



INTERIM REPORT  
JANUARY 1 – JUNE 30, 2008

HALF-YEAR FINANCIAL REPORT

**LANXESS**  
Energizing Chemistry

## Key Data

€ million	Q2 2007	Q2 2008	Change in %	H1 2007	H1 2008	Change in %
Sales	1,727	1,765	2.2	3,438	3,300	(4.0)
EBITDA pre exceptionals	211	223	5.7	430	443	3.0
EBITDA margin pre exceptionals	12.2%	12.6%		12.5%	13.4%	
EBITDA	60	180	> 100	272	389	43.0
EBIT pre exceptionals	151	159	5.3	309	318	2.9
EBIT	(44)	116	n.a.	106	261	> 100
EBIT margin	n.a.	6.6%		3.1%	7.9%	
Net income (loss)	(59)	53	n.a.	32	156	> 100
Earnings per share (€)	(0.70)	0.64	n.a.	0.38	1.87	> 100
Cash flow from operating activities	112	82	(26.8)	219	132	(39.7)
Depreciation and amortization	104	64	(38.5)	166	128	(22.9)
Capital expenditures	64	66	3.1	111	105	(5.4)
Total assets				4,049 <sup>1)</sup>	4,850	19.8
Equity (including minority interest)				1,525 <sup>1)</sup>	1,626	6.6
Equity ratio				37.7% <sup>1)</sup>	33.5%	(11.0)
Pension provisions				470 <sup>1)</sup>	477	1.5
Net financial liabilities				460 <sup>1)</sup>	887	92.8
Employees (as of June 30)				14,610 <sup>1)</sup>	15,072	3.2

1) as of December 31, 2007

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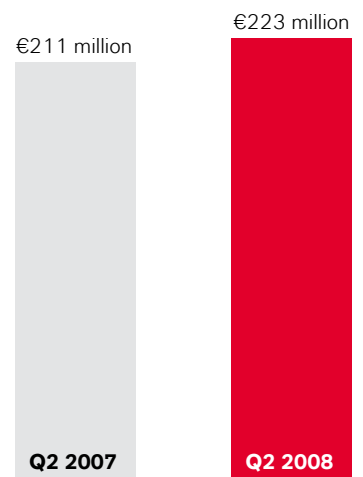
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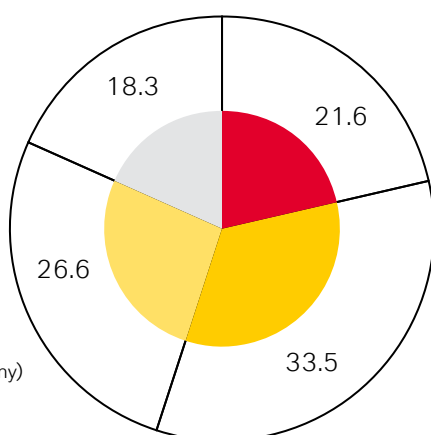
## €223 MILLION

Highest EBITDA pre exceptionals since foundation of LANXESS



## GROWTH IN ASIA

Adjusted sales in the region up 43%



Sales by Region  
Q2 2008

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

- Strong organic sales growth of 14.0%
- EBITDA pre exceptionals increases by 5.7%
- EBITDA margin rises to 12.6% from 12.2% a year earlier
- Efficiency programs in Canada and Belgium continued
- Integration of Petroflex proceeding to schedule
- Net financial debt at €887 million following Petroflex acquisition
- Outlook for 2008: EBITDA pre exceptionals forecasted at over €700 million

# SECOND-QUARTER HIGHLIGHTS

## APRIL 2

### Acquisition of a majority interest in Petroflex completed

LANXESS has completed the acquisition of 70% of the shares of Petroflex S.A., Latin America's largest rubber producer, paying roughly €200 million for the share package. The transaction took legal and economic effect on April 1, 2008. Petroflex S.A. will be included in the LANXESS Group financial statements starting in the second quarter of 2008. Petroflex represents an ideal addition to LANXESS's product portfolio. The acquisition strengthens the company's position in one of the world's most important growth markets.

## APRIL 17

### LANXESS identifies rising demand in China for "green" products

Sales of environmentally friendly products and system solutions in China have increased significantly over the past twelve months. "We expect this trend to continue, giving further impetus to our business in China," said Axel C. Heitmann, Chairman of the Board of Management of LANXESS, at the plastics trade fair Chinaplas 2008 in Shanghai.

## APRIL 29

### Singapore ambassador welcomes construction of new butyl rubber plant

At a meeting with Axel C. Heitmann, Ampalavanar Selverajah, the ambassador of the Republic of Singapore to Germany, described the construction of the new butyl rubber plant in Singapore as an outstanding example of economic commitment. Starting in 2011, LANXESS will operate Asia's largest facility for the manufacture of synthetic rubber – mainly for tire production – at the Jurong Island chemical park. Both parties are interested in further developing their relations beyond the scope of this record investment project.

## MAY 19



### LANXESS to lower emissions of climate gases

LANXESS will reduce emissions of climate-damaging gases in Germany by roughly 80% by 2012 relative to 2007. To achieve this goal, the company will realize Germany's first industrial joint implementation project, an innovative type of climate protection initiative. The project centers on the construction of a new plant – the second of its kind – for the reduction of climate-damaging nitrous oxide ( $N_2O$ ) at the company's 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 new plant, already due on stream at the beginning of 2009, will completely neutralize LANXESS's nitrous oxide emissions, saving more than 1.5 million tons of  $CO_2$  equivalent annually by 2012 compared with 2007. The company will also decrease its yearly  $CO_2$  emissions in Germany by about another 10,000 tons by 2012 through lasting improvements in energy efficiency at its production facilities.

**MAY 28**

### **Realignment of LANXESS Rubber NV in Zwijndrecht, Belgium**

LANXESS announces plans to realign the activities of its Belgian subsidiary LANXESS Rubber NV at the Zwijndrecht site. The goal is to improve the site's competitiveness in the globally expanding butyl rubber market by continuing to reduce production costs. The realignment follows on from the efficiency program launched there in 2006. Numerous steps have already been initiated and implemented under this program to increase the site's productivity and lower raw material and energy costs.

**MAY 29**

### **2008 Annual Stockholders' Meeting**

At the Annual Stockholders' Meeting in Cologne, LANXESS CEO Axel C. Heitmann announces that the stockholders will continue to share appropriately in the company's success in the future. Like all the other resolutions on the agenda, the quadrupling of the dividend from €0.25 to €1.00 is approved by a margin of more than 99%. A total of 57.68% of the capital stock is represented at the meeting, once again exceeding the high level of the previous year.

**JUNE 2**



### **“Kölnarena” venue to become the “LANXESS Arena”**

LANXESS, looking for a landmark in North Rhine-Westphalia through which to express its commitment to the region and to Germany as an industry base, has secured the naming rights for the “Kölnarena” event venue in Cologne for the next ten years. The future “LANXESS Arena” is by far the best known and best attended event venue of its kind in Germany.

**JUNE 12**

### **Long-term collaboration with the K+S Group**

In the fast-growing fertilizer business, LANXESS is counting on the success of its long-term cooperation with the K+S Group. K+S subsidiary fertiva GmbH and LANXESS inaugurate a new sifting facility at LANXESS's Antwerp site. fertiva has invested roughly €5 million in the facility and directly markets much of the ammonium sulfate produced at the site. The cooperation is based on an existing supply agreement that was extended in summer 2007 for a further ten years.

**JUNE 17**

### **LANXESS business unit honored once again**

The Basic Chemicals business unit is honored with the Supplier Award 2008 by Swiss-based Syngenta Crop Protection AG, a leading global supplier of crop protection products, for its accessibility and dependability. Saltigo, another LANXESS business unit, already received this prestigious award two years ago.

**JUNE 26**

### **LANXESS completes first acquisition in China**

LANXESS expands its Asian activities in the Inorganic Pigments business unit by purchasing one of China's largest iron oxide pigments facilities from its cooperation partner Jinzhuo Chemicals Company Ltd. The plant in Jinshan, near Shanghai, features a modern, environmentally friendly production process. With this acquisition, LANXESS not only expands its global production capacity for inorganic pigments by 5%, but also secures the supply of raw materials for its pigment blending facility in Shanghai, making it fully independent of local suppliers.

# LANXESS STOCK

Stock markets showed considerable volatility in the second quarter of 2008. The German indices booked substantial gains on the heels of the downturn that characterized the first few months of the year, but again suffered significant losses toward the end of the period. News about the financial market crisis, oil prices and inflation as well as the ongoing strength of the euro proved to be the main drivers of market developments. All in all, the uncertainty on the capital markets continued to increase in the second quarter.

## **SHARE PRICE MOVES IN LINE WITH MARKET VOLATILITY**

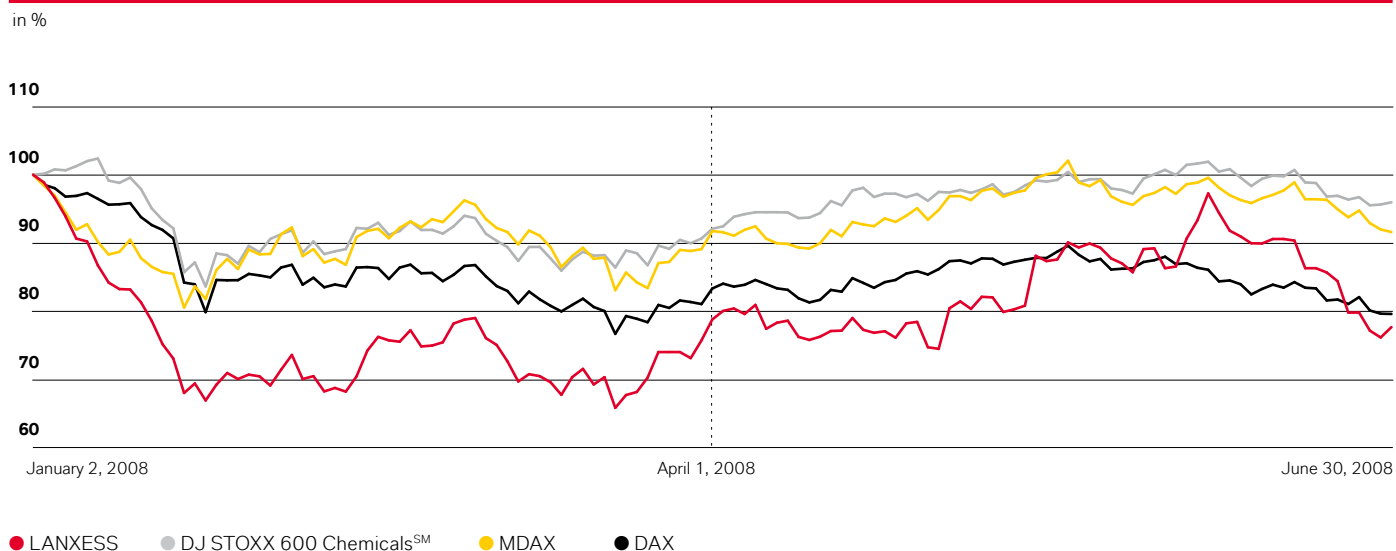
The German stock indices began to recover in April. By early May, the DAX had topped 7,000 points again, a level last reached in February, and by mid-May, the MDAX had approached the 10,000-point mark for the first time in 2008, and the Dow Jones STOXX 600 Chemicals<sup>SM</sup> rose by more than 500 points. Confidence was fueled at this time by encouraging news from the U.S., where the economic data exceeded expectations and the Federal Reserve cut the federal funds rate once more. The brief dip in oil prices gave the equity markets additional hope. Having experienced strong selling pressure in the nervous market of the preceding months, shares of mid-cap chemical companies benefited particularly from the recovery.

With markets calmer, LANXESS shares also performed better. For the first time in months, the capital market reacted favorably to important, positive corporate news from LANXESS, including the solid earnings for Q1 2008 and the company's confirmation of the previously stated profit targets for 2008 despite the prevailing market environment. Moreover, at the Annual Stockholders' Meeting held in late May, LANXESS recommended to its stockholders a dividend of €1.00 per share, four times the previous dividend. Starting in mid-May, LANXESS shares steadily approached €30 for the first time in 2008, reaching their half-year high of €32.68 on June 5.

In June sentiment reversed again. Markets succumbed to fears about rising inflation and the effects of the financial crisis, and the price of oil reached a new record. Volatility persisted, with the DAX sliding more than 10% in June alone and closing the month at 6,418. Over the second quarter as a whole it shed 1.8%, having already plunged some 20% in the first quarter. The MDAX ended the period just 2.8% higher at 9,035 points. The Dow Jones STOXX 600 Chemicals<sup>SM</sup> returned to below 500 points, closing the quarter up 6% at 494 points.

The shift in sentiment and resulting market decline again impacted LANXESS's stock price, despite the company's solid performance. At the end of the period LANXESS shares were trading at their first-quarter level, closing the quarter on June 30, 2008 at €26.08 (March 31, 2008: €25.43).

## Stock Performance vs. Indices



## LANXESS Stock

		Q4 2007	Q1 2008	Q2 2008
Capital stock/no. of shares <sup>1)</sup>	€/no. of shares	83,202,670	83,202,670	83,202,670
Market capitalization <sup>1)</sup>	€ billion	2.81	2.12	2.17
High/low for the period	€	36.29/26.72	34.37/20.77	32.68/25.01
Closing price <sup>1)</sup>	€	33.60	25.43	26.08
Trading volume	million shares	51.600	57.301	44.129
Earnings per share	€	0.06	1.23	0.64

1) end of quarter: Q1: March 31, 2008, Q2: June 30, 2008, Q4: December 31, 2007

## Reported Holdings of 3% or above by Institutional Investors (as of July 20, 2008)

Dodge & Cox, San Francisco (USA)	10.25%
Barclays Global Investors UK Limited, London (UK)	9.95%
AXA S.A., Paris (France)	5.20%
TPG-Axon Group, New York (USA)	5.12%
Greenlight Group, New York (USA)	3.21%
JP Morgan Asset Management Holding Inc., New York (USA)	3.09%
Third Avenue Management LLC, New York (USA)	3.04%

# INTERIM GROUP MANAGEMENT REPORT

AS OF JUNE 30, 2008

## BUSINESS TRENDS AND ECONOMIC SITUATION

**Economic environment** The economic environment in the first half of 2008 remained generally favorable for LANXESS, although there were a number of negative factors, such as the weakness of some currencies and steep increases in the price of raw materials and energy. The North American market suffered the adverse effects of declining demand, particularly in its construction and automotive sectors, while growth in the emerging economies of the Asia-Pacific region, Central and Eastern Europe and Latin America remained robust. Despite a slight clouding of the economic horizon in Germany, the country's chemical industry continued to benefit from the stimulus provided by exports. Global chemicals output was somewhat higher than in the previous year.

**Sales** The LANXESS Group posted a very gratifying performance in the second quarter of 2008 in an increasingly challenging market environment. Sales, at €1,765 million, were up 2.2% from the prior-year period. Adjusted for portfolio changes and negative currency effects, especially from the U.S. dollar, operational sales growth amounted to 14.0%. Price adjustments occasioned by the higher cost of raw materials drove sales up 7.3%, while substantial volume growth gave sales a 6.7% boost. The 6.0% negative portfolio effect resulted from the divestiture of the Lustran Polymers business unit and the Borchers group in the previous year. This was offset by the first-time consolidation of the Brazilian Petroflex group effective April 1, 2008.

Looking at the first half, sales decreased by 4.0% to €3,300 million year on year. After adjusting for portfolio and currency effects, LANXESS increased its sales by 11.1%. Positive price effects increased sales by 5.6%, while solid volume growth spurred by brisk demand resulted in a 5.5% improvement.

### Effects on Sales

in %	Q2 2008	H1 2008
Price	7.3	5.6
Volume	6.7	5.5
Currency	(5.8)	(5.4)
Portfolio	(6.0)	(9.7)
	<b>2.2</b>	<b>(4.0)</b>

Prices were raised in all of the Group's segments to compensate for the sharp rise in raw material and energy costs. LANXESS also succeeded in increasing volumes across all segments thanks to healthy demand and additional production capacity.

The largest sales gains, both for the quarter and the half year, took place in the Performance Polymers segment, where growth was driven by the acquisition of the Petroflex group and by significant price and volume increases. Volume growth factored heavily into the sales increase in the Advanced Intermediates segment, as did the higher prices in the segment's Basic Chemicals business unit. Adjusted for currency effects, sales in this segment rose by double digits, both in the second quarter and in the first half. Sales in the Performance Chemicals segment were flat with the previous year. Adjusted for negative currency effects and on an operational basis, prices in this segment, too, increased while volumes gained slightly. The sales figures for the Other/Consolidation segment in the prior-year quarter and first six months of 2007 have been restated to include the amounts attributable to the former Engineering Plastics segment.

### Sales by Segment

€ million	Q2 2007	Q2 2008	Change %	Proportion of Group sales %	H1 2007	H1 2008	Change %	Proportion of Group sales %
Performance Polymers	671	908	35.3	51.5	1,329	1,601	20.5	48.5
Advanced Intermediates	291	320	10.0	18.1	598	649	8.5	19.7
Performance Chemicals	520	523	0.6	29.6	1,021	1,018	(0.3)	30.8
Other/Consolidation	245	14	(94.3)	0.8	490	32	(93.5)	1.0
	<b>1,727</b>	<b>1,765</b>	<b>2.2</b>	<b>100.0</b>	<b>3,438</b>	<b>3,300</b>	<b>(4.0)</b>	<b>100.0</b>



Sales in Asia-Pacific developed very well, fueled by the region's economic growth. All operating segments reported growth well into double digits on both a quarterly and half-year basis. Adjusted for currency effects and portfolio changes, LANXESS also grew sales in the EMEA (excluding Germany) and Americas regions thanks to strong demand. In Germany, sales rose only slightly from the previous year after adjusting for portfolio effects, given the slight slowing of the country's economy.

**Gross profit** The cost of sales increased by 0.8% to €1,343 million in the second quarter of 2008 due to the growth in business and higher raw material and energy costs, which were partly compensated by currency and portfolio effects. Gross profit improved by 6.8% to €422 million. The absence of earnings contributions from the divested businesses was more than offset by higher earnings in the other business units and the inclusion of the Petroflex group. In light of the persistently brisk demand for LANXESS products, the company succeeded in passing on all of the increases in the prices of its raw materials. Procurement prices for butadiene, n-butane, isobutylene, ammonium, sulfur and ferrous scrap continued to trend

upward. The company compensated for higher energy costs by boosting productivity and maximizing capacity usage. While gross profit was impacted by negative currency changes, other operating income included gains from hedging transactions. The gross profit margin, at 23.9%, exceeded the prior-year quarter's 22.9% by 1.0 percentage point. The divestment of the low-earning Lustran Polymers business, in particular, had a positive impact on the gross profit margin.

Comparing the first half of 2008 to the same period of 2007, the cost of sales showed a disproportionate 5.5% decrease to €2,501 million, largely due to portfolio effects. Gross profit came in at €799 million, or 1.0% above the first half of 2007. Over the half year, too, the sharp increases in raw material costs were passed on in selling prices. Volumes also rose, boosting capacity usage. The improved operating performance of the business units and the earnings contribution of the Petroflex group, which was consolidated effective April 1, 2008, made up for the absence of earnings from the Lustran Polymers business unit and the Borchers group, which were divested in the previous year. The gross margin posted a tangible year-on-year increase for the six-month period.

#### EBITDA Pre Exceptionals by Segment

€ million	Q2 2007	Q2 2008	Change %	H1 2007	H1 2008	Change %
Performance Polymers	93	127	36.6	194	231	19.1
Advanced Intermediates	50	49	(2.0)	107	105	(1.9)
Performance Chemicals	89	78	(12.4)	171	160	(6.4)
Other/Consolidation	(21)	(31)	(47.6)	(42)	(53)	(26.2)
	<b>211</b>	<b>223</b>	<b>5.7</b>	<b>430</b>	<b>443</b>	<b>3.0</b>

**EBITDA and EBIT** The operating result before depreciation and amortization (EBITDA) pre exceptionals for the second quarter of 2008 came in at €223 million, up 5.7% from the prior-year quarter. The substantial cost pressure caused by higher raw material and energy costs was neutralized at Group level by price increases. The growth in business in Performance Polymers contributed significantly to the rise in Group earnings, this segment's performance being enhanced by the inclusion of the Petroflex group, which was acquired effective April 1, 2008. This acquisition more than made up for the absence of earnings from the divested Lustran Polymers activities of the former Engineering Plastics segment. Advanced Intermediates succeeded in matching the high earnings level of the prior-year period. Performance Chemicals recorded a drop in earnings, chiefly because of adverse currency effects.

Changes in the individual cost items in the income statement were partly attributable to portfolio effects. In addition, research activities were expanded as planned. The Group's EBITDA margin rose 0.4 percentage points to 12.6% despite the ongoing weakness of the U.S. dollar.

On a half-year basis, EBITDA pre exceptionals climbed 3.0% to €443 million. Adjusted for portfolio effects, LANXESS achieved very gratifying earnings growth, driven by price and volume increases. These offset the negative currency effects and, notably, the steep

increase in raw material and energy prices. Performance Polymers realized substantial earnings growth due to price increases, the good capacity utilization resulting from high volumes, and also to portfolio effects. Despite negative currency shifts, Advanced Intermediates also matched the substantial earnings level of the first half of 2007. In Performance Chemicals the Leather and Rubber Chemicals business units, particularly, helped to mitigate the effect of lower earnings in the Material Protection Products and Inorganic Pigments business units. The prior-year figures for the Other/Consolidation segment as restated in this report include the earnings contributions from the Lustran Polymers business, which was divested at the end of September 2007. The improvement in the balance of other operating income and expenses was attributable to higher gains from currency hedging instruments used in the LANXESS Group. This helped diminish the sliding U.S. dollar's impact on the gross profit margin. The EBITDA margin pre exceptionals advanced 0.9 percentage points to 13.4%.

The operating result (EBIT) amounted to €116 million in the second quarter of 2008, compared with minus €44 million in the prior-year period. Exceptional items, which are reflected in other operating income and expenses, totaled €43 million for the quarter, the full amount of which impacted EBITDA. Most of the items related to restructuring and efficiency programs at the company's sites in Belgium, Canada and the United States. In the second quarter of

2007 there were exceptional charges of €195 million, €44 million of which was attributable to asset write-downs. Most of these related to the divestiture of the Lustran Polymers business unit.

EBIT for the first half of 2008 totaled €261 million, up from €106 million for the same period a year ago, and reflected €57 million in exceptional items. Of this amount, impairment losses on property, plant and equipment accounted for €3 million. EBIT for the first half of the prior year was impacted by exceptional items of €203 million.

**Financial result** The financial result amounted to minus €36 million in the second quarter of 2008, compared with plus €2 million in the prior-year period. Apart from a slight deterioration in the net interest position, the main reason for the decrease was an impairment loss recognized on the financial interest in INEOS ABS (Jersey) Limited in response to the continued bleak outlook for this business. The prorated share in the earnings of CURRENTA GmbH & Co. OHG, which is included at equity in the consolidated financial statements, amounted to €7 million, versus a €14 million prorated share in its second-quarter 2007 earnings, which were marked by one-time effects.

Comparing the first half of 2008 to the same period of 2007, the financial result slid from minus €16 million to minus €40 million. The impairment loss taken on the financial interest in INEOS ABS was also a major factor in the half-year decline. Interest expense rose slightly in connection with the financing of the Petroflex acquisition.

The income from investments in associates rose €2 million from a year earlier due to measures taken at CURRENTA GmbH & Co. OHG to improve profitability.

**Income before income taxes** Due to the marked improvement in the operating result, second-quarter income before income taxes increased from minus €42 million to plus €80 million. The effective tax rate stood at 30.0%. For comparison, it amounted to 34.0% in the prior-year quarter after adjusting for one-time effects.

Income before income taxes for the first half advanced by €131 million to €221 million. Tax expense, however, was up only €5 million to €61 million because of the one-time tax effects related to the Lustran Polymers transaction in the previous year. The effective tax rate amounted to 27.6%, against 32.2% in the first half of 2007 after adjusting for one-time effects.

**Net income and earnings per share** Net income totaled €53 million in the second quarter of 2008, compared to a €59 million net loss for the same period of 2007. Half on half, it rose €124 million to €156 million. The figures for the previous year were largely shaped by exceptional charges relating to the sale of the Lustran Polymers business unit. Income of €3 million for the quarter and €4 million for the half was attributable to minority interest. The respective increase of €2 million in each case compared to 2007 is the result of earnings attributable to the outside stockholders of Petroflex.

Earnings per share advanced from minus €0.70 to €0.64 for the quarter and from €0.38 to €1.87 for the half because of the higher net income and the smaller number of LANXESS shares now in circulation.

## BUSINESS TRENDS BY REGION

### Sales by Market

	Q2 2007		Q2 2008		Change	H1 2007		H1 2008		Change
	€ million	%	€ million	%		€ million	%	€ million	%	
EMEA (excluding Germany)	567	32.8	591	33.5	4.2	1,157	33.7	1,143	34.6	(1.2)
Germany	420	24.3	381	21.6	(9.3)	831	24.2	754	22.9	(9.3)
Americas	430	24.9	470	26.6	9.3	840	24.4	799	24.2	(4.9)
Asia-Pacific	310	18.0	323	18.3	4.2	610	17.7	604	18.3	(1.0)
	<b>1,727</b>	<b>100.0</b>	<b>1,765</b>	<b>100.0</b>	<b>2.2</b>	<b>3,438</b>	<b>100.0</b>	<b>3,300</b>	<b>100.0</b>	<b>(4.0)</b>

LANXESS Group sales in the **EMEA** region (Europe [excluding Germany], Middle East, Africa) increased 4.2% to €591 million in the second quarter of 2008. Adjusted for portfolio changes and currency effects, sales were up 18.0% year on year. The Performance Polymers and Advanced Intermediates segments, both of which posted double-digit growth rates, were the chief drivers of this growth, while business in Performance Chemicals expanded by a substantial single-digit percentage. Business in Western Europe, notably Belgium, France and Italy, was particularly robust, followed

at some distance by the Middle East, Africa and Eastern Europe. There, however, business developed especially well in Slovakia, Hungary, the Czech Republic and Poland thanks to the momentum of these countries' economies.

Half-year sales in the region receded 1.2%, from €1,157 million to €1,143 million, but were up 12.2% on an adjusted basis. Growth drivers for the half were identical to those for the quarter.

With a share of more than 30% in total sales for both the quarter and the half, EMEA (excluding Germany) remains the largest of the LANXESS Group's regions in terms of sales.

Sales in **Germany** fell 9.3% in both the second quarter and the first half, to €381 million and €754 million, respectively. Adjusted for portfolio changes, sales were level with the previous year, gaining just 0.6%. Sales in Performance Chemicals proved the largest contributor to this growth, offsetting a slight dip in sales in the Advanced Intermediates segment caused by a seasonal slowing in sales of the Saltigo business unit.

On an operational basis, i.e. adjusted for portfolio effects, sales in the region grew by a low single-digit percentage. Germany's share of total sales dropped in both the quarter and the half.

Second-quarter sales in the **Americas** region increased by €40 million, or 9.3%, from €430 million to €470 million. After integrating Petroflex into the Group's portfolio effective April 1, 2008, LANXESS significantly increased its sales in Latin America, especially Brazil. On a portfolio- and currency-adjusted basis, the Group posted a 12.3% sales increase in the Americas region. Performance Polymers was the growth engine here, with a sizable double-digit increase. Growth rates also exceeded 10% in both North America and Latin America.

Sales for the half, at €799 million, were down 4.9% from the same period of the previous year. Adjusted for portfolio changes and currency effects, the Group achieved operational sales growth of 9.3% for the half, essentially on account of the same dynamics described above for the second quarter.

The proportion of total sales attributable to the Americas region for the half year, at 24.2% versus 24.4% for the prior-year period, was effectively constant, while the region's share of sales for the quarter edged 1.7 percentage points higher to 26.6%.

Second-quarter Group sales in the **Asia-Pacific** region advanced 4.2%, from €310 million to €323 million. After adjusting for shifts in currency parities as well as divested and newly integrated businesses, LANXESS increased its sales in the region by a very substantial 43%. Performance Polymers once again proved to be the principal driver of this growth, outperforming the other segments by a wide margin. LANXESS achieved strong double-digit growth rates in China, India and Japan.

For the half, Group sales in the region declined by 1.0%, from €610 million to €604 million. On an operational basis, they surged 37%, again driven by the Performance Polymers segment.

The region's share of total sales continued to grow as in prior reporting periods, advancing 0.3 percentage points for the quarter and 0.6 percentage points for the half to 18.3% for both periods.

## SEGMENT INFORMATION

### Performance Polymers

	Q2 2007		Q2 2008		Change	H1 2007		H1 2008		Change
	€ million	Margin %	€ million	Margin %		€ million	Margin %	€ million	Margin %	
Sales	671		908		35.3	1,329		1,601		20.5
EBITDA pre exceptionals	93	13.9	127	14.0	36.6	194	14.6	231	14.4	19.1
EBITDA	93	13.9	78	8.6	(16.1)	194	14.6	180	11.2	(7.2)
Operating result (EBIT) pre exceptionals	68	10.1	95	10.5	39.7	144	10.8	173	10.8	20.1
Operating result (EBIT)	68	10.1	46	5.1	(32.4)	144	10.8	119	7.4	(17.4)
Capital expenditures <sup>1)</sup>	33		32		(3.0)	54		47		(13.0)
Depreciation and amortization	25		32		28.0	50		61		22.0

1) intangible assets and property, plant and equipment

Second-quarter sales in the **Performance Polymers** segment gained substantially. Aside from an aggregate price increase of 11.5% and volume growth of 12.4%, the acquisition of the Petroflex business at the beginning of April contributed particularly to this increase. The inclusion of the sales of the Brazilian synthetic rubber producer led to a positive 19.7% portfolio effect, while currencies had an 8.3% negative impact. All of the segment's business units succeeded in raising prices and volumes. The Butyl Rubber

business unit achieved its sales growth chiefly on price increases occasioned by the higher raw material costs. The figure for the prior-year quarter was weighed down by a drop in volumes due to a strike. Most of the Petroflex activities were assigned to the Polybutadiene Rubber business unit, which was renamed Performance Butadiene Rubbers effective July 1, 2008 to reflect its now broader product mix. Apart from the portfolio effect, the business unit also recorded strong operational sales growth, particularly in Asia, and benefited from long-term customer agreements in the U.S.

The Technical Rubber Products business unit, to which small portions of the Petroflex business were assigned, succeeded in raising prices for all of its products. Volumes of certain products that were sacrificed in the prior year under the value-based strategy were regained in the reporting period at higher prices. Sales in Asia were particularly robust in this business unit, too. In the Semi-Crystalline Products business unit, the very positive sales trend of previous quarters continued. Demand for ammonium sulfate, adipic acid and caprolactam was at a high level. Increases in raw material costs, particularly for ammonia and sulfur, led to price adjustments.

EBITDA pre exceptionals for the Performance Polymers segment improved by a substantial 36.6% to €127 million. The very high prices for raw materials were passed on to the market in full. The first-time consolidation of the Petroflex group gave earnings an additional boost. The very solid volume growth and related high capacity usage across all business units also contributed to the earnings improvement. Unfavorable exchange rates and high energy costs hurt earnings, but were neutralized by the scheduled implementation of restructuring and efficiency programs. The segment's EBITDA margin edged up 0.1 percentage point from the prior-year quarter, to 14.0%.

In the first half of 2008, the Performance Polymers segment expanded sales by a substantial 20.5% to €1,601 million. Steep increases in raw material and energy costs prompted price increases in all of the segment's business units. Sales grew accordingly, advancing 9.5% on prices alone, while volumes rose 8.8% on brisk demand. The solid operational sales growth in all business units more than made up for the 7.7% negative currency effect. The inclusion of the Petroflex group in the second quarter gave a

9.9% portfolio effect for the half. Sales growth in the Polybutadiene Rubber business unit was particularly robust. Here, the additional capacity provided by the production line in Orange, Texas, which was recommissioned in 2007, resulted in above-average volume growth.

EBITDA pre exceptionals for the half, at €231 million, was up 19.1% from the first half of 2007. All of the segment's business units contributed to the improvement in operational earnings. On top of this came the portfolio effect of the Petroflex acquisition. In light of strong global demand, the segment managed to offset the high cost of raw materials by raising selling prices. It also benefited from high capacity usage throughout its operations. Negative currency effects and the costs for the Petroflex acquisition, which is proceeding to schedule, had an adverse effect on earnings. The EBITDA margin, at 14.4%, remained at about the previous year's level, slipping just 0.2 percentage points.

In February 2008, LANXESS launched a program to increase efficiency at its Butyl Rubber and Technical Rubber Products facilities in Sarnia, Canada, aimed principally at the continued streamlining of service areas and the closure of the technical rubber (NBR) plant in Sarnia. Some 270 jobs will be eliminated in Canada in connection with the program, and NBR production will be consolidated at the site in La Wantzenau, France. An efficiency program has also been launched for Butyl Rubber production in Zwijndrecht, Belgium, with the aim of further reducing production costs and improving the company's competitiveness in the globally expanding butyl rubber market. The exceptional items related to these programs totaled €49 million for the quarter and €54 million for the half, including write-downs of €3 million.

#### Advanced Intermediates

	Q2 2007		Q2 2008		Change %	H1 2007		H1 2008		Change %
	€ million	Margin %	€ million	Margin %		€ million	Margin %	€ million	Margin %	
Sales	291		320		10.0	598		649		8.5
EBITDA pre exceptionals	50	17.2	49	15.3	(2.0)	107	17.9	105	16.2	(1.9)
EBITDA	50	17.2	49	15.3	(2.0)	107	17.9	105	16.2	(1.9)
Operating result (EBIT) pre exceptionals	41	14.1	39	12.2	(4.9)	89	14.9	84	12.9	(5.6)
Operating result (EBIT)	41	14.1	39	12.2	(4.9)	89	14.9	84	12.9	(5.6)
Capital expenditures <sup>1)</sup>	11		15		36.4	20		25		25.0
Depreciation and amortization	9		10		11.1	18		21		16.7

1) intangible assets and property, plant and equipment

Second-quarter sales in the **Advanced Intermediates** segment rose considerably, up 10.0% year on year to €320 million, due to significant volume growth of 9.3%. The 4.5% negative impact from currency parities was more than offset by the 5.2% aggregate price increase implemented in response to raw material prices. Thanks to a solid market position, the Basic Chemicals business unit succeeded in raising both prices and volumes. The price adjustment agreements reached with customers in some areas of the business proved beneficial given the immense increases in raw material prices. Brisk demand for agrochemical intermediates in general, and fungicide and herbicide precursors in particular, had a positive impact on volumes sold. In the Saltigo business unit, the higher volumes posted for agrochemical intermediates cushioned the effect of the seasonally weaker demand for pharmaceutical precursors.

EBITDA pre exceptionals for the Advanced Intermediates segment was nearly unchanged from the year-ago quarter at €49 million. Adjustments to selling prices almost entirely compensated for the increases in raw material and energy costs, some of which were substantial. The Basic Chemicals business unit matched the prior-year quarter's high earnings level by expanding volumes, but could not escape the impact of adverse shifts in exchange rates. With sales seasonally lower, earnings in the Saltigo business unit

fell slightly short of the prior-year figure. The segment's EBITDA margin pre exceptionals dipped 1.9 percentage points to 15.3%, mainly because of the rising cost of raw materials and the effects of exchange rates.

In the first six months of 2008, Advanced Intermediates posted an 8.5% rise in sales to €649 million. The chief contributor to this increase was volume growth of 8.8%, followed by price increases of 3.7%. Negative effects from currencies, most notably the U.S. dollar, diminished sales by 4.0%. Fueled mainly by the business with agrochemical intermediates, both of the segment's business units raised prices and volumes for the half.

EBITDA pre exceptionals for the first half of 2008 came in virtually level with the prior year, down just 1.9% to €105 million. In an environment increasingly marked by economic weakness, the Basic Chemicals business unit proved very stable, tempering the negative effects of higher raw material and energy costs by adjusting prices. Price adjustments and volume growth almost completely offset higher costs in the Saltigo business unit. Action is in progress to improve the operational flexibility of the production facilities at the Leverkusen site. The segment's EBITDA margin decreased from 17.9% to 16.2%, primarily because of raw material cost increases and currency effects.

#### Performance Chemicals

	Q2 2007		Q2 2008		Change %	H1 2007		H1 2008		Change %
	€ million	Margin %	€ million	Margin %		€ million	Margin	€ million	Margin %	
Sales	520		523		0.6	1,021		1,018		(0.3)
EBITDA pre exceptionals	89	17.1	78	14.9	(12.4)	171	16.7	160	15.7	(6.4)
EBITDA	89	17.1	77	14.7	(13.5)	171	16.7	156	15.3	(8.8)
Operating result (EBIT) pre exceptionals	68	13.1	59	11.3	(13.2)	128	12.5	122	12.0	(4.7)
Operating result (EBIT)	68	13.1	57	10.9	(16.2)	128	12.5	117	11.5	(8.6)
Capital expenditures <sup>1)</sup>	12		17		41.7	22		28		27.3
Depreciation and amortization	21		20		(4.8)	43		39		(9.3)

1) intangible assets and property, plant and equipment

Second-quarter 2008 sales in the **Performance Chemicals** segment, at €523 million, were on a par with the €520 million for the prior-year quarter. Positive price effects of 6.4% offset negative currency effects of 6.0%, while volumes, up 0.2%, essentially remained constant. Nearly all of the segment's business units raised prices, with the largest increases taking place in the Leather business unit in line with the price trend for chrome ore, the raw material. The

Rubber Chemicals business unit also succeeded in passing on the higher raw material costs and profited from a favorable market situation, especially in the Asia-Pacific region, and the withdrawal of competitors from the market. Volumes expanded in both business units. The Ion Exchange Resins and Inorganic Pigments business units also raised prices significantly, the latter in response to the higher cost of ferrous scrap. Volumes, however, receded slightly.

EBITDA pre exceptionals for the Performance Chemicals segment shrank by 12.4% to €78 million for the second quarter of 2008, mainly because of negative currency effects. Solid earnings growth in the Leather, Rubber Chemicals and Rhein Chemie business units absorbed almost the full impact of weaker earnings in the Material Protection Products and Inorganic Pigments business units. Earnings in Inorganic Pigments must be seen against the business unit's above-average figure for the prior-year period. The slump in the U.S. construction industry continued, and its effects were not fully neutralized by the positive performance in other regions. As expected, the Material Protection Products business unit incurred higher expenses for product development and marketing. Due to negative currency effects, the segment's EBITDA margin dropped 2.2 percentage points to 14.9%.

For the first half of 2008, the segment posted sales of €1,018 million, just 0.3% below the same period of last year. Adjusted for negative currency effects of 5.7%, sales grew 5.4% on price increases of 4.2% and volume growth of 1.2%. The Leather business unit significantly raised the prices of its chromium-based products in line with raw material prices. The selling price increases in the Rubber Chemicals business unit were accompanied by considerable increases in volumes. The Material Protection Products business unit reported lower prices for wood preservatives. The volumes lost by the Inorganic Pigments business unit because of the flagging North American construction industry were more than offset by the higher volumes achieved in the segment's other business units. Sales of this business unit were exceptionally strong in the first six months of the prior year.

EBITDA pre exceptionals for the half fell 6.4% to €160 million due to adverse movements in exchange rates. The EBITDA margin dropped by 1.0 percentage point to 15.7%. The Leather, Rubber Chemicals and Ion Exchange Resins business units, in particular, achieved very good earnings growth when adjusted for currency effects. The systematic implementation of a value-based pricing policy improved margins in the Rubber Chemicals business unit. The Inorganic Pigments business unit, by contrast, was unable to match the very good earnings of a year earlier, struggling with the adverse shifts in exchange rates. In China, the Rubber Chemicals and Inorganic Pigments business units again found that their strategy of consistently focusing on sustainability and environmental aspects gave them clear advantages over many local competitors. In June 2008, LANXESS announced its first acquisition in China. In order to expand the Asian business of the Inorganic Pigments business unit, LANXESS will acquire two production units in Jinshan near Shanghai from its previous cooperation partner Jinzhuo Chemicals Company Ltd., having already leased one of the units since 2007. The acquisition expands LANXESS's global production capacity for inorganic pigments by about 5%. The transaction is expected to close in the second half of 2008 once the antitrust authorities have given their consent.

The €2 million in exceptional charges incurred by the segment for the quarter and the €5 million for the half, €4 million of which impacted EBITDA, related to the closure of the facilities of the Ion Exchange Resins business unit in Birmingham, New Jersey.

#### Other/Consolidation

	Q2 2007	Q2 2008	Change	H1 2007	H1 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	245	14	(94.3)	490	32	(93.5)
EBITDA pre exceptionals	(21)	(31)	(47.6)	(42)	(53)	(26.2)
EBITDA	(172)	(24)	86.0	(200)	(52)	74.0
Operating result (EBIT) pre exceptionals	(26)	(34)	(30.8)	(52)	(61)	(17.3)
Operating result (EBIT)	(221)	(26)	88.2	(255)	(59)	76.9
Capital expenditures <sup>1)</sup>	8	2	(75.0)	15	5	(66.7)
Depreciation and amortization	49	2	(95.9)	55	7	(87.3)

1) intangible assets and property, plant and equipment

In the table on the previous page, the figures for the prior-year quarter have been adjusted to include the activities of the former Engineering Plastics segment. Further details regarding this adjustment are given along with the segment information provided in the condensed notes to the consolidated interim financial statements.

The €8 million in exceptional income for the quarter and €2 million in exceptional income for the half reported in the **Other/Consolidation** segment contain a gain on the sale of land the company was no longer using at its site in Antwerp, Belgium. Additional income came from a write-back of the value of a building that was sold. Restructuring and portfolio expenses offset some of these gains. Such expenses mainly included personnel adjustment costs, expenses for closures or partial closures of facilities and costs for preparation and execution of corporate transactions, to the extent it is not possible to allocate these expense and income items among the operating segments or business units.

## FINANCIAL CONDITION

**Balance sheet structure** As of June 30, 2008, the LANXESS Group had total assets of €4,850 million, up €801 million, or 19.8%, from €4,049 million as of December 31, 2007. The acquisition of approximately 70% of the shares of Petroflex S.A., Brazil, factored heavily into asset growth. The Petroflex group was fully consolidated as of April 1, 2008. Details of changes in the individual balance sheet items resulting from the first-time consolidation are given in the condensed notes to the consolidated interim financial statements. LANXESS funded the purchase price payment out of existing credit facilities. An increase in working capital driven by higher raw material prices also added to total assets.

Non-current assets rose by €286 million to €2,092 million, solely due to the addition of the acquired assets of Petroflex S.A. The total of intangible assets, property, plant and equipment rose by €241 million to €1,733 million, including €67 million of goodwill acquired with the acquisition. The increase in goodwill from the €62 million reported as of the initial consolidation on April 1, 2008 is exclusively the result of exchange rate movements. Capital expenditures amounted to €105 million, while depreciation and amortization came to €128 million. The increase in the carrying

value of investments in associates was largely attributable to the positive earnings of CURRENTA GmbH & Co. OHG in the first half of 2008.

Non-current financial assets decreased by €21 million to €64 million, mainly because of the impairment loss recognized on the financial interest in INEOS ABS (Jersey) Limited. The addition of the Petroflex group's non-current financial assets partially offset this effect. The ratio of non-current assets to total assets, at 43.1%, was 1.5 percentage points below the ratio for December 31, 2007.

Current assets, at €2,758 million, were up €515 million from December 31, 2007. Inventories and trade receivables rose €152 million and €271 million, respectively, largely because of the first-time consolidation of the acquired Petroflex companies and the sharp increase in raw material prices. Current financial assets advanced €64 million to €264 million, partly as the result of the first-time consolidation of Petroflex and an increase in the fair value of hedging contracts as of the reporting date. The increase in other current assets, up €31 million to €176 million, was also due primarily to the first-time consolidation of Petroflex. Cash and cash equivalents, at €183 million, were nearly unchanged from the end of 2007. Current assets accounted for 56.9% of total assets, up from 55.4% as of December 31, 2007.

Equity rose by €101 million from December 31, 2007 to €1,626 million. The €160 million in net income for the first half and €55 million in additional minority interest resulting from the first-time consolidation of Petroflex S.A. were partially offset by the €83 million dividend payment by LANXESS AG in May 2008 and €27 million in negative currency effects. The ratio of equity to total assets amounted to 33.5% as of June 30, 2008, compared with 37.7% as of December 31, 2007.

Non-current liabilities were up €402 million to €1,858 million as of June 30, 2008, mainly because of drawings on credit facilities to finance the Petroflex acquisition, and the assumption of the Brazilian group's financial debt. Part of this debt has since been repaid and the financing structure integrated into that of the LANXESS Group. Advance payments received on the sale of the Lustran Polymers business unit also drove non-current liabilities higher. The ratio of non-current liabilities to total assets was 38.3%, against 36.0% at the end of 2007.

Current liabilities rose by €298 million to €1,366 million because of the acquisition. Trade payables, like inventories, grew because of the steep increase in raw material prices. The ratio of current liabilities to total assets was 28.2% at mid-year, compared with 26.4% as of December 31, 2007.

**Liquidity and capital expenditures** The net operating cash flow of €132 million for the first half of 2008 was €87 million less than for the same period of last year. With income before income taxes at €221 million, operating cash flow was held back mainly by a €73 million greater increase in working capital than in the year-earlier period. The increase in working capital in the first half of 2008 caused a net cash outflow of €177 million. The difference compared to the prior-year period is primarily the result of the substantial rise in procurement prices for raw materials since the beginning of 2008.

Net cash used in investing activities totaled €247 million in the first half of 2008, compared with €140 million in the prior-year period. Disbursements for additions to property, plant and equipment and intangible assets totaled €105 million, which was €6 million, or 5.4%, less than a year earlier. Depreciation and amortization amounted to €128 million.

Capital expenditures were below the prior-year period, which was marked by the comprehensive package of expansion and efficiency improvement measures carried out by the Butyl Rubber business unit, part of the Performance Polymers segment, at the sites in Sarnia, Canada, and Zwijndrecht, Belgium. Significant capital expenditures were made in the first half of 2008 in the Performance Polymers and Advanced Intermediates segments. The company made further investments in the Butyl Rubber business unit to enlarge capacity at the Sarnia site. The Semi-Crystalline Products business unit invested in a compounding plant for the site at Krefeld-Uerdingen, Germany. Capital spending in the Saltigo business unit, part of the Advanced Intermediates segment, related to the creation of new capacities to serve customers in the pharmaceutical and agrochemical sectors. The business unit's other investments were for increasing the flexibility of the production facilities at the Leverkusen site.

In addition, LANXESS reached a decision in 2008 to earmark up to €400 million for an investment in the Performance Polymers segment that will be the largest in the company's history – the construction of a new world-scale facility for the production of synthetic rubber in Singapore. The new LANXESS plant, due on stream in 2011, will be capable of producing up to 100,000 metric tons of butyl rubber annually in the medium term, making it the largest facility of its kind in Asia. Construction is due to begin in the first quarter of 2009 and will be completed by the end of 2010. Some 200 new jobs will initially be created. The new plant will produce synthetic butyl and halobutyl rubbers used in the production of tires.

Another major investment by LANXESS is in a project in India for the Performance Chemicals segment. The company will relocate its production of rubber chemicals for the Rubber Chemicals business unit from Thane in the Indian state of Maharashtra to Jhagadia in the state of Gujarat. Production will begin in two years, at the same time as the new plant of the Ion Exchange Resins business unit, also being built in Jhagadia, goes on stream. From 2010 LANXESS, the only western company with operations of this kind in India, will begin supplying the rapidly growing Indian tire market with rubber chemicals from this modern facility. LANXESS is investing a total of some €50 million at the new site.

Adjusted for the €33 million in acquired cash, LANXESS spent €164 million to acquire Petroflex S.A., Brazil. Also in the investing cash flow, divestiture of the Lustran Polymers business unit led to receipts of €27 million. Disbursements for financial assets amounted to €22 million. In the previous year there was a €30 million cash outflow to LANXESS Pension Trust e.V. for the external financing of pension commitments.

Net cash provided by financing activities amounted to €109 million due to the drawings on credit facilities in preparation for the Petroflex acquisition. There was a cash outflow of €83 million for dividend payments.

Cash and cash equivalents decreased by €6 million compared with the end of 2007, to €183 million. Net financial liabilities totaled €887 million as of June 30, 2008, almost double the €460 million reported as of December 31, 2007. This planned increase resulted from the Petroflex acquisition.



## **SIGNIFICANT OPPORTUNITIES AND RISKS**

There have been no significant changes in the opportunities or risks of the LANXESS Group compared with December 31, 2007. For more information, readers are therefore referred to the risk report included in the management report for the 2007 fiscal year.

## **OUTLOOK**

LANXESS believes that global economic growth will further weaken during the remainder of 2008. The chemical economy will continue to develop favorably, supported by the growth markets. The prospects for North America continue to deteriorate, especially in the construction and automotive sectors. The outlook for the global automotive and tire markets remains robust, with the main focus on the growth regions of Asia-Pacific, Central and Eastern Europe and Latin America because of their dynamic development. We expect demand for LANXESS products such as rubbers and agrochemical intermediates to continue to expand in these regions, albeit at a somewhat slower pace than in the recent past.

The aim for the second half of 2008 must be to offset additional cost increases for raw materials, energy and personnel. Prices for petrochemical raw materials are likely to remain high and volatile. The strength of the euro against other currencies, especially the U.S. dollar, will also affect business trends.

Based on these assumptions, LANXESS still anticipates operational sales growth for the full year 2008. EBITDA pre exceptionals is expected to come in at over €700 million, against €719 million in 2007. The €719 million EBITDA pre exceptionals reported for the full year 2007 included a €20 million earnings contribution from the Lustran Polymers activities prior to their divestiture at the end of September 2007. We are adhering to our target of achieving an EBITDA margin in line with the industry average, having no business with an EBITDA margin below 5%, and maintaining an investment-grade rating.

As part of its targeted investment and growth strategy, LANXESS is planning capital expenditures of between €330 million and €350 million in 2008.

## **EVENTS AFTER THE BALANCE SHEET DATE**

Since June 30, 2008, no events of special significance have occurred that are expected to have a material impact on the financial position or results of operations of the LANXESS Group.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS OF JUNE 30, 2008

## INCOME STATEMENT LANXESS GROUP

€ million	Q2 2007	Q2 2008	H1 2007	H1 2008
<b>Sales</b>	<b>1,727</b>	<b>1,765</b>	<b>3,438</b>	<b>3,300</b>
Cost of sales	(1,332)	(1,343)	(2,647)	(2,501)
<b>Gross profit</b>	<b>395</b>	<b>422</b>	<b>791</b>	<b>799</b>
Selling expenses	(167)	(174)	(330)	(329)
Research and development expenses	(23)	(27)	(45)	(50)
General administration expenses	(64)	(68)	(122)	(126)
Other operating income	69	132	135	283
Other operating expenses	(254)	(169)	(323)	(316)
<b>Operating result (EBIT)</b>	<b>(44)</b>	<b>116</b>	<b>106</b>	<b>261</b>
Income from investments in associates	14	7	11	13
Interest income	3	3	6	7
Interest expense	(8)	(13)	(16)	(20)
Other financial income and expense	(7)	(33)	(17)	(40)
<b>Financial result</b>	<b>2</b>	<b>(36)</b>	<b>(16)</b>	<b>(40)</b>
<b>Income (loss) before income taxes</b>	<b>(42)</b>	<b>80</b>	<b>90</b>	<b>221</b>
Income taxes	(16)	(24)	(56)	(61)
<b>Income (loss) after taxes</b>	<b>(58)</b>	<b>56</b>	<b>34</b>	<b>160</b>
of which attributable to minority stockholders	1	3	2	4
of which attributable to LANXESS AG stockholders [net income (loss)]	(59)	53	32	156
<b>Earnings per share (€)</b>	<b>(0.70)</b>	<b>0.64</b>	<b>0.38</b>	<b>1.87</b>

# BALANCE SHEET LANXESS GROUP

€ million

	Dec. 31, 2007	June 30, 2008
<b>ASSETS</b>		
Intangible assets	33	143
Property, plant and equipment	1,459	1,590
Investments in associates	33	46
Investments in other affiliated companies	1	2
Other non-current financial assets	85	64
Deferred taxes	93	93
Other non-current assets	102	154
<b>Non-current assets</b>	<b>1,806</b>	<b>2,092</b>
Inventories	895	1,047
Trade receivables	809	1,080
Cash and cash equivalents	189	183
Other current financial assets	200	264
Current tax receivables	5	8
Other current assets	145	176
<b>Current assets</b>	<b>2,243</b>	<b>2,758</b>
<b>Total assets</b>	<b>4,049</b>	<b>4,850</b>
<b>EQUITY AND LIABILITIES</b>		
Capital stock	83	83
Capital reserves	806	806
Other reserves	811	840
Net income	112	156
Accumulated other comprehensive loss	(304)	(337)
Equity attributable to minority interest	17	78
<b>Equity</b>	<b>1,525</b>	<b>1,626</b>
Provisions for pensions and other post-employment benefits	470	477
Other non-current provisions	242	332
Non-current financial liabilities	601	826
Non-current tax liabilities	36	63
Other non-current liabilities	47	90
Deferred taxes	60	70
<b>Non-current liabilities</b>	<b>1,456</b>	<b>1,858</b>
Other current provisions	371	340
Trade payables	487	616
Other current financial liabilities	65	251
Current tax liabilities	16	39
Other current liabilities	129	120
<b>Current liabilities</b>	<b>1,068</b>	<b>1,366</b>
<b>Total equity and liabilities</b>	<b>4,049</b>	<b>4,850</b>

# STATEMENT OF CHANGES IN EQUITY LANXESS GROUP

€ million	Capital stock	Capital reserves	Other reserves	Net income	Accumulated other comprehensive loss		Equity attributable to LANXESS AG stockholders	Equity attributable to minority interest	Total
					Currency translation adjustment	Derivative financial instruments			
<b>Dec. 31, 2006</b>	<b>85</b>	<b>804</b>	<b>685</b>	<b>197</b>	<b>(367)</b>	<b>(1)</b>	<b>1,403</b>	<b>25</b>	<b>1,428</b>
Dividend payments				(21)			(21)	(1)	(22)
Allocation to retained earnings			176	(176)			0		0
Exchange differences					6		6		6
Financial instruments						33	33		33
Deferred taxes						(17)	(17)		(17)
Other changes in equity						2	2		2
Net income				32			32	2	34
<b>June 30, 2007</b>	<b>85</b>	<b>804</b>	<b>861</b>	<b>32</b>	<b>(361)</b>	<b>17</b>	<b>1,438</b>	<b>26</b>	<b>1,464</b>
<b>Dec. 31, 2007</b>	<b>83</b>	<b>806</b>	<b>811</b>	<b>112</b>	<b>(350)</b>	<b>46</b>	<b>1,508</b>	<b>17</b>	<b>1,525</b>
Dividend payments				(83)			(83)	(1)	(84)
Allocation to retained earnings			29	(29)			0		0
Exchange differences					(30)		(30)	3	(27)
Financial instruments						(2)	(2)		(2)
Deferred taxes							0		0
Other changes in equity						(1)	(1)	55	54
Net income				156			<b>156</b>	<b>4</b>	<b>160</b>
<b>June 30, 2008</b>	<b>83</b>	<b>806</b>	<b>840</b>	<b>156</b>	<b>(380)</b>	<b>43</b>	<b>1,548</b>	<b>78</b>	<b>1,626</b>

# CASH FLOW STATEMENT LANXESS GROUP

€ million

	H1 2007	H1 2008
<b>Income before income taxes</b>	<b>90</b>	<b>221</b>
Depreciation and amortization	166	128
Gains on retirements of property, plant and equipment	0	(12)
Income from investments in associates	(11)	(13)
Financial losses	2	48
Income taxes paid	(40)	(46)
Changes in inventories	(62)	(113)
Changes in trade receivables	(61)	(172)
Changes in trade payables	19	108
Changes in other assets and liabilities	116	(17)
<b>Net cash provided by operating activities</b>	<b>219</b>	<b>132</b>
Cash outflows for additions to intangible assets, property, plant and equipment	(111)	(105)
Cash outflows for financial assets	(38)	(22)
Cash outflows for the acquisition of subsidiaries, less acquired cash	(23)	(164)
Cash inflows from sales of intangible assets, property, plant and equipment	1	10
Cash inflows from divestments of subsidiaries and other businesses, less divested cash	47	27
Interest and dividends received	14	7
Cash outflows for external financing of pension obligations (CTA)	(30)	0
<b>Net cash used in investing activities</b>	<b>(140)</b>	<b>(247)</b>
Proceeds from borrowings	23	314
Repayments of borrowings	(27)	(96)
Interest paid and other financial disbursements	(25)	(25)
Dividend payments	(22)	(84)
<b>Net cash provided by (used in) financing activities</b>	<b>(51)</b>	<b>109</b>
<b>Change in cash and cash equivalents from business activities</b>	<b>28</b>	<b>(6)</b>
Cash and cash equivalents as of January 1	171	189
Other changes in cash and cash equivalents	1	0
<b>Cash and cash equivalents as of June 30</b>	<b>200</b>	<b>183</b>

## SEGMENT AND REGION DATA

### KEY DATA BY SEGMENT

#### Second Quarter

€ million	Performance Polymers		Advanced Intermediates	
	Q2 2007	Q2 2008	Q2 2007	Q2 2008
Sales	671	908	291	320
EBITDA pre exceptionals	93	127	50	49
EBITDA margin pre exceptionals (%)	13.9	14.0	17.2	15.3
EBITDA	93	78	50	49
Segment result/EBIT pre exceptionals	68	95	41	39
Segment result/EBIT	68	46	41	39
Segment capital expenditures	33	32	11	15
Depreciation and amortization	25	32	9	10

#### First Half

€ million	Performance Polymers		Advanced Intermediates	
	H1 2007	H1 2008	H1 2007	H1 2008
Sales	1,329	1,601	598	649
EBITDA pre exceptionals	194	231	107	105
EBITDA margin pre exceptionals (%)	14.6	14.4	17.9	16.2
EBITDA	194	180	107	105
Segment result/EBIT pre exceptionals	144	173	89	84
Segment result/EBIT	144	119	89	84
Segment capital expenditures	54	47	20	25
Depreciation and amortization	50	61	18	21
Employees (as of June 30, 2008/December 31, 2007)	4,334	4,858	2,450	2,546

### KEY DATA BY REGION

#### Second Quarter

€ million	EMEA (excluding Germany)		Germany	
	Q2 2007	Q2 2008	Q2 2007	Q2 2008
Sales by market	567	591	420	381
Proportion of Group sales (%)	32.8	33.5	24.3	21.6

#### First Half

€ million	EMEA (excluding Germany)		Germany	
	H1 2007	H1 2008	H1 2007	H1 2008
Sales by market	1,157	1,143	831	754
Proportion of Group sales (%)	33.7	34.6	24.2	22.9
Employees (as of June 30, 2008/December 31, 2007)	2,734	2,729	7,847	7,815

Performance Chemicals		Other/Consolidation		LANXESS	
Q2 2007	Q2 2008	Q2 2007	Q2 2008	Q2 2007	Q2 2008
520	523	245	14	1,727	1,765
89	78	(21)	(31)	211	223
17.1	14.9			12.2	12.6
89	77	(172)	(24)	60	180
68	59	(26)	(34)	151	159
68	57	(221)	(26)	(44)	116
12	17	8	2	64	66
21	20	49	2	104	64

Performance Chemicals		Other/Consolidation		LANXESS	
H1 2007	H1 2008	H1 2007	H1 2008	H1 2007	H1 2008
1,021	1,018	490	32	3,438	3,300
171	160	(42)	(53)	430	443
16.7	15.7			12.5	13.4
171	156	(200)	(52)	272	389
128	122	(52)	(61)	309	318
128	117	(255)	(59)	106	261
22	28	15	5	111	105
43	39	55	7	166	128
5,223	5,077	2,603	2,591	14,610	15,072

Americas		Asia-Pacific		LANXESS	
Q2 2007	Q2 2008	Q2 2007	Q2 2008	Q2 2007	Q2 2008
430	470	310	323	1,727	1,765
24.9	26.6	18.0	18.3	100.0	100.0

Americas		Asia-Pacific		LANXESS	
H1 2007	H1 2008	H1 2007	H1 2008	H1 2007	H1 2008
840	799	610	604	3,438	3,300
24.4	24.2	17.7	18.3	100.0	100.0
2,650	3,109	1,379	1,419	14,610	15,072

# CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS OF JUNE 30, 2008

## RECOGNITION AND VALUATION PRINCIPLES

The condensed consolidated interim financial statements as of June 30, 2008, which form part of the half-year financial report pursuant to Section 37 of the German Securities Trading Act (WpHG), were reviewed by PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft. The interim financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations of the International Accounting Standards Board (IASB) applicable to interim financial reporting, which are endorsed by the European Union. The standards and interpretations already mandatory as of January 1, 2008 were observed. In compliance with IAS 34, the company opted for a condensed scope of reporting in the interim financial statements compared with the annual financial statements. Reference should be made as appropriate to the notes to the consolidated financial statements as of December 31, 2007, particularly with respect to the recognition and valuation principles applied.

## 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, LANXESS acquired 69.68% of the capital and 72.38% of the voting rights of Brazilian synthetic rubber producer Petroflex Industria e Comercio S.A., headquartered in Rio de Janeiro. The company funded the purchase price payment out of existing credit facilities. LANXESS is currently preparing to make a public tender offer for the acquisition of the remaining shares in accordance with local regulations. First-time consolidation of the companies of 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.

Since its acquisition, Petroflex has contributed €132 million towards LANXESS's consolidated sales and €3 million to the Group's

income after taxes. If Petroflex had been acquired as of January 1, 2008, it would have contributed some €270 million to LANXESS's consolidated sales for the first half. It is impossible to determine with any certainty what amount Petroflex would have contributed to net income for the first half due to the adjustments made to the prior-year figures in the financial statements for the first quarter of 2008.

The acquisition was treated as a business combination pursuant to IFRS 3. Thus, in allocating the purchase price, the acquirer's identifiable assets, liabilities and contingent liabilities were included at fair value. Any difference to the cost of acquisition represents goodwill. The following table gives a breakdown of the provisional purchase price allocation and details the impact of the acquisition on the balance sheet of the LANXESS Group.

<b>Petroflex Group</b>			
€ million	<b>IFRS carrying amounts prior to first-time consolidation</b>	<b>Purchase price allocation</b>	<b>Carrying amounts upon first-time consolidation</b>
Intangible assets	6	39	45
Property, plant and equipment	131	48	179
Other assets	279	54	333
<b>Total assets</b>	<b>416</b>	<b>141</b>	<b>557</b>
Non-current liabilities	103	62	165
Current liabilities	212	-	212
<b>Total liabilities</b>	<b>315</b>	<b>62</b>	<b>377</b>
<b>Net acquired assets excluding goodwill</b>	<b>101</b>	<b>79</b>	<b>180</b>
Interest attributable to LANXESS AG stockholders (69.68%)			125
Interest attributable to minority stockholders (30.32%)			55
<b>Acquisition price for 69.68%</b>			<b>187</b>
<b>Acquired goodwill (provisional valuation)</b>			<b>62</b>

The purchase price was allocated with the aid of opinions from outside experts and in light of the information available at the date of acquisition and immediately thereafter. The allocation is therefore provisional. Under IFRS rules, the allocation can be adjusted up to one year after the acquisition based on new information.

The goodwill remaining after the purchase price allocation arises from a number of factors. Of special significance are the synergies and related potential benefits for the LANXESS Group, such as improved capacity utilization in the Performance Polymers segment. The acquisition also strengthens the position of the LANXESS Group in the global rubber market and particularly in South America.



The €187 million acquisition price stated above includes the costs for hedging against exchange rate movements in the period between execution of the purchase agreement and payment of the purchase price, along with fees for outside consulting services constituting ancillary acquisition costs.

The non-current liabilities include provisions of €18 million for contingent liabilities recognized as part of the purchase price allocation.

The other companies newly consolidated in the first half of 2008 were LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia; LANXESS Participacoes Ltda., São Paulo, Brazil; and LANXESS International Holding GmbH, Leverkusen, Germany. The first-time consolidation of these companies had no material impact on the LANXESS Group's cash flows, financial condition or results of operations. Sixty companies are fully consolidated in the financial statements of the LANXESS Group as of June 30, 2008. The 40% stake in CURRENTA GmbH & Co. OHG, Leverkusen, and the 25% stake in Anhui Tongfeng Shengda Chemicals Company Limited, Tongling, China, are included at equity.

## DIVIDEND FOR FISCAL 2007

Pursuant to the resolution of the Annual Stockholders' Meeting on May 29, 2008, the sum of €83 million out of the €92 million balance sheet profit reported in the annual financial statements of LANXESS AG as of December 31, 2007 was paid out to the stockholders on May 30, 2008. The dividend amounted to €1.00 per eligible no-par share. The remaining sum of €9 million was carried forward to new account.

## EARNINGS PER SHARE

Earnings per share for the second quarter and first half of 2007 and 2008 are calculated on the basis of the number of shares outstanding as of each respective reporting date. Since there are currently no equity instruments in issue that could dilute earnings per share, basic and diluted earnings per share are identical. For more information about equity instruments that could dilute earnings per share in the future, readers are referred to the notes to the consolidated financial statements as of December 31, 2007. The decrease in the number of outstanding shares is due to the repurchase and retirement of 1,418,000 shares of LANXESS AG stock in 2007.

### Earnings per Share

	Q2 2007	Q2 2008	Change %	H1 2007	H1 2008	Change %
Group net income (loss) (€ million)	(59)	53		32	156	> 100
No. of outstanding shares	84,620,670	83,202,670	(1.7)	84,620,670	83,202,670	(1.7)
EPS (€)	<b>(0.70)</b>	<b>0.64</b>		<b>0.38</b>	<b>1.87</b>	<b>&gt; 100</b>

## LONG-TERM INCENTIVE PROGRAM

The last of the rights under the Long-Term Incentive Program (LTIP) launched in 2005 were granted in 2007. In 2008, the company established a new, entirely share-based compensation program in continuation of the Stock Performance Plan that formed part of the LTIP. The first of the program's three tranches was granted to the members of the Board of Management and other senior executives on February 1, 2008. The program is similar to the Stock Performance Plan started in 2005 and includes the requirement that participants make a personal investment in LANXESS stock. Awards under the program depend on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals<sup>SM</sup> index. If LANXESS stock outperforms the index, a payment of between €0.75 and €2.00 per right is made. The new Long Term Incentive Program has a total term of six years per tranche, consisting of a three-year lock-up period and three-year exercise period.

## CASH FLOW STATEMENT

The cash flow statement for the first half of 2008 shows the inflows and outflows of cash and cash equivalents by type of activity. The disbursement of €30 million for the external financing of pension obligations (CTA) has been restated in the first half of 2007 as cash used in investing activities to match the treatment of the respective disbursement in the consolidated cash flow statement for the year ended December 31, 2007. The amounts reported in the first half of 2007 as cash provided by operating activities and cash used in investing activities have been adjusted accordingly.

## NOTES TO THE SEGMENT REPORTING

Engineering Plastics ceased to be an operating segment as of September 30, 2007 and, according to the new segmentation, contained only the Lustran Polymer activities, which were divested as of that date. The originally reported second-quarter and first-half 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	Q2 2007	Q2 2007	Q2 2007	H1 2007	H1 2007	H1 2007
	Originally reported	Engineering Plastics	Restated	Originally reported	Engineering Plastics	Restated
Sales	22	223	245	46	444	490
EBITDA pre exceptionals	(29)	8	(21)	(60)	18	(42)
EBITDA	(38)	(134)	(172)	(76)	(124)	(200)
Segment result/EBIT pre exceptionals	(34)	8	(26)	(70)	18	(52)
Segment result/EBIT	(43)	(178)	(221)	(87)	(168)	(255)
Capital expenditures	3	5	8	6	9	15
Depreciation and amortization	5	44	49	11	44	55

**RELATED PARTIES**

In the course of its operations, the LANXESS Groups sources materials, inventories and services from a large number of business partners worldwide. 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 in the first half of 2008 with associated companies included in the consolidated financial statements by the equity method, or subsidiaries of such companies, mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €222 million (H1 2007: €209 million). Trade payables of €52 million existed as of June 30, 2008 (December 31, 2007: €35 million) as a result of these transactions.

No material business transactions were undertaken with other associated companies or individuals. As in the previous year, no loans were granted to members of the Board of Management or the Supervisory Board in the first six months of 2008.

**EMPLOYEES**

The LANXESS Group had 15,072 employees as of June 30, 2008, which was 462 more than on December 31, 2007 (14,610). The increase is predominantly attributable to the first-time consolidation of the Petroflex group, Brazil, which was acquired effective April 1, 2008. The number of employees in the U.S., Canada, Belgium and Germany declined as a result of the ongoing efficiency programs.

In the EMEA region (excluding Germany), LANXESS employed 2,729 people as of June 30, 2008, compared with 2,734 as of December 31, 2007. The number of employees in the Americas region increased to 3,109 following the Petroflex acquisition, up from 2,650 as of December 31, 2007. The number of employees in the Asia-Pacific region increased from 1,379 to 1,419, chiefly because of the expansion of business activities in China.

# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim 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 for the remaining months of the financial year.

Leverkusen, July 29, 2008

LANXESS Aktiengesellschaft, Leverkusen

The Board of Management

Dr. Axel C. Heitmann

Dr. Werner Breuers

Dr. Rainier van Roessel

Matthias Zachert

# REVIEW REPORT

To LANXESS Aktiengesellschaft, Leverkusen

We have reviewed the condensed consolidated interim financial statements – comprising the income statement, balance sheet, statement of changes in equity, cash flow statement and selected explanatory notes – and the interim group management report of LANXESS Aktiengesellschaft, Leverkusen, for the period from January 1 to June 30, 2008 which are part of the half-year financial report pursuant to § (Article) 37w WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those

standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Cologne, July 30, 2008

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

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German Public Auditor

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## Financial Calendar for 2008

September 17/18, 2008	Media and Capital Markets Day 2008
November 13, 2008	Interim Report Q3 2008



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