other provisions are valued in accordance with IAS 37 and, where appropriate, IAS 19 and IFRS 2, using the best estimate of the extent of the obligation. Non-current portions of material provisions are discounted to present value if the extent and timing of the obligation can be assessed with reasonable certainty. If the projected obligation alters as the time of performance approaches (interest effect), the related expense is recognized in other financial expense. Further details of pension provisions are given in Note [20]. When calculating pension provisions, the portion of the net actuarial gain or loss to be recognized in the income statement is determined by the corridor method.

If the projected obligation declines as a result of a change in the estimate, the provision is reversed by the corresponding amount and the resulting income is recognized in the cost of sales, selling expenses, research and development expenses or general administration expenses, as appropriate.

Personnel commitments mainly include annual bonus payments, payments under long-term compensation programs and other personnel costs. Reimbursements to be received from the German government under the phased early retirement program are recorded as receivables and recognized in the income statement as soon as the criteria for such reimbursements are fulfilled.

The LANXESS Group also records provisions for current or pending legal proceedings where the resulting expenses can be reasonably estimated. These provisions include all estimated fees and legal costs and the cost of potential settlements. The amounts of such provisions are based upon information and cost estimates provided by the Group's legal advisers. The provisions are regularly reviewed (at least once a quarter) together with the Group's legal advisers and adjusted if necessary.

Liabilities Current liabilities are recognized at repayment or redemption amounts. Non-current liabilities and financial obligations that do not constitute either the hedged item or the hedging instrument in a permissible hedge-accounting relationship are carried at amortized cost, calculated using the effective interest method.

Liabilities under finance leases are recognized at the fair value of the leased asset at the inception of the lease or the present value of the minimum lease payments, whichever is lower. Thereafter the minimum lease payments are divided into financing costs and the portion representing repayment of the principal.

Subsidies received from third parties for assets are reflected in other liabilities and released to income over the useful life of the assets.

Cash flow statement The cash flow statement shows how cash inflows and outflows during the year affected the cash and cash equivalents of the LANXESS Group. The effects of acquisitions, divestments and other changes in the scope of consolidation are eliminated. Cash flows are classified by operating, investing and financing activities in accordance with IAS 7. The cash and cash equivalents recognized in the cash flow statement comprise cash, checks, bank balances and securities with maturities of up to three months from the date of acquisition.

Global impairment testing procedure and impact In the LANXESS Group, non-current assets are tested for impairment by comparing the residual carrying amount of each cash-generating unit to its recoverable amount. The LANXESS Group conducts its impairment tests regularly on June 30 each year. In fiscal 2008, in light of the financial and economic crisis, an additional impairment test was performed which took into account the difficult economic environment as reflected in corporate planning (see also section on estimation uncertainties).

The LANXESS Group defines its business units as cash-generating units. However, if there is reason to suspect impairment of non-current assets below business-unit level, such assets are also tested for impairment, and any impairment determined is recognized in the income statement.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. If the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized. The fair value less costs to sell is the best estimate of the price that would be obtained by selling the cash-generating unit to a third party at the time of valuation less the estimated selling costs. The value in use is defined as the present value of future cash flows based on the continuing use of the asset and its retirement at the end of its useful life.

The fair value less costs to sell is calculated from a forecast of future cash flows based on the LANXESS Group's current long-term planning. This planning is founded upon past experience and the Board of Management's estimates of expected market conditions, including assumptions regarding future raw material prices, cost of sales, selling expenses, research and development expenses, general administration expenses and exchange rates. For the purpose of calculating the present value of future cash flows, these are discounted using a weighted capital cost factor. The capital cost factor is determined from capital market models, taking into account the sector-specific structure of capital and the specific business risks to which the chemical industry is exposed.

If the impairment test reveals a need to recognize an impairment loss, the first step is to write down the goodwill of the strategic business unit concerned. For this purpose, goodwill is allocated among the strategic business units on the basis of use before the impairment test. Any remaining impairment amount is allocated proportionately among the other non-current assets of the strategic business unit on the basis of their carrying amounts at the closing date.

Impairment losses are fully recognized in the income statement under other operating expenses and reflected in the segment reporting in the expenses of the respective segments.

CHANGES IN RECOGNITION AND VALUATION PRINCIPLES

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) has adopted a number of amendments to accounting standards which became mandatory for the first time in 2008.

The options offered by the amendments to IAS 39 and IFRS 7 published in October 2008 (and revised in November 2008) were not utilized. In response to the recent turbulence on the financial markets, the amendments to IAS 39 permit the reclassification of financial assets originally designated as carried at fair value through profit or loss. The amendments to IFRS 7 introduce additional disclosure obligations in connection with such reclassifications.

Effective January 1, 2009, actuarial gains and losses of the LANXESS Group will no longer be measured using the 10% corridor rule. Instead they will be recorded fully in the period in which they are incurred in compliance with IAS 19.93A. They will be reflected in other comprehensive income and thus have no impact on the income statement. The changeover will reduce equity by roughly €40 million.

To improve transparency, derivative assets and liabilities are shown separately on the balance sheet for the first time. The prior-year figures have been restated accordingly.

NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET MANDATORY

In March 2007 the IASB published an amendment to IAS 23 that abolishes the present option of immediately expensing borrowing costs that are directly attributable to a qualifying asset. Under the revised standard it will be mandatory to capitalize borrowing costs as part of the cost of acquisition or construction. The revised standard applies to borrowing costs for qualifying assets first capitalized on or after January 1, 2009. Since the accounting options used by LANXESS are already in line with the future mandatory rules, the change in this standard will have no impact on the financial position, results of operations or cash flows of the LANXESS Group.

In 2008 the LANXESS Group did not yet apply certain further accounting standards and interpretations that had already been issued by the IASB and IFRIC but were not mandatory for that year. The application of some of these accounting standards is contingent upon their adoption by the E.U., which in certain instances could result in the mandatory adoption date being later than indicated below.

In July 2007, the IFRIC issued the interpretation IFRIC 14. This interpretation concerns the asset ceiling and the minimum funding requirements for defined-benefit pension plans. According to an E.U. Commission regulation dated December 16, 2008, IFRIC 14 must be applied in the member states of the European Union at the latest from the start of the first annual period beginning after December 31, 2008. The first-time application of this interpretation as of January 1, 2009 is expected to reduce equity by a low double-digit million euro figure.

In September 2007 the IASB published a revised version of IAS 1, which sets out new designations for some financial statement items. However, use of the new designations is not mandatory. Another significant change compared to the earlier version of this standard relates to the strict separation of changes in equity resulting from transactions with owners and non-owners. Income and expenses recognized in other comprehensive income without affecting the income statement will have to be shown in a statement of comprehensive income. It will no longer be sufficient simply to present owner and non-owner equity changes together in the statement of changes in equity. The revised version of IAS 1 is applicable for fiscal years beginning on or after January 1, 2009. The LANXESS Group is currently evaluating the impact the amendment of IAS 1 will have on the Group's reporting.

Revised versions of IFRS 3 and IAS 27 were published in January 2008. The new version of IFRS 3 defines the scope of the standards and the accounting treatment of purchase price components, minority interests and goodwill. It also specifies which assets, liabilities and contingent liabilities are to be recognized. The new version of IAS 27 mainly addresses the treatment of share purchases and sales effected when a company gains, loses or retains its ability to exercise control. The revised versions of IFRS 3 and IAS 27 are to be applied prospectively for fiscal years beginning on or after July 1, 2009. Depending on the type and scope of future transactions, the amendments could have an impact on the financial position, results of operations and cash flows of the LANXESS Group in the future, though it is not possible to estimate that impact at the present time.

In January 2009 the IFRIC issued IFRIC 18, containing additional notes on accounting for the transfer of assets from customers. This interpretation is to be applied prospectively to such transfers occurring on or after July 1, 2009. The LANXESS Group is currently evaluating what impact the application of IFRIC 18 will have on the Group's financial position, results of operations and cash flows.

The following accounting standards and interpretations are currently not of relevance, or not of material relevance, for the LANXESS Group.

Standard/Interpretation		Date of Publication	Date of Application	Adoption by the E.U.
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	Nov. 2, 2006	Jan. 1, 2009	yes
IFRIC 12	Service Concession Arrangements	Nov. 30, 2006	Jan. 1, 2008	no
IFRS 8	Operating Segments	Nov. 30, 2006	Jan. 1, 2009	yes
IFRIC 13	Customer Loyalty Programs	June 28, 2007	Jan. 1, 2009	yes
IFRS 2	Share-based Payments: Vesting Conditions and Cancellations	Jan. 17, 2008	Jan. 1, 2009	yes
IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation	Feb. 14, 2008	Jan. 1, 2009	yes
Several IAS and IFRS	Improvements to IFRSs	May 22, 2008	Jan. 1, 2009	yes
IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	May 22, 2008	Jan. 1, 2009	yes
IFRIC 15	Agreements for the Construction of Real Estate	July 3, 2008	Jan. 1, 2009	no
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 3, 2008	Oct. 1, 2008	no
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	July 31, 2008	July 1, 2009	no
IFRIC 17	Distributions of Non-cash Assets to Owners	Nov. 27, 2008	July 1, 2009	no
IFRS 1	First-time Adoption of International Financial Reporting Standards	Nov. 27, 2008	July 1, 2009	no

ESTIMATION UNCERTAINTIES AND EXERCISE OF DISCRETION

The preparation of consolidated financial statements in accordance with IFRS entails forward-looking assumptions and estimates that may affect the valuation of assets and liabilities, income and expenses and contingent liabilities.

All assumptions and estimates used in the consolidated financial statements are based on management's expectations and thus already take into account the effects of the financial and capital markets crisis. Information that could alter these estimates is reviewed continually and may result in an adjustment to the carrying amounts of the respective assets and liabilities.

Assumptions and estimates that could materially impact the valuation of the LANXESS Group's assets and liabilities are discussed below.

The LANXESS Group tests its cash-generating units for impairment at least once a year by determining the respective recoverable amount (for further information see the section headed "Recognition and Valuation Principles"). The test is based on forecasts of future cash flows, derived from reasonable assumptions representing the management's best assessment of the economic circumstances at the time of the impairment test. Management's expectations therefore indirectly affect the valuation of assets and goodwill.

The assumptions and estimates used for the impairment test conducted on assets in fiscal 2008 could differ from the actual values in subsequent periods and thus give rise to valuation adjustments. As in the previous year, an increase of one percentage point in the discount rate or a reduction of 10% in expected future cash flows would not have led to write-downs. However, a reduction of one percentage point in the discount rate or an increase of 10% in expected future cash flows would have led to write-ups in the amount of €59 million (2007: €30 million).

The goodwill of €93 million resulting from the acquisition of Petroflex was allocated in full to the Performance Butadiene Rubbers Business Unit and tested for impairment on the reporting date. Neither a one percentage point increase in the discount rate nor a 10% reduction in expected future cash flows would have necessitated an impairment write-down on this goodwill.

The recognition and measurement of provisions are also affected by assumptions as to the probability of utilization, the underlying discount rate and the absolute level of risk. The LANXESS Group performed sensitivity analyses on all the provisions existing as of December 31, 2008 as required by the IFRS. These involved calculating the impact of variations in the parameters used, especially probability of occurrence, discount rate and absolute level of risk. The outcome of these sensitivity analyses shows that variations in the assumptions described above would not have a material impact on the amount of provisions reported in the consolidated financial statements of the LANXESS Group. For further information see Note [21].

Defined-benefit pension plans also necessitate actuarial computations and estimates. The section on provisions for pensions and other post-employment benefits contains information on the assumptions on which the actuarial calculations and estimates were based (see Note [20]).

As part of the spin-off from the Bayer Group, LANXESS took over structures and circumstances that in future are subject to appraisal by the tax authorities. Although the LANXESS Group believes it has presented all relevant facts correctly and in compliance with the law, it is possible that the tax authorities may reach different conclusions in individual cases.

Other major estimates are used to assess the useful lives of intangible assets and property, plant and equipment, the probability of collecting receivables and other assets, the valuation of inventories and the ability to realize tax claims and deferred tax assets recognized for temporary differences and tax loss carryforwards.

Up to the time these consolidated financial statements were prepared, no circumstances had become known that would necessitate a major change in such estimates.

COMPANIES CONSOLIDATED

Changes in the scope of consolidation The consolidated financial statements of the LANXESS Group include the parent company LANXESS AG along with all of its material domestic and foreign subsidiaries.

As of April 1, 2008 the LANXESS Group acquired 70% of the capital and 72% of the voting rights of the Brazilian synthetic rubber producer Petroflex Industria e Comercio S.A., headquartered in Rio de Janeiro. The purchase price payment was funded out of existing credit facilities. The LANXESS Group made a public tender offer for acquisition of the remaining shares in accordance with local regulations. As of October 16, 2008 a further 27% of the shares and 25% of the voting rights were acquired under this offer. The remaining shares were transferred to LANXESS on November 12, 2008 by way of a squeeze-out. LANXESS therefore owns 100% of the shares. First-time consolidation of the companies in the Petroflex group was effected as of April 1, 2008. Petroflex Industria e Comercio S.A., Rio de Janeiro, Brazil, and Petroflex Trading S.A., Montevideo, Uruguay, were fully consolidated in the financial statements of the LANXESS Group and assigned to the Performance Polymers segment. Petroflex Industria e Comercio S.A. was renamed LANXESS Elastômeros do Brasil S.A. at the start of 2009.

Since the date of acquisition, the Petroflex group contributed €455 million to the sales of the LANXESS Group. In the same period, it contributed €23 million to Group earnings. If the Petroflex group had been acquired as of January 1, 2008, it would have contributed around €593 million to the consolidated sales of the LANXESS Group in fiscal 2008. A hypothetical contribution to Group net income for fiscal 2008 cannot be reliably determined because of the adjustments made to the prior-year figures in the financial statements for the first quarter.

The acquisition was treated as a business combination pursuant to IFRS 3. Thus, in allocating the cost of the business combination, the acquiree's identifiable assets, liabilities and contingent liabilities were included at fair value. The difference of €93 million represents goodwill. The following table shows a breakdown of the purchase price allocation and how the acquisition impacted the consolidated balance sheet of the LANXESS Group.

Additions from the Acquisition of the Petroflex Group

€ million	2008		
	IFRS carrying amounts prior to first-time consolidation	Purchase price allocation	Carrying amounts upon first-time consolidation
Intangible assets	5	34	39
Property, plant and equipment	131	36	167
Other assets	280	51	331
Total assets	**416**	**121**	**537**
Non-current liabilities	103	56	159
Current liabilities	212	–	212
Total liabilities	**315**	**56**	**371**
Net acquired assets (excluding goodwill)	**101**	**65**	**166**
Acquisition costs			**259**
Acquired goodwill (provisional valuation)			**93**

The purchase price allocation is provisional and was made with the aid of external appraisals based on existing knowledge at the date of the acquisition and immediately thereafter. IFRS allow the purchase price allocation to be adjusted to reflect new information and findings within one year after the acquisition date.

The goodwill remaining after the allocation of the purchase price is attributable to various factors. Of particular significance are the synergies and associated potential for the LANXESS Group, such as an improvement in capacity utilization in the Performance Butadiene Rubbers Business Unit. The acquisition also strengthens the LANXESS Group's position on the global – and especially the South American – rubber market.

The purchase price of €259 million stated above includes the costs of currency hedging for the period between conclusion of the purchase agreement and payment of the purchase price along with fees paid to external consultants in connection with the acquisition.

Non-current liabilities include contingent liabilities of €18 million pertaining to the purchase price allocation.

The other newly consolidated companies are LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia, LANXESS International Holding GmbH, Leverkusen, Germany, LANXESS Butyl Pte. Ltd, Singapore, and LANXESS Specialty Chemicals Company Limited, Shanghai, China. The first-time consolidation of these companies had no material impact on the financial position, results of operations or cash flows of the LANXESS Group.

Mergers within the Group had no impact on the assets and liabilities recognized in the financial statements of the LANXESS Group as these merely involved the transfer of assets and liabilities between fully consolidated Group companies.

In 2007 LANXESS acquired the Dow Chemical Group's 50% interest in Chrome International South Africa (Pty.) Ltd. (now LANXESS CISA (Pty.) Ltd.), Newcastle, South Africa. This acquisition had the following impact on the assets and liabilities of the LANXESS Group in 2007:

Acquisitions

€ million	2007
Non-current assets	53
Current assets	5
of which cash and cash equivalents	0
Non-current liabilities	33
Current liabilities	2
Purchase price paid	23

No subsidiaries were deconsolidated in 2008. In 2007 the divestment of the Lustran Polymers business and the Borchers companies resulted in the following changes in the Group:

Divestments of Subsidiaries and Other Businesses

€ million	2007
Non-current assets	2
Current assets	369
of which cash and cash equivalents	36
Non-current liabilities	15
Current liabilities	122
Realized sale price	81

As of December 31, 2008, LANXESS AG thus had 61 (2007: 55) fully consolidated companies. The 40% interest in CURRENTA GmbH & Co. OHG, Leverkusen, Germany, and the 25% interest in Anhui Tongfeng Shengda Chemical Company Limited, Tongling, China, are accounted for using the equity method.

Other information on companies consolidated The principal consolidated companies are listed in the following table:

Company Name and Headquarters

in %	Interest Held
Germany	
ALISECA GmbH, Leverkusen	100
LANXESS Buna GmbH, Marl	100
LANXESS Deutschland GmbH, Leverkusen	100
LANXESS Distribution GmbH, Langenfeld	100
Rhein Chemie Rheinau GmbH, Mannheim	100
SALTIGO GmbH, Langenfeld	100
EMEA (excluding Germany)	
LANXESS Elastomères S.A.S., Lillebonne, France	100
LANXESS Emulsion Rubber S.A.S., La Wantzenau, France	100
LANXESS Finance B.V., Amsterdam, Netherlands	100
LANXESS International SA, Granges-Paccot, Switzerland	100
LANXESS Limited, Newbury, U.K.	100
LANXESS (Pty.) Ltd., Isando, South Africa	100
LANXESS N.V., Antwerp, Belgium	100
LANXESS Rubber N.V., Zwijndrecht, Belgium	100
LANXESS S.r.l., Milan, Italy	100
Americas	
LANXESS Buna LLC, Wilmington, U.S.	100
LANXESS Corporation, Pittsburgh, U.S.	100
LANXESS Inc., Sarnia, Canada	100
LANXESS Elastômeros do Brasil S.A. (formerly: Petroflex Industria e Comercio S.A.), Rio de Janeiro, Brazil	100
LANXESS Industria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100
LANXESS S.A., Buenos Aires, Argentina	100
LANXESS S.A. de C.V., Mexico City, Mexico	100
Asia-Pacific	
LANXESS (Wuxi) Chemicals Co. Ltd., Wuxi, China	100
LANXESS Hong Kong Ltd., Hong Kong, China	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Pte. Ltd., Singapore, Singapore	100
LANXESS PTY Ltd., Homebush Bay, Australia	100
LANXESS Shanghai Trading Company Limited, Shanghai, China	100

A complete list of the LANXESS Group's ownership interests is published in the electronic version of the German Federal Gazette (Bundesanzeiger) and is also available directly from LANXESS AG on request.

NOTES TO THE INCOME STATEMENT

1 Sales Sales of €6,576 million (2007: €6,608 million) comprise principally goods sold less discounts and rebates. Sales are deemed to have been realized as soon as delivery has been effected or the service has been rendered. This is normally the case when the significant risks and rewards of ownership associated with ownership of the goods pass to the purchaser. In addition, it must be sufficiently certain that the economic benefits will be obtained and it must be possible to determine the costs reliably.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [33]).

2 Other operating income

€ million	2007	2008
Income from non-core business	188	241
Income from hedging with derivative financial instruments	65	50
Income from the reversal of provisions	31	32
Gains from the sale of non-current assets	5	16
Income from reversals of write-downs of receivables and other assets	4	8
Miscellaneous operating income	24	57
	317	**404**

3 Other operating expenses

€ million	2007	2008
Expenses for non-core business	187	232
Expenses for allocations to restructuring provisions	42	69
Write-downs of trade receivables and other current assets	5	29
Expenses for hedging with derivative financial instruments	27	1
Losses from the disposal of non-current assets	2	1
Loss on the divestment of the Lustran Polymers business	145	0
Impairment losses	51	0
Miscellaneous operating expenses	101	185
	560	**517**

The miscellaneous operating expenses for fiscal 2008 include expenses related to restructuring and acquisition projects.

4 Financial result

The components of this item are as follows:

Financial Result

€ million	2007	2008
Income (loss) from investments accounted for using the equity method	**(1)**	**20**
Interest income	13	19
Interest expense	(33)	(55)
Net interest expense	**(20)**	**(36)**
Dividends and income from other affiliated companies	24	1
Interest portion of interest-bearing provisions	(30)	(31)
Net exchange loss	(9)	(10)
Miscellaneous financial expenses	(7)	(37)
Other financial income/expense – net	**(22)**	**(77)**
Financial result	**(43)**	**(93)**

In compliance with IAS 17 the interest portion of the lease payments under finance leases amounting to €3 million (2007: €3 million) is included in interest expense. Income from equity-method investments comprises the €20 million share of the income (2007: the €1 million share of the loss) of CURRENTA GmbH & Co. OHG, Leverkusen, Germany, that is attributable to LANXESS. In 2007 dividends and income from other affiliated companies included €17 million from the divestment of affiliated companies. The balance of other financial income and expense was weighed down by a €36 million write-down of financial assets in connection with the divestment of the Lustran Polymers business.

5 Income taxes This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes.

The expected tax expense of the Group is calculated on the basis of the aggregated income tax rate of 31.2% (2007: 39.6%) for the German companies. Following the changes in tax rates that took effect in fiscal 2008, this aggregated rate is composed of the corporation tax rate of 15.0%, the solidarity surcharge rate amounting to 5.5% of the corporation tax, and the trade tax rate.

Income taxes for foreign companies are computed on the basis of local tax rates.

The breakdown of income taxes by origin is as follows:

Income Taxes by Origin

€ million	2007	2008
Current taxes	(94)	(99)
Deferred taxes resulting from		
temporary differences	10	66
statutory changes in tax rates	(5)	0
loss carryforwards	29	(25)
Income taxes	**(60)**	**(58)**

The deferred tax assets and liabilities are allocable to the various balance sheet items as follows:

Deferred Taxes

€ million	Dec. 31, 2007		Dec. 31, 2008	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	11	1	28	8
Property, plant and equipment	12	120	10	141
Inventories	5	5	31	4
Receivables and other assets	15	56	29	52
Pension provisions	15	29	24	30
Other provisions	57	0	87	2
Liabilities	69	1	86	0
Loss carryforwards	61	–	32	–
	245	**212**	**327**	**237**
of which non-current	99	150	94	179
Set-off	(152)	(152)	(190)	(190)
	93	**60**	**137**	**47**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2007	2008
Deferred taxes as of January 1	**27**	**33**
Tax income reflected in the income statement	34	41
Changes in scope of consolidation	(10)	(23)
Taxes recognized in equity	(11)	33
Exchange differences	(7)	6
Deferred taxes as of December 31	**33**	**90**

As of December 31, 2008 equity included a net amount of €20 million (2007: minus €13 million) in deferred taxes not recognized in income.

Deferred tax assets of €45 million (2007: €61 million) relate to tax jurisdictions where losses were recorded in previous years. In this respect, the LANXESS Group has taken customary and feasible tax strategies into consideration.

Deferred tax assets of €32 million (2007: €61 million) are recognized on the €110 million (2007: €165 million) in tax loss carryforwards that represent income likely to be realized in the future.

Deferred taxes are not recognized for €136 million (2007: €151 million) of tax loss carryforwards that can theoretically be utilized over more than five years. Further, deferred tax assets are not recognized in 2008 for temporary differences of €29 million (2007: €0 million).

The actual tax expense for 2008 was €58 million (2006: €60 million). This figure differed by €13 million (2007: €8 million) from the expected tax expense of €71 million (2007: €68 million) that would result from applying the overall tax rate for LANXESS AG.

The following table shows a reconciliation of the expected tax result to the reported tax result:

Reconciliation to Reported Tax Income

€ million	2007	2008
Income before income taxes	172	229
Aggregated income tax rate of LANXESS AG	39.6%	31.2%
Expected tax expense	(68)	(71)
Tax difference due to differences between local tax rates and the hypothetical tax rate	20	23
Reduction in taxes due to tax-free income	16	11
Increase in taxes due to non-tax-deductible expenses	(36)	(9)
Other tax effects	8	(12)
Actual tax income (expense)	**(60)**	**(58)**
Effective tax rate	34.9%	25.3%

6 Earnings per share The calculation of earnings per share for 2008 was based on 83,202,670 outstanding shares. Since there are currently no equity instruments in issue that could dilute earnings per share, basic and diluted earnings per share are identical. Further information on equity instruments that could dilute earnings per share in the future is contained in Note [19].

Earnings per Share

	2007	2008	Change in %
Net income (€ million)	112	171	52.7
No. of outstanding shares (weighted)	84,189,443	83,202,670	(1.2)
Earnings per share (€)	1.32	2.05	55.3

LANXESS AG reported unappropriated net income of €97 million for fiscal 2008. The Board of Management and Supervisory Board are proposing a dividend of €0.50 per share. If the stockholders approve this proposal at the Annual Stockholders' Meeting, the total dividend payment will be €42 million. It is proposed that the remaining €55 million be carried forward to new account.

7 Cost of materials The cost of materials was €4.0 billion (2007: €3.9 billion), comprising purchased materials and expenses for purchased energy and fuels.

8 Personnel expenses Personnel expenses amounted to €1,062 million in fiscal 2008 (2007: €1,064 million). They mainly comprised wages and salaries totaling €832 million (2007: €813 million). Social expenses totaled €166 million (2007: €183 million), pension expenses amounted to €60 million (2007: €65 million) and benevolent expenses came to €4 million (2007: €3 million). Personnel expenses do not include the interest portion of personnel-related provisions, especially pension provisions, which is reflected in the financial result (see Note [4]).

NOTES TO THE BALANCE SHEET

9 Intangible assets Changes in intangible assets were as follows:

Changes in Intangible Assets in 2007

€ million	Concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets	Acquired goodwill	Advance payments	Total
Cost of acquisition or generation on Dec. 31, 2006	236	18	6	260
Changes in scope of consolidation/acquisition	(1)			(1)
Capital expenditures	3		2	5
Disposals	(83)			(83)
Reclassifications	1		(1)	0
Exchange differences	(3)	(2)		(5)
Cost of acquisition or generation on Dec. 31, 2007	**153**	**16**	**7**	**176**
Accumulated amortization and write-downs on Dec. 31, 2006	(212)	(7)	0	(219)
Changes in scope of consolidation	1			1
Amortization and write-downs in 2007	(13)			(13)
of which write-downs	(1)			(1)
Disposals	83			83
Reclassifications				0
Exchange differences	4	1		5
Accumulated amortization and write-downs on Dec. 31, 2007	**(137)**	**(6)**	**0**	**(143)**
Carrying amounts on Dec. 31, 2007	**16**	**10**	**7**	**33**

Changes in Intangible Assets in 2008

€ million	Concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets	Acquired goodwill	Advance payments	Total
Cost of acquisition or generation on Dec. 31, 2007	153	16	7	176
Changes in scope of consolidation/acquisition	41	93		134
Capital expenditures	1		13	14
Disposals	(86)	(1)		(87)
Reclassifications	19		(19)	0
Exchange differences	(5)	(14)		(19)
Cost of acquisition or generation on Dec. 31, 2008	**123**	**94**	**1**	**218**
Accumulated amortization and write-downs on Dec. 31, 2007	(137)	(6)	0	(143)
Changes in scope of consolidation				0
Amortization and write-downs in 2008	(20)			(20)
of which write-downs	(3)			(3)
Disposals	87			87
Reclassifications				0
Exchange differences	2	1		3
Accumulated amortization and write-downs on Dec. 31, 2008	**(68)**	**(5)**	**0**	**(73)**
Carrying amounts on Dec. 31, 2008	**55**	**89**	**1**	**145**

10 Property, plant and equipment Changes in property, plant and equipment were as follows:

Changes in Property, Plant and Equipment in 2007

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	Total
Cost of acquisition or construction on Dec. 31, 2006	1,248	5,249	207	183	6,887
Changes in scope of consolidation/ acquisition	(41)	(176)	(6)	(20)	(243)
Capital expenditures	12	91	9	167	279
Disposals	(102)	(425)	(18)	(1)	(546)
Reclassifications	22	161	6	(189)	0
Exchange differences	(13)	(40)	(2)		(55)
Cost of acquisition or construction on Dec. 31, 2007	**1,126**	**4,860**	**196**	**140**	**6,322**
Accumulated depreciation and write-downs on Dec. 31, 2006	(922)	(4,337)	(159)	(4)	(5,422)
Changes in scope of consolidation	41	193	6	21	261
Depreciation and write-downs in 2007	(40)	(211)	(15)	(19)	(285)
of which write-downs	(11)	(24)	(1)	(18)	(54)
Disposals	99	424	17		540
Reclassifications		(2)		2	0
Exchange differences	9	32	2		43
Accumulated depreciation and write-downs on Dec. 31, 2007	**(813)**	**(3,901)**	**(149)**	**0**	**(4,863)**
Carrying amounts on Dec. 31, 2007	**313**	**959**	**47**	**140**	**1,459**

Changes in Property, Plant and Equipment in 2008

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	Total
Cost of acquisition or construction on Dec. 31, 2007	1,126	4,860	196	140	6,322
Changes in scope of consolidation/ acquisition	67	88	4	20	179
Capital expenditures	6	68	10	258	342
Disposals	(36)	(155)	(11)	(6)	(208)
Reclassifications	17	137	(17)	(137)	0
Exchange differences	(13)	(80)	(2)	(5)	(100)
Cost of acquisition or construction on Dec. 31, 2008	**1,167**	**4,918**	**180**	**270**	**6,535**
Accumulated depreciation and write-downs on Dec. 31, 2007	(813)	(3,901)	(149)	0	(4,863)
Changes in scope of consolidation					
Depreciation and write-downs in 2008	(37)	(216)	(6)		(259)
of which write-downs	(5)	(12)			(17)
Disposals	26	151	9		186
Reclassifications					0
Exchange differences	1	44	2		47
Accumulated depreciation and write-downs on Dec. 31, 2008	**(823)**	**(3,922)**	**(144)**	**0**	**(4,889)**
Carrying amounts on Dec. 31, 2008	**344**	**996**	**36**	**270**	**1,646**

Capitalized property, plant and equipment includes assets with a total net value of €40 million (2007: €38 million) held under finance leases. The cost of acquisition or construction of these assets at the balance sheet date totaled €117 million (2007: €105 million). These assets are mainly machinery and technical equipment with a carrying amount of €24 million (cost of acquisition or construction: €92 million; 2007: carrying amount €21 million, cost of acquisition or construction €80 million) and buildings with a carrying amount of

€16 million (cost of acquisition or construction: €25 million; 2007: carrying amount €17 million, cost of acquisition or construction €25 million). In the case of buildings, either the present value of the minimum lease payments substantially covers their fair value, or title passes to the lessee on expiration of the lease.

Property, plant and equipment also includes assets of secondary importance leased to other parties under operating leases. However, if under the relevant agreements the lessee is to be regarded as the economic owner of the assets and the lease therefore constitutes a finance lease as defined in IAS 17, a receivable is recognized on the balance sheet in the amount of the discounted future lease payments.

11 Investments accounted for using the equity method The companies included at equity in the consolidated financial statements for 2008 are CURRENTA GmbH & Co. OHG, Leverkusen, Germany, and Anhui Tongfeng Shengda Chemical Co. Ltd., Tongling, China.

The following table shows the main income statement and balance sheet items for these associates.

Income (Loss) from Investments Accounted for using the Equity Method

€ million	2007	2008
Sales	1,640	1,527
Income (loss) from investments accounted for using the equity method	(1)	20

Investments Accounted for using the Equity Method

€ million	Dec. 31, 2007	Dec. 31, 2008
Assets	994	957
Liabilities	814	778
Equity	**180**	**179**
Adjustment of LANXESS's interest and equity valuation	(147)	(130)
Investments accounted for using the equity method	**33**	**49**

The €16 million (2007: €28 million) increase in the carrying amount of investments accounted for using the equity method arises from the equity-method income after adjustment for a €0 million (2007: €14 million) increase in the value of cash flow hedges at CURRENTA GmbH & Co. OHG, Leverkusen, Germany, recognized directly in its equity, and the impact of the pro rata income transfer of €4 million (2007: loss transfer of €14 million) from that company.

12 Investments in other affiliated companies This item contains interests in other affiliated companies totaling €2 million (2007: €1 million). The main component of the increase is the interest in OOO LANXESS, Nizhny Novgorod, Russia, which was established in fiscal 2008.

The other investments classified as available-for-sale financial assets consist of non-listed equity instruments whose fair values could not be reliably determined. These are therefore recognized at cost in the financial statements as of December 31, 2008, at an amount of €2 million (2007: €1 million). There are currently no plans to sell these investments.

13 Other non-current and current financial assets

Other Non-Current and Current Financial Assets

€ million	Dec. 31, 2007		
	Non-current	Current	Total
Available-for-sale financial assets	64	0	64
Promissory notes	0	55	55
Receivables under finance leases	11	2	13
Financial assets held for trading	0	5	5
Other financial receivables	10	66	76
	85	**128**	**213**

Other Non-Current and Current Financial Assets

€ million	Dec. 31, 2008		
	Non-current	Current	Total
Available-for-sale financial assets	31	64	95
Receivables under finance leases	10	2	12
Other financial receivables	31	89	120
	72	**155**	**227**

The available-for-sale non-current financial assets comprise €31 million in bearer securities of an exchange-traded index fund. Included in available-for-sale current assets are German government bonds in an amount of €50 million. Accounts receivable of €12 million (2007: €13 million) relate to lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets (finance leases).

The leasing receivables are due as follows:

Maturity Structure of Lease Payments

€ million	Dec. 31, 2007		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	8	1	7
More than 5 years	4	0	4
	14	**1**	**13**

Maturity Structure of Lease Payments

€ million	Dec. 31, 2008		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	9	1	8
More than 5 years	2	0	2
	13	**1**	**12**

The financial assets held for trading that were reported in 2007 comprised securities that could be sold at any time.

Other financial receivables include fixed-term investments of €80 million (2007: €50 million) with a weighted average effective interest rate of 2.9% (2007: 4.4%).

None of the receivables recognized in other financial assets are either impaired or overdue. On the reporting date, there was no indication that the debtors would not meet their payment obligations.

14 Other non-current assets Other non-current assets are carried at amortized cost less write-downs. No write-downs were necessary in 2007 or 2008.

Other non-current assets comprise:

Other Non-Current Assets

€ million	Dec. 31, 2007	Dec. 31, 2008
Receivables from pension obligations	87	116
Other receivables	15	18
	102	**134**

15 Inventories The inventories of the LANXESS Group comprised:

Inventories

€ million	Dec. 31, 2007	Dec. 31, 2008
Raw materials and supplies	186	232
Work in process, finished goods and merchandise	709	816
	895	**1,048**

The increase in inventories resulted mainly from the first-time consolidation of Petroflex and from higher raw material prices.

Inventories of €256 million (2007: €167 million) are reflected at their net realizable value.

Write-downs of inventories were as follows:

Write-downs of Inventories

€ million	Dec. 31, 2007	Dec. 31, 2008
Balance at beginning of year	(54)	(63)
Additions charged as expenses	(22)	(112)
Reversals/utilization	13	22
Exchange differences	0	5
Balance at end of year	**(63)**	**(148)**

As in the previous year, no write-ups of inventories were made in 2008.

16 Trade receivables Trade receivables are stated after write-downs of €30 million (2007: €17 million) for amounts unlikely to be recovered. These write-downs related to gross receivables of €35 million (2007: €21 million).

All trade receivables – totaling €725 million (2007: €809 million) – are due within one year. The €84 million decrease from the previous year is principally due to the drop in business at the end of fiscal 2008 and to write-downs. Trade receivables of €7 million (2007: €10 million) related to other affiliated companies and €718 million (2007: €799 million) to other customers.

Changes in write-downs of trade receivables were as follows:

Write-Downs of Trade Receivables

€ million	Dec. 31, 2007	Dec. 31, 2008
Balance at beginning of year	(22)	(17)
Additions charged as expenses	(3)	(22)
Changes in scope of consolidation	1	0
Reversals/utilization	6	9
Exchange differences	1	0
Balance at end of year	**(17)**	**(30)**

The maturity structure of overdue trade receivables is as follows:

Maturity Structure of Overdue Payments

€ million	Dec. 31, 2007	Dec. 31, 2008
Carrying amount of trade receivables	809	725
of which unimpaired and not overdue	680	589
of which unimpaired and overdue by		
up to 30 days	106	105
between 31 and 60 days	12	15
between 61 and 90 days	4	6
more than 90 days	3	5

On the reporting date there were no indications that the debtors of trade receivables that were neither impaired nor overdue would not meet their payment obligations.

17 Cash and cash equivalents Cash and cash equivalents (cash, checks, bank deposits) amounted to €249 million on December 31, 2008 (2007: €189 million).

Securities with maturities of up to three months from the date of purchase are recognized in cash and cash equivalents in view of their high liquidity.

18 Other current assets Other receivables and other assets are carried at amortized cost, less write-downs of €10 million (2007: €3 million).

They comprise:

Other Current Assets

€ million	Dec. 31, 2007	Dec. 31, 2008
Claims for tax refunds	56	97
Payroll receivables	2	3
Miscellaneous receivables	87	56
	145	**156**

19 Equity

Share buyback and retirement At the Annual Stockholders' Meeting of LANXESS AG on May 31, 2007 the Board of Management was authorized until November 30, 2008 to purchase shares in the company amounting to up to 10% of its capital stock and to reduce the capital stock accordingly without the need to obtain a further resolution of a Stockholders' Meeting. On the basis of this authorization and the corresponding resolution of the Board of Management of LANXESS AG of August 10, 2007, a total of 1,418,000 no-par shares with a pro-rata value of €1.00 per share, representing 1.68% of the company's capital stock, were repurchased on the stock market at an average price of €35.18 per share through an investment firm engaged by LANXESS AG. The total repurchase price, including transaction costs, was €50 million.

The Annual Stockholders' Meeting of LANXESS AG on May 29, 2008 authorized the company until November 27, 2009 to acquire shares in the company representing up to 10% of the capital stock and to utilize them for any purpose permitted by law. This authorization may also be utilized by subsidiaries of the company or by third parties on behalf of the company or its subsidiaries. At the discretion of the Board of Management, the shares may be acquired either in the market or via a public tender offer. The Board of Management is authorized to utilize the acquired shares for any purpose permitted by law. In particular, it may retire the shares, sell them over the counter, or transfer them in return for contributions in kind, provided that this is done in order to acquire companies, parts of companies or equity interests in companies, to effect mergers, or to satisfy conversion or option rights attached to convertible or warrant bonds, profit participation rights, income bonds or combinations of such instruments. Subscription rights of the stockholders shall be excluded in the above cases, except when the shares are retired.

Capital stock The capital stock of LANXESS AG was €83,202,670 and thus unchanged from the previous year. All the shares carry the same rights and obligations. Each share confers one vote and determines the share of the profit.

Authorized capital As of December 31, 2008 the company's authorized capital comprised the following:

● Authorized Capital I
At the Extraordinary Stockholders' Meeting of LANXESS AG on September 15, 2004, the Board of Management was authorized until August 30, 2009 to increase the company's capital stock, with the approval of the Supervisory Board, by issuing new no-par shares against cash or contributions in kind in one or more installments up to a total of €36,517,096. This resolution on authorized capital was entered in the Commercial Register on February 25, 2005. Stockholders must normally be granted subscription rights to any authorized capital issued. However, with the approval of the Supervisory Board, the Board of Management is authorized to exclude subscription rights for stockholders in certain circumstances.

● Authorized Capital II
Further authorized capital was created at the Annual Stockholders' Meeting of LANXESS AG on May 31, 2007. The Board of Management is authorized, until May 31, 2012, to increase the company's capital stock, with the approval of the Supervisory Board, by up to €5,793,239 by issuing new bearer shares in one or more installments against cash or contributions in kind. Stockholders must normally be granted subscription rights. However, the resolution of the Annual Stockholders' Meeting authorized the Board of Management, with the approval of the Supervisory Board, to exclude subscription rights for stockholders in certain circumstances.

Conditional capital As of December 31, 2008 the company's conditional capital comprised the following:

● Conditional capital I und II
At the Annual Stockholders' Meeting on May 31, 2007, the Board of Management was authorized until May 31, 2012 to issue convertible bonds and/or warrant bonds, profit-participation rights and/or income bonds (or any combination of these instruments), either as registered or as bearer bonds, with or without limited maturity,

with a total nominal value of €500,000,000 in either case and to grant the bearer or creditors of bonds conversion or subscription rights to no-par bearer shares in the company's capital stock up to a total of €21,155,167. This constitutes a conditional increase in the capital stock of LANXESS AG of up to €21,155,167 in either case (conditional capital I and II). The conditional 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 two authorizations to issue warrant and/or convertible bonds, profit-participation rights and/or income bonds (or any combination of these instruments), combined with the creation of conditional capital, are essentially identical. The only difference is the conversion or warrant price. The Board of Management will only utilize one of these two authorizations. The resolution adopted at the Annual Stockholders' Meeting authorizes the Board of Management, subject to the approval of the Supervisory Board, to exclude stockholders' subscription rights in certain circumstances when issuing convertible and/or warrant bonds, profit-participation rights and/or income bonds (or any combination of these instruments). Subscription rights may be excluded for residual amounts arising from the subscription ratio if the issue price of the new shares is not significantly lower than the market price at the time when the issue price is being finalized and the new shares issued do not exceed 10% of the capital stock, either at the time this authorization takes effect or at the time it is utilized; if the profit-sharing rights or income bonds are vested with bond-like characteristics; and if bonds are issued in return for contributions in kind for the purpose of acquiring companies, parts of companies or equity interests in companies and the contribution in kind adequately reflects the value of the bond.

Capital reserves The capital reserves of LANXESS AG are unchanged from the previous year at €806,195,490.

Other reserves The other reserves principally contain retained earnings amounting to €682 million in 2008 (2007: €653 million) after offsetting the previous year's net income.

Minority interests Minority interests consisted mainly of interests in the equity of DuBay GmbH, Hamm, Germany; EUROPIGMENTS S.L., Vilassar de Mar, Spain; LANXESS Yaxing Chemicals Company Ltd., Weifang, China; and Rhein Chemie Ltd., Qingdao, China.

Capital management The main purpose of capital management in the LANXESS Group is to ensure the long-term viability of the Group's operations and achieve an attractive return on sales and capital compared to the chemical industry average. LANXESS's financial policy defines a second key criterion for capital management, which is to maintain an investment-grade rating. To achieve this goal, the Group has to meet indicators set by the rating agencies. Most of these are derived from balance sheet, income statement or cash flow data. Capital management in the LANXESS Group entails decisions by the relevant internal bodies on the capital structure of the balance sheet, the appropriateness of the company's equity, the distribution of the balance sheet profit, the amount of the dividend, the financing of capital expenditures and thus on the issuance and repayment of debt. The Articles of Incorporation of LANXESS AG do not contain any specific capital requirements.

20 Provisions for pensions and other post-employment benefits

Most employees in the LANXESS Group are entitled to retirement benefits on the basis of statutory regulations or contractual agreements. These are provided through both defined-contribution and defined-benefit plans.

In the case of defined-contribution plans, the company pays contributions into separate pension funds. These contributions are included in the respective functional cost items as expenses for the year, and thus in the operating result. Once the contributions have been paid, the company has no further payment obligations. In 2008 these expenses totaled €28 million (2007: €26 million).

The pension plan financed through Bayer Pensionskasse is also reflected in the annual financial statements as a defined-contribution plan. The above amounts include contributions of €14 million (2007: €14 million) to this pension fund.

The Bayer Pensionskasse is a legally independent private insurance company and is therefore subject to the German Insurance Supervision Act. The obligation of the plan sponsors is not confined to payment of the contributions for the respective fiscal year. Therefore the Bayer Pensionskasse is a defined-benefit plan sponsored by multiple employers and would normally have to be accounted for proportionately as a defined-benefit plan.

The Bayer Pensionskasse is financed not on the principle of coverage for individual benefit entitlements, but on the actuarial equivalence principle, based on totals for the whole plan. This means that the sum of existing plan assets and the present value of future contributions must be at least equal to the present value of the future benefits payable under the plan. The LANXESS Group is therefore exposed to the actuarial risks of the other plan sponsors of Bayer Pensionskasse and thus has no consistent or reliable basis for allocating the benefit obligation, plan assets and costs in order to account for the Bayer Pensionskasse as a defined-benefit plan in accordance with IAS 19. Accordingly, the Bayer Pensionskasse is accounted for as a defined-contribution plan and not as a defined-benefit plan.

The Bayer Pensionskasse assumes any pension adjustments in accordance with Article 16 of the German Occupational Pensions Improvement Act (BetrAVG) insofar as the necessary funds are made available to it. Pension adjustments that are not assumed by the Bayer Pensionskasse are accounted for by LANXESS as a separate defined-benefit plan.

Pension plans based on statutory regulations mainly comprise an obligation to pay a lump sum when employment ends. The amount depends principally on years of service and final salary.

Pension plans based on contractual agreements generally comprise benefits payable in the event of death, lifelong disability benefits or lifelong pension benefits payable from a certain age. Benefits are normally based on remuneration and years of service.

Alongside retirement benefits, pension and other post-employment benefit obligations include the obligation of Group companies in America to reimburse healthcare costs to retirees.

Benefit entitlements are financed either internally through provisions or externally through legally independent pension funds. The pension commitments in Germany are partly covered by the LANXESS Pension Trust e.V.

The provisions for pensions and other post-employment benefits recognized on the balance sheet reflect the present value of the defined-benefit obligation on the reporting date, taking into account expected future benefit increases, less the fair value of external plan assets on the reporting date, adjusted for accumulated unrecognized actuarial gains and losses, unrecognized past service cost and unrealizable plan assets. The defined-benefit obligation is measured regularly – at least every three years – by an independent actuary using the projected unit credit method. Comprehensive actuarial valuations are undertaken annually for all major pension plans. The discount rates used to compute present value normally correspond to the yields on high-quality corporate bonds with the same maturities.

Pension provisions and pension expense are calculated using the 10% corridor method, in other words, actuarial gains and losses exceeding 10% of the defined-benefit obligation or fair value of plan assets are recognized in the income statement over the average remaining working lives of current employees. Past service cost is recognized in the income statement over the period until pension rights become vested.

The following changes compared with fiscal 2007 are mainly due to the pension plans assumed with the acquisition of Petroflex.

In 2008 expenses for defined-benefit plans amounted to €58 million (2007: €56 million). With the exception of interest cost, the expected return on plan assets and a part of the amortization of actuarial gains and losses, these expenses are recognized in the operating result.

The costs for the plans comprise the following:

Costs for Defined-Benefit Plans

€ million	Pension obligations		Other post-employment benefit obligations	
	2007	**2008**	**2007**	**2008**
Current service cost	27	20	7	9
Past service cost	2	0	0	0
Interest cost	43	64	7	7
Expected return on plan assets	(30)	(56)	0	0
Amortization of actuarial gains/losses	7	3	1	0
Effect of the asset ceiling	0	12	0	0
Plan curtailments and settlements	(3)	1	(5)	(2)
	46	**44**	**10**	**14**

The reconciliation of the defined-benefit obligation to the net amounts of assets and provisions recognized on the balance sheet is as follows:

Reconciliation to Net Recognized Liability as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2007	**2008**	**2007**	**2008**
Defined benefit obligation (funded)	793	859	5	5
External plan assets	(488)	(665)	(3)	(3)
Underfunding	**305**	**194**	**2**	**2**
Defined benefit obligation (unfunded)	45	76	124	109
Unrecognized past service cost	0	0	1	1
Unrecognized actuarial gains/losses	(87)	(57)	(7)	(1)
Asset limitation	0	43	0	0
Net recognized liability	**263**	**256**	**120**	**111**
Amounts shown in the balance sheet				
Other non-current assets	(87)	(116)	0	0
Provisions for pensions and other post-employment benefits	350	372	120	111
Net recognized liability	**263**	**256**	**120**	**111**

The net recognized liability is reflected in the following balance sheet items:

Net Recognized Liability

€ million	**Dec. 31, 2007**	**Dec. 31, 2008**
Provisions for pensions and other post-employment benefits	470	483
Other non-current assets	(87)	(116)
Net recognized liability	**383**	**367**

The defined-benefit obligation and plan assets changed as follows:

Change in Defined-Benefit Obligation

€ million	Pension obligations		Other post-employment benefit obligations	
	2007	**2008**	**2007**	**2008**
Defined benefit obligation				
Benefit obligation at beginning of year	874	838	148	129
Current service cost	27	20	7	9
Interest cost	43	64	7	7
Employee contributions	2	2	–	–
Plan changes	2	0	0	0
Plan settlements	(3)	4	–	0
Actuarial gains/losses	(72)	(64)	(4)	(6)
Benefits paid	(31)	(42)	(14)	(17)
Acquisitions/divestments	(22)	202	(13)	0
Plan curtailments	(1)	4	0	(3)
Exchange differences	19	(93)	(2)	(5)
Benefit obligation at end of year	**838**	**935**	**129**	**114**

Change in Plan Assets

€ million	Pension obligations		Other post-employment benefit obligations	
	2007	**2008**	**2007**	**2008**
Fair value of plan assets				
Plan assets at beginning of year	395	488	1	3
Expected return on plan assets	30	56	0	0
Actuarial gains/losses	1	(50)	0	0
Acquisitions/divestments	(10)	295	0	0
Plan settlements	(7)	8	–	–
Employer contributions	78	13	2	0
Employee contributions	2	2	–	–
Benefits paid	(22)	(31)	0	0
Exchange differences	21	(116)	0	0
Plan assets at end of year	**488**	**665**	**3**	**3**

The actuarial gains and losses computed in fiscal 2008 relate to changes in actuarial assumptions and experience adjustments. The actuarial gains and losses are assigned to the following categories:

Categories of Actuarial Gains/Losses

€ million	Pension obligations				Other post-employment benefit obligations			
	2005	**2006**	**2007**	**2008**	**2005**	**2006**	**2007**	**2008**
Difference between expected and actual return on plan assets	17	16	1	(50)	0	0	0	0
Experience adjustment	4	11	(23)	(26)	12	3	(3)	0
Adjustment for changes in valuation assumptions	(100)	8	95	90	(7)	1	7	6
Net actuarial gain/loss for the year	**(79)**	**35**	**73**	**14**	**5**	**4**	**4**	**6**

The actual return on external plan assets in 2008 was €6 million (2007: €31 million).

The following weighted parameters were used to define the benefit costs and liability:

Assumptions as of Dec. 31

in %	Pension obligations		Other post-employment benefit obligations	
	2007	**2008**	**2007**	**2008**
Discount rate	5.8	8.0	6.2	7.2
Expected salary increases	3.3	4.2	3.0	2.5
Expected pension increases	1.3	2.3	–	–
Expected return on plan assets	6.5	8.8	4.9	4.7
Expected increase in the cost of medical care	–	–	7.8	9.3
Expected long-term increase in the cost of medical care	–	–	5.2	5.2

The Heubeck mortality tables 2005 G form the biometric basis for the computation of pension obligations in Germany. Current national biometric assumptions are used to compute benefit obligations at other Group companies. Employee turnover rates are estimated on the basis of age and gender.

The discount rate used to calculate the present value of pension and other post-employment benefit obligations is derived from the yield on high-quality corporate bonds with the same maturity. As a result of the financial and capital market crisis, the risk premiums on corporate bonds have increased considerably versus government bonds, resulting in an increase in the market yields on which the discount rate is based. A 0.5 percentage point increase in the discount rate used would reduce pension obligations by €57 million and other post-employment benefit obligations by €5 million. A 0.5 percentage point reduction in the discount rate would have largely the opposite effect.

The long-term cost increase for medical care is expected to take place within about five years.

Assuming all other parameters remain unchanged, a one percentage point increase or decrease in the assumptions relating to the expected long-term increase in medical costs would raise or reduce the present value of the defined-benefit obligation by €6 million. The cost of healthcare plans would thus increase or decrease accordingly by an amount of about €1 million.

The plan assets now comprise:

Allocation of Plan Assets

in % of plan assets	**Dec. 31, 2007**	**Dec. 31, 2008**
Equity instruments	30.9	24.9
Fixed-income securities	56.8	66.4
Real estate	0.0	1.8
Other	12.3	6.9
	100.0	**100.0**

The high proportion of fixed-income securities is due to a risk-averse investment strategy for plan assets.

The expected return on each category of plan assets was calculated on the basis of generally available and internal capital market reports and forecasts. The expected return on fixed-income securities is based on the maturity of the portfolio and the yields on the reporting date. The expected return on equity instruments reflects the long-term return expectations for the underlying equity portfolio.

The table below shows the defined-benefit obligation and plan assets at the end of each year:

Funded Status as of Dec. 31

€ million	2004	2005	2006	2007	2008
Defined benefit obligation	1,444	1,073	1,022	967	1,049
External plan assets	(925)	(396)	(396)	(491)	(668)
Underfunding	**519**	**677**	**626**	**476**	**381**

21 Other non-current and current provisions

These comprise:

Other Provisions

€ million	Dec. 31, 2007				Dec. 31, 2008			
	Up to 1 year	1–5 years	Over 5 years	Total	Up to 1 year	1–5 years	Over 5 years	Total
Personnel	114	64	55	233	144	53	43	240
Transactions with customers	115	0	0	115	103	0	0	103
Environmental protection	19	18	43	80	24	23	56	103
Restructuring	33	53	2	88	49	36	9	94
Miscellaneous	90	2	5	97	75	37	4	116
	371	**137**	**105**	**613**	**395**	**149**	**112**	**656**

Provisions changed as follows in 2008:

Changes in Provisions in 2008

€ million	Jan. 1, 2008	Changes in scope of consolidation	Allocations	Utilization	Reversals	Exchange differences	Dec. 31, 2008
Personnel	233	4	133	(115)	(13)	(2)	240
Transactions with customers	115	0	67	(62)	(16)	(1)	103
Environmental protection	80	27	14	(7)	(3)	(8)	103
Restructuring	88	1	69	(37)	(26)	(1)	94
Miscellaneous	97	32	100	(57)	(50)	(6)	116
	613	**64**	**383**	**(278)**	**(108)**	**(18)**	**656**

Allocations to other provisions include interest of €7 million (2007: €2 million).

Personnel-related provisions – Long-term compensation programs

Long-Term Incentive Program (LTIP) LANXESS AG offers a long-term incentive program to members of the Board of Management and certain other managers. This program provides for cash payments. The last of the rights under the LTIP launched in 2005 were granted in 2007. A new program was introduced in 2008, again comprising three tranches. The issue date of the rights granted and still outstanding is February 1 each year. Participation in the LTIP is conditional upon each manager making a personal investment in LANXESS stock, depending on his/her base salary. Under the previous program such shares must be held until January 31, 2010 while under the new program they must be held until February 1, 2013.

Whereas the previous program comprised a share-based component (Stock Performance Plan 2005–2007) and a non-share-based component (Economic Value Plan), the new program is entirely share-based (Stock Performance Plan 2008–2010).

Provisions are established for the obligations entered into under share-based compensation programs on the basis of the proportionate fair value of the rights allocated to employees.

Stock Performance Plan Awards under the Stock Performance Plan are based on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals℠ Index.

Stock Performance Plan 2005–2007 If LANXESS stock performs in line with this index, a payment of €0.75 per right will be made. For each percentage point by which the stock outperforms the index, €0.025 will be paid in addition. The additional payment per percentage point above 10% is €0.05, up to a maximum possible payment of €1.50 per right. Members of the Board of Management are only entitled to payments if LANXESS stock outperforms the benchmark index.

Each tranche of the plan runs for a total of five years, comprising a three-year retention period and a two-year exercise period.

Members of the Board of Management and senior managers were entitled to take part in the Stock Performance Plan 2005-2007. Eligibility for this plan was contingent upon participation in the Economic Value Plan described below.

Stock Performance Plan 2008–2010 If LANXESS stock outperforms the index, a payment of at least €0.75 per right will be made. For each percentage point by which the stock outperforms the index, €0.05 will be paid in addition, or €0.06667 if the percentage outperformance is 5% or above. The maximum possible payment is €2.00 per right.

Each tranche runs for a total of six years, comprising a three-year retention period and a three-year exercise period.

Members of the Board of Management and senior managers are entitled to take part in the Stock Performance Plan 2008–2010.

The fair values of obligations under the Stock Performance Plan are calculated using a Monte Carlo simulation. This simulates future returns on the stock and the benchmark index and thus determines the value of the rights, this being the amount of the expected disbursement. A two-dimensional standard distribution of returns is assumed.

The calculation is based on the following principal parameters:

Parameters

in %	2007	2008
Expected share price volatility	28.0	40.0
Expected dividend payment	2.0	2.0
Expected index volatility	15.0	24.0
Correlation between LANXESS stock and the index	59.0	67.0
Risk-free interest rate	4.1	2.0

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals℠ Index.

The reference share prices and the benchmark index for each tranche are shown in the table:

Reference Prices

	Index	Share
Tranche 2005	268.95 pts.	€15.01
Tranche 2006	348.60 pts.	€26.03
Tranche 2007	431.50 pts.	€40.79
Tranche 2008	465.97 pts.	€24.03

LANXESS shares were trading at €13.73 at year end 2008 and the reference index was at 321.61 points.

The 2,783,191 rights from the 2005 tranche outstanding at the start of fiscal 2008 were exercised at an average price of €1.39 per right.

Of the 2,867,284 rights to the 2006 tranche and 3,381,088 rights to the 2007 tranche that were outstanding at the start of 2008, 2,812,582 rights and 3,326,386 rights, respectively, remained outstanding as of December 31, 2008. The decline in the number of outstanding rights in these two tranches was due to the fact that some original participants left the LANXESS Group during the year, thereby forfeiting their rights. Under the 2008 tranche, 11,453,318 rights remain outstanding. Based on the valuation parameters, the value of each right is €0.03 for the 2006 tranche, €0.04 for the 2007 tranche and €0.30 for the 2008 tranche.

The fair value of the rights is reflected in a pro-rata provision over the retention period. This resulted in net expense of €0 million in 2008 (2007: €1 million). As of December 31, 2008 the provision for the Stock Performance Plan totaled €1 million (2007: €5 million).

Economic Value Plan Awards under the Economic Value Plan depend on the development of the economic value of the LANXESS Group. If the Group's performance is in line with the medium-term operational planning, a 100% award is made under the program.

Members of the Board of Management, senior managers and some other managers are eligible to participate in the Economic Value Plan.

As of December 31, 2008 the provision for the Economic Value Plan totaled €15 million (2007: €13 million). The value of economic value rights was determined on the basis of the expected target attainment.

LANXESS stock plan This is an employee stock plan under which junior managers and non-managerial staff may purchase shares in the company at a 50% discount. Employees acquired a total of 175,299 LANXESS shares under this program in 2008 (2007: 106,662 shares). These shares must be retained for at least three years. Since there are no further conditions attached to this stock plan, the effect resulting from the discount was expensed immediately. The expense recognized for the stock plan in 2008 was €2 million, as in the previous year. Participation in this program does not confer any right to similar benefits in the future.

Stock-based compensation programs of Bayer AG In the Spin-Off and Acquisition Agreement between Bayer AG and LANXESS AG, Bayer AG transferred obligations under existing Bayer AG stock programs to LANXESS AG. These programs relate to shares in Bayer AG. The provisions established for these obligations on the basis of a Monte Carlo simulation amounted to €0 million on December 31, 2008 (2007: €1 million). The entitlements of eligible LANXESS employees under these programs cease in 2009.

Trade-related commitments Provisions for trade-related commitments mainly comprise those for rebates.

Provisions for restructuring €37 million of the allocations made to restructuring provisions in 2007 was utilized in 2008. €69 million was allocated to provisions for further restructuring programs during the year.

Provisions for restructuring totaled €94 million (2007: €88 million) on December 31, 2008. Of this amount, €71 million (2007: €57 million) comprised provisions for severance payments and other personnel expenses and €23 million (2007: €31 million) comprised provisions for demolition and other expenses.

Environmental provisions The Group's activities are subject to extensive laws and regulations in the jurisdictions in which it does business and maintains properties. Compliance with environmental laws and regulations may require LANXESS to remove or mitigate the effects of the disposal or release of chemical substances at various sites. Under some of these laws and regulations, a current or previous owner or operator of property may be held liable for the costs of removal or remediation of hazardous substances on, under, or in its property, without regard to whether the owner or operator knew of or caused the presence of the contaminants, and regardless of whether the practices that resulted in the contamination were legal at the time they occurred. As many of the production sites have a long history of industrial use, it is impossible to predict precisely what effect these laws and regulations will have on the LANXESS Group in the future.

As with other companies in the chemical and related industries, soil or groundwater contamination has occurred in the past at individual sites, and the possibility exists that such contamination could occur or be discovered at other sites. Group companies may be subject to claims brought by national or local regulatory agencies, private organizations or individuals regarding the remediation of sites or areas of land that the LANXESS Group acquired from companies in the Bayer Group, where materials were produced specifically for third parties under contract manufacturing agreements or where waste from production facilities operated by the LANXESS Group was treated, stored or disposed of.

For instance, a potential liability exists under the U.S. Federal Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as "Superfund," the U.S. Resource Conservation and Recovery Act and related state laws for investigation and remediation costs at a number of sites. At most of the U.S. sites concerned, numerous companies, including the LANXESS Group, have been notified that the U.S. Environmental Protection Agency, state authorities or private individuals consider such companies to be potentially responsible parties under Superfund or related laws. At other sites in the United States, the LANXESS Group is the sole responsible party. The proceedings relating to these sites are in various stages. Remediation measures have already been initiated at most of the sites concerned.

The existing provisions for environmental remediation costs relate primarily to the rehabilitation of contaminated sites, recultivation of landfills, and redevelopment and water protection measures. The provisions for environmental remediation costs are stated at the present value of the expected commitments where environmental assessments or clean-ups are probable, the costs can be reasonably estimated and no future economic benefit is expected to arise from these measures. Costs are estimated based on significant factors such as previous experience in similar cases, environmental assessments, current cost levels and new developments affecting costs, our understanding of current environmental laws and regulations, the number of other potentially responsible parties at each site, the identity and financial position of such parties in light of the joint and several nature of the liability, and the remediation methods likely to be employed.

It is difficult to estimate the future costs of environmental protection and remediation because of many uncertainties relating to the status of laws, regulations and the information available about conditions in the various countries and at the individual sites. Subject to these factors and in light of the experience it has gained to date regarding environmental matters of a similar nature, LANXESS believes the provisions recorded to be adequate based upon currently available information. However, given the difficulties inherent in estimating liabilities in this area, the possibility that additional costs could be incurred beyond the amounts accrued cannot be excluded. It is nevertheless assumed that any additional costs would not materially impact the Group's financial position, results of operations or cash flows.

Legal risks The LANXESS Group is involved in numerous legal disputes either directly, or indirectly through reimbursement obligations to companies in the Bayer Group under agreements made in connection with the spin-off of the LANXESS Group from Bayer. As an international chemicals group, LANXESS is exposed to administrative or court proceedings in the normal course of business and may be again in the future.

Administrative and court proceedings generally involve complex technical and/or legal issues and are therefore subject to a number of imponderables. The outcomes of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by provisions or insurance and that could significantly affect the business operations, revenues, earnings and cash flows of the LANXESS Group.

For information on current risks relating to antitrust proceedings, please refer to the information on contingent liabilities and other financial commitments (see Note [28]).

22 Other non-current financial liabilities The other non-current financial liabilities comprise:

Other Non-Current Financial Liabilities

€ million	Dec. 31, 2007	Dec. 31, 2008
Bond	498	498
Liabilities to banks	44	427
Liabilities under leasing agreements	58	56
Other financial liabilities	1	5
	601	**986**

On June 21, 2005 the LANXESS Group placed a Euro Benchmark Bond on the European capital market. This €500 million bond has an annual coupon of 4.125% and a maturity of seven years. The main reasons for the increase in non-current liabilities to banks were the utilization of credit facilities to finance the Petroflex acquisition and the assumption of financial liabilities of Petroflex. The financial liabilities assumed with the acquisition have since been partially repaid and the financing structure integrated into that of the LANXESS Group.

The maturity structure of other non-current financial liabilities is as follows:

Maturity Structure of Other Non-Current Financial Liabilities

€ million due in	Dec. 31, 2007	Dec. 31, 2008
1–2 years	15	22
2–3 years	14	312
3–4 years	15	531
4–5 years	536	48
More than 5 years	21	73
	601	**986**

The weighted average interest rate for financial liabilities in the LANXESS Group was 4.6% (2007: 4.3%).

Information on the fair or market values of financial liabilities is given in Note [31].

Liabilities under lease agreements are recognized on the balance sheet if the leased assets are capitalized under property, plant and equipment as the economic property of the Group (finance leases). They are stated at present values. Lease payments totaling €73 million (2007: €78 million), including €11 million (2007: €15 million) in interest, are to be made to the respective lessors in future years.

The liabilities associated with finance leases are due as follows:

Leasing Liabilities

€ million due in	Dec. 31, 2007		
	Lease payments	Interest portion	Leasing liabilities
Less than 1 year	8	3	5
1–2 years	9	3	6
2–3 years	8	3	5
3–4 years	8	2	6
4–5 years	22	2	20
More than 5 years	23	2	21
	78	**15**	**63**

Leasing Liabilities

€ million due in	Dec. 31, 2008		
	Lease payments	Interest portion	Leasing liabilities
Less than 1 year	9	3	6
1–2 years	9	2	7
2–3 years	8	2	6
3–4 years	23	2	21
4–5 years	14	1	13
More than 5 years	10	1	9
	73	**11**	**62**

Lease payments under operating leases amounted to €9 million in 2008 (2007: €11 million).

23 Other liabilities The other non-current liabilities include subsidies from third parties in respect of assets amounting to €39 million (2007: €22 million).

Other current liabilities are recognized at amortized cost. They comprise:

Other Current Liabilities

€ million	Dec. 31, 2007	Dec. 31, 2008
Tax liabilities	26	34
Payroll liabilities	21	21
Social security liabilities	18	18
Miscellaneous liabilities	64	89
	129	**162**

Tax liabilities include not only Group companies' own tax liabilities, but also taxes withheld for payment to the authorities on behalf of third parties.

Liabilities for social expenses include, in particular, social insurance contributions that had not been paid by the closing date.

The miscellaneous liabilities include guarantees, commission payments to customers and reimbursements of expenses. There were no such liabilities to other affiliated companies at year end 2008 (2007: €1 million).

24 Trade payables Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €484 million (2007: €487 million) is due within one year.

Trade payables of €59 million (2007: €36 million) related to other affiliated companies and €425 million (2007: €451 million) to other suppliers.

25 Other current financial liabilities The other current financial liabilities were as follows:

Other Current Financial Liabilities

€ million	Dec. 31, 2007	Dec. 31, 2008
Liabilities to banks	42	137
Liabilities under leasing agreements	5	6
Other primary financial liabilities	12	25
	59	**168**

Other primary financial liabilities include accrued interest of €14 million (2007: €11 million) on financial liabilities. €11 million (2007: €11 million) of this amount relates to the above-mentioned Euro Benchmark Bond.

26 Further information on liabilities Of the total liabilities, €73 million (2007: €21 million) had maturities of more than five years.

OTHER INFORMATION

27 Employees On December 31, 2008 the LANXESS Group had 14,797 employees. The increase of 187 compared with the previous year was mainly due to the acquisition of Petroflex.

Employees by Function

	Dec. 31, 2007	Dec. 31, 2008
Production	10,336	10,492
Marketing	2,255	2,141
Administration	1,611	1,711
Research	408	453
	14,610	**14,797**

28 Contingent liabilities and other financial commitments Contingent liabilities as of December 31, 2008 amounted to €5 million as in the previous year. They result from guarantees and similar instruments assumed on behalf of third parties. They represent potential future commitments in cases where the occurrence of certain events in the future would create an obligation that was uncertain at the balance sheet date. An obligation to perform under such contingent liabilities arises in the event of delayed settlement or insolvency on the part of the debtor.

As a personally liable partner in CURRENTA GmbH & Co. OHG, Leverkusen, Germany, LANXESS may be required to inject further capital into this company in the future.

Apart from provisions, liabilities and contingent liabilities, financial commitments also exist under leasing and long-term rental agreements.

The minimum non-discounted future payments pertaining to operating leases total €70 million (2007: €66 million). The respective payment obligations mature as follows:

Maturity Structure of Lease and Rental Payments

€ million due in	Dec. 31, 2007	Dec. 31, 2008
Up to 1 year	10	10
1–2 years	9	9
2–3 years	8	8
3–4 years	7	8
4–5 years	7	8
More than 5 years	25	27
	66	**70**

Financial commitments resulting from orders already placed under purchase agreements relating to planned or ongoing capital expenditure projects in the area of property, plant and equipment total €64 million (2007: €35 million). Of the respective payments, €56 million are due in 2009 and €8 million in 2010.

Under Article 133 paragraph 1 sentence 1 of the German Transformation Act, all legal entities involved in a spin-off are jointly and severally liable for the obligations of the transferring entity that exist at the date of the spin-off. This means that Bayer AG and LANXESS AG are jointly and severally liable for obligations of Bayer AG that existed when the LANXESS Group was spun off from Bayer. However, under Article 133 paragraph 3 of the Act, each company's liability for the obligations not assigned to it under the Spin-Off and Acquisition Agreement is limited to five years.

The Spin-Off and Acquisition Agreement specifies that Bayer AG shall indemnify LANXESS AG against any legally imposed joint liability, including that under Article 133 of the German Transformation Act, and against joint and several liability for commitments and obligations that were not assigned to LANXESS under the Agreement.

Description of the master agreement In a master agreement concluded between Bayer AG and LANXESS AG at the same time as the Spin-Off and Acquisition Agreement, Bayer AG and LANXESS AG agreed, among other things, on commitments regarding mutual exemption from joint liability for obligations of the respective other party and arrangements regarding the allocation of liability for product liability commitments, environmental contamination and antitrust violations. The main provisions of the master agreement on these issues are outlined below.

Joint liability, and joint and several liability Under the master agreement, Bayer AG must indemnify LANXESS AG and all the companies affiliated with LANXESS AG against joint liability, or joint and several liability, for commitments of the Bayer Group arising from the worldwide realignment of the Bayer Group in 2002 and 2003. Bayer AG must also indemnify LANXESS AG and all the companies affiliated with LANXESS AG from joint liability, or joint and several liability, resulting from measures taken to establish the LANXESS Group, to the extent that such liability relates to commitments that cannot be, or have not expressly been, assigned to the LANXESS Group. LANXESS AG must in turn indemnify Bayer AG and all the companies affiliated with Bayer AG from joint liability, or joint and several liability, resulting from measures taken to establish the LANXESS Group, to the extent that such liability relates to commitments that can be, or have expressly been, assigned to the LANXESS Group.

Environmental contamination The master agreement specifies which of the parties is liable vis-à-vis the other party for site-specific environmental contamination that was caused or occurred up to the qualifying date, i.e. the date on which the spin-off is deemed to have taken economic effect (July 1, 2004). The fundamental legal consequence of this arrangement is that the party to whom liability is assigned is required to indemnify the other party and companies affiliated with the other party from all public- or private-law liability to authorities or other third parties with respect to environmental contamination at the sites in question. The arrangement allocating liability for environmental contamination essentially establishes the respective party's liability for the status quo at the sites which it and the companies affiliated with it used on the qualifying date. The liability arrangement also includes elements of origination liability. As a consequence, liability is based on the sites affected in each case. In this respect certain distinctions are made, which are briefly explained below.

LANXESS AG is basically liable – subject to opportunities for potential exoneration – for all environmental contamination at what are known as the LANXESS sites. This essentially means the sites in Germany and other countries used by the LANXESS Group on the qualifying date. Bayer AG, on the other hand, is basically liable – again, subject to opportunities for potential exoneration – for all environmental contamination at what are known as the Bayer sites. This essentially means all the sites owned by Bayer AG or companies affiliated with it or used by Bayer AG and companies affiliated with it (with the exception of LANXESS sites). With respect to possible liability for environmental contamination of the sites of other third parties, the agreement provides that LANXESS AG is liable for such contamination if it was caused by a LANXESS site (via the groundwater) and that Bayer AG is liable if such contamination was caused by a Bayer site (via the groundwater). The master agreement also contains special arrangements regarding the allocation of liability for contamination of specific sites (including landfill sites) and for such liability arising from certain corporate acquisition agreements.

The master agreement limits the liability of LANXESS AG and companies affiliated with LANXESS AG for environmental contamination to a total of €350 million, although this maximum relates – to put it simply – only to measures that have been ordered, agreed or carried out by the end of 2009. LANXESS AG and the companies affiliated with LANXESS AG otherwise have unlimited liability for environmental contamination.

Product liability The master agreement specifies the allocation of each party's liability vis-à-vis the other party in relation to third-party product liability claims, whereas direct product liability claims by either party against the other are expressly excluded. The legal consequences of allocation of liability to one of the parties is that this party is required to indemnify the other party and the companies affiliated with that party against the relevant product liability commitment. The master agreement essentially makes the following distinctions with respect to the allocation of liability:

The LANXESS Group on the one hand and the Bayer Group on the other hand are each fundamentally liable for all product liability commitments arising from or in connection with defective products that were put on the market in the past by their business units that were operational on the qualifying date or were subsequently put on the market prior to the effective date of the spin-off. The products put on the market by individual business units are determined, for example, by the "UVP" numbers which are assigned to every product. With respect to product liability commitments arising from or in connection with defective products that are put on the market after the effective date of the spin-off, the master agreement refers to the provisions of applicable law and does not therefore contain any particular contractual arrangement. The master agreement also includes a special arrangement for defective products put on the market by certain companies, plants or production facilities that have since been sold and assigns product liability to LANXESS AG in these cases. It also contains another special arrangement, under which product liability with respect to certain products, particularly products from the discontinued business areas and business groups of the Bayer Group that were allocated to the LANXESS Group, is assigned to LANXESS AG.

Antitrust violations The master agreement specifies the allocation of each party's liability for antitrust violations vis-à-vis the other party. Antitrust liabilities are obligations and liabilities relating to the payment of fines and other (secondary) penalties, obligations to pay damages – including penal damages – to third parties, and obligations to third parties to compensate them for revenues or benefits lost as a result of antitrust violations.

The LANXESS Group is liable vis-à-vis the Bayer Group for any obligations arising from antitrust violations for which the LANXESS operations are responsible. Bayer, in turn, is liable vis-à-vis LANXESS for any obligations arising from antitrust violations for which Bayer is responsible. Each party is required to reimburse the other party the amounts required to meet claims arising from antitrust violations.

In addition to this general principle, there are special arrangements for antitrust proceedings and civil proceedings in connection with certain products of the former Rubber Business Group of Bayer, which was allocated to the LANXESS Group. The LANXESS Group has to pay 30% of liabilities arising from these proceedings and Bayer 70%. Reimbursements made by LANXESS AG have since reached the limit set for its liability. In addition to this maximum amount, it is liable for the reimbursement of income tax payable as a result of limited tax deductibility and the proportionate costs of external legal counsel, which are split between LANXESS and Bayer in a ratio of 30:70.

29 Related parties In the course of its operations, the LANXESS Group sources materials, inventories and services from a large number of business partners around the world. These include companies in which LANXESS AG has a direct or indirect interest. Transactions with these companies are carried out on an arm's length basis.

Transactions with companies accounted for in the consolidated financial statements using the equity method and their subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €453 million (2007: €450 million). As a result of these transactions, trade payables of €59 million existed as of December 31, 2008 (2007: €35 million).

No material business transactions were undertaken with other associated companies.

30 Compensation of the Board of Management and the Supervisory Board In fiscal 2008 short-term compensation totaling €5,087 thousand (2007: €4,471 thousand) was paid to the members of the Board of Management of LANXESS AG. This comprised fixed salaries of €2,303 thousand (2007: €2,281 thousand) and bonus payments of €2,784 thousand (2007: €2,190 thousand). Beside the expenses of €2,190 thousand recognized for bonus payments in 2007, additional payments amounting to €202 thousand were made.

In addition, the members of the Board of Management received compensation under the Long-Term Incentive Program (LTIP). 2,203,750 long-term share-based compensation rights (2007: 1,116,000) were granted in 2008. The fair value of these rights at the grant date was €1,102 thousand (2007: €524 thousand). They also received compensation of €528 thousand (2007: €533 thousand) under the non-share-based Economic Value Plan. This gave rise to expenses of €873 thousand (2007: €574 thousand), comprising €43 thousand (2007: €235 thousand) for the share-based Stock Performance Plan and €830 thousand (2007: €339 thousand) for the non-share-based Economic Value Plan. Further details of the components of the LTIP can be found in Note [21].

Details of the compensation system for members of the Board of Management and an individual breakdown of compensation are given in the Compensation Report section of the Group Management Report for fiscal 2008.

Further, in fiscal 2008 service cost of €698 thousand (2007: €1,928 thousand) relating to defined-benefit pension plans was incurred for members of the Board of Management as part of their compensation package. Of the service cost for 2007, €1,086 thousand related to the adjustment of pension commitments.

Payments of €117 thousand were made to former members of the Board of Management. The total obligation for former members of the Board of Management was €5,384 thousand as of December 31, 2008 (2007: €5,965 thousand).

The members of the Supervisory Board received remuneration of €1,200 thousand in 2008 (2007: €840 thousand). The provisions established for long-term remuneration components for Supervisory Board members as of December 31, 2008 amounted to €1,465 thousand as in the previous year.

Details of the remuneration system for members of the Supervisory Board and an individual breakdown of the amounts paid are contained in the corporate governance report in the section headed "Compensation System of the Supervisory Board."

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2008 or 2007.

31 Financial instruments Primary financial instruments are reflected on the balance sheet. In compliance with IAS 39, asset instruments are categorized as "at fair value through profit or loss," "held to maturity" or "available for sale" and, accordingly, recognized at cost or fair value. Liability instruments that neither are held for trading nor constitute derivatives are carried at amortized cost.

Risks and risk management The global alignment of the LANXESS Group exposes its business operations, earnings and cash flows to a variety of market risks. Material financial risks to the Group as a whole, such as currency, interest-rate, credit, liquidity and commodity price risks, are managed centrally.

These risks could impair the earnings and financial position of the LANXESS Group. The various risk categories and the risk management system for the LANXESS Group are outlined below.

The principles of risk management are defined by the Board of Management. At the regular strategy meetings of the Financial Risk Committee, which are chaired by the Chief Financial Officer, reports on the outcomes of financial risk management and on current risk levels are presented and any further action is decided upon. Simulations based on a range of worst-case scenarios are used to assess the impact of market trends. The implementation of the Financial Risk Committee's decisions and ongoing risk management are undertaken centrally by the Group Function Treasury. The aim of financial risk management is to identify and evaluate risks and to manage and limit their effects as appropriate.

- Currency risks

Since the LANXESS Group undertakes transactions in numerous currencies, it is exposed to the risk of fluctuations in the value of other currencies – particularly the U.S. dollar – against the euro.

Currency risks from potential declines in the value of financial instruments due to exchange rate fluctuations (transaction risks) arise mainly when receivables and payables are denominated in a currency other than the company's local currency.

Currency risks relating to operating activities are systematically monitored and analyzed. While the risks relating to changes in the value of receivables and payables denominated in foreign currencies are fully hedged, the scope of hedging for currency risks relating to forecast transactions is subject to regular review. A substantial proportion of contractual and foreseeable currency risks are hedged using derivative financial instruments. Changes in the fair values of these instruments are recognized in other operating income or expenses or in the financial result. Changes in the fair values of cash flow hedges are recognized in equity under other comprehensive income/loss.

Currency risks arising on financial transactions, including interest, are generally fully hedged, mainly through forward exchange contracts.

Since the LANXESS Group concludes derivative contracts for the greater part of its currency risks, it believes that, in the short term, a significant rise or fall in the euro against other major currencies would have no material impact on future cash flows. In the long term, however, these exchange rate fluctuations could adversely affect cash flows should the LANXESS Group not be in a position to absorb them through the pricing of its products in the respective local currencies or by other means.

If the rate for the euro had been 5% higher against all other currencies on the reporting date, this would have had a €41 million (2007: €10 million) effect, mainly on other comprehensive income, which would have improved accordingly. This effect mainly relates to the U.S. dollar. A correspondingly lower rate for the euro would have had basically the opposite effect.

Many companies in the LANXESS Group are based outside the euro zone. Since the Group prepares its consolidated financial statements in euros, the annual financial statements of these subsidiaries are translated into euros for consolidation purposes. Changes in the average exchange rate of a currency from one period to the next can materially affect the translation of both sales and earnings reported in this currency (translation risk). Unlike transaction risk, translation risk has no impact on Group cash flows in the local currency.

The LANXESS Group has material assets, liabilities and businesses outside the euro zone that are reported in local currencies. The related long-term currency risk is estimated and evaluated on a regular basis. In view of the risks involved in such cases, however, foreign currency hedging transactions are only concluded if consideration is being given to withdrawing from a particular business and it is intended to repatriate the funds released by the withdrawal. The LANXESS Group does, however, reflect in equity the effects of exchange rate fluctuations on the translation of net positions into euros.

● Interest-rate risks

Fluctuations in market interest rates can cause fluctuations in the overall return on a financial instrument. Interest-rate risks affect both financial assets and financial liabilities.

Since the majority of financial liabilities are entered into at fixed interest rates, changes in interest rates in the coming years will only have a limited impact on the LANXESS Group. As in the previous year, a change of one percentage point in the general level of interest rates as of December 31, 2008 would have altered Group net income by around €1 million (2007: €0 million).

Except where financial assets and financial liabilities are left unhedged against interest-rate risk because fixed rates of interest have been contractually agreed upon, hedging via derivative financial instruments, such as interest-rate swaps and cross-currency interest-rate swaps, plays a prominent role.

● Credit risks

Credit risks arise from trade relationships with customers and dealings with banks and other financial partners, especially with regard to investment business and financial-instrument transactions.

Customer risks are systematically identified, analyzed and managed, using both internal and external information sources. Customer portfolios with an elevated risk profile may be insured against credit risks. The maximum credit risk is mitigated mainly through letters of credit and credit insurance agreements in favor of the LANXESS Group. Credit risk management has been stepped up considerably in view of the general deterioration in economic conditions.

Further, in fiscal 2008 credit risk management was extended to include global management of the counterparty risk relating to banks and financial partners. The LANXESS Group pays particular attention to risk diversification to prevent any cluster risks that could jeopardize its existence. Through master agreements, the market values of open trading positions can be netted if a partner becomes insolvent, thereby further reducing risks.

● Liquidity risks

Liquidity risks arise from potential financial shortfalls and the resulting increase in refinancing costs. The aim of liquidity management in the LANXESS Group is to ensure that the Group has sufficient liquidity and committed credit facilities available at all times to enable it to meet its payment commitments, and to optimize the liquidity balance within the Group.

The syndicated credit facility agreed in November 2007, which remained unused as of December 31, 2008, remains a key element in the liquidity management of the LANXESS Group. Following the insolvency of Lehman Brothers Bankhaus AG, the total credit facility provided by the syndicate is expected to be reduced by €92 million from the original level of €1,500 million to €1,408 million. This credit facility, which is provided for working capital and investments, expires in November 2014. The company gave the syndicate an assurance that it would fulfill certain criteria during the term of the facility. Chief among them is the observance of a specific debt level.

The following table shows the contractually agreed (undiscounted) payment streams for primary financial liabilities and derivative financial instruments.

Dec. 31, 2007

€ million	2008	2009	2010	2011	2012	After 2012
Bond	(10)	(21)	(21)	(21)	(520)	
Liabilities to banks	(45)	(11)	(10)	(10)	(18)	(1)
Trade accounts payable	(487)					
Liabilities under finance leases	(8)	(9)	(8)	(8)	(22)	(23)
Other primary financial liabilities	(12)	(1)				
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(200)					
Receipts	196					
Other hedging instruments						
Disbursements	(154)					
Receipts	152					
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(411)	(59)				
Receipts	470	63				
Other hedging instruments						
Disbursements	(439)					
Receipts	448					

Dec. 31, 2008

€ million	2009	2010	2011	2012	2013	After 2013
Bond	(10)	(21)	(21)	(520)		
Liabilities to banks	(150)	(24)	(316)	(33)	(24)	(74)
Trade accounts payable	(484)					
Liabilities under finance leases	(9)	(9)	(8)	(23)	(14)	(10)
Other primary financial liabilities	(25)	(5)				
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(238)	(37)				
Receipts	182	7				
Other hedging instruments						
Disbursements	(284)					
Receipts	260					
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(194)	(256)	(102)			
Receipts	199	269	131			
Other hedging instruments						
Disbursements	(392)					
Receipts	417					

The contractually agreed payments for other primary financial liabilities due within one year following the reporting date contain accrued interest of €11 million relating to the Euro Benchmark Bond.

● Raw material price risks

The LANXESS Group is exposed to changes in the market prices of commodities used for its business operations. A risk exists that only part of any increases in energy and raw material procurement costs can be passed on to customers and that such increases could therefore materially affect the operating result of the LANXESS Group.

These market-price risks are systematically monitored, analyzed and controlled as part of the financial risk management system. The aim is to achieve a deliberate and controlled reduction in the volatility of cash flows and thus the volatility of the company's economic value by making systematic use of derivatives, such as for natural gas, fuel oil and gasoline. Changes in the fair values of commodity derivatives are recognized in the income statement in other operating income or expense. Where cash flow hedges qualify for hedge accounting, changes in their values are recognized in equity under other comprehensive income without affecting the income statement until the hedged transaction is realized.

If all raw material prices had been 10% higher or lower on the reporting date, other comprehensive income would have been €4 million (2007: €3 million) higher or lower, respectively.

Derivative financial instruments Derivatives with a total fair value of €77 million (2007: €72 million) are capitalized in the consolidated financial statements of the LANXESS Group for fiscal 2008. Instruments with a negative fair value totaling €109 million (2007: €6 million) are recognized as liabilities.

Derivative Financial Instruments

€ million	Dec. 31, 2007		
	Notional value	Positive fair values	Negative fair values
Forward exchange contracts	1,164	57	(3)
Currency options	87	9	(1)
Forward commodity contracts	49	6	(2)
Total	**1,300**	**72**	**(6)**

Derivative Financial Instruments

€ million	Dec. 31, 2008		
	Notional value	Positive fair values	Negative fair values
Forward exchange contracts	1,336	35	(33)
Currency options	504	15	(36)
Cross-currency interest-rate swaps	100	27	0
Forward commodity contracts	105	0	(40)
Total	**2,045**	**77**	**(109)**

The total notional value of forward commodity contracts was €105 million (2007: €49 million), including €79 million (2007: €48 million) due within one year. The total notional value of forward exchange contracts, currency options and cross-currency interest-rate swaps was €1,940 million (2007: €1,251 million), including €1,342 million (2007: €1,194 million) due within one year.

Cash flow hedges Losses totaling €14 million were recorded in other comprehensive income in 2008 (2007: gains of €41 million) as a result of fair value changes in **forward exchange contracts** that qualify for hedge accounting. In fiscal 2008, €36 million (2007: €31 million) was removed from equity and recognized in the income statement for the period following the realization of the respective hedged transactions. Currency hedging contracts had a notional value of €1,140 million (2007: €676 million). As of December 31, 2008, these had positive fair values of €24 million (2007: €57 million) and negative fair values of €45 million (2007: €2 million). Contracts with a total notional amount of €642 million (2007: €618 million) are due within one year. The hedged cash flows will be realized within the next two years.

The LANXESS Group assumes that €14 million of the losses recognized in other comprehensive income as of December 31, 2008 will be realized in 2009. In the previous year, the LANXESS Group assumed that €38 million of the gains recognized in other comprehensive income as of December 31, 2007 would be realized in 2008 and a further €3 million would be realized in 2009.

Losses of €4 million were recognized in other comprehensive income in 2008 as a result of changes in fair values of **cross-currency interest-rate swaps** that are used to hedge cash flows on financial liabilities and qualify for hedge accounting. In fiscal 2008, €23 million was removed from equity and recognized in income for the period following the realization of the respective hedged transactions. The positive fair values as of December 31, 2008 were €27 million, while the notional values totaled €100 million. The hedged cash flows will be realized within the next three years.

The LANXESS Group assumes that €4 million of the losses recognized in other comprehensive income as of December 31, 2008 will be realized in 2011.

Losses of €27 million were recognized in other comprehensive income in 2008 (2007: gains of €3 million) as a result of fair value changes in **forward commodity contracts** that qualify for hedge accounting. In fiscal 2008, gains of €6 million were removed from equity and recognized in income for the period following the realization of the respective hedged transactions (2007: loss of €7 million). Hedges comprised forward commodity contracts with positive fair values of €0 million on December 31, 2008 (2007: €6 million) and negative fair values of €40 million (2007: €2 million). Their total notional value was €105 million (2007: €49 million), including €79 million (2007: €48 million) due within one year. The hedged cash flows will be realized within the next two years.

The LANXESS Group assumes that €22 million of the losses recognized in other comprehensive income as of December 31, 2008 will be realized in 2009 and a further €5 million will be realized in 2010. In the previous year, the LANXESS Group assumed that €3 million of the gains included in other comprehensive income as of December 31, 2007 would be realized in 2008.

Carrying amounts, measurement and fair values of financial instruments The following table shows the carrying amounts of the individual classes of financial assets and liabilities and how these are measured, along with their fair values.

Dec. 31, 2007

€ million	IAS 39 valuation category	Carrying amount Dec. 31, 2007
Financial assets		
Trade receivables	LaR	809
Receivables under finance leases	–	13
Other financial receivables	LaR	131
Cash and cash equivalents	LaR	189
Other primary financial assets		
Available-for-sale financial assets	AfS	65
Financial assets held for trading	FAHfT	5
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	63
Other hedging instruments	FAHfT	9
Financial liabilities		
Bond	FLAC	(498)
Liabilities to banks	FLAC	(86)
Trade payables	FLAC	(487)
Liabilities under finance leases	–	(63)
Other primary financial liabilities	FLAC	(13)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(4)
Other hedging instruments	FLHfT	(2)

Dec. 31, 2008

€ million	IAS 39 valuation category	Carrying amount Dec. 31, 2008
Financial assets		
Trade receivables	LaR	725
Receivables under finance leases	–	12
Other financial receivables	LaR	120
Cash and cash equivalents	LaR	249
Other primary financial assets		
Available-for-sale financial assets	AfS	97
Financial assets held for trading	FAHfT	–
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	51
Other hedging instruments	FAHfT	26
Financial liabilities		
Bond	FLAC	(498)
Liabilities to banks	FLAC	(564)
Trade payables	FLAC	(484)
Liabilities under finance leases	–	(62)
Other primary financial liabilities	FLAC	(30)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(85)
Other hedging instruments	FLHfT	(24)

LaR Loans and receivables
AfS Available-for-sale financial assets
FAHfT Financial assets held for trading
FLAC Financial liabilities measured at amortized cost
FLHfT Financial liabilities held for trading

Valuation method according to IAS 39				Valuation method according to IAS 17	Fair value Dec. 31, 2007
Amortized cost	Acquisition cost	Fair value (not recognized in the income statement)	Fair value (recognized in the income statement)		
809					809
				13	11
131					131
189					189
	1	64			64
			5		5
		63			63
			9		9
(498)					(471)
(86)					(86)
(487)					(487)
				(63)	(62)
(13)					(13)
		(4)			(4)
			(2)		(2)

Valuation method according to IAS 39				Valuation method according to IAS 17	Fair value Dec. 31, 2008
Amortized cost	Acquisition cost	Fair value (not recognized in the income statement)	Fair value (recognized in the income statement)		
725					725
				12	12
120					120
249					249
	2	95			97
					–
		51			51
			26		26
(498)					(487)
(564)					(564)
(484)					(484)
				(62)	(63)
(30)					(30)
		(85)			(85)
			(24)		(24)

Carrying Amounts by IAS 39 Category

€ million	Dec. 31, 2007	Dec. 31, 2008
Loans and receivables	1,129	1,094
Available-for-sale financial assets	65	97
Financial assets held for trading	14	26
	1,208	**1,217**
Financial liabilities measured at amortized cost	(1,084)	(1,576)
Financial liabilities held for trading	(2)	(24)
	(1,086)	**(1,600)**

Determination of fair value The principal methods and assumptions used to ascertain the fair value of financial instruments are outlined below:

Trade receivables, other receivables and cash and cash equivalents are generally due within one year. Their fair values therefore correspond to their carrying amounts. The fair values of receivables due in more than one year are determined by discounting them based on current interest rates.

The fair values of securities are determined from their market prices on the closing date, without taking transaction costs into account.

The fair values of loans are determined by discounting the future interest and repayment installments.

The Euro Benchmark Bond is actively traded in a liquid market. Its fair value is the price determined and published by the stock market.

Since liabilities to banks incur interest at market rates, their fair values are their carrying amounts.

The fair values of trade payables and other primary financial liabilities due in less than one year are their carrying amounts. The fair values of all other liabilities are determined by discounting them to present value where feasible.

The fair values of receivables and liabilities relating to finance leases are the present values of the net lease payments calculated using the market rate for comparable leasing agreements.

Most of the derivative financial instruments used by LANXESS are traded in an active, liquid market. The fair values of forward exchange contracts are derived from their trading or listed prices using the "forward method." Currency options are valued using an asset pricing model based on the Black & Scholes model. Fair values of forward commodity contracts are also derived from their trading or listed prices by the "forward method." Where market prices are not available, values are determined using recognized capital market pricing methods.

Net result by category The following table provides an overview of the net results according to the measurement categories defined in IAS 39:

Net Results by IAS 39 Category

€ million	2007	2008
Loans and receivables	11	(4)
Availlable-for-sale financial assets	19	(46)
Assets and liabilities held for trading	0	2
Financial liabilities measured at amortized cost	(27)	(46)
	3	**(94)**

Net gains and losses principally comprise interest income and expense, dividend income and valuation adjustments.

In addition, fees of €4 million were incurred in 2008 (2007: €5 million) in connection with financial instruments.

Collateralization of financial liabilities Financial liabilities of €47 million (2007: €36 million) were collateralized by mortgages or other property claims.

32 Notes to the Cash Flow Statement

Net cash flow provided by operating activities Net operating cash flow in 2008 amounted to €506 million (2007: €470 million). Income before income taxes, which is the starting point for the cash flow statement, came in at €229 million (2007: €172 million). The changes in other assets and liabilities totaled €56 million (2007: €199 million). Apart from income before income taxes, net operating cash flow includes depreciation, amortization and write-downs of €279 million (2007: €298 million) and income tax payments of €120 million (2007: €114 million).

Net cash used in investing activities Purchases of property, plant and equipment and intangible assets resulted in a cash outflow of €356 million in 2008 (2007: €284 million). A further €245 million was disbursed for the acquisition of the Brazilian rubber producer Petroflex Industria e Comercio S.A., Rio de Janeiro, Brazil, and the acquisition of the production facilities for yellow pigments from our former cooperation partner Jinzhuo Chemicals Company Ltd., Jinshan, China, net of €33 million in acquired cash and cash equivalents. At the same time proceeds of €27 million from the divestment of business units were recorded (2007: €68 million) relating to the divestment of the Lustran Polymers Business Unit in the previous year. Further cash inflows comprised interest receipts of €14 million (2007: €13 million) and income of €5 million (2007: €8 million) from other affiliates. This consisted mainly of inflows from the transfer to LANXESS of the pro-rata share of the income of CURRENTA GmbH & Co. OHG, Leverkusen, Germany, which is accounted for at equity. Net cash outflow for investing activities was €557 million (2007: €335 million).

Net cash provided by financing activities Net cash inflow of €115 million was recorded from financing activities (2008: outflow of €115 million), including a €246 million inflow from net borrowings (2007: €12 million outflow for net loan repayments), a €47 million (2007: €31 million) outflow for interest paid and other financial disbursements, and an €83 million outflow for the dividend paid by LANXESS AG in 2008 (2007: €21 milion).

Cash and cash equivalents Cash and cash equivalents (cash, checks, bank balances) amounted to €249 million on December 31, 2008 (2007: €189 million). In accordance with IAS 7, this item includes securities with maturities of up to three months from the date of acquisition.

33 Segment reporting

Key Data by Segment

€ million	Performance Polymers		Advanced Intermediates	
	2007	2008	2007	2008
External sales	2,680	3,280	1,204	1,310
Intersegment sales	32	26	74	61
Segment/Group sales	2,712	3,306	1,278	1,371
Segment result/EBIT	273	208	137	142
Segment assets	1,556	1,921	619	702
Segment acquisitions		259		
Segment capital expenditures	139	178	52	76
Depreciation and amortization	103	128	37	44
Impairments		11		
Segment liabilities	483	644	325	320
Employees (December 31)	4,334	4,672	2,450	2,530
Employees (average for the year)	4,318	4,650	2,463	2,541

Key Data by Region

€ million	EMEA (excluding Germany)		Germany	
	2007	2008	2007	2008
External sales by market	2,196	2,201	1,614	1,421
Region assets	771	769	1,661	1,644
Capital expenditures	61	85	133	164
Acquisitions	23			
Employees (December 31)	2,734	2,703	7,847	7,772

Performance Chemicals		Other/Consolidation		LANXESS	
2007	**2008**	**2007**	**2008**	**2007**	**2008**
1,970	1,930	754	56	6,608	6,576
10	10	(116)	(97)	0	0
1,980	1,940	638	(41)	6,608	6,576
183	129	(378)	(157)	215	322
1,113	1,103	189	179	3,477	3,905
23	14			23	273
69	82	24	20	284	356
86	74	17	13	243	259
2	8	53	1	55	20
552	475	386	392	1,746	1,831
5,223	5,021	2,603	2,574	14,610	14,797
5,235	5,079	3,523	2,598	15,539	14,868

Americas		Asia-Pacific		LANXESS	
2007	**2008**	**2007**	**2008**	**2007**	**2008**
1,584	1,798	1,214	1,156	6,608	6,576
833	1,233	212	259	3,477	3,905
75	68	15	39	284	356
	259		14	23	273
2,650	2,876	1,379	1,446	14,610	14,797

Notes to the segment reporting The valuation principles applied in segment reporting correspond to the uniform recognition and valuation principles used for the consolidated financial statements prepared in accordance with IFRS.

In accordance with IAS 14, a breakdown of certain financial statement data is given by business segment and geographical region. The segments and regions are the same as those used for internal reporting, allowing a reliable assessment of risks and returns in the Group. The aim of segment reporting is to provide users of the financial statements with meaningful information regarding the profitability and future prospects of the Group's activities.

On December 31, 2008 the LANXESS Group comprised the following reporting segments:

Segment	Operations
Performance Polymers	Special-purpose rubber for high-quality rubber products, e.g. for use in vehicles, tires, construction and footwear; engineering plastics, polyamide compounds
Advanced Intermediates	Intermediates for the agrochemicals and coatings industries; fine chemicals as precursors and intermediates for pharmaceuticals, agrochemicals and specialty chemicals; custom manufacturing
Performance Chemicals	Material protection products; inorganic pigments for the coloring of concrete, emulsion paints and other coatings; finishing agents for the leather industry; rubber chemicals; ion exchange resins for water treatment; plastics additives such as flame retardants and plasticizers

The Other/Consolidation segment eliminates intersegment items and reflects assets and liabilities not directly allocable to the core segments including, in particular, those pertaining to the Corporate Center. The segment also includes the €48 million (2007: €32 million) interest in the associate CURRENTA GmbH & Co. OHG, Leverkusen, Germany, and its equity-method income of €20 million (2007: equity-method loss of €1 million).

The majority of employees allocated to the Other/Consolidation segment provide services for more than one of the core segments. They include technical service staff.

Engineering Plastics ceased to be an operating segment as of September 30, 2007 and, according to the new segmentation, contained only the Lustran Polymers activities, which were divested as of that date. The originally reported 2007 figures for the Other/Consolidation segment have been restated to include the amounts attributable to the former Engineering Plastics segment.

Restatements in the Other/Consolidation Segment

€ million	2007		2007
	Originally reported	Engineering Plastics	Restated
External sales	86	668	754
Intersegment sales	(117)	1	(116)
Segment/Group sales	(31)	669	638
Segment result/EBIT	(202)	(176)	(378)
Segment assets	189		189
Segment acquisitions			
Segment capital expenditures	7	17	24
Depreciation and amortization	17		17
Impairments	2	51	53
Segment liabilities	386		386
Employees (December 31)	2,603		2,603
Employees (average for the year)	2,738	785	3,523

The reporting regions are those into which LANXESS's activities are organized: EMEA (Europe excluding Germany, Middle East, Africa), Germany, Americas, and Asia-Pacific.

Segment assets principally comprise property, plant and equipment, intangible assets, inventories and trade receivables. In particular, segment assets do not include cash and cash equivalents, income tax receivables, receivables from derivatives, or other financial assets.

Reconciliation of Segment Assets

€ million	2007	2008
Segment assets	**3,477**	**3,905**
Cash and cash equivalents	189	249
Other financial assets	213	227
Deferred tax assets	93	137
Derivative assets	72	77
Income tax receivables	5	56
Group assets	**4,049**	**4,651**

Segment liabilities basically consist of trade payables, other liabilities and provisions. In particular, segment liabilities do not include income tax liabilities, liabilities from derivatives, or other financial liabilities.

Reconciliation of Segment Liabilities

€ million	2007	2008
Segment liabilities	**1,746**	**1,831**
Other financial liabilities	660	1,154
Derivative liabilities	6	109
Income tax liabilities	52	103
Deferred tax liabilities	60	47
Group liabilities	**2,524**	**3,244**

Capital expenditures made by the segments mainly comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and write-downs in fiscal 2007 and 2008 were recognized directly in income.

In fiscal 2008, the core segments reported other non-cash expenses of €422 million (2007: €152 million). These were attributable to the segments as follows: Performance Polymers €223 million (2007: €59 million), Advanced Intermediates €66 million (2007: €51 million), Performance Chemicals €133 million (2007: €42 million). A total of €197 million (2007: €246 million) in non-cash expenses was attributable to the Other/Consolidation segment. The principal non-cash expenses comprised allocations to provisions and write-downs of inventories and receivables.

34 Audit fees The LANXESS Group recognized audit fees of €2,254 thousand as expenses in 2008 (2007: €5,332 thousand). Of this amount, €1,161 thousand (2007: €1,117 thousand) relates to the auditing of financial statements, €488 thousand (2007: €1,669 thousand) to audit-related services and other assurance and valuation services, and €605 thousand (2007: €2,546 thousand) to other services rendered to Group companies. The fees for financial statements auditing comprise all fees, including incidental expenses, paid or still to be paid with respect to the audit of the consolidated financial statements of the Group and the issuance of an opinion thereon, as well as for the audit of the legally prescribed financial statements of LANXESS AG and its German subsidiaries.

35 Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act A Declaration of Compliance with the German Corporate Governance Code has been issued pursuant to Section 161 of the German Stock Corporation Act (AktG) and made available to the stockholders.

36 Exemptions under Section 264 Paragraph 3 of the German Commercial Code The following German subsidiaries made use of some of the disclosure exemptions granted in Section 264 Paragraph 3 of the German Commercial Code (HGB):

ALISECA GmbH, Leverkusen
Erste LXS GmbH, Leverkusen
IAB Ionenaustauscher GmbH Bitterfeld, Greppin
LANXESS Accounting GmbH, Leverkusen
LANXESS Buna GmbH, Marl
LANXESS Deutschland GmbH, Leverkusen
LANXESS Distribution GmbH, Langenfeld
LANXESS International Holding GmbH, Leverkusen
LXS Dormagen Verwaltungs-GmbH, Dormagen
Perlon-Monofil GmbH, Dormagen
Rhein Chemie Rheinau GmbH, Mannheim
SALTIGO GmbH, Langenfeld
Vierte LXS GmbH, Leverkusen

RESPONSIBILITY STATEMENT

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

Leverkusen, March 3, 2009

LANXESS Aktiengesellschaft, Leverkusen

The Board of Management

Dr. Axel C. Heitmann	Dr. Werner Breuers
Dr. Rainier van Roessel	Matthias Zachert

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the LANXESS Aktiengesellschaft, Leverkusen, comprising the income statement, balance sheet, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the E.U., and the additional requirements of German commercial law pursuant to § (Article) 315 a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs, as adopted by the E.U., the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, March 4, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

P. Albrecht	J. Sechser
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FINANCIAL CALENDAR 2009

MAY 7
Interim Report Q1 2009

MAY 7
Annual Stockholders' Meeting

AUGUST 12
Interim Report Q2 2009

NOVEMBER 12
Interim Report Q3 2009

FEEDBACK

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