

**LyondellBasell Industries N.V.**  
**Financial Report**  
**For the Period Ended 31 December 2010**

**CONTENTS**

<b>1</b>	<b>REPORT OF THE BOARD OF MANAGEMENT</b> .....	<b>5</b>
1.1	ABOUT LYONDELLBASELL .....	5
1.2	OUR STRATEGY .....	6
1.3	SUSTAINABILITY .....	6
1.4	RESEARCH AND DEVELOPMENT .....	8
1.5	MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS .....	9
1.5.1	<i>General</i> .....	10
1.5.2	<i>Overview of Results of Operations</i> .....	11
1.5.3	<i>Segment Analysis</i> .....	12
1.6	OUTLOOK.....	19
1.7	FINANCIAL CONDITION.....	20
1.8	RISK FACTORS .....	23
1.9	STATEMENT OF THE BOARD OF MANAGEMENT .....	34
<b>2</b>	<b>GOVERNANCE AND COMPLIANCE</b> .....	<b>37</b>
2.1	REPORT BY THE SUPERVISORY BOARD .....	37
2.2	CONFORMITY STATEMENT .....	53
2.3	CORPORATE GOVERNANCE STATEMENT .....	54
2.3.1	<i>Management Board</i> .....	54
2.3.2	<i>Dutch Corporate Governance Code</i> .....	56
2.3.3	<i>Remuneration of the Management Board</i> .....	60
2.3.4	<i>Internal Risk Management and Control Systems, External Factors</i> .....	62
2.3.5	<i>Shareholders and General Meeting of Shareholders</i> .....	63
2.3.6	<i>Audit of Financial Reporting</i> .....	65
2.3.7	<i>Takeover Directive; Anti-Takeover Provisions and Control</i> .....	67
	<b>CONSOLIDATED FINANCIAL STATEMENTS</b> .....	<b>68</b>
	CONSOLIDATED INCOME STATEMENT .....	69
	CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME .....	70
	CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	71
	EQUITY AND LIABILITIES .....	72
	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	73
	CONSOLIDATED STATEMENT OF CASH FLOWS .....	74
<b>1</b>	<b>GENERAL INFORMATION</b> .....	<b>75</b>
<b>2</b>	<b>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b> .....	<b>75</b>
2.1	BASIS OF PREPARATION .....	75
2.2	COMPARATIVE INFORMATION .....	75
2.3	NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR 2010 AND WE HAVE NOT ELECTED EARLY ADOPTION .....	76
2.4	CONSOLIDATION .....	77
2.5	SEGMENT REPORTING .....	79
2.6	FOREIGN CURRENCY TRANSLATION.....	79
2.7	REVENUE RECOGNITION.....	80
2.8	SHARE-BASED COMPENSATION.....	80
2.9	LEASES .....	80
2.10	TAXATION OF PROFIT OR LOSS.....	81
2.11	INTANGIBLE ASSETS.....	81

2.12	PROPERTY, PLANT AND EQUIPMENT.....	82
2.13	IMPAIRMENTS OF NON-FINANCIAL ASSETS.....	82
2.14	NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD-FOR-SALE.....	82
2.15	FINANCIAL ASSETS.....	82
2.16	OFFSETTING FINANCIAL INSTRUMENTS.....	84
2.17	DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES.....	84
2.18	INVENTORIES.....	84
2.19	TRADE RECEIVABLES.....	84
2.20	CASH AND CASH EQUIVALENTS.....	84
2.21	EQUITY.....	85
2.22	BORROWINGS.....	85
2.23	DEFERRED INCOME TAXES.....	85
2.24	EMPLOYEE BENEFITS.....	86
2.25	PROVISIONS.....	87
<b>3</b>	<b>CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS.....</b>	<b>87</b>
3.1	CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS.....	87
3.2	CRITICAL ACCOUNTING JUDGMENTS IN APPLYING LYONDELLBASELL N.V.'S ACCOUNTING POLICIES.....	87
<b>4</b>	<b>FINANCIAL RISK MANAGEMENT.....</b>	<b>88</b>
4.1	COMMODITY PRICE RISK.....	88
4.2	FOREIGN EXCHANGE RISK.....	89
4.3	INTEREST RATE RISK.....	89
4.4	CASH CONCENTRATION.....	89
4.5	CAPITAL RISK MANAGEMENT.....	89
4.6	FAIR VALUE ESTIMATES.....	90
<b>5</b>	<b>ACQUISITION OF LYONDELLBASELL AF'S ENTITIES.....</b>	<b>91</b>
<b>6</b>	<b>REVENUE.....</b>	<b>95</b>
<b>7</b>	<b>EXPENSES BY NATURE.....</b>	<b>96</b>
<b>8</b>	<b>EMPLOYEE BENEFIT EXPENSES.....</b>	<b>96</b>
<b>9</b>	<b>SHARE-BASED COMPENSATION GRANTED TO DIRECTORS AND EMPLOYEES.....</b>	<b>96</b>
<b>10</b>	<b>KEY MANAGEMENT REMUNERATION.....</b>	<b>99</b>
<b>11</b>	<b>OTHER LOSSES/(GAINS) – NET.....</b>	<b>100</b>
<b>12</b>	<b>OTHER OPERATING EXPENSES.....</b>	<b>100</b>
<b>13</b>	<b>OTHER INCOME.....</b>	<b>101</b>
<b>14</b>	<b>FINANCE COSTS.....</b>	<b>101</b>
<b>15</b>	<b>INCOME TAX EXPENSE.....</b>	<b>101</b>
<b>16</b>	<b>EARNINGS PER SHARE.....</b>	<b>102</b>
<b>17</b>	<b>INTANGIBLE ASSETS.....</b>	<b>103</b>
<b>18</b>	<b>PROPERTY, PLANT AND EQUIPMENT.....</b>	<b>105</b>
<b>19</b>	<b>INVESTMENTS IN ASSOCIATES AND JOINT VENTURES.....</b>	<b>106</b>
<b>20</b>	<b>FINANCIAL ASSETS AND LIABILITIES BY CATEGORY.....</b>	<b>106</b>
<b>21</b>	<b>CREDIT QUALITY OF FINANCIAL ASSETS.....</b>	<b>107</b>

22	AVAILABLE-FOR-SALE INVESTMENTS .....	107
23	DERIVATIVE FINANCIAL INSTRUMENTS .....	107
24	INVENTORIES .....	108
25	TRADE AND OTHER RECEIVABLES.....	108
26	CASH AND CASH EQUIVALENTS .....	109
27	EQUITY ATTRIBUTABLE TO THE OWNERS OF THE COMPANY .....	110
28	NON-CONTROLLING INTEREST .....	111
29	BORROWINGS.....	112
30	DEFERRED INCOME TAX.....	116
31	RETIREMENT BENEFIT OBLIGATIONS .....	117
32	TRADE AND OTHER PAYABLES.....	121
33	PROVISIONS FOR OTHER LIABILITIES AND CHARGES.....	122
34	CONTINGENCIES AND COMMITMENTS.....	122
34.1	CONTINGENCIES .....	122
34.2	COMMITMENTS.....	125
35	RELATED PARTIES.....	125
36	NON-CASH TRANSACTION .....	126
37	SEGMENT INFORMATION.....	127
38	SUBSEQUENT EVENTS .....	129
	CORPORATE FINANCIAL STATEMENTS.....	130
1	GENERAL .....	133
2	GOODWILL, INVESTMENTS AND RECEIVABLES .....	133
3	CASH AND CASH EQUIVALENTS .....	134
4	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS.....	134
5	LONG-TERM LOAN FROM RELATED PARTY.....	135
6	CURRENT LIABILITIES.....	135
7	COMMITMENTS AND CONTINGENCIES NOT INCLUDED IN THE BALANCE SHEET.....	135
8	AUDITOR'S FEE .....	136
9	DIRECTOR'S REMUNERATION .....	136
	OTHER INFORMATION.....	137

## 1 REPORT OF THE BOARD OF MANAGEMENT

### 1.1 ABOUT LYONDELLBASELL

LyondellBasell Industries N.V. (the “Company”) was incorporated under Dutch law by deed of incorporation dated October 15, 2009. The Company was formed to serve as the new parent holding company for certain subsidiaries of LyondellBasell AF S.C.A. (“LyondellBasell AF”). When we use the terms “we,” “us,” “our” or similar words in this discussion, unless the context otherwise requires, we are referring to LyondellBasell Industries N.V. and its consolidated subsidiaries. We also refer to the Company as “LyondellBasell N.V.”

From January 2009 through April 2010, LyondellBasell AF and 93 of its subsidiaries were debtors in jointly administered bankruptcy cases in U.S. Bankruptcy Court for the Southern District of New York. On 23 April 2010, the U.S. Bankruptcy Court confirmed LyondellBasell AF’s Third Amended Plan of Reorganization (the “Plan” or “Plan of Reorganization”) and the debtors emerged from chapter 11 protection on 30 April 2010 (the “Emergence Date”). In conjunction with this emergence from chapter 11, LyondellBasell N.V. acquired the ordinary shares of certain subsidiaries of LyondellBasell A.F. As a result of the acquisition, LyondellBasell N.V. became a global manufacturer of chemicals and plastics, a refiner of crude oil, including heavy, high-sulfur crude oil, a significant producer of gasoline blending components and a licensor of technology processes.

We are the world’s third largest independent chemical company based on revenues and an industry leader in many of our product lines. We participate in the full petrochemical value chain, from refining to specialized end uses of petrochemical products, and we believe that our vertically integrated facilities, broad product portfolio, manufacturing flexibility, superior technology base and operational excellence allow us to extract value across the full value chain.

LyondellBasell Industries N.V. reports its results of operations based on five business segments through which its operations are managed:

- **Olefins and Polyolefins—Americas (“O&P—Americas”).** Our O&P—Americas segment produces and markets olefins, including ethylene and ethylene co-products, and polyolefins.
- **Olefins and Polyolefins—Europe, Asia, International (“O&P—EAI”).** Our O&P—EAI segment produces and markets olefins, including ethylene and ethylene co-products, and polyolefins.
- **Intermediates and Derivatives (“I&D”).** Our I&D segment produces and markets propylene oxide (“PO”) and its co-products and derivatives, acetyls, ethylene oxide and its derivatives.
- **Refining & Oxyfuels.** Our Refining & Oxyfuels segment refines heavy, high-sulfur crude oil in the U.S. Gulf Coast, refines light and medium weight crude oil in southern France and produces oxyfuels at several of our olefin and PO units.
- **Technology.** Our Technology segment develops and licenses polyolefin process technologies and provides associated engineering and other services. Our Technology segment also develops, manufactures and sells polyolefin catalysts. We market our process technologies and our polyolefin catalysts to external customers and use them for our own manufacturing operations.

In the executive summary below, we provide an overview of the risk factors related to the Company, including those related to the business and industry in which we operate; our indebtedness; our shares; and certain tax matters. The discussion of risks is followed by an update on our business and strategy and a discussion of our key performance indicators.

## **1.2 OUR STRATEGY**

Our Company's goals are targeted at serving our customers, our employees, the environment, the communities in which we work, and our shareholders. Our primary strategy continues to be to improve our organization and maximize returns to shareholders by focusing on operational excellence, cost reductions, capital discipline, portfolio management, a performance driven culture and technology driven growth.

Our operational excellence programs include commitments to safety, environmental stewardship, and improved reliability. We believe optimal operations can be achieved through a systematic application of standards and improved maintenance procedures, which is also expected to result in improved personnel and process safety and environmental performance.

We continue to pursue cost reductions across our system. We believe that our worldwide manufacturing scale provides the opportunity to minimize costs per unit, a critical operational measure for petrochemical and refining companies. We will continue to focus on upgrading our customer and product mix to realize premium pricing. By leveraging our leading technological platform, worldwide presence, strong customer relationships and reliability and quality, we also intend to increase our sales of value-added, differentiated products.

Additionally, we remain focused on disciplined capital allocation. We intend to optimize our capital spending to address projects required to enhance reliability and maintain the overall asset portfolio. This includes key maintenance and repair activities ("turnarounds") in each segment, necessary regulatory and maintenance spending, we are also beginning to study improvement projects in key product lines, including high return debottlenecking and energy reduction projects.

We will also carefully manage our portfolio. We have shut-down certain underperforming assets in recent years and also divested of certain assets in 2010. We continuously evaluate our asset portfolio and may initiate further rationalization or investments and acquisitions depending on market conditions and opportunities.

We have established benchmarking, goal setting and results measurement processes for our entire organization. These processes are intended to instill a performance driven, accountability culture throughout the Company. We believe we have outstanding people and assets, and with our performance expectations, we are rapidly increasing our competitiveness. We have reshaped our management team over the last year to initiate a refocused effort around these basic strategic elements.

Our strong, industry leading technologies provide us with a platform for future growth. We intend to continue to improve our operations in the mature, highly sophisticated markets in Europe and North America, and are seeking opportunities to grow in quickly developing markets like Asia and regions with access to low cost feedstocks.

## **1.3 SUSTAINABILITY**

### **Our approach to sustainability**

The employees and management team of LyondellBasell N.V. are unwavering in our commitment to sustainable development. We define sustainability as the responsible and ethical use of resources to improve the quality of life in the world around us.

Through our mindful use of natural resources and a focus on technological advancements, we believe we can help improve the quality of life today and for future generations.

### **The specifics of sustainability**

We manage resources and the impact of our operations to create products that contribute to sustainability.

As significant participants in the global economy, we are responsible to:

- Create value for our investors and customers
- Protect the well-being of our employees, contractors and the communities in which we work
- Manage product safety
- Protect the environment and preserve resources for future generations
- Supply products that enhance the quality of life worldwide

### **We are global citizens**

We are committed to protecting the environment, human health and safety and the communities where we operate. In fact, we believe that we must go beyond protection and enhance those communities. We deliver on this commitment by:

- Conserving energy
- Minimizing our impact on the environment
- Delivering essential products to the healthcare market
- Producing the basic building blocks for products that enhance consumer safety, quality of life, convenience and energy conservation
- Volunteering in community service activities

We are dedicated to safety excellence. In 2010, LyondellBasell N.V. made tremendous progress toward institutionalizing its safety principles. The Company's safety performance, measured by total recordable incident rate for employees and contractors was 0.42. The Company's employees' reduced the number of injuries by 40% over the previous year. We utilized the US OSHA definition for injury rate which is the number of injuries recorded per 200,000 hours worked.

Our process safety is focused on the pro-active identification and management of any hazards in our manufacturing processes. It plays a significant role in our overall safety performance and in fulfilling our commitment to operate in a manner that protects our people, the environment and our business relationship with our customers.

Our Operational Excellence philosophy establishes uniform management system requirements for areas that have a direct impact on process safety. These include mechanical integrity and inspection programs, the management of change process, process hazard analysis programs, risk assessment proficiency, the incident investigation and reporting process, and the maintenance of process safety information. Other elements essential to a successful process safety program include communications and employee training.

LyondellBasell N.V. maintains a comprehensive Process Hazard Analysis (PHA) and risk assessment program covering our manufacturing and research sites. The purpose of the PHA program is to identify hazards associated with chemical processes before the hazards manifest themselves and to implement recommendations to reduce the risk of the consequences of those hazards occurring. The PHA documentation is reviewed on a periodic basis to incorporate changes to the facilities and to include new information related to the manufacturing process.

Process safety is important at all stages of a manufacturing facility's life cycle, from a conceptual design to initial equipment design, layout and construction, to the operation, inspection and maintenance of the equipment. As a result, proposed changes to manufacturing facilities undergo a process safety review to understand what new hazards might be introduced by the modifications and how those hazards will be managed.

Exemplary process safety performance is achieved by effective identification and mitigation of hazards before they occur, robust maintenance and inspection programs, effectively trained personnel and effective process communication with overall awareness of how individual actions can impact process safety. We also periodically audit these systems to ensure that they are effective and to support sustained performance and continuous improvement.

Our Product Stewardship efforts promote the safe and responsible use of our products. We strive to understand the safety, health and environmental issues associated with the manufacture, distribution and use of our products and we share that understanding with our business partners and other stakeholders.

We likewise are dedicated to minimizing our emissions and improving our energy efficiency. We are making the investments necessary to accomplish this goal through cost-effective compliance, business-driven improvement and science-based risk management. We have reduced energy consumption by approximately 10% from 2007 through to 2010.

#### **1.4 RESEARCH AND DEVELOPMENT**

Our research and development activities are designed to improve our existing products and discover and commercialize new materials, catalysts and processes. These activities focus on product and application development, process development, catalyst development and fundamental polyolefin focused research.

We have four research and development facilities, each with a specific focus. Our facility in Frankfurt, Germany focuses on PE and metallocene catalysts. Our facility in Ferrara, Italy focuses on PP, PB-1, PP compounds and Ziegler-Natta catalysts. Our facility in Cincinnati, Ohio focuses on polyolefin product and application development in North America. Our center in Newtown Square, Pennsylvania develops chemical catalysts and technologies.

Our financial performance and market position depend in substantial part on our ability to improve our existing products and discover and commercialize new materials, catalysts and processes. Our research and development is organized by core competence communities that manage and provide resources for projects, intellectual property and catalyst manufacturing. These include:

- *Catalyst systems:* catalyst research to enhance our polyolefin polymer properties, catalyst and process performance, including Ziegler Natta, chromium and metallocene catalyst.
- *Manufacturing platforms:* research to advance process development and pilot plant integration to industrialize technology with improved polymer properties.
- *Product and application development:* working directly with customers to provide new products with enhanced properties.
- *Processing testing and characterization:* research to increase knowledge on polymers from production to processability.
- *Process design and support:* research to reduce production and investment costs while improving processability.



## LyondellBasell Industries N.V.

- *Chemicals and fuels technologies:* research to develop and improve catalysts for existing chemical processes and improve process unit operations.

We have core research and development projects that focus on initiatives in line with our strategic direction. These projects are closely aligned with our businesses and customers with a goal of commercialization of identified opportunities. Core projects currently include research and development in areas such as:

- PP product development with emphasis on *Spherizone* process technology.
- Next generation products from existing and in-development processes, using advanced catalyst technologies including metallocenes.
- Enhanced catalyst and process opportunities to extend gas phase PE technology.
- Enhanced catalysts and process opportunities for selected chemical technologies.

As of December 31, 2010, approximately 915 of our employees are directly engaged in research and development activities.

In addition to our research and development activities, we provide technical support to our customers. Our technical support centers are located in Bayreuth, Germany; Geelong, Australia; Lansing, Michigan; and Tarragona, Spain.

In 2010 our research and development expenditures were \$154 million. A portion of these expenses are related to technical support and customer service and are allocated primarily to the segments.

### 1.5 MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Highlights for the period ended 31 December 2010:

- Acquisition of the subsidiaries of LyondellBasell AF after completion of bankruptcy cases
- Repayment of \$1.2 billion of debt
- Operating results led by particularly strong results in U.S. olefins and polyolefins and global propylene oxide
- Ended year with \$6.1 billion liquidity; \$4.2 billion cash

As a result of LyondellBasell AF's emergence from proceedings under chapter 11 of the U.S. Bankruptcy Code on 30 April 2010, LyondellBasell N.V. became the parent holding company for the subsidiaries of LyondellBasell AF after completion of the bankruptcy cases. LyondellBasell AF's equity interests in its indirect subsidiaries terminated and LyondellBasell N.V. now owns and operates, directly and indirectly, substantially the same business as LyondellBasell AF owned and operated prior to emergence from the bankruptcy cases. Prior to the acquisition, LyondellBasell N.V. did not have any significant operating activities. As a result, the financial information included in this discussion represents a period of eight months.

The following selected financial data of the Company should be read in conjunction with the Consolidated Financial Statements and related notes thereto and "Management's Discussion and Analysis of Results of Operations," below. The selected financial data of the Company were derived from their audited consolidated financial statements.

**LyondellBasell Industries N.V.**

	<b>Period 15 October 2009 to December 31 2010<sup>1</sup></b>
<b><u>In millions of dollars (Except for the earnings per share amounts)</u></b>	
<b>Results of Operations Data</b>	
Revenue	\$ 27,684
Operating profit	2,041
Finance costs	538
Depreciation, amortization and impairments	584
Profit for the period	1,092
Earnings per share :	
Basic	1.94
Diluted	1.94
<b>Balance Sheet Data</b>	
Total equity	11,152
Borrowings	6,029
Cash and cash equivalents	4,222
Net debt	1,807
Trade and other receivables	4,550
Inventories	4,614
Trade and other payables	(4,095)
Net Working Capital	5,069
<b>Cash Flow Data</b>	
Cash provided by (used in):	
Operating activities	2,916
Investing activities	(277)
Including expenditures for property, plant and equipment	(466)
Financing activities	1,555

**1.5.1 General**

References to industry benchmark prices or costs, including the weighted average cost of ethylene production, are generally to industry prices and costs reported by CMAI, except that references to industry benchmarks for refining and oxyfuels market margins are to industry prices reported by Platts, a reporting service of The McGraw-Hill Companies and crude oil and natural gas benchmark price references are of Bloomberg.

Our performance is driven by, among other things, global economic conditions generally and their impact on demand for our products, raw material and energy prices, and industry-specific issues, such as production capacity. Our businesses are subject to the cyclical and volatility seen in the chemicals and refining industries generally.

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<sup>1</sup> Prior to acquisition LyondellBasell N.V. did not have any significant activities and as such, the results of operating data and the operating activities, cash flow from operating activities and cash flow from investing activities represents a period of 8 months only.

## 1.5.2 Overview of Results of Operations

Global market conditions in 2010 improved from the weak conditions experienced throughout most of 2009 as demand in the durable goods sector, particularly the automotive markets, improved. As a result, demand and operating rates improved. In addition, certain of our business segments benefited from planned and unplanned competitor operating disruptions, particularly during the second quarter 2010.

Operating results of the period ended 31 December 2010 generally reflected strong product margins and strong sales volumes. Reliable operations and the effect of industry supply disruptions resulted in strong product margins and strong sales volumes in the O&P-Americas business segment. Strong operating results in the O&P-EAI and the I&D businesses were primarily a reflection of sales volumes and product margins due to improvement in the durable goods markets, especially the automotive market. The Refining and Oxyfuels business segment saw improved refining margins at the Houston refinery, while our Berre Refinery saw continuously low margins.

**Revenues**—We had revenues of \$27,684 million for the period ended 31 December 2010. A combination of strong demand and increased crude-oil and natural gas prices contributed to higher average sales prices and higher volumes than previously seen in the market.

**Operating Profit**—The Company had operating income of \$2,041 million. The results of our underlying operations were driven by the effect of higher sales volumes as demand increased due to improved global market conditions, particularly in the first 2 months after the acquisition compared to the same periods in 2009 when demand was very weak.

Our operating profit was negatively impacted by \$25 million of impairment charges related to the carrying value of assets at the Berre refinery. Capital spending required for the operation of the Berre refinery will continue to be impaired until such time as the discounted cash flow projections for the Berre refinery are sufficient to recover the asset's carrying amount.

The Company had Other Operating Income of \$64 million in the period ended 31 December 2010 related to the sale of its Flavor and Fragrance chemicals business.

**Finance costs**—Finance costs were \$538 million and include \$525 million interest expense, \$9 million foreign exchange loss from borrowings and cash and \$4 million of unwinding of discount of provisions. Interest expense included \$26 million of charges related to the prepayment of debt in December 2010. The prepayment of debt included \$275 million of our 8% senior secured notes and \$494 million of the senior secured term loan facility in December 2010. In addition, \$464 million under the accounts receivable securitization facility and accounts receivable factoring agreement was repaid during October and November of 2010.

**Income Tax**—For the period ended 31 December 2010, the Company recorded a tax provision of \$516 million, representing an effective tax rate of 32.1% on Profit before tax from ordinary activities of \$1,608 million. The effective tax rate of 32,1% is significantly higher than the 25% Dutch statutory tax rate as a result of a significant proportion of operating income and associated tax provisions is generated in the U.S. with a statutory federal income tax rate of 35%.

### 1.5.3 Segment Analysis

We report our financial results in five reportable segments: O&P—Americas, O&P—EAI, I&D, Refining and Oxyfuels and Technology. These segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (“CEO”) who is ultimately responsible for allocating resources and assessing performance.

Accounting policies for internal reporting are based on US GAAP and materially similar to those described in Summary of Significant Accounting Policies (see Note 2 of the Consolidated Financial Statements), except for:

- *Business Combination versus fresh start accounting*—In accordance with Financial Accounting Standards Board (“FASB”) Accounting Codification (“ASC”) Topic 852, Reorganizations (“ASC 852”), the Group applied fresh start accounting as of 30 April 2010. Fresh start accounting requires that all relevant assets and liabilities be measured at their fair value as at 30 April, 2010 based on the restructuring of the organization. Under IFRS and this financial report, the restructuring of the Group has been accounted for under IFRS 3(R), Business combinations. One of the key differences between ASC 852 and IFRS 3 (R) is that IFRS 3 (R) recognizes the so called measurement period. Any changes to estimates due to contingencies as of 30 April 2010 are accounted for retrospectively under IFRS but prospectively under U.S.GAAP.
- *Inventories*—The Company measures its inventories in accordance the Last In First Out (“LIFO”) method, which is which is permitted under US GAAP. LIFO is prohibited under IFRS according to IAS 2, Inventories and therefore for the consolidated financial statements the inventories are measured using First in First Out (“FIFO”) basis. This method difference between the reportable segments and the consolidated information has resulted in differing cost of sales and net profit for the period.
- *Other*—Amongst others, there are minor differences between the subsequent measurement in the asset retirement obligation and measurement of retirement benefit obligations. If material, these differences are disclosed in the segment and consolidated financial statement reconciliation

Reconciliation of operating income as presented in the table below to the operating income as presented in the Consolidated Income Statement is included in footnote 37 of the Consolidated Financial Statements.

## LyondellBasell Industries N.V.

The following table reflects selected financial information for our reportable segments.

	<b>Period 15 October 2009 to 31 December 2010<sup>2</sup></b>
<b><u>Millions of dollars</u></b>	
<b>Sales and other operating revenues:</b>	
O&P–Americas segment	\$ 8,406
O&P–EAI segment	8,729
I&D segment	3,754
Refining and Oxyfuels segment	10,321
Technology segment	365
Other, including intersegment eliminations	(3,891)
Total	<u><u>\$27,684</u></u>
<b>Operating income (loss):</b>	
O&P–Americas segment	\$ 1,043
O&P–EAI segment	411
I&D segment	512
Refining and Oxyfuels segment	241
Technology segment	69
Other, including intersegment eliminations	(22)
Total	<u><u>\$ 2,254</u></u>
<b>Income (loss) from equity investments:</b>	
O&P–Americas segment	\$ 16
O&P–EAI segment	68
I&D segment	2
Total	<u><u>\$ 86</u></u>

### ***Olefins and Polyolefins—Americas Segment***

The O&P—Americas segment operating results for the period ended 31 December 2010 primarily reflected strong demand and higher margins for ethylene due to improved economic conditions in 2010 and unplanned operating issues and turnarounds at competitor facilities in the first 2 months after acquisition. Polypropylene results improved as a result of better domestic economic conditions.

Ethylene and its co-products are produced from two major raw material groups:

- Crude oil-based liquids (“liquids” or “heavy liquids”), including naphtha, condensates, and gas oils, the prices of which are generally related to crude oil prices; and
- NGLs, principally ethane and propane, the prices of which are generally affected by natural gas prices.

Although the prices of these raw materials are generally related to crude oil and natural gas prices, during specific periods the relationships among these materials and benchmarks may vary significantly. In the U.S., we have a significant capability to shift the ratio of raw materials used in the production of ethylene and its co-products to take advantage of the relative costs of heavy liquids and NGLs.

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<sup>2</sup> Prior to acquisition LyondellBasell N.V. did not have any significant activities and as such, the results of operating data and the operating activities, cash flow from operating activities and cash flow from investing activities represents a period of 8 months only.

**LyondellBasell Industries N.V.**

In 2010, especially in the latter part of the year, production economics for the industry favored NGLs. Therefore, we increased our use of NGLs and reduced liquids consumption at our U.S. plants. During 2010, approximately 70% of our U.S. ethylene production was produced from NGLs.

The following table shows the average U.S. benchmark prices for crude oil and natural gas for the applicable periods, as well as benchmark U.S. sales prices for ethylene and propylene, which we produce and sell or consume internally, and certain polyethylene and polypropylene products. The benchmark weighted average cost of ethylene production, which is reduced by co-product revenues, is based on CMAI's estimated ratio of heavy liquid raw materials and NGLs used in U.S. ethylene production.

	<b>Average Benchmark Price and Percent Change Versus Prior Year Period Average</b>					
	<b>For the twelve months ended</b>			<b>For the twelve months ended</b>		
	<b>December 31,</b>			<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>2009</b>	<b>2008</b>	<b>Change</b>
Crude oil – dollars per Barrel	79.58	62.09	28%	62.09	99.75	(38)%
Natural gas – dollars per million BTUs	4.48	3.78	19%	3.78	8.86	(57)%
United States – cents per pound						
Weighted average cost of ethylene production	30.0	26.2	14%	26.2	45.4	(42)%
United States – cents per pound						
Ethylene	45.9	33.9	35%	33.9	58.5	(42)%
Polyethylene (high density)	82.2	66.5	24%	66.5	86.4	(23)%
Propylene – polymer grade	59.6	37.9	57%	37.9	60.0	(37)%
Polypropylene	86.0	64.4	34%	64.4	87.6	(26)%

The following table sets forth the O&P—Americas segment's sales and other operating revenues, operating income, income from equity investments and selected product sales volumes.

	<b>Period 15 October 2009 31 December 2010</b>
<b><u>Millions of dollars</u></b>	
Sales and other operating revenues	\$ 8,406
Operating income (loss)	1,043
Income from equity investments	16
<b><u>Production Volumes, in millions of pounds</u></b>	
Ethylene	5,585
Propylene	1,998
<b><u>Sales Volumes, in millions of pounds</u></b>	
Polypropylene	1,735
Polyethylene	3,704

**LyondellBasell Industries N.V.**

**Revenues**—The average sales prices and sales volumes reflected an increase in demand resulting from improved economic conditions and the effect of constrained supply due to operating issues and turnarounds at competitor plants

**Operating Income (Loss)**—The underlying operations of the O&P—Americas segment in 2010 improved primarily due to higher product margins for ethylene as higher average sales prices for ethylene and its co-products more than offset higher raw material costs. In addition, the effect of higher polypropylene sales volumes during 2010 partially offset the effect of higher utility, planned maintenance and other costs.

***Olefins and Polyolefins—Europe, Asia and International Segment***

Ethylene market demand in Europe was generally high in 2010 as planned and unplanned outages resulted in reduced supply and higher operating results in the second and third quarters of 2010. Ethylene margins expanded as benchmark average sales prices increased more than the benchmark weighted average cost of ethylene production. Global polyolefin markets also improved in 2010 compared to 2009. The improvement in polypropylene and LDPE reflected tight supply conditions amid planned and unplanned industry outages throughout 2010.

In Europe, heavy liquids are the primary raw materials for our ethylene production. The following table shows the average West Europe benchmark prices for Brent crude oil, a heavy liquid raw material, for the applicable periods, as well as benchmark West Europe prices for ethylene and propylene, which we produce and consume internally or purchase from unrelated suppliers, and certain polyethylene and polypropylene products.

	<b>Average Benchmark Price and Percent Change Versus Prior Year Period Average</b>					
	<b>For the year ended December 31,</b>		<b>Chan ge</b>	<b>For the year ended December 31,</b>		<b>Change</b>
	<b>2010</b>	<b>2009</b>		<b>2009</b>	<b>2008</b>	
Brent crude oil – dollars per barrel	80.80	68.30	18%	68.30	101.83	(33)%
Western Europe – €0.01 per pound						
Weighted average cost of ethylene production	29.5	23.8	24%	23.8	28.2	(16)%
Ethylene	43.2	33.4	29%	33.4	50.0	(33)%
Polyethylene (high density)	52.5	42.9	22%	42.9	58.5	(27)%
Propylene	42.4	27.7	53%	27.7	43.6	(36)%
Polypropylene (homopolymer)	57.7	39.9	45%	39.9	54.2	(26)%
Average Exchange Rate – \$US per €	1.3205	1.3972	(5)%	1.3972	1.4739	(5)%

## LyondellBasell Industries N.V.

The following table sets forth the O&P—EAI segment's sales and other operating revenues, operating income, income from equity investments and selected product sales volumes

	<b>15 October 2009 to 31 December 2010</b>
<b><u>Millions of dollars</u></b>	
Sales and other operating revenues	\$ 8,729
Operating income	411
Income (loss) from equity investments	68
<b><u>Production Volumes, in millions of pounds</u></b>	
Ethylene	2,502
Propylene	1,572
<b><u>Sales Volumes, in millions of pounds</u></b>	
Polypropylene	4,906
Polyethylene	3,402

**Revenues**—The revenues reflected primarily the effect of higher average product sales prices across most products, particularly ethylene, butadiene, polyethylene and polypropylene, as well as the effect of improved sales volumes, particularly polypropylene, including *Catalloy* and PP Compounds.

**Operating Income**—The underlying operating results of our O&P—EAI business segment reflect primarily improved product margins for ethylene, butadiene, polypropylene and polyethylene, mainly LDPE. Fixed costs include costs related to the start up of the polymers plant in Münchmünster, Germany. Operating results for the period ended 31 December 2010 were negatively impacted by a \$35 million charge associated with a change in estimate related to a dispute that arose during the third quarter 2010 over an environmental indemnity.

**Equity investments**—We have five polypropylene equity investments, one polyethylene equity investment, one equity investment that produces both polypropylene and polyethylene and one equity investment that only produces polypropylene compounds. Of the eight equity investments, four are in Asia, three are in the Middle East and one is in Eastern Europe. These equity investments provide us with additional geographical diversification and access to local market skills and expertise. We believe that our technological leadership has enabled us to establish equity investments in cost advantaged locations and developing regions with higher growth, including the Asia Pacific region and the Middle East.

### ***Intermediates and Derivatives Segment***

Market demand for PO and PO derivatives improved in 2010 as the recovery of the automotive industry from a particularly weak 2009 and planned and unplanned industry outages during 2010 resulted in tightened supply. Demand in the Intermediates market also returned to at or above pre-recession levels. The propylene oxide business benefited from planned and unplanned competitor downtime in the first half of 2010 as the market for durable goods end-uses strengthened.



## LyondellBasell Industries N.V.

The following table sets forth the Intermediates & Derivatives segment's sales and other operating revenues, operating income, income from equity investments and selected product sales volumes.

	<b>15 October 2009 to 31 December 2010</b>
<b><u>Millions of dollars</u></b>	
Sales and other operating revenues	\$ 3,754
Operating income	512
Income from equity investments	2
<b><u>Sales Volumes, in millions of pounds</u></b>	
PO and derivatives	2,248
EO and derivatives	614
Styrene	2,023
Acetyls	1,189
TBA intermediates	1,208

**Revenues**—The revenue reflected strong demand in the year leading to higher sales volumes and higher average sales prices across most products, particularly PO, BDO, PG, TBA, and styrene. EO and EG sales volumes were affected by planned and unplanned maintenance activities during the latter half of 2010.

**Operating Income**—The operating income primarily reflected the favorable effect of significantly higher sales volumes for PO and PO derivatives, TBA and styrene. Lower product margins for styrene and TBA and derivatives more than offset higher product margins for acetyls, EO and EG.

### ***Refining and Oxyfuels Segment***

Benchmark heavy crude refining margins averaged higher in 2010 compared to 2009, primarily due to an increase in the differential between the cost of heavy and light crude oil.

Operating results primarily reflected improved benchmark refining margins and lower crude processing rates at the Houston refinery. Crude processing rates for the Houston refinery reflected the effects of a crude unit fire, sulfur recovery constraints and unplanned outages.

The following table sets forth the Refining and Oxyfuels segment's sales and other operating revenues, operating income and sales volumes for certain gasoline blending components for the applicable periods. In addition, the table shows market refining margins for the U.S. and Europe and MTBE margins in Northwest Europe ("NWE"). In the U.S., "WTI," or West Texas Intermediate, is a light crude oil, while "Maya" is a heavy crude oil. In Europe, "Urals - 4-1-2-1" is a measure of West European refining margins.

**LyondellBasell Industries N.V.**

	<b>15 October 2009 to 31 December 2010</b>
<b><u>Millions of dollars</u></b>	
Sales and other operating revenues	\$ 10,321
Operating income	241

**Sales Volumes, in millions**

Gasoline blending components – MTBE/ETBE (gallons)	625
---	-----

**Crude processing rates  
(thousands of barrels per day):**

Houston Refining	223
Berre Refinery	94

	<b>1 May 2010 to 31 December</b>	<b>through 1 January to 10 April</b>	<b>For the twelve months ended</b>	
	<b>2010</b>	<b>2010</b>	<b>December 31,</b>	
<b><u>Market margins - \$ per barrel</u></b>			<b>2009</b>	<b>2008</b>
WTI – 2-1-1	8.98	7.50	6.98	12.37
WTI Maya	8.99	9.46	5.18	15.71
Total	17.97	16.96	12.16	28.08
Urals – 4-1-2-1	6.59	6.17	5.57	10.98
<b><u>Market margins – cents per gallon</u></b>				
MTBE – NWE	33.9	50.2	67.9	51.9

**Revenues**—The revenues is primarily driven by improved average sales prices at the Houston and Berre refineries. Crude processing rates for the Houston refinery were impacted by 3% as a result of a May 2010 crude unit fire and other planned and unplanned outages during 2010. Crude processing rates for the Berre refinery were not significantly effected by several planned and unplanned outages.

**Operating Income**—Operating results were negatively impacted by a \$21 million charge associated with a change in estimate related to a dispute that arose during the third quarter 2010 over an environmental indemnity, the impairment of assets related to the Berre refinery, and by a crude unit fire in May 2010 resulting in lost production and \$14 million in cash costs. These negative impacts were partly offset by improved refining margins, especially at the Houston refinery.

***Technology Segment***

The Technology segment results in 2010 were negatively impacted by a slowdown in new polyolefin projects as a consequence of the economic crisis beginning late in the fourth quarter 2008. The negative effect of a strengthening U.S. dollar versus the Euro in 2010 also negatively impacted the Technology segment's 2010 results.

The following table sets forth the Technology segment's sales and other operating revenues and operating income.

	<b>15 October 2009 to 31 December 2010</b>
<b><u>Millions of dollars</u></b>	
Sales and other operating revenues	\$ 365
Operating income	69

**Revenues**—The revenues reflected the slowdown in process license revenue. In addition, currency exchange rates had an unfavorable effect on operating income of non-U.S. operations as the U.S. dollar strengthened versus the Euro in both periods.

**Operating Income**—Operating income was negatively affected by an \$8 million charge associated with a change in estimate related to a dispute that arose during the third quarter 2010 over an environmental indemnity and by a \$17 million charge related to the sale, in 2010, of higher cost inventory. In addition, the operating income in reflect the results of the slowdown in process licensing revenue, and to a lesser extent, the negative effects of a strengthening U.S. dollar versus the Euro in 2010 compared to 2009.

## 1.6 OUTLOOK

We entered 2011 well-positioned. Demand for our products should continue to improve with global economic recovery and growth. We believe there is limited new industry capacity under construction and we are optimistic that we will continue to be rewarded in a strengthening market. Regardless of the economic and industry cycles, we intend to focus on our operations, culture, costs and capital structure. In so doing, we believe we will position ourselves for 2011 and the future..

In the immediate term, chemical and polyolefin prices are adjusting to increased naphtha prices and our U.S. olefins operations continue to benefit from advantaged ethane economics. Additionally, European olefins prices have risen, re-establishing mid-2010 margins. Oxyfuel margins also are recovering from seasonal winter lows. Raw material cost volatility will remain a key factor in determining near term performance. During January we received an initial dividend payment from our SEPC joint venture.

In 2011, we will be looking to improve many of our operations as well as consistently implement our strategy worldwide. Some key areas where we will be looking to improve operations in 2011 are:

- establishing a future path for the Berre facility;
- completion of major turnarounds, including
  - our fluid catalytic cracking unit at the Houston refinery and
  - the Channelview olefins plant;
- building on our 2010 SAP system consolidation;
- institutionalizing our culture, processes and systems, particularly in Europe and Asia;
- further optimizing our capital structure; and
- keeping our focus on safety, reliability and costs.

At 31 December 2010, we and our subsidiaries had approximately 14,000 full-time and part-time employees. We also use the services of contractors in the routine conduct of our businesses. Approximately 900 of our North American employees are represented by labor unions and the vast majority of our employees in Europe and South America are subject to staff council or works council coverage or collective bargaining units. We believe our relations with our employees are good. As stated, we continue to focus on safety, and we will place significant efforts towards reducing injuries to our employees and our contractors in 2011. We currently do not expect any significant turnover in personnel.

## 1.7 FINANCIAL CONDITION

Operating, investing and financing activities of continuing operations, which are discussed below, are presented in the following table:

<u>Millions of dollars</u>	<b>15 October 2009 to 31 December 2010</b>
Source (use) of cash:	
Operating activities	\$ 2,916
Investing activities	(277)
Financing activities	1,555

**Operating Activities**—Cash provided by the operating activities primarily reflected profit before tax of \$1,608 million, the decrease in main components of net working capital of \$630 million and depreciation, amortization and impairment of fixed assets of \$586 million

The main components of working capital – accounts receivable and inventory, net of accounts payable generated cash of \$630 million reflecting the usage of inventories acquired at market prices as a result of the acquisition and the improved favorable payment terms with suppliers after emergence from Bankruptcy.

**Investing Activities**—Cash used in investing activities included \$466 million of capital expenditures, partially offset by proceeds of \$154 million from the sale of our flavors and fragrances (“F&F”) business in December 2010 and \$34 million dividends received from investments in associates & joint ventures.

The following table summarizes capital expenditures for the periods presented:

<u>Millions of dollars</u>	<u>Plan 2011</u>	<u>15 October 2009 to 31 December 2010</u>
<b>Capital cash expenditures</b>		
<b>by segment:</b>		
O&P–Americas	\$ 361	\$ 146
O&P–EAI	286	105
I&D	119	76
Refining and Oxyfuels	345	108
Technology	38	19
Other	15	12
Total capital cash expenditures		
by segment	1,164	466

The capital cash expenditures presented in the table above exclude costs of major periodic maintenance and repair activities.

**Financing Activities**— The financing activities mainly relates to the issuance of share capital and redemption of debt. We issued shares in a rights offering and received gross proceeds of \$2,800 million and paid \$65 million of fees net of taxes. In December 2010, we redeemed \$225 million and €37.5 million (\$50 million) of our 8% Senior Secured Notes due 2017, comprising 10% of the outstanding senior secured dollar notes and senior secured Euro notes, respectively. In conjunction with the redemption of the notes,

## LyondellBasell Industries N.V.

we paid premiums totaling \$8 million. Also in 2010, we repaid \$495 million of the Senior Term Loan Facility, including a mandatory quarterly amortization payment of \$1 million and a prepayment, at par, of \$494 million in December 2010.

**Liquidity and Capital Resources**—As of 31 December 2010, we had cash on hand of \$4,222 million. In addition, we had total unused availability under our credit facilities of \$1,883 million at December 31, 2010, which included the following:

- \$1,380 million under our \$1,750 million U.S. ABL facility, which matures in 2014. Availability under the U.S. ABL facility is subject to a borrowing base of \$1,750 million at December 31, 2010, and is reduced to the extent of outstanding borrowings and outstanding letters of credit provided under the facility. At December 31, 2010, we had \$370 million of outstanding letters of credit and no outstanding borrowings under the facility.
- €368 million and \$16 million (totaling approximately \$503 million) under our €450 million European receivables securitization facility. Availability under the European receivables securitization facility is subject to a borrowing base comprising €368 million and \$16 million in effect as of December 31, 2010. There were no outstanding borrowings under this facility at December 31, 2010.

We may use cash on hand, cash from operating activities and proceeds from asset divestitures to repay debt, which may include additional purchases of our outstanding bonds in the open market or otherwise. We also plan to finance our ongoing working capital, capital expenditures, debt service and other funding requirements through our future financial and operating performance, which could be affected by general economic, financial, competitive, legislative, regulatory, business and other factors, many of which are beyond our control. We believe that our cash, cash from operating activities and proceeds from our revolving credit facilities provide us with sufficient financial resources to meet our anticipated capital requirements and obligations as they come due.

At 31 December 2010, we had total short-term and long-term debt, including current maturities, of \$6,029 million.

We are seeking to amend and restate our Senior Secured Term Loan Agreement to, among other things, modify certain restrictive covenants.

**Contractual and Other Obligations**—The following table summarizes, as of 31 December 2010, our minimum payments for long-term debt, including current maturities, short-term debt, and contractual and other obligations for the next five years and thereafter.

**LyondellBasell Industries N.V.**

<u>Millions of dollars</u>	<b>Total</b>	<b>Payments Due By Period</b>					<b>Thereafter</b>
		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	
Total debt, nominal value	\$ 6,082	\$ 46	\$ 10	\$ 1	\$ --	\$ 1	\$ 6,024
Interest payment on total debt	4,460	609	608	608	589	579	1,467
Pension benefits:							
PBO	2,934	161	166	236	186	205	1,980
Assets	(1,760)	--	--	--	--	--	(1,760)
Funded status	1,174						
Other postretirement benefits	332	22	22	23	23	24	218
Advances from customers	101	12	17	16	12	12	32
Other	605	112	93	71	35	33	261
Deferred income taxes	968	168	165	153	143	134	205
Other obligations:							
Purchase obligations:							
Take - or - pay contracts	15,223	2,400	2,352	2,328	2,357	1,910	3,876
Other contracts	41,593	13,484	6,325	5,612	5,405	4,767	6,000
Operating leases	1,687	278	232	211	185	152	629
Total	\$ 72,225	\$17,292	\$ 9,990	\$ 9,259	\$ 8,935	\$ 7,817	\$ 18,932

*Total Debt*—Total debt includes our 8% U.S. dollar and Euro Senior Secured Notes due 2017, Senior Secured Term Loan Facility due 2016, 11% Senior Secured Notes due 2018, 8.1% guaranteed notes due 2027 (the “2027 Notes”) and various non-U.S. loans. See Note 29 of the Consolidated Financial Statements for a discussion of covenant requirements under the credit facilities and indentures and additional information regarding our debt facilities.

*Interest*—Our debt and related party debt agreements contain provisions for the payment of monthly, quarterly or semi-annual interest at a stated rate of interest over the term of the debt.

*Pension Benefits*—We maintain several defined benefit pension plans, as described in Note 31 to the Consolidated Financial Statements. At 31 December 2010, the projected benefit obligation for our pension plans exceeded the fair value of plan assets by \$1,174 million. Subject to future actuarial gains and losses, as well as actual asset earnings, we, together with our consolidated subsidiaries, will be required to fund the \$1,174 million, with interest, in future years. We contributed \$99 million to our pension plans in 2010. In January 2011, we contributed \$155 million of the approximately \$287 million of required contributions that we expect to make to our pension plans in 2011. Estimates of pension benefit payments through 2015 are included in the table above.

*Other Postretirement Benefits*—We provide other postretirement benefits, primarily medical benefits to eligible participants, as described in Note 31 to the Consolidated Financial Statements. We pay other unfunded postretirement benefits as incurred. Estimates of other postretirement benefit payments through 2015 are included in the table above.

*Advances from Customers*—We are obligated to deliver product, primarily at cost-based prices, in connection with long-term sales agreements under which our Predecessor received advances from customers in prior years. These advances are treated as deferred revenue and will be amortized to earnings as product is delivered over the remaining terms of the respective contracts, which primarily range from 4

## LyondellBasell Industries N.V.

to 8 years. The unamortized long-term portion of such advances totaled \$101 million as of December 31, 2010.

*Other*—Other primarily consists of accruals for environmental remediation costs, obligations under deferred compensation arrangements, and anticipated asset retirement obligations.

*Deferred Income Taxes*—The scheduled settlement of the deferred tax liabilities shown in the table is based on the scheduled reversal of the underlying temporary differences. Actual cash tax payments will vary depending upon future taxable income.

*Purchase Obligations*—We are party to various obligations to purchase products and services, principally for raw materials, utilities and industrial gases. These commitments are designed to assure sources of supply and are not expected to be in excess of normal requirements. The commitments are segregated into take-or-pay contracts and other contracts. Under the take-or-pay contracts, we are obligated to make minimum payments whether or not we take the product or service. Other contracts include contracts that specify minimum quantities; however, in the event that we do not take the contractual minimum, we are only obligated for any resulting economic loss suffered by the vendor. The payments shown for the other contracts assume that minimum quantities are purchased. For contracts with variable pricing terms, the minimum payments reflect the contract price at December 31, 2010.

*Operating Leases*—We lease various facilities and equipment under non-cancelable lease arrangements for various periods. See Note 34 to the Consolidated Financial Statements for related lease disclosures.

### 1.8 RISK FACTORS

*Economic downturns and disruptions in financial markets can adversely affect our business and results of operations.*

Our results of operations can be materially affected by adverse conditions in the financial markets and depressed economic conditions generally. Economic downturns in the businesses and geographic areas in which we sell our products substantially reduce demand for our products and result in decreased sales volumes. Recessionary environments adversely affect our business because demand for our products is reduced, particularly from our customers in industrial markets generally and the automotive and housing industries specifically.

Moreover, many of our customers and suppliers rely on access to credit to adequately fund their operations. Disruptions in financial markets and economic slowdown can adversely impact the ability of our customers to finance the purchase of our products as well as the creditworthiness of those customers. These same factors may also impact the ability and willingness of suppliers to provide us with raw materials for our business.

*The cyclical and volatility of the industries in which we participate may cause significant fluctuations in our operating results.*

Our business operations are subject to the cyclical and volatile nature of the supply-demand balance in the chemical and refining industries. Our future operating results are expected to continue to be affected by this cyclical and volatility. The chemical and refining industries historically have experienced alternating periods of capacity shortages, causing prices and profit margins to increase, followed by periods of excess capacity, resulting in oversupply, declining capacity utilization rates and declining prices and profit margins.

In addition to changes in the supply and demand for products, changes in energy prices and other worldwide economic conditions can cause volatility. These factors result in significant fluctuations in profits and cash flow from period to period and over business cycles.

## **LyondellBasell Industries N.V.**

In addition, new capacity additions, especially in Asia and the Middle East, are expected to lead to a period of oversupply and lower profitability. The timing and extent of any changes to currently prevailing market conditions is uncertain and supply and demand may be unbalanced at any time. As a consequence, we are unable to accurately predict the extent or duration of future industry cycles or their effect on our business, financial condition or results of operations. We can give no assurances as to any predictions we may make with respect to the timing, extent or duration of future industry cycles.

*Costs and limitations on supply of raw materials and energy may result in increased operating expenses.*

The costs of raw materials and energy represent a substantial portion of our operating expenses. Energy costs generally follow price trends of crude oil and natural gas. These price trends may be highly volatile and cyclical. In the past, raw material and energy costs have experienced significant fluctuations that adversely affected our business segments' results of operations. Moreover, fluctuations in currency exchange rates can add to this volatility.

We are not always able to pass raw material and energy cost increases on to our customers. When we do have the ability to pass on the cost increases, we are not always able to do so quickly enough to avoid adverse impacts on our results of operations.

Cost increases also may increase working capital needs, which could reduce our liquidity and cash flow. Even if we increase our sales prices to reflect rising raw material and energy costs, demand for products may decrease as customers reduce their consumption or use substitute products, which may have an adverse impact on our results of operations.

In addition, producers in natural gas cost-advantaged regions, such as the Middle East, benefit from the lower prices of natural gas and NGLs. Competition from producers in these regions may cause us to reduce exports from North America and Europe. Any such reductions may increase competition for product sales within North America and Europe, which can result in lower margins in those regions. Additionally, there are a limited number of suppliers for some of our raw materials and utilities and, in some cases, the supplies are specific to the particular geographic region in which a facility is located.

It is also common in the chemical and refining industries for a facility to have a sole, dedicated source for its utilities, such as steam, electricity and gas. Having a sole or limited number of suppliers may limit our negotiating power, particularly in the case of rising raw material costs. Any new supply agreements we enter into may not have terms as favorable as those contained in our current supply agreements.

If our raw material or utility supplies were disrupted, our businesses may incur increased costs to procure alternative supplies or incur excessive downtime, which would have a direct negative impact on plant operations. For example, hurricanes have in the past negatively affected crude oil and natural gas supplies, as well as supplies of other raw materials, utilities (such as electricity and steam), and industrial gases, contributing to increases in operating costs and, in some cases, disrupting production. In addition, hurricane-related disruption of vessel, barge, rail, truck and pipeline traffic in the U.S. Gulf Coast area would negatively affect shipments of raw materials and product.

In addition, with increased volatility in raw material costs, our suppliers could impose more onerous terms on us, resulting in shorter payment cycles and increasing our working capital requirements.

*We sell products in highly competitive global markets and face significant price pressures.*

We sell our products in highly competitive global markets. Due to the commodity nature of many of our products, competition in these markets is based primarily on price and, to a lesser extent, on product performance, product quality, product deliverability, reliability of supply and customer service. Generally, we are not able to protect our market position for these products by product differentiation and may not be able to pass on cost increases to our customers.



## **LyondellBasell Industries N.V.**

In addition, we face increased competition from companies that may have greater financial resources and different cost structures or strategic goals than us. These include large integrated oil companies (many of which also have chemical businesses), government-owned businesses, and companies that receive subsidies or other government incentives to produce certain products in a specified geographic region. Increased competition from these companies, especially in our olefin and refining businesses, could limit our ability to increase product sales prices in response to raw material and other cost increases, or could cause us to reduce product sales prices to compete effectively, which could reduce our profitability. Competitors that have greater financial resources than us may be able to invest significant capital into their businesses, including expenditures for research and development.

In addition, specialty products we produce may become commoditized over time. Increased competition could result in lower prices or lower sales volumes, which would have a negative impact on our results of operations.

*Our ability to source raw materials, including crude oil, may be adversely affected by political instability, civil disturbances or other governmental actions.*

We obtain a substantial portion of our principal raw materials from sources in North Africa, the Middle East, and South America that may be less politically stable than other areas in which we conduct business, such as Europe or the U.S..

Recently, increased incidents of civil unrest, including demonstrations which have been marked by violence, have occurred in some countries in North Africa and the Middle East. Some political regimes in these countries are threatened or have changed as a result of such unrest. Political instability and civil unrest could continue to spread in the region and involve other areas. Such unrest, if it continues to spread or grow in intensity, could lead to civil wars, regional conflict, or regime changes resulting in governments that are hostile to countries in which we conduct substantial business, such as Europe, the U.S., or their respective allies.

We source a large portion of our crude oil from Venezuela. From time to time in the past, the Venezuelan national oil company, PDVSA, has declared itself in a force majeure situation and reduced deliveries of crude oil purportedly based on announced OPEC production cuts. It is impossible to predict how possible changes in governmental policies may affect our sourcing. Any significant reduction in Venezuelan crude oil supplies could negatively impact our ability to procure crude oil, from Venezuela or other sources, on economically advantageous terms. Political instability, civil disturbances and actions by governments in North Africa, the Middle East or South America are likely to substantially increase the price and decrease the supply of feedstocks necessary for our operations, which will have a material adverse effect on our results of operations.

*Interruptions of operations at our facilities may result in liabilities or lower operating results.*

We own and operate large-scale facilities. Our operating results are dependent on the continued operation of our various production facilities and the ability to complete construction and maintenance projects on schedule. Interruptions at our facilities may materially reduce the productivity and profitability of a particular manufacturing facility, or our business as a whole, during and after the period of such operational difficulties. In the past, we had to shut down plants on the U.S. Gulf Coast, including the temporary shutdown of the Houston Refinery, as a result of hurricanes striking the Texas coast.

In addition, because the Houston Refinery is our only North American refining operation, an outage at the refinery could have a particularly negative impact on our operating results. Unlike our chemical and polymer production facilities, which may have sufficient excess capacity to mitigate the negative impact of lost production at other facilities, we do not have the ability to increase refining production elsewhere in the U.S.

## LyondellBasell Industries N.V.

Although we take precautions to enhance the safety of our operations and minimize the risk of disruptions, our operations are subject to hazards inherent in chemical manufacturing and refining and the related storage and transportation of raw materials, products and wastes. These potential hazards include:

- pipeline leaks and ruptures;
- explosions;
- fires;
- severe weather and natural disasters;
- mechanical failure;
- unscheduled downtimes;
- supplier disruptions;
- labor shortages or other labor difficulties;
- transportation interruptions;
- remediation complications;
- chemical and oil spills;
- discharges or releases of toxic or hazardous substances or gases;
- storage tank leaks;
- other environmental risks; and
- terrorist acts.

Some of these hazards may cause severe damage to or destruction of property and equipment and may result in suspension of operations or the shutdown of affected facilities.

*Our operations are subject to risks inherent in chemical and refining businesses, and we could be subject to liabilities for which we are not fully insured or that are not otherwise mitigated.*

We maintain property, business interruption, product, general liability, casualty and other types of insurance, including pollution and legal liability, that we believe are in accordance with customary industry practices. However, we are not fully insured against all potential hazards incident to our business, including losses resulting from natural disasters, war risks or terrorist acts. Changes in insurance market conditions have caused, and may in the future cause, premiums and deductibles for certain insurance policies to increase substantially and, in some instances, for certain insurance to become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we were not fully insured, we might not be able to finance the amount of the uninsured liability on terms acceptable to us or at all, and might be obligated to divert a significant portion of our cash flow from normal business operations.

Further, because a part of our business involves licensing polyolefin process technology, our licensees are exposed to similar risks involved in the manufacture and marketing of polyolefins. Hazardous incidents involving our licensees, if they do result or are perceived to result from use of our technologies, may harm our reputation, threaten our relationships with other licensees and/or lead to customer attrition and financial losses. Our policy of covering these risks through contractual limitations of liability and indemnities and through insurance may not always be effective. As a result, our financial condition and results of operation would be adversely affected, and other companies with competing technologies may have the opportunity to secure a competitive advantage.

*Certain activities related to a former project raise compliance issues under U.S. law.*

We have identified an agreement related to a former project in Kazakhstan under which a payment was made in late 2008 that raises compliance concerns under the U.S. Foreign Corrupt Practices Act (the "FCPA"). We have engaged outside counsel to investigate these activities, under the oversight of a special committee established by the Supervisory Board, and to evaluate internal controls and compliance policies and procedures. We made a voluntary disclosure of these matters to the U.S. Department of Justice in late 2009 and are cooperating fully with that agency. In this respect, we may not have conducted our business in compliance with the FCPA and may not have had policies and procedures in place adequate to ensure compliance. We cannot reasonably estimate any potential penalty that may arise from these matters. We

## LyondellBasell Industries N.V.

have adopted and are implementing more stringent policies and procedures designed to ensure compliance. We cannot predict the ultimate outcome of these matters at this time since our investigations are ongoing. Violations of these laws could result in criminal and civil liabilities and other forms of relief that could be material to us.

*Our non-U.S. operations conduct business in countries subject to U.S. economic sanctions and certain activities raise compliance issues under U.S. law.*

Certain of our non-U.S. subsidiaries conduct business in countries subject to U.S. economic sanctions, including Iran. U.S. and EU laws and regulations prohibit certain persons from engaging in business activities, in whole or in part, with sanctioned countries, organizations and individuals.

We have and continue to adopt more significant compliance policies and procedures to ensure compliance with all applicable sanctions laws and regulations. In connection with our continuing review of compliance risks in this area, we made a voluntary disclosure of certain matters to the U.S. Treasury Department and intend to continue cooperating fully with that agency. We cannot at this point in time predict the outcome of this matter because our investigation is ongoing, but there is a risk that we could be subject to civil and criminal penalties.

We have made the decision to terminate all business by the Company and its direct and indirect subsidiaries with the government, entities and individuals in Iran, Syria and Sudan. We have notified our counterparties in these countries of our decision and may be subject to legal actions to enforce agreements with the counterparties. These activities present a potential risk that could subject the Company to private legal proceedings that could be material to us. At this time, we cannot predict the outcome because our withdrawal activities are ongoing.

*Our operations could be adversely affected by labor relations.*

The vast majority of our employees located in Europe and South America are represented by labor unions and work councils. Approximately 900 of our employees located in North America are represented by labor unions. Of the North American employees, approximately 50% include our employees that are covered by a collective bargaining agreement between Houston Refining LP and the United Steelworkers Union, which expires on January 31, 2012.

Our operations have been in the past, and may be in the future, significantly and adversely affected by strikes, work stoppages and other labor disputes.

*We cannot predict with certainty the extent of future costs under environmental, health and safety and other laws and regulations, and cannot guarantee they will not be material.*

We may face liability arising out of the normal course of business, including alleged personal injury or property damage due to exposure to chemicals or other hazardous substances at our current or former facilities or chemicals that we manufacture, handle or own. In addition, because our products are components of a variety of other end-use products, we, along with other members of the chemical industry, are subject to potential claims related to those end-use products. Any substantial increase in the success of these types of claims could negatively affect our operating results.

We (together with the industries in which we operate) are subject to extensive national, regional, state and local environmental laws, regulations, directives, rules and ordinances concerning

- emissions to the air,
- discharges onto land or surface waters or into groundwater; and
- the generation, handling, storage, transportation, treatment, disposal and remediation of hazardous substances and waste materials.

Many of these laws and regulations provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations. In

## LyondellBasell Industries N.V.

addition, some of these laws and regulations require us to meet specific financial responsibility requirements. Any substantial liability for environmental damage could have a material adverse effect on our financial condition, results of operations and cash flows.

Although we have compliance programs and other processes intended to ensure compliance with all such regulations, we are subject to the risk that our compliance with such regulations could be challenged. Non-compliance with certain of these regulations could result in the incurrence of additional costs, penalties or assessments that could be material.

*Our industry is subject to extensive government regulation, and existing or future regulations may restrict our operations, increase our costs of operations or require us to make additional capital expenditures.*

Compliance with regulatory requirements could result in higher operating costs, such as regulatory requirements relating emissions, to the security of our facilities, and the transportation, export or registration of our products. We generally expect that regulatory controls worldwide will become increasingly more demanding, but cannot accurately predict future developments. Increasingly strict environmental laws and inspection and enforcement policies, could affect the handling, manufacture, use, emission or disposal of products, other materials or hazardous and non-hazardous waste. Stricter environmental, safety and health laws, regulations and enforcement policies could result in increased operating costs. Additionally, we are required to have permits for our businesses and are subject to licensing regulations. These permits and licenses are subject to renewal, modification and in some circumstances, revocation. Further, the permits and licenses are often difficult, time consuming and costly to obtain and could contain conditions that limit our operations.

*We may incur substantial costs to comply with climate change legislation and regulatory initiatives.*

There has been a broad range of proposed or promulgated state, national and international laws focusing on greenhouse gas (“GHG”) reduction. These proposed or promulgated laws apply or could apply in countries where we have interests or may have interests in the future. Laws in this field continue to evolve and, while they are likely to be increasingly widespread and stringent, at this stage it is not possible to accurately estimate either a timetable for implementation or our future compliance costs relating to implementation. Within the framework of EU emissions trading, we were allocated certain allowances of carbon dioxide per year for the affected plants of our European sites for the 2005 to 2007 period. For the second trading period (2008 to 2012), a number of our plants are included in the Europe-wide trading system. We expect to incur additional costs as a result of the existing emissions trading scheme and could incur additional costs in relation to any future carbon or other greenhouse gas emission trading schemes. The costs could be higher to the extent that we decide to sell credits that we need in the future.

In the U.S., the Environmental Protection Agency (the “EPA”) has promulgated federal GHG regulations under the Clean Air Act affecting certain sources. The EPA has issued mandatory GHG reporting requirements which could lead to further obligations. The recent EPA action could be a precursor to further federal regulation of carbon dioxide emissions and other greenhouse gases, and may affect the outcome of other climate change lawsuits pending in United States federal courts in a manner unfavorable to our industry. In any event, additional regulation is likely to be forthcoming at the United States federal level or the state level with respect to GHG emissions, and such regulation could result in the creation of additional costs in the form of taxes or required acquisition or trading of emission allowances.

Compliance with these or other changes in laws, regulations and obligations that create a GHG emissions trading scheme or GHG reduction policies generally could significantly increase our costs or reduce demand for products we produce. Depending on the nature of potential regulations and legislation, any future laws and regulations could result in increased compliance costs or additional operating restrictions, and could have a material adverse effect on our business and results of operations.

## **LyondellBasell Industries N.V.**

*Legislation and regulatory initiatives could lead to a decrease in demand for our products.*

New or revised governmental regulations and independent studies relating to the effect of our products on health, safety and the environment may affect demand for our products and the cost of producing our products. Initiatives by governments and private interest groups will potentially require increased toxicological testing and risk assessments of a wide variety of chemicals, including chemicals used or produced by us. For example, in the United States, the National Toxicology Program (“NTP”) is a federal interagency program that seeks to identify and select for study chemicals and other substances to evaluate potential human health hazards. In the European Commission, Registration, Evaluation, Authorization and Restriction of Chemicals (“REACH”) is regulation designed to identify the intrinsic properties of chemical substances, assess hazards and risks of the substances, and identify and implement the risk management measures to protect humans and the environment.

Assessments by the NTP or REACH may result in heightened concerns about the chemicals we use or produce and may result in additional requirements being placed on the production, handling, labeling or use of those chemicals. Such concerns and additional requirements could also increase the cost incurred by our customers to use our chemical products and otherwise limit the use of these products, which could lead to a decrease in demand for these products. Such a decrease in demand could have an adverse impact on our business and results of operations.

*We operate internationally and are subject to exchange rate fluctuations, exchange controls, political risks and other risks relating to international operations.*

We operate internationally and are subject to the risks of doing business on a global level, including fluctuations in currency exchange rates, transportation delays and interruptions, war, terrorist activities, epidemics, pandemics, political and economic instability and disruptions, restrictions on the transfer of funds, the imposition of duties and tariffs, import and export controls, changes in governmental policies, labor unrest and current and changing regulatory environments. Recent demonstrations and popular unrest in the Middle East are examples of these events.

These events could reduce the demand for our products, decrease the prices at which we can sell our products, disrupt production or other operations, require substantial capital and other costs to comply, and/or increase security costs or insurance premiums, all of which could reduce our operating results. In addition, we obtain a substantial portion of our principal raw materials from international sources that are subject to these same risks. Our compliance with applicable customs, currency exchange control regulations, transfer pricing regulations or any other laws or regulations to which we may be subject could be challenged. Furthermore, these laws may be modified, the result of which may be to prevent or limit subsidiaries from transferring cash to us.

Furthermore, we are subject to certain existing, and may be subject to possible future, laws that limit or may limit our activities while some of our competitors may not be subject to such laws, which may adversely affect our competitiveness.

In addition, we generate revenues from export sales and operations that may be denominated in currencies other than the relevant functional currency. Exchange rates between these currencies and functional currencies in recent years have fluctuated significantly and may do so in the future. Future events, which may significantly increase or decrease the risk of future movement in currencies in which we conduct our business, cannot be predicted. We also may hedge certain revenues and costs using derivative instruments to minimize the impact of changes in the exchange rates of those currencies compared to the respective functional currencies. It is possible that fluctuations in exchange rates will result in reduced operating results.

## LyondellBasell Industries N.V.

*Significant changes in pension fund investment performance or assumptions relating to pension costs may adversely affect the valuation of pension obligations, the funded status of pension plans, and our pension cost.*

Our pension cost is materially affected by the discount rate used to measure pension obligations, the level of plan assets available to fund those obligations at the measurement date and the expected long-term rate of return on plan assets. Significant changes in investment performance or a change in the portfolio mix of invested assets may result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change of the expected rate of return on plan assets. Any change in key actuarial assumptions, such as the discount rate, would impact the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net periodic pension cost in the following fiscal years.

Certain of our current pension plans are underfunded. Any declines in the fair values of the pension plans assets could require additional payments by us in order to maintain specified funding levels.

Our pension plans are subject to legislative and regulatory requirements of applicable jurisdictions, which could include, under certain circumstances, local governmental authority to terminate the plan.

*We may be required to record material charges against our earnings due to any number of events that could cause impairments to our assets.*

We may be required to reduce production at or idle facilities for extended periods of time or exit certain businesses as a result of the cyclical nature of our industry. Specifically, oversupplies of or lack of demand for particular products or high raw material prices may cause us to reduce production. We may choose to reduce production at certain facilities because we have off-take arrangements at other facilities, which makes any reductions or idling unavailable at those facilities. Any decision to permanently close facilities or exit a business likely would result in impairment and other charges to earnings.

Temporary outages at our facilities can last for several quarters and sometimes longer. These outages could cause us to incur significant costs, including the expenses of maintaining and restarting these facilities. In addition, even though we may reduce production at facilities, we may be required to continue to purchase or pay for utilities or raw materials under take-or-pay supply agreements.

*Many of our businesses depend on our intellectual property. Our future success will depend in part on our ability to protect our intellectual property rights, and our inability to do so could reduce our ability to maintain our competitiveness and margins.*

We have a significant worldwide patent portfolio of issued and pending patents. These patents, together with proprietary technical know-how, are significant to our competitive position, particularly with regard to PO, performance chemicals, petrochemicals, and polymers, including process technologies such as *Spheripol*, *Spherizone*, *Hostalen*, *Spherilene*, *Lupotech T* and *Lupotech G* and *Avant* catalyst family technology rights. We rely on the patent, copyright and trade secret laws of the countries in which we operate to protect our investment in research and development, manufacturing and marketing. However, we may be unable to prevent third parties from using our intellectual property without authorization. Proceedings to protect these rights could be costly, and we may not prevail.

The protection afforded by patents varies from country to country and depends upon the type of patent and its scope of coverage. While a presumption of validity exists with respect to patents issued to us, our patents may be challenged, invalidated, circumvented or rendered unenforceable. As patents expire, the products and processes described and claimed under those patents become generally available for use by competitors.

Our continued growth strategy may bring us to regions of the world where intellectual property protection may be limited and difficult to enforce. In addition, patent rights may not prevent our competitors from

## LyondellBasell Industries N.V.

developing, using or selling products that are similar or functionally equivalent to our products. Moreover, our competitors or other third parties may obtain patents that restrict or preclude our ability to lawfully produce or sell our products in a competitive manner, which could result in significantly lower revenues, reduced profit margins or loss of market share.

We also rely upon unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. While it is our policy to enter into confidentiality agreements with our employees and third parties to protect our intellectual property, these confidentiality agreements may be breached, may not provide meaningful protection or adequate remedies may not be available. Additionally, others could obtain knowledge of our trade secrets through independent development or other access by legal or illegal means.

The failure of our patents or confidentiality agreements to protect our processes, apparatuses, technology, trade secrets or proprietary know-how could result in significantly lower revenues, reduced profit margins and cash flows and/or loss of market share. We also may be subject to claims that our technology, patents or other intellectual property infringes on a third party's intellectual property rights. Unfavorable resolution of these claims could result in restrictions on our ability to deliver the related service or in a settlement that could be material to us.

*We may not be able to fully or successfully implement our ongoing plans to improve and globally integrate our business processes and functions.*

We continue to seek ways to drive greater productivity, flexibility and cost savings. In particular, we are working towards the improvement and global integration of our business processes and functions. As part of these efforts, we have been centralizing certain functions within the Company, implementing new information technology, and integrating our existing information technology systems.

Our ongoing implementation of organizational improvements is made more difficult by our need to coordinate geographically dispersed operations. Inabilities and delays in implementing improvements can negatively affect our ability to realize projected or expected cost savings. In addition, the process of organizational improvements may cause interruptions of, or loss of momentum in, the activities of the Company's businesses. It may also result in the loss of personnel or other labor issues. These issues, as well as any information technology systems failures, also could impede our ability to timely collect and report financial results in accordance with applicable laws and regulations.

*Shared control or lack of control of joint ventures may delay decisions or actions regarding the joint ventures.*

A portion of our operations are conducted through joint ventures, where control may be exercised by or shared with unaffiliated third parties. We cannot control the actions of our joint venture partners, including any nonperformance, default or bankruptcy of joint venture partners. The joint ventures that we do not control may also lack adequate internal controls systems.

In the event that any of our joint venture partners do not observe their obligations, it is possible that the affected joint venture would not be able to operate in accordance with our business plans. As a result, we could be required to increase our level of commitment in order to give effect to such plans. Differences in views among the joint venture participants also may result in delayed decisions or in failures to agree on major matters, potentially adversely affecting the business and operations of the joint ventures and in turn our business and operations.

*Litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements.*

We are involved in civil litigation in the ordinary course of our business and from time-to-time are involved in governmental proceedings relating to the conduct of our business. The timing of the final resolutions to these types of matters is often uncertain. Additionally, the possible outcomes or resolutions to these

## LyondellBasell Industries N.V.

matters could include adverse judgments or settlements, either of which could require substantial payments, adversely affecting our liquidity.

*Our capital requirements could limit or cause us to change our growth and development plans.*

At December 31, 2010, we have approximately \$6.1 billion of total consolidated debt. Our debt and the limitations imposed on us by our financing arrangements could:

- require us to dedicate a substantial portion, or all, of our cash flow from operations to payments of principal and interest on our debt;
- make us more vulnerable during downturns, which could limit our ability to take advantage of significant business opportunities and react to changes in our business and in market or industry conditions; and
- put us at a competitive disadvantage relative to competitors that have less debt.

If our cash flow from operations and capital resources were reduced, we may be forced to reduce or delay investments and capital expenditures or other planned uses of our cash due to our substantial debt service obligations. We could choose to sell assets, seek additional capital or restructure or refinance our indebtedness, but there can be no assurances that we would be able to do so on terms we deem acceptable, if at all. Additionally, our debt instruments may limit our ability to effect such actions.

Our debt or other financing arrangements contain a number of restrictive covenants that impose operating and financial restrictions on us. There also is a minimum fixed charge coverage ratio contained in our U.S. ABL Facility that is applicable if availability under the facility falls below certain levels. We currently are in compliance with all of our restrictive and financial covenants; however, the ability to meet financial requirements can be affected by events beyond our control and, over time, these covenants may not be satisfied.

A breach of covenants or the failure to pay principal and interest when due under our debt or other financing could result in a default or cross-default under all or some of those instruments. Any such default could result in an acceleration of all amounts outstanding under all facilities, and could relieve counterparties of their obligations to fund or otherwise make advances. Without waivers from the parties to our financing arrangements, any such default would have a material adverse effect on our ability to continue to operate

*A substantial portion of our shares are owned by a few persons, and their interests in LyondellBasell Industries N.V. may conflict with other stakeholders' interests.*

Three shareholders collectively own approximately 52% of our outstanding ordinary shares. Under Dutch law, there are no quorum requirements for shareholder voting and most matters are approved or adopted by a majority of votes cast. As a result, as long as these shareholders or any other substantial shareholder own, directly or indirectly, a substantial portion of our outstanding shares, they will be able to significantly influence all matters requiring shareholder approval, including amendments to our Articles of Association, the election of directors, significant corporate transactions, dividend payments and other matters. These shareholders may have interests that conflict with other shareholders and actions may be taken that other shareholders do not view as beneficial.

Additionally, each of these three shareholders is party to a nomination agreement that entitles the shareholder cause our Supervisory Board to nominate for election members to our Supervisory Board for so long as the shareholder owns specified percentages of our ordinary shares.



## **LyondellBasell Industries N.V.**

*We are subject to Dutch law and the rights of our ordinary shareholders may be different from those rights associated with companies governed by other laws.*

As a result of being organized under the laws of The Netherlands, our corporate structure as well as the rights and obligations of our ordinary shareholders may be different from the rights and obligations of shareholders in companies incorporated in other jurisdictions. Resolutions of the general meeting of shareholders may be taken with majorities different from the majorities required for adoption of equivalent resolutions in, for example, Delaware companies. Additionally, like other Dutch companies, our articles of association and our board charter contain control-enhancing rights that may have the effect of preventing, discouraging or delaying a change of control.

*If we were classified as a controlled foreign corporation, any 10% U.S. shareholders may be responsible for U.S. income taxes on a pro-rata share of our income.*

If the sum of the percentage ownership held by all of our 10% U.S. shareholders exceeds 50% of our ordinary shares, we would be classified as a controlled foreign corporation for U.S. federal income tax purposes. In the event such a classification were made, all 10% U.S. shareholders would be subject to taxation under Subpart F of the U.S. Tax Code, which could require such 10% U.S. shareholders to pay U.S. federal income taxes on a pro rata portion of our income, even in the absence of any distribution of such income.

Based on information currently available to us, including information about the selling shareholders, we do not believe we are a controlled foreign corporation at this time.

*U.S. anti-inversion rules may apply to LyondellBasell Industries N.V. resulting in certain adverse U.S. federal income tax consequences.*

The United States Internal Revenue Service (“IRS”) could seek to apply Section 7874 of the IRC to treat LyondellBasell Industries N.V. as a U.S. corporation for U.S. federal income tax purposes or, alternatively, it could seek to impose U.S. federal income tax on certain income of our U.S. subsidiaries. Such an application would be based upon the value of stock issued in our emergence from Chapter 11 that the former creditors and shareholders of our top U.S. holding company and its direct and indirect subsidiaries received by reason of holding claims against those entities.

Treatment as a U.S. corporation could result in significantly increased U.S. federal income tax liability to us. Application of the alternative could impose U.S. federal income tax on our U.S. subsidiaries.

Although no assurance can be given that the IRS would not take a contrary position regarding Section 7874’s application or that such position, if asserted, would not be sustained, we believe that the stock issued in connection with our emergence from the Bankruptcy Cases that is attributable to the value of the claims against our companies outside the U.S. Group makes a Section 7874 inapplicable to us. In addition, we believe that strong arguments can be made that Section 7874 should not in any event apply to us because of the substantial business activities that we and our affiliates conduct and have historically conducted in The Netherlands.

## **1.9 STATEMENT OF THE BOARD OF MANAGEMENT**

As the sole member of the Management Board of LyondellBasell Industries N.V., I hereby state that I am primarily responsible for the design, implementation and operation of the Company's internal risk management and control systems. The purpose of these systems is to adequately and effectively manage the significant risks to which the Company is exposed. Such systems can never provide absolute assurance regarding achievement of corporate objectives, nor can they provide an absolute assurance that material errors, losses, fraud and the violation of laws or regulations will not occur.

To comply with our duties in the area of internal risk management and control systems, we have initiated an enterprise risk management process.

This process initially involved the identification of the Company's programs and processes related to risk management, the individuals responsible for them, and a general review of industry benchmarking. Senior personnel were interviewed and surveys were completed by additional personnel requesting information regarding perceived risks to the Company. The results of these interviews and surveys were analyzed and a listing of unique risks was identified. The risks were also categorized in a manner that identified the specific Company strategies that may be jeopardized and plans could be developed to address the risks to those strategies. The Company conducted a workshop with senior level personnel with broad risk management and/or risk oversight responsibilities. Tasks completed in the workshops included review of the listing of unique risks, assessments of their risk impact and probability, identification of the responsible risk owner, and the Company's effectiveness in mitigating or responding to the possible impact.

The results of these efforts were reported to the Management Board, which is responsible for the design of the risk management process, and the Supervisory Board, which is responsible for the oversight of the process.

The Company's major risks, as identified in accordance with the described process, have been assigned to senior management, who are responsible for analyses and action planning activities related to their assigned risks. Regular updates will be given to the Management Board and the Supervisory Board on all Company risks. In addition, the Audit Committee of the Supervisory Board is responsible for ensuring that an effective risk assessment process is in place, and quarterly reports are made to the Audit Committee on financial and compliance risks in accordance with requirements of the New York Stock Exchange.

We use various other measures to ensure compliance with our duties in the area of internal risk management and control systems, including:

- operational review meetings of the Board of Management with LyondellBasell's senior management on financial performance and realization of operational objectives and responses to emerging issues;
- monthly meetings with LyondellBasell's Chief Executive Officer, Chief Financial Officer and senior finance management focusing on monthly financial figures and internal control evaluations;
- monthly and quarterly financial reporting, mainly to LyondellBasell's senior management;
- letters of representation that are signed by LyondellBasell's key personnel on a quarterly basis in which they confirm that for their responsible area based upon their knowledge (i) an effective system of internal controls and procedures is maintained and (ii) the financial reports fairly present the financial position, results of operations and cash flows;

## LyondellBasell Industries N.V.

- assessments by LyondellBasell's Disclosure Committees with respect to the timely review, disclosure, and evaluation of periodic (financial) reports;
- discussions on management letters and audit reports provided by the Company's internal and external auditors within our Management Board and Supervisory Board;
- LyondellBasell's Code of Conduct;
- LyondellBasell's Financial Code of Ethics applicable to the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer;
- LyondellBasell's Ethics Hotline and whistleblower procedures; and
- LyondellBasell's Compliance programs and training, which facilitate the development of controls which will aid in prevention, deterrence and detection of fraud against LyondellBasell.

The Management Board acknowledges the importance of internal control and risk management systems. Although the Company is not required under Section 404 of the Sarbanes-Oxley Act of 2002 to assess its internal controls over financial reporting until the fiscal year ended December 31, 2011, in August 2010, the Company started its SOX project to establish a framework to properly manage internal controls over financial reporting. The results of LyondellBasell's assessment of the effectiveness of this framework, which is based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") model, as well as significant changes and improvements, are regularly reported to and discussed with LyondellBasell's Audit Committee and external auditors. The Audit Committee reports about these subjects to the Supervisory Board on a regular basis.

### Summary

Based on the outcome of the above-mentioned measures and to the best of its knowledge and belief, the Management Board states that:

#### *Evaluation of Disclosure Controls and Procedures*

We maintain a set of disclosure controls and procedures designed to provide reasonable assurance that information we are required to disclose in reports that we file or submit with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were not effective to provide reasonable assurance that information relating to the Company's tax accounting was processed, summarized and reported accurately as of the end of the period covered by this annual report. This ineffectiveness was caused by the material weakness described below.

Nevertheless, based on a number of factors, including the performance of additional procedures by management designed to ensure the correctness of our tax provision and reliability of our financial reporting, we believe that the consolidated financial statements in this annual report fairly present, in all material respects, our financial position, results of operations, and cash flows as of the dates, and for the periods, presented, in conformity with IFRS as endorsed by the EU.

## **LyondellBasell Industries N.V.**

### *Material Weakness in Internal Control over Financial Reporting*

The Company has identified a material weakness in its internal controls. The Company did not maintain adequate controls over the accounting for income taxes, specifically the preparation and presentation of the complex information supporting deferred tax accounting and the related information was not sufficient to allow an effective review of the deferred tax accounting. This control deficiency, if not corrected, could result in a material misstatement of the income tax account that would result in a material misstatement in our annual consolidated financial statements that would not be prevented or detected on a timely basis.

We conducted a detailed review of our tax basis balance sheet accounts at December 31, 2010 including a detailed analysis of the of the tax provision to ensure deferred taxes were accurately accounted for in the period ended 31 December 2010 as reported in this annual report.

### *Significant Deficiency in Internal Control over Financial Reporting*

The Company's internal controls related to ensuring completeness of the deferred tax liabilities recognized at acquisition date, 30 April 2010, did not operate with enough precision to ensure all tax items were identified. The control deficiency resulted in offsetting misstatements of deferred tax liabilities and goodwill.

### *Plan for Remediation of Material Weakness in Internal Controls*

To remediate the material weakness identified, we are implementing improvements to our internal controls over the calculation of our income tax provision and related balance sheet accounts. Specifically, we are implementing improved reporting processes to provide clarity of presentation and supporting documentation of the tax provision information including the implementation of standardization and enhanced utilization of tax reporting software to allow timely and effective review and analysis of the tax provision information.

We believe these actions will effectively remediate our internal control over financial reporting and enhance our disclosure controls and procedures.

### *Changes in Internal Control over Financial Reporting*

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended December 31, 2010. We determined that there were no changes in our internal control over financial reporting during the quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The establishment of LyondellBasell's internal control and risk management systems is based on the identification of external and internal risk factors that could influence the operational and financial objectives of the Company and contains a system of monitoring, reporting and operational reviews. All material risk management activities have been discussed with the Audit Committee and the Supervisory Board.

For a summary of LyondellBasell's Risk Factors, please see page 23.

## **The Management Board,**

/s/ James L. Gallogly  
Rotterdam, 29 March 2011

## 2 GOVERNANCE AND COMPLIANCE

In this section we introduce our Supervisory Board and present their Report for 2010, as well as describing our remuneration and risk management policies. Details of our corporate governance structure can also be found in this section.

### 2.1 REPORT BY THE SUPERVISORY BOARD

The business and general affairs of the Company and the management of the business of the Company by the Management Board are supervised by the Board of Supervisory Directors (the “Supervisory Board”).

Our Supervisory Board currently has eight members. Our Articles of Association provide that the Supervisory Board will consist of at least nine members and the Rules of the Supervisory Board provide that the Supervisory Board, in its sole discretion, shall determine the size of the Supervisory Board in accordance with and in order to comply with our Articles of Association, nomination agreements we have with certain shareholders and the listing standards of the New York Stock Exchange.

The NYSE listing standards require that we have a majority of independent directors. Pursuant to transition provisions of the listing standards, we have until one October 14, 2011 to meet this requirement. As discussed under “— Independence of Supervisory Board Members,” three of our current eight members are deemed independent. Access Industries, an approximately 16% shareholder, has advised us that it has selected Robin Buchanan for nomination as a member to our Supervisory Board at our 2011 Annual General Meeting of Shareholders (the “Annual Meeting”). As a result, in March 2011, our Supervisory Board determined that our Supervisory Board should consist of thirteen members, seven of whom will be independent and six of whom are not. Enabling the election of four additional independent members to the Supervisory Board will allow us to meet the listing standards requirement.

Our Supervisory Board is divided into three classes, each consisting of approximately one-third of the total number of the members of the Supervisory Board. The increase in the size of the Supervisory Board has created additional vacancies in each class of directors. Milton Carroll and Rudy der Meer are each Class I directors, whose terms expire at the Annual Meeting. Our Supervisory Board has nominated each of them for re-election as Class I directors. The Supervisory Board has nominated additional individuals to serve as Class I, II and III directors. The Supervisory Board intends to take all necessary action to fill the remaining vacancy with an independent director as soon as practicable.

The members of the Supervisory Board are elected by the general meeting of shareholders from a list that is drawn up by the Supervisory Board. Pursuant to our Articles of Association, the list is, in principle, binding and includes two candidates for each vacancy to be filled. The binding nature of the Supervisory Board’s nomination may be overridden by a vote of two-thirds of the votes cast at the meeting if such two-thirds vote constitutes more than one-half of the issued share capital of the Company. In that case, shareholders would be free to cast their votes for persons other than those nominated below.

The table below shows the relevant information for each member and nominee for election at the Annual Meeting as a member of our Supervisory Board as of 28 March, 2011. The terms of the Class I directors will expire at the 2014 Annual General Meeting; the terms of Class II directors will expire at the 2012 Annual General Meeting; and the terms of the Class III directors will expire at the 2013 Annual General Meeting.

## **LyondellBasell Industries N.V.**

### **Class I Directors**

**Milton Carroll**, American, 60.

- Member of LyondellBasell Supervisory Board since July 2010.
- Chairman of CenterPoint Energy, a public utility holding company, since 2002.
- Chairman of Instrument Products, a private oil-tool manufacturing company, since 1977.
- Director of Halliburton, an oilfield services company, since 2006.
- Chairman of Health Care Service Corporation, a health benefits company, since 1998.
- Director of Western Gas Holdings, the general partner of Western Gas Partners, an owner, operator and developer of midstream energy assets, since 2008.

Previously served as:

- Director of Devon Energy, an oil and gas exploration and production company.
- Director of EGL, Inc., a global logistics and supply chain management company.

Mr. Carroll has extensive knowledge of the oil and natural gas industries, corporate management, international operations, public company governance and board practices, among other skills, which strengthen the Supervisory Board's collective qualifications, skills and experience.

**Rudy van der Meer**, Dutch, 66.

- Member of LyondellBasell Supervisory Board since July 2010.
- Chairman of Supervisory Board of Imtech N.V., an electrical engineering technical service provider, since 2005.
- Chairman of Supervisory Board of Energie Beheer Nederland B.V., a Dutch state owned natural gas exploration, production transportation and sale company, since 2006.
- Supervisory Director of James Hardie Industries, an industrial fibre cement products and systems manufacturer, since 2007.
- Chairman of Supervisory Board of Gazelle Holding B.V., a bicycle manufacturing company, since 2005.

Previously served as:

- Supervisory Director of ING Bank Nederland N.V. and ING Verzekeringen (Insurance) Nederland, retail banking and insurance subsidiaries, respectively, of ING Groep N.V.
- Supervisory Director of Hagemeyer N.V., a distribution services focusing on electrical materials, safety and other maintenance, repair and operations products.
- Chairman of Supervisory Board of Norit International B.V., a global water purification technology and applications company.

Mr. van der Meer has extensive knowledge of global businesses, Dutch companies, and the chemicals industry, among other skills, which strengthen the Supervisory Board's collective qualifications, skills and experience.

### **Nominees for Class I Directors**

**Jagjeet S. Bindra**, American, 63.

- Director of Edison International, a generator and distributor of electric power, and its subsidiary, Southern California Edison Co., an electric utility company, since 2010.
- Director of Larsen & Toubro, a technology, engineering, construction and manufacturing company, since 2009.
- Deputy Chairman of Transfield Services, a global provider of operations, maintenance and asset and project management services, since 2010.
- President, Chevron Global Manufacturing, Chevron Corp.'s worldwide manufacturing division, from 2004 to 2009.

## **LyondellBasell Industries N.V.**

Previously served as:

- Director of Advisory Board of Hart Energy Consulting, an energy industry publisher.
- Director of GS Caltex, a South Korean oil refiner. Sriya Innovations, an alternative energy firm.
- Reliance Petroleum Limited, a petroleum refiner and marketer.
- Caltex Australia Limited, an integrated oil refining and marketing company.

We believe that Mr. Bindra's extensive knowledge and global experience in asset intensive industries, as well as his expertise in energy value chain and asset management, among other skills, will strengthen the Supervisory Board's collective qualifications, skills and experience.

### **Class II Directors**

**Stephen F. Cooper**, American, 64

- Class II Supervisory Director since July 2010
- Advisor at Zolfo Cooper, a leading financial advisory and interim management firm, of which he is co-founder and former chairman, since 1982.
- Managing Partner of Cooper Investment Partners, a private equity firm specializing in underperforming companies.

Previously served as:

- Vice Chairman and Chairman of the Restructuring Committee of LyondellBasell Industries AF S.C.A., the Company's predecessor.
- Vice Chairman and member of the office of Chief Executive Officer of Metro-Goldwyn-Mayer, a privately held motion picture and theatrical production and distribution company.
- Chief Executive Officer of Hawaiian Telcom, a provider of phone, internet and wireless communication services to Hawaii.
- Executive Chairman of Blue Bird Corporation, a manufacturer of school and transit buses and motor coaches.
- Chairman of the Board of Collins & Aikman, which designed, engineered and manufactures automotive components, systems and modules.
- Chief Executive Officer of Krispy Kreme Doughnuts, a branded retailer and wholesaler of doughnuts and packaged sweets.
- Chief Executive Officer and Chief Restructuring Officer of Enron Corporation.

Mr. Cooper has more than thirty years of experience as a financial advisor and interim executive and advisor to companies facing operational and performance issues. We believe his substantial and expansive experience in various industries provides him with significant experience in all aspects of supervising management of large, complex companies.

**Marvin O. Schlanger**, American, 62

- Chairman of the Board since June 2010.
- Class II Supervisory Director since April 2010.
- Principal of Cherry Hill Chemical Investments, LLC, a firm that provides management services and capital to the chemical industry, since 1998.
- Chairman of CEVA Group Plc, a global supply chain management company, since 2009.
- Director of Momentive Performance Materials Holdings, a specialty chemicals and materials company, since 2010.
- Director of UGI Corporation, a distributor and marketer of energy products and services, and its subsidiaries, UGI Utilities Inc. and Amerigas Propane, Inc., since 1998.
- Consultant to Apollo Management LLP.

Previously served as:

- Vice Chairman of Hexion Specialty Chemicals, a specialty chemicals and materials company (acquired by Momentive Performance in 2010).

## **LyondellBasell Industries N.V.**

- Chairman and Chief Executive Officer of Resolution Performance Products, a manufacturer of specialty and intermediate chemicals and Resolution Specialty Materials LLC, which, together with Borden Chemical, formed Hexion Specialty Chemicals in 2005.
- Chairman of Covalence Specialty Materials Corp., which was merged into Berry Plastics in 2007.
- Director of Wellman, Inc., a manufacturer and marketer of PET packaging resins.

Mr. Schlanger has significant senior management experience as Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer of Arco Chemical Company, a large public chemical company, as well as experience serving as chairman, director and committee member of the boards of directors of large public and private international companies, including his experience representing a major private equity firm's shareholder interest.

### **Jeffrey S. Serota**, American, 45

- Class II Supervisory Director since April 2010.
- Senior Partner in the Private Equity Group of Ares Management LCC, a global alternative asset manager, since 1997.
- Director of Exco Resources, a natural gas and oil company since 2007.
- Director of SandRidge Energy, Inc., an oil and gas exploration and production company since 2007.
- Director of WCA Waste Corporation, a full service non-hazardous waste company since 2006.

Mr. Serota has extensive experience managing investments in, and serving on the boards of directors of, companies operating in various industries, including in the oil and natural gas exploration and production industries. Mr. Serota's background and experience provide him with extensive investment, capital markets and strategic experience.

### **Nominees for Class II Directors**

#### **Robin Buchanan**, British, 58.

- Director of Schroders plc, a global asset management company, since 2010.
- Director of the Centre for Corporate Governance at the London Business School since 2009.
- Senior Advisor to Bain & Company, a global management consulting firm since 2007.
- Advisor to Collier Capital Ltd., a private equity firm.
- Dean and then President of the London Business School, from 2007 to 2009.
- Managing Partner and then the Senior Partner, Bain & Company Inc. UK and South Africa between 1990 and 2007.

Previously served as:

- Director of Liberty International plc, a retail property company.
- Director of Shire plc, a global specialty bio-pharmaceutical company.

We believe that Mr. Buchanan's extensive knowledge and experience relating to business management, finance and international board service, as well as his extensive experience in advising and consulting for companies in an array of industries, including in the industrial sector, among other skills, will strengthen the Supervisory Board's collective qualifications, skills and experience.

#### **Robert G. Gwin**, American, 47.

- Senior Vice President, Finance and Chief Financial Officer of Anadarko Petroleum, an oil and gas exploration and production company, since 2009.
- Senior Vice President, Finance of Anadarko Petroleum from 2008 to 2009.
- Vice President, Finance and Treasurer of Anadarko Petroleum from 2006 to 2008.
- President of Western Gas Holdings, the general partner of Western Gas Partners, an owner, operator and developer of midstream energy assets, from 2007 to 2009.
- Chief Executive Officer of Western Gas Holdings from 2007 to 2010.



## **LyondellBasell Industries N.V.**

We believe that Mr. Gwin's skills and knowledge relating to the oil and gas industry, finance, public company board experience and executive management expertise, among other skills, will strengthen the Supervisory Board's collective qualifications, skills and experience.

### **Joshua J. Harris**, American, 46

- Class III Supervisory Director since April 2010.
- Senior Managing Director of Apollo Global Management, LLC, a global alternative asset manager and Managing Partner of Apollo Management, L.P. which he co-founded in 1990.
- Director of the general partner of AP Alternative Assets, Apollo Global Management, LLC, Berry Plastics Group Inc., manufacturer of injection-molded plastic packaging, thermoformed products, flexible films and tapes and coatings, CEVA Group plc, a global logistics and transportation company and Momentive Performance Materials Holdings LLC, a producer of silicones and silicone derivatives.

Previously served as a director of:

- Hexion Specialty Chemicals, Inc., a specialty chemicals and materials company (acquired by Momentive Performance in 2010).
- Verso Paper, a producer of coated paper and specialty paper products.
- Metals USA Holdings Corp., a provider of processed carbon steel, stainless steel, aluminum, red metals and manufactured metal components.
- Nalco Company, a sustainability services company focused on industrial water, energy and air applications.
- Pacer International, a freight transportation and third-party logistics services provider.
- General Nutrition Centers, a specialty retailer of health and wellness products worldwide.
- Furniture Brands International, Inc., a designer, manufacturer, and retailer of home furnishings.
- Compass Minerals Group, Inc., a producer and marketer of inorganic mineral products.
- Alliance Imaging, Inc., a provider of outpatient diagnostic imaging services.
- NRT LLC, a provider residential real estate brokerage services.
- Covalence Specialty Materials Corp., a manufacturer of plastic film products and producer of specialty adhesives and flexible packaging products.
- United Agri Products Inc., a distributor agricultural inputs and noncrop products.
- Quality Distribution, Inc., transporter of bulk chemicals in North America.
- Whitmire Distribution Corporation, a pharmaceutical distributor.
- Noranda Aluminum Holding Corporation, a producer of primary aluminum products and rolled aluminum coils.

Mr. Harris has significant experience in financing, analyzing, investing in and managing investments in public and private companies. Mr. Harris has substantial expertise in strategic and financial matters that inform his contributions to our supervisory board and enhance his oversight and direction of us. Mr. Harris' service as a director of other companies in a variety of industries gives him a range of experience as a director on which he can draw in serving as our director and augments his knowledge of effective corporate governance.

### **Scott M. Kleinman**, American, 38

- Class III Supervisory Director since April 2010.
- Partner of Apollo Management, LP, a global alternative asset manager, where he has worked since 1996.
- Chairman of Verso Paper, a producer of coated paper and specialty paper products, since 2006.
- Director of Noranda Aluminum Holding, a producer of aluminum products, since 2007.
- Director of Realogy Corporation, a provider of residential real estate and relocation services, since 2007.
- Director of Momentive Performance Materials, a producer of silicones and silicone derivatives, since 2006.

## **LyondellBasell Industries N.V.**

Previously served as:

- Director of Hexion Specialty Chemicals, a specialty chemicals and materials company (acquired by Momentive Performance in 2010).

Mr. Kleinman has significant experience in financing, analyzing, investing in and managing investments in public and private companies. Mr. Kleinman gained substantial expertise in strategic and financial matters that inform his contributions to our supervisory board and enhance his oversight and direction of us through his involvement in Apollo's diligence team that managed Apollo's investments in us during our reorganization proceedings, which provided him with a unique knowledge of our organization. Mr. Kleinman's service as a director of other companies in a variety of industries gives him a range of experience as a director on which he can draw in serving as our director and augments his knowledge of effective corporate governance.

**Bruce A. Smith**, American, 67

- Class III Supervisory Director since July 2010.
- Chairman of Tesoro Corporation, manufacturer and marketer of petroleum products, from 1996 to 2010. President and Chief Executive Officer of Tesoro from 1995 to 2010.
- Director of GEVO, Inc., a renewable chemicals and advanced biofuels company, since 2010.

Previously served as:

- Director of Noble Energy, an independent energy company.

Mr. Smith has extensive senior leadership experience in the refining and marketing industry, substantial management background in publicly traded companies and previous experience serving as a director and chairman of the audit and compensation committees of publicly traded companies.

### **Nominee for Class III Director**

**Jacques Aigrain**, French-Swiss, 56.

- Chairman of LCH Clearnet Group, Limited, an independent clearinghouse group, since 2010.
- Chief Executive Officer of SwissRe, a global reinsurance company, from 2006 to 2009.
- Director of Swiss International Air Lines, Switzerland's national airline, since 2001.
- Director of Lufthansa German Airlines, the leading German airline, since 2007.
- Director of Resolution Ltd., a financial services company that acquires businesses in the insurance industry, since 2010.

Previously served as:

- Member of Board of Trustees of ETH Foundation.
- Member of Industry Advisory Council of the Mayor of Shanghai.
- Member of Advisory Council of the Monetary Authority of Singapore.
- Chairman of Swiss American Chamber of Commerce.
- Chairman of the Geneva Association.

We believe that Mr. Aigrain's extensive operational and management expertise, as well as his experience with international companies and board service, among other skills, will strengthen the Supervisory Board's collective qualifications, skills and experience.

### **Board Leadership Structure**

The Company maintains a two-tier governance structure, consisting of a Management Board, responsible for the management of the Company, and a Supervisory Board, responsible for the general oversight of the Management Board. The Management Board may consist only of executive directors and the Supervisory Board of non-executive directors. Marvin O. Schlanger is the non-executive Chairman of our Supervisory Board. James L. Gallogly, our Chief Executive Officer, is the sole member of our Management Board and

## **LyondellBasell Industries N.V.**

is not a member of the Supervisory Board. Our Articles of Association provide that to the extent there is only one member of the Management Board, such member must be our CEO. Our two-tier board structure has the effect of separating the roles of chief executive officer and chairman of the board.

Maintaining the two-tier board structure allows our CEO to focus on managing our day-to-day business, including achieving our aims, strategy and risk profile, and results of operations. It also allows the nonexecutive chairman of the Supervisory Board to lead the Board in its fundamental role of supervising the policies of the Management Board and the general affairs of the Company as well as providing advice to the Management Board. The Supervisory Board recognizes the time, effort, and energy that the CEO is required to devote to his position in the current business environment, as well as the commitment required of our nonexecutive chairman. The Supervisory Board believes this separation of responsibilities is appropriate for LyondellBasell not only because of the size and composition of the Board, the scope and complexity of the Company's operations, and the responsibilities of the Board and management, but also as a demonstration of our commitment to good corporate governance.

### **Role in Risk Oversight**

While the Company's management is responsible for the day-to-day management of risks to the Company, the Supervisory Board has broad oversight responsibility for the Company's risk management programs. In this oversight role, the Board is responsible for satisfying itself that the risk management processes designed and implemented by the Company's management are functioning as directed, and that necessary steps are taken to foster a culture of risk-adjusted decision-making throughout the organization. The primary means by which our Supervisory Board oversees our risk management structures and policies is through its regular communications with management. The Company believes that its leadership structure is conducive to comprehensive risk management practices, and that the Supervisory Board's involvement is appropriate to ensure effective oversight.

The Supervisory Board and its committees meet in person approximately six times a year, including one meeting that is dedicated specifically to strategic planning. At each of these meetings, our Chief Executive Officer; Chief Financial Officer; and Chief Legal Officer are asked to report to the Supervisory Board and, when appropriate, specific committees. Additionally, other members of management and employees periodically are requested to attend meetings and present information. One of the purposes of these presentations is to provide direct communication between members of the Supervisory Board and members of management; the presentations provide members of the Supervisory Board with the information necessary to understand the risk profile of the Company, including information regarding the specific risk environment, exposures affecting the Company's operations and the Company's plans to address such risks. In addition to information regarding general updates to the Company's operational and financial condition, management reports to the Supervisory Board on a number of specific issues meant to inform the Board about the Company's outlook and forecasts, and any impediments to meeting those or its pre-defined strategies generally. These direct communications between management and the Supervisory Board allow the Board to assess management's evaluation and management of the day-to-day risks of the Company.

In carrying out its oversight responsibility, the Supervisory Board has delegated to individual Board committees certain elements of its oversight function. The Audit Committee assists the Board in its involvement in the Company's risk management process by providing oversight for the integrity of the Company's financial statements; the Company's independent accountants' qualifications and independence; the performance of the Company's internal audit function, independent accountant and the Company's compliance program; and the Company's system of disclosure and internal controls. The Compensation Committee undertakes risk oversight of the Company's compensation programs through its responsibility to the Board to monitor the Company's compensation structure from the point of view of not encouraging risks inconsistent with the interests of our shareholders. The Nominating & Governance Committee also participates in identifying and participating in the management of risk factors facing the Company. The Nominating & Governance Committee's participation involves the review of policies and practices in the

## **LyondellBasell Industries N.V.**

areas of corporate governance; consideration of the overall relationship of the Supervisory Board and the Company's management; and the development, review and recommendation of governance guidelines applicable to the Company. The Health, Safety and Environmental ("HSE") Committee reviews and monitors compliance with health, safety and environmental matters affecting the Company.

The Company has also initiated an enterprise risk management process, which is coordinated by the Company's Director of Risk Management. This process initially involved the identification of the Company's programs and processes related to risk management, and the individuals responsible for them. Included was a self-assessment survey completed by senior personnel requesting information regarding perceived risks to the Company, with follow-up interviews with members of senior management to review the responses. The information gathered is tailored to coordinate with the Company's strategic planning process such that the risks can be categorized in a manner that identify the specific Company strategies that may be jeopardized and plans can be developed to address the risks to those strategies.

The results of these efforts are reported to the Audit Committee of the Supervisory Board, which is responsible for the overseeing the design of the risk assessment process. Since the initiation of the enterprise risk management process, regular updates are given to the Supervisory Board on material Company risks. In addition, the Audit Committee is responsible for ensuring that an effective risk assessment process is in place, and quarterly reports are made to the Audit Committee on all financial and compliance risks in accordance with New York Stock Exchange requirements.

### **Independence of Supervisory Board Members**

The Supervisory Board has determined that each of the following six directors and director nominees is independent in accordance with the New York Stock Exchange listing standards and the Dutch Corporate Governance Code:

- Jacques Aigrain (nominee)
- Jagjeet S. ("Jeet") Bindra (nominee)
- Milton Carroll
- Robert G. Gwin (nominee)
- Bruce A. Smith
- Rudy van der Meer

Messrs. Buchanan, Cooper Harris, Kleinman, Schlanger and Serota are not considered independent, as described below.

To assist in determining independence, the Supervisory Board adopted categorical standards of director independence, which meet or exceed the requirements of both the New York Stock Exchange and the Dutch Corporate Governance Code. These standards specify certain relationships that must be avoided in order for directors to be deemed independent.

The categorical standards our Supervisory Board uses in determining independence are included in our Corporate Governance Guidelines, which can be found on our website, at [www.lyondellbasell.com](http://www.lyondellbasell.com). The Supervisory Board has determined that each of the six directors and director nominees listed above meets these categorical standards and that there are no other relationships that would affect the independence of these individuals.

The Company is party to nomination agreements with each of Access Industries, Apollo Management and Ares Management, pursuant to which each entity has the right to select individuals for nomination to our Supervisory Board based on certain share ownership levels. Messrs. Buchanan, Cooper, Harris, Kleinman, Schlanger and Serota were selected for nomination to our Supervisory Board based on these agreements. Each of Access, Apollo and Ares played significant roles in the bankruptcy proceedings of our predecessor,

## **LyondellBasell Industries N.V.**

LyondellBasell Industries, AF S.C.A. Access was the beneficial owner of the predecessor company until the emergence from bankruptcy proceedings. Each of Apollo and Ares held significant amounts of the predecessor's debt and, as a result, exerted significant influence in the bankruptcy proceedings. Additionally, each of Access, Apollo and Ares were parties to an equity commitment agreement pursuant to which they provided a backstop for a significant portion of the Company's emergence financing. In connection therewith, they each demanded and received the above mentioned nomination rights as well as registration rights with respect to certain of the securities they received in the bankruptcy proceedings.

Given the relationships between Access, Apollo and Ares and the Company, and that Messrs. Buchanan, Cooper, Harris, Kleinman, Schlanger and Serota were nominated by those entities, we have determined these individuals are not independent.

### **Meetings and Board Committees**

The Supervisory Board held three meetings in 2010 as well as an informational and orientation meeting. Each of the Supervisory Directors attended at least 75% of the meetings of the Supervisory Board and of each committee of which he was a member. We expect that each member of the Supervisory Board will attend the Annual Meeting.

The Supervisory Board has four standing committees to assist the Supervisory Board in the execution of its responsibilities. The committees are the Audit Committee, the Nominating & Governance Committee, the Compensation Committee and the HSE Committee. The charters of each committee states that it will be composed of a minimum of three members of the Supervisory Board. Currently, the HSE Committee comprises two members. The Supervisory Board intends to appoint additional members to the HSE Committee after additional directors are elected at the Annual Meeting. Each committee functions under a charter adopted by the Supervisory Board that can be accessed through our website, [www.lyondellbasell.com](http://www.lyondellbasell.com).

#### ***Audit Committee***

The current members of the Audit Committee are Mr. Smith (Chairman) and Messrs. Carroll and Kleinman.

Each of Messrs. Smith and Carroll satisfies the additional New York Stock Exchange independence standards for audit committees. Mr. Kleinman is not independent. However, the transitional rules of the SEC and New York Stock Exchange require us to have only a majority of independent Audit Committee members until one year after listing, at which time all members must be independent. The Company believes that Mr. Kleinman's service on the Audit Committee is appropriate, given his knowledge and experience and does not believe that his lack of independence adversely affects the ability of the Committee to act independently or satisfy any of its responsibilities. However, on or before October 14, 2011, the anniversary of our listing on the New York Stock Exchange, Mr. Kleinman will cease to serve as a member of our Audit Committee and one or more of the independent director nominees to be elected at the Annual Meeting will be appointed to the Committee.

Under SEC rules and the Dutch Corporate Governance Guidelines, we must have at least one financial expert on our Audit Committee. Our Supervisory Board has determined that Mr. Smith is a financial expert based on a thorough review of his education and financial and public company experience.

Mr. Smith previously served as the Chief Financial Officer of Tesoro Corporation, a Fortune 100 manufacturer and marketer of petroleum products. He also served as the Chairman, President and Chief Executive Officer of Tesoro. Before joining Tesoro, Mr. Smith served in various financial positions, including Treasurer of Valero Energy Corporation, manager of a division of Continental Illinois National

## **LyondellBasell Industries N.V.**

bank and Trust and a financial analyst at Ford Motor Company. Mr. Smith also holds a master's degree in business administration with a concentration in finance from the University of Kansas.

The Supervisory Board has also determined that each member of the Audit Committee possesses the necessary level of financial literacy required to enable them to serve effectively as Audit Committee members.

Mr. Smith serves on one public company audit committee in addition to ours and Mr. Kleinman serves on two public company audit committees in addition to ours.

The Audit Committee met three times during 2010. The Audit Committee generally is responsible for overseeing all matters relating to our financial statements and reporting; internal audit function and independent auditors; and our compliance function. As part of its function, the Audit Committee reports the results of its activities to the full Supervisory Board. In 2010, the Audit Committee spent substantial time discussing the Company's internal audit function, including staffing and budget matters for the internal audit function, as well as the significant findings of the internal audit group. Additionally, the Audit Committee reviewed with the Company's Chief Compliance Officer the Company's compliance program and the budget and staffing for the effective workings of the compliance function. The Audit Committee also reviewed with the Management Board and the Chief Financial Officer and others within the Company the Company's consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. Additionally, the Audit Committee met with the Company's independent auditors, both in the presence of management and in executive session, to discuss the Company's accounts and financial statements.

The Audit Committee's duties are set forth in a written charter that was approved by the Supervisory Board. A copy of the charter can be found on our website, at [www.lyondellbasell.com](http://www.lyondellbasell.com). Listed below are the general responsibilities of the Audit Committee.

### *Administrative Responsibilities*

- Report to the Board, at least annually, all public company audit committee memberships by members of the Audit Committee;
- Perform an annual review of its performance relative to its charter and report the results of its evaluation to the full Board;

### *Independent Auditor*

- Engage an independent auditor, determine the auditor's compensation and replace the auditor if necessary;
- Review the independence of the independent auditor and establish our policies for hiring current or former employees of the independent auditor;
- Evaluate the lead partner of our independent audit team and review a report, at least annually, describing the independent auditor's internal control procedures;
- Pre-approve all services, including non-audit engagements, provided by the independent auditor;

### *Internal Audit*

- Review the plans, staffing, reports and activities of the internal auditors;
- Review significant difficulties and disagreements with management encountered by the internal audit department and review the effectiveness of the internal audit function;

## **LyondellBasell Industries N.V.**

### *Financial Statements*

- Review financial statements and Forms 10-K and 10-Q with management and the independent auditor;
- Review earnings press releases and discuss with management the type of earnings guidance, if any, that we provide to analysts and rating agencies;
- Discuss with the independent auditor any material changes to our accounting principles and matters required to be communicated under Statement on Auditing Standards No. 61 relating to the conduct of the audit;
- Review our financial reporting, accounting and auditing practices with management, the independent auditor and our internal auditors;
- Review management's and the independent auditor's assessment of the adequacy and effectiveness of financial reporting controls;

### *Compliance*

- Review the plans, staffing, reports and activities of the compliance function;
- Review significant difficulties and disagreements with management encountered by the compliance department and review the effectiveness of the compliance function;
- Establish procedures for receiving, retaining and handling complaints, including anonymous complaints by our employees, regarding accounting, internal controls and auditing matters; and
- Periodically review the Company's Code of Conduct and ensure management has established a system to monitor and enforce the Code of Conduct.

### *Compensation Committee*

The current members of the Compensation Committee are Messrs. Carroll (Chairman), van der Meer and Kleinman. Each of Messrs. Carroll and van der Meer is independent in accordance with the rules and regulations of the NYSE. Mr. Kleinman is not independent. However, the transitional rules of the NYSE also apply to our Compensation Committee. On or before October 14, 2011, Mr. Kleinman will cease to serve as a member of our Compensation Committee and one or more of the independent director nominees to be elected at the Annual Meeting will be appointed to the Committee.

The Compensation Committee met two times in 2010. The Compensation Committee is responsible for overseeing all of our executive compensation and developing the Company's compensation philosophy generally. In 2010, the Compensation Committee discussed in detail the Company's compensation philosophy and its programs that are designed to put the philosophy into practice. The Compensation Committee also reviewed with the Management Board and other Company personnel the compensation of senior management of the Company and employees generally, and made determinations related to the Company's short term incentive programs and merit increases.

The Compensation Committee's written charter, which was approved by the Supervisory Board, can be found on our website, at [www.lyondellbasell.com](http://www.lyondellbasell.com). In fulfilling its duties as set forth in the charter, the Compensation Committee has the following responsibilities:

- Establish and review the compensation philosophy, structure, policies and guidelines for the managing directors, executive officers and senior management of the Company for recommendation to the Supervisory Board;
- Review periodically the objectives of the Company's executive compensation consistent with corporate objectives and shareholder interests;

## **LyondellBasell Industries N.V.**

- Approve multi-employer welfare, pension or benefit plan or arrangement established or maintained by a labor organization (including without limitation any multi-employer trust providing retirement benefits);
- Review periodically reports from management regarding funding of the Company's pension and other benefit plans;
- Review and approve corporate goals and objectives relating to Chief Executive Officer compensation, and evaluate the performance of the Chief Executive Officer in light of the corporate goals and objectives;
- Incorporate the performance evaluation results in setting the Chief Executive Officer's compensation level and make compensation decisions for all senior officers of the Company, including the Chief Executive Officer, and review these decisions with the Supervisory Board; and
- Conduct an annual self-evaluation.

In overseeing compensation matters, the Compensation Committee may delegate authority for day-to-day administration and interpretation of the Company's plans, including selection of participants, determination of award levels within plan parameters, and approval of award documents, to Company employees. However, the Compensation Committee may not delegate any authority under those plans for matters affecting the compensation and benefits of the executive officers.

### ***Nominating & Governance Committee***

The current members of the Nominating & Governance Committee are Messrs. Smith (Chairman), Carroll and Kleinman. Each of Messrs. Smith and Carroll is independent in accordance with NYSE rules and regulations. The NYSE's transitional rules apply to the Nominating & Governance Committee. On or before October 14, 2011, Mr. Kleinman will cease to serve as a member of our Nominating & Governance Committee and one or more of the independent director nominees to be elected at the Annual Meeting will be appointed to the Committee.

The Nominating & Governance Committee formally met one time during 2010. One of the primary responsibilities of the Nominating & Governance Committee is to identify nominees for election to the Supervisory Board. The Nominating & Governance Committee performed substantial work during 2010 in identifying appropriate and suitable candidates for nomination at the Annual Meeting, discussing compensation of the Supervisory Board and planning for evaluations of the Supervisory Board and its committees.

The Nominating & Governance Committee has a written charter that has been approved by the Supervisory Board and can be viewed by accessing our website, at [www.lyondellbasell.com](http://www.lyondellbasell.com). It is the duty of the Nominating & Governance Committee to oversee matters regarding corporate governance. In fulfilling its duties, the Nominating & Governance Committee has the following responsibilities:

- Reviewing the overall effectiveness of the Supervisory Board and the Management Board and the conduct of their business;
- Coordinating an evaluation by the directors of the Supervisory Board's and committees' (including this Committee's) performances and procedures;
- Reviewing individual directors' performance as a part of the process for recommending nominees to the Supervisory Board;
- Reviewing the Company's corporate governance profile and make recommendations to the Supervisory Board;
- Recommending to the Supervisory Board compensation to be paid to non-employee directors;
- Reviewing any shareholder proposals received by the Company for inclusion in the Company's proxy statement; and



## **LyondellBasell Industries N.V.**

- Identifying and recommending to the Supervisory Board candidates for membership on the Supervisory Board.

Potential director candidates are identified through various methods; the Nominating & Governance Committee welcomes suggestions from directors, members of management, and shareholders. From time to time, the Nominating & Governance Committee uses outside consultants to assist in identifying potential director candidates. For all potential candidates, the Nominating & Governance Committee considers all factors it deems relevant, such as a candidate's personal and professional integrity and sound judgment, business and professional skills and experience, independence, possible conflicts of interest, diversity, and the potential for effectiveness, in conjunction with the other directors, to serve the long-term interests of the Company's stakeholders. While there is no formal policy with regard to consideration of diversity in identifying director nominees, the Committee considers diversity in business experience, professional expertise, gender and ethnic background, along with various other factors when evaluating potential director nominees.

Before being recommended by the Nominating & Governance Committee, director candidates are interviewed by the Chief Executive Officer; a minimum of two members of the Nominating & Governance Committee; and the Chairman of the Supervisory Board. Additional interviews may include other members of the Supervisory Board, representatives from senior levels of management and an outside consultant.

The Supervisory Board intends to maintain the size of the Board at a manageable size, as stated in our Corporate Governance Guidelines; however, if shareholders party to nomination agreements with the Company acquire additional shares of the Company, entitling them to nominate additional directors, the Supervisory Board will increase its size as necessary to ensure there are a majority of independent members. The Nominating & Governance Committee considers all potential nominees for vacancies on their merits without regard to the source of recommendation. The Nominating & Governance Committee believes that the nominating process will and should continue to involve significant subjective judgments. To suggest a nominee, you should submit your candidate's name, together with biographical information and his written consent to nomination to the Chairman of the Nominating & Governance Committee at the Company's administrative offices, c/o Lyondell Chemical Company, 1221 McKinney Street, Suite 700, Houston Texas 77010, before 24 November 2011.

### ***HSE Committee***

The HSE Committee met one time during 2010. The HSE Committee performed an in-depth review of the Company's health, safety and environmental programs. It also reviewed and discussed the Company's HSE audit program and the findings under the program. Finally, the HSE Committee discussed with Company personnel the Company's key risks and areas of changing legislation.

The Committee has a written charter that can be reviewed by accessing our website, at [www.lyondellbasell.com](http://www.lyondellbasell.com). It is the duty of the HSE Committee to assist the Supervisory Board in its oversight responsibilities by assessing the effectiveness of environment, health and safety programs and initiatives that support the health, safety and environmental policy of the Company. In fulfilling its duties, the HSE Committee has the following responsibilities:

- Review and monitor the Company's health, safety and environmental performance statistics and ensure processes are in place to record such statistics consistently;
- Review and approve the scope of the health, safety and environmental audit program;
- Review and, following appropriate consultation, recommend to the Supervisory Board the annual budget for the health, safety and environmental audit program; and
- Report periodically to the Supervisory Board on health, safety and environmental matters affecting the Company.

## **Related Party Transactions**

We have adopted a written Related Party Transaction Approval Policy, which requires the disinterested members of the Audit Committee to review and approve, in advance of commitment, certain transactions that we may enter into with the following related parties:

- members of the Supervisory Board;
- executive officers;
- holders of 5% or more of our shares;
  - entities for which a LyondellBasell Industries N.V. officer or Supervisory Board member serves as an officer or a member of that entity's board of directors or equivalent governing body;
- immediate family members of the foregoing; and
- entities, of which any of the foregoing own more than 10%.
- The transactions covered by the policy are those which are:
  - in the ordinary course of business and have a value of \$25 million or more, or
  - not in the ordinary course of business, regardless of value.

Additionally, transactions covered include any transactions where an officer or director of the Company will have a material interest and the transaction has a value of \$120,000 or more.

The disinterested members of the Audit Committee determine the fairness of the transactions to LyondellBasell Industries N.V. by considering whether the transactions have terms no less favorable than those which could be obtained from non-related parties. Below is a description of related party transactions since the beginning of the last fiscal year.

We entered into certain agreements with the Access Industries, Apollo Management and Ares Management, or their affiliates at the Emergence Date. These agreements include a registration rights agreement dated April 30, 2010 obligating us to, at our own cost, register for resale certain of our securities owned by Access, Apollo and Ares or their affiliates. Additionally, we entered into nomination agreements with each of Access, Apollo and Ares or their affiliates that give them the right to nominate individuals for appointment to the Supervisory Board if certain ownership thresholds are met. The nomination rights continue for so long as the shareholders meet the required thresholds.

These transactions were approved by the bankruptcy court; they were not approved pursuant to the Related Party Transaction Policy, nor were they approved by our Audit Committee, as the Company became obligated before the Related Party Transaction Policy was adopted and the Audit Committee was formed.

In December 2010, the Company entered into a cooperation agreement with Access Industries. Employees of the Company have been providing assistance and support to Access Industries in connection with certain tax and accounting matters related to the time period during which LyondellBasell AF S.C.A. was wholly-owned by certain affiliates of Access Industries. Pursuant to the cooperation agreement, we charge Access Industries for these services on a time and materials basis, and in 2010 charged \$110,000. The agreement terminates December 31, 2014, and we reasonably believe that the amounts ultimately charged through the term will far exceed \$120,000. The Audit Committee approved the cooperation agreement at its November 2010 meeting.

In addition, at least annually, our Controller's Department will prepare a summary of all transactions and all currently proposed transactions with those related parties, including transactions that did not require preapproval under the policy, and the summary is presented to the Audit Committee for review.

## **LyondellBasell Industries N.V.**

Each director, officer and employee must make prompt and full disclosure of all conflicts of interest. A conflict of interest includes a financial interest in any contract with us or in any organization doing business with us, or the receipt of improper personal benefits or loans as a result of his or her position in the Company. On an annual basis, each Supervisory Director and executive officer is obligated to complete a Director and Officer Questionnaire which requires disclosure of any transactions with the Company in which the Supervisory Director or executive officer, or any member of his or her immediate family, has a direct or indirect material interest. These obligations are set forth in writing in our Code of Conduct available through our website, [www.lyondellbasell.com](http://www.lyondellbasell.com). Any waivers of our Code of Conduct for our executive officers or members of our Supervisory Board will be reported promptly.

We also have a Code of Ethics, applicable to our Chief Executive Officer, Chief Financial Officer and Controller, as defined by applicable SEC rules.

### **Compensation of the Members of the Supervisory Board**

Under our Articles of Association, any decisions on compensation of members of our Supervisory Board are made by our general meeting of shareholders. If any changes need to be made to compensation of members of our Supervisory Board, the Nominating & Governance Committee makes recommendations to the Supervisory Board. The Supervisory Board would then approve or modify those recommendations and propose them to the shareholders at a general meeting. The Supervisory Board is proposing the compensation of the Supervisory Board for 2011 at the Annual Meeting.

#### ***Director Compensation in 2010***

The members of our Supervisory Board receive equity and cash compensation for their service on the Board and its committees. Compensation for members of the Supervisory Board is reviewed annually by the Nominating & Governance Committee, and is approved by shareholders. The Board's goal in designing directors' compensation is to provide a competitive package that will enable it to attract and retain highly skilled individuals with relevant experience and that reflects the time and talent required to serve on the board of a complex international company. The Supervisory Board seeks to provide sufficient flexibility in the form of compensation delivered to meet the needs of different individuals while ensuring that a substantial portion of directors' compensation is linked to the long-term success of the Company.

Members of the Supervisory Board received grants of restricted stock units and cash retainers and fees. At the Extraordinary General Meeting of shareholder in August 2010, our shareholders approved an aggregate of \$2.5 million for Supervisory Board compensation, consisting of \$1.5 million in cash and restricted stock units valued at \$1 million. In accordance with our Articles of Association, these amounts were allocated based on determinations made by the Supervisory Board.

The table below sets forth the allocation of the aggregate amount approved by shareholders. The amounts included in the table are the annual compensation amounts under the Supervisory Board compensation program, and the same amounts are being proposed to shareholders at the Annual Meeting for 2011.

## LyondellBasell Industries N.V.

### Annual Retainer

Cash . . . . .	\$60,000 (\$80,000 for Chairman of the Board)
Restricted stock units . . . . .	Valued at \$120,000 (\$150,000 for Chairman of the Board)

### Board Meeting Fees

Intercontinental Travel . . . . .	\$12,500 for each Supervisory Board meeting attended
Continental Travel . . . . .	\$2,000 for each Supervisory Board meeting attended

### Committee Fees

Members . . . . .	\$10,000 (\$11,000 for Audit Committee)
Chairmen . . . . .	\$15,000 (\$20,000 for Audit Chair)

### Financial statements and dividends

The Management Board has prepared the annual accounts and discussed these with the Supervisory Board. The Report of the Independent Auditor, PricewaterhouseCoopers Accounts N.V. is included in the 'Other Information' on page 141. The financial statements will be submitted for adoption at the Annual Meeting as part of the Annual Report. The Supervisory Board recommends that shareholders adopt these financial statements, as well as the proposed cash dividend of \$ 0.10 per ordinary share

### Additional information

For additional information, see the section on Corporate governance statement (pages 54 - 67), which are deemed to be incorporated by reference here.

Rotterdam, March 29, 2010

### The Supervisory Board

Marvin O. Schlangler  
Milton Caroll  
Stephen F. Cooper  
Joshua J. Harris  
Scott Kleinman  
Jeffrey A. Serota  
Bruce A. Smith  
Rudy M.J. van der Meer

## **2.2 CONFORMITY STATEMENT**

The Management Board is responsible for the preparation of the Annual Accounts and the Annual Report of LyondellBasell N.V. for the year ended 31 December 2010 in accordance with applicable Dutch law and International Financial Reporting Standards (“IFRS”) as endorsed by the European Union, (“EU”).

RESPONSIBILITY STATEMENT PURSUANT TO SECTION 5:25C PARAGRAPH 2(C) OF THE DUTCH FINANCIAL MARKETS SUPERVISION ACT (‘Wet op het financieel toezicht’)

The Management Board confirms that to the best of its knowledge:

- the LyondellBasell N.V. 2010 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of LyondellBasell N.V. and the entities included in the consolidation taken as a whole;
- the LyondellBasell N.V. 2010 Annual Report gives a true and fair view of Lyondell N.V. and the entities included in the consolidation taken as a whole as at 31 December 2010 and the state of the affairs during the financial year to which the report relates and describes the principal risks facing LyondellBasell N.V.

Rotterdam, 29 March 2011

/s/ James L. Gallogly

## **2.3 CORPORATE GOVERNANCE STATEMENT**

We monitor and assess applicable Dutch, U.S., and other relevant corporate governance codes, rules, and regulations. We are subject to the Dutch Corporate Governance Code (the “Code”), as we are a listed company with its registered office in the Netherlands. As an NYSE listed company, we also are required to comply with the U.S. Sarbanes-Oxley Act of 2002, as well as NYSE listing rules, and the rules and regulations promulgated by the U.S. Securities and Exchange Commission (“SEC”). Certain of the requirements of the SEC and the NYSE contain transition periods for newly publicly listed companies.

Our corporate governance structure is based on the requirements of the Dutch Civil Code, the company’s Articles of Association and the rules and regulations applicable to companies listed on the New York Stock Exchange, complemented by several internal procedures. These procedures include a risk management and control system, as well as a system of assurance of compliance with laws and regulations.

For the full text of the Code, please refer to the website <http://www.commissiecorporategovernance.nl/>. For the full text of the U.S. Sarbanes-Oxley Act of 2002, as well as NYSE listing rules, and the rules and regulations promulgated by the SEC, see [www.sec.gov/about/laws/soa2002.pdf](http://www.sec.gov/about/laws/soa2002.pdf), <http://nyse.com/>, and [www.sec.gov/about.shtml](http://www.sec.gov/about.shtml) respectively.

This chapter describes LyondellBasell’s corporate governance. The Code contains principles and best practices for Dutch companies with listed shares. We agree with both the general approach and the vast majority of its principles and best practice provisions. Any deviations from the Code are explained, in accordance with the Code’s “apply or explain” principle.

Material changes in our corporate governance structure and/or our compliance with the Code will be discussed at LyondellBasell’s 2011 Annual General Meeting of Shareholders as a separate agenda item. The Board of Management and the Supervisory Board are of the opinion that the company’s corporate governance structure, as described here, is the most appropriate for LyondellBasell at this point in time. With the exception of those aspects of our governance structure which can only be amended with the approval of the General Meeting of shareholders, the Board of Management and the Supervisory Board may make adjustments to the way the Code is applied as described below, if this is considered to be in the interest of the company. If adjustments are made, they will be published and reported in the annual report for the relevant year.

### **2.3.1 Management Board**

Our Management Board is responsible for managing LyondellBasell, under the chairmanship of its CEO, James L. Gallogly. Mr. Gallogly currently is the sole member of the Management Board, and his term as a member of the Management Board expires at the annual general meeting of shareholders in 2015.

Mr. Gallogly was appointed as sole member of the Management Board in April 2010. Mr. Gallogly has over 29 years of operating and leadership experience in chemical, refining and related industries. He formerly worked at ConocoPhillips, most recently serving as executive vice president of exploration & production from October 2008 to May 2009. For the preceding two years, he was executive vice president of refining, marketing and transportation. He was president and chief executive officer of Chevron Phillips Chemical Company from 2000 to 2006 and served as a member of its Board of Directors. Mr. Gallogly is an American and is currently 58 years old.

## **LyondellBasell Industries N.V.**

The Management Board is responsible for the management of LyondellBasell, the deployment of its strategy, its risk profile and policies, the achievement of its objectives, its results and the corporate social responsibility aspects relevant to the Company.

In fulfilling its management tasks and responsibilities, the Management Board considers the interests of the Company and the business connected with it, as well as the interests of the Company's stakeholders. The Management Board is accountable to the Supervisory Board and the General Meeting of Shareholders for the performance of its management tasks.

Under a two-tier board structure, the Supervisory Board supervises and advises the Management Board in the execution of its tasks and responsibilities. The Management Board provides the Supervisory Board with all information, in writing or otherwise, necessary for the Supervisory Board to fulfill its duties. Besides the information provided in the regular meetings, the Management Board keeps the Supervisory Board frequently informed with respect to developments relating to LyondellBasell's business, financials, operations, and also with respect to industry developments in general.

Important decisions of the Management Board that require the approval of the Supervisory Board are, among others:

- The operational and financial objectives of the Company;
- The strategy to achieve the Company's objectives;
- The business and financial plans of the Company; and
- Corporate social responsibility issues relevant to the Company and the industry in which it operates.

The Rules for the Management Board contain the general responsibilities of the Management Board, the decision making process within the Management Board, and also the logistics surrounding the meetings. The Rules for the Management Board are posted in the Corporate Governance section within the Investor Relation section on our website at [www.lyondellbasell.com](http://www.lyondellbasell.com).

### *Appointment, Other Functions*

Members of the Management Board are appointed by the General Meeting upon recommendation by the Supervisory Board. Mr. Gallogly, the current sole member of the Management Board, was appointed effective April 30, 2010 for a period of five years, where after reappointment is possible for consecutive four-year terms. After Mr. Gallogly's initial five year term, the Supervisory Board may determine the number of members on subsequent Management Boards; provided, that the CEO of the Company shall be a member of such subsequent Management Boards.

The Supervisory Board may suspend one or more members of the Management Board at any time. The General Meeting of Shareholders may suspend or dismiss a member at any time, but only by means of a resolution adopted by at least two-thirds (2/3) of the valid votes cast, such two-third majority representing more than half of the issued capital.

Management Board members may only accept a Supervisory Board membership of another listed company after having obtained prior approval from the Supervisory Board. Members of the Management Board are also required to notify the Supervisory Board of other important functions held or to be held by them.

Mr. Gallogly is not currently a Supervisory Board member of any listed company.

## **LyondellBasell Industries N.V.**

### *Code of Conduct*

Part of LyondellBasell's risk management and control system is the Company's Code of Conduct. The Code of Conduct contains rules and guidelines on integrity subjects and issues.

LyondellBasell has established a complaints procedure, which provides guidance with respect to the reporting by employees, anonymously if desired, of alleged violations of the Code of Conduct or other Company policies. The complaints procedure provides that alleged violations of the Code of Conduct can be reported by both LyondellBasell employees as well as third parties by calling a hotline or submitting information via the internet.

The Code of Conduct, including complaints received based on the complaints procedure, if any, are regularly discussed in the Audit Committee.

The Code of Conduct and information on how to submit complaints are posted in the Corporate Governance section of the Investor Relations section of our website.

Mandatory training courses on our Code of Conduct are conducted regularly by all employees worldwide.

### *Conflicts of Interest*

The Management Board's Rules prohibit members of the Management Board from participating in decisions on a subject or transaction in relation to which he has a direct or indirect personal interest, which is in conflict of the interests of the Company and its associated enterprise. Additionally, any payments to a member of the Management Board, other than regular salary payments, expense reimbursements and payments arising under the Company's benefit and compensation plans applicable to employees generally must be approved by the Supervisory Board. Finally, the Company maintains a Related Party Transaction Policy that requires Audit Committee approval of certain transactions between the Company and any officer, director or substantial shareholder. During the year 2010, no transactions occurred that could have given the appearance of conflicts of interests or that effectively involved conflicts of interests.

### **2.3.2 Dutch Corporate Governance Code**

In addition to the New York Stock Exchange listing standards and rules and regulations as promulgated by the SEC, as a Dutch company, our governance practices are governed by the Dutch Corporate Governance Code (the "Code"). The Code (as last amended on December 10, 2008) contains a number of principles and best practices. The Code, in contrast to the Sarbanes-Oxley Act of 2002, contains an "apply or explain" principle, offering the possibility to deviate from the Corporate Governance Code as long as any such deviations are explained. The Code has no transitional provisions. In certain cases, we have not applied the Code's practices and provisions but expect to do so in the future.

There is considerable overlap between the requirements we must meet under U.S. rules and regulations and the provisions of the Code. We have complied with the majority of the provisions of the Code; however, where there are conflicting provisions of the Code and the requirements of the NYSE and the SEC, we have chosen to comply with the NYSE and SEC requirements. As an SEC registrant and NYSE listed company, we believe that it is appropriate to maintain governance practices that are in line with our peers, as opposed to Dutch listed companies.

For clarity purposes, we have listed below deviations from the Code and our reasons for deviating. The deviations follow the order of the recommendations in the Code.



## **LyondellBasell Industries N.V.**

### ***Best practice provision II.1.1***

Mr. Gallogly was appointed as a member of the Management Board for an initial term of five years, which exceeds the maximum of four years contained in the Code.

Mr. Gallogly was appointed to the Management Board upon the Company's emergence from bankruptcy proceedings. Given the unique and challenging circumstances surrounding the Company beginning with its emergence from bankruptcy proceedings, it was considered appropriate to ensure continuity in the effective management of the Company. Specifically, Mr. Gallogly was recruited to the Company not only to lead the efforts in emerging from bankruptcy, but also to grow the Company and increase value to stakeholders over the long term. As a result, Mr. Gallogly's initial term was set at five years.

Subsequent terms of Mr. Gallogly or any other member of the Management Board will be for a maximum of four years, in accordance with the Company's Articles of Association and Rules of the Management Board.

### ***Best practice provisions of Principle II.2***

The Company has followed all of Principle II.2 in determining the compensation of the Management Board. However, there are specific best practice provisions set forth under that principle that were not followed, given the unique situation of LyondellBasell AF in 2009 and 2010. Mr. Gallogly was recruited and hired to join LyondellBasell AF in May 2009, during bankruptcy proceedings, and his compensation arrangements were assumed by the Company at emergence. Many components of Mr. Gallogly's compensation were negotiated, determined and then approved by the bankruptcy court. The Company believes that the level and structure of Mr. Gallogly's compensation was necessary to recruit him and remains appropriate for his responsibilities.

#### ***II.2.1/II.2.2.***

The Compensation Committee of the Supervisory Board has spent considerable time reviewing and understanding the policies, procedures and practices that were put in place upon the Company's emergence in April 2010. The Compensation Committee also retained the services of an independent consultant to assist in its evaluation of appropriate remuneration for the Management Board and the executive officers of the Company. The scenario analyses mentioned in provisions II.2.1. and II.2.2. of the Code are planned for 2011; given Mr. Gallogly's 2010 compensation was agreed to in 2009, and thus prior to the establishment of the Supervisory Board, it was not possible for the Supervisory Board to perform the analysis provided for in best practice provision II.2.1, or determining the level and structure of Mr. Gallogly's compensation by reference to such analysis. However, internal pay equity is one of the factors considered by the Compensation Committee in making compensation determinations, and it is expected this will be a factor in future compensation decisions. Additionally, the Compensation Committee expects to make use of "tally sheets," which show each component of executives' compensation, the tally of all of the compensation elements, as well as potential payments in different termination scenarios. The use of these tally sheets enables the Compensation Committee to understand each element of total compensation and potential compensation, potential total payments, and analyze the internal equity amongst executives.

#### ***II.2.4***

Pursuant to Mr. Gallogly's employment agreement, he was granted options to purchase Company shares that vest ratably over a five year period beginning one year after his date of employment. This is contrary to best practice provision II.2.4, which states that options shall not be exercisable in the first three years after the date of grant. Further, the number of options granted to Mr. Gallogly was negotiated at the time of his recruitment and approved by the bankruptcy court; as a result, the number of options granted was not

## **LyondellBasell Industries N.V.**

determined based on the achievement of targets specified beforehand in accordance with best practice provision II.2.4. Nonetheless, the Company believes that the vesting schedule and number of options granted to Mr. Gallogly is appropriate. A five year ratable vesting schedule properly incentivizes Mr. Gallogly over a long period of time, since only twenty percent of the total award can be exercised each year.

### ***II.2.8***

Mr. Gallogly's employment agreement with the Company contains provisions that entitle him to payments upon termination of his employment agreement that exceed one annual salary payment. As previously mentioned, Mr. Gallogly's employment agreement was negotiated at the time of his recruitment when the Company was in bankruptcy and faced an uncertain future. The Company believes that the provisions with respect to payments to Mr. Gallogly upon termination of his employment agreement are appropriate, particularly given that they were included in part as a means to recruit Mr. Gallogly to LyondellBasell AF while it was in bankruptcy proceedings. The protections afforded by his employment agreement allow Mr. Gallogly to focus on the Company's performance and the creation of shareholder value through very difficult and demanding times.

### ***II.2.11***

The Company's employment agreement with Mr. Gallogly does not contain any claw-back provisions. However, the Compensation Committee recognizes the benefits to the Company and its stakeholders of "clawback" policies for its executive officers, including Mr. Gallogly. Under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities and Exchange Commission has been charged with requiring stock exchanges, including the NYSE on which our shares are listed, to prohibit listing of securities of any company that has not developed and implemented compensation claw-back policies. The Dodd-Frank Act's provisions regarding claw-back policies are specific as to what is required, although implementing regulations have not yet been promulgated. The Compensation Committee currently is reviewing those requirements and, in light of its compensation programs generally, is developing such a policy.

### ***III.1.7***

The Company's Corporate Governance Guidelines and each of the Supervisory Board committees' charters require evaluations of the Supervisory Board and its committees to be conducted at least annually. The Supervisory Board was originally constituted on April 30, 2010 and consisted of five members. In August 2010, one member of the Supervisory Board resigned and four new members were appointed after an extensive search for qualified, independent members. As a result, the current Supervisory Board has only been comprised since August and formal discussions and evaluations of the functioning of the Supervisory Board, its committees and the individual Supervisory Board members have not yet been carried out. Such evaluations are planned during 2011.

### ***III.2.1/III.2.2/III.2.3***

The Supervisory Board currently consists of eight members, and the Supervisory Board is nominating four additional individuals for election at the Annual Meeting, three of whom are considered independent. Of the current eight members, three are considered independent for purposes of the Code and NYSE listing standards and are deemed to be independent based on the Company's categorical standards of independence contained in the Company's Corporate Governance Guidelines.

NYSE listing standards require that a majority of the members of the Supervisory Board must be independent within one year of listing of the Company's shares, which will occur on October 14, 2011. In an effort to meet this requirement, the Company is conducting extensive searches for qualified individuals

## **LyondellBasell Industries N.V.**

who meet the Supervisory Board's desired profile for composition and also meet all necessary independence requirements.

The Company is party to nomination agreements with certain shareholders that allow those shareholders to select up to three individuals for nomination to the Supervisory Board dependent on their share ownership levels. Each of our non-independent directors was selected for nomination pursuant to these agreements. The Supervisory Board believes that each of its non-independent members brings with him a level of skill, experience and qualifications that benefit the workings of the Supervisory Board, notwithstanding his lack of independence. The Supervisory Board will ensure that at all times beginning no later than October 14, 2011, at least a majority of its members are independent, but must also fulfill its obligations under the nomination agreements.

### ***III.3.1***

The Supervisory Board has not yet developed and published a profile of its size and composition, dealing with diversity in composition, and therefore has not specifically disclosed any reasons for divergence or the time period in which it aims to achieve the desired profile in accordance with best practice provision III.3.1.

As discussed, the Company is currently taking actions to add members to its Supervisory Board such that there will be a majority of independent members as soon as is practicable, and in no event later than October 14, 2011. As also discussed, the Supervisory Board has not yet conducted its evaluations of itself and the individual committees. The Supervisory Board believes it is appropriate that additional members be elected and serve for a period of time and conduct evaluations after such time before it develops its profile. Only after the Supervisory Board has functioned for a period of time does the Supervisory Board believe that assessing the desired profile is appropriate.

### ***III.3.5.***

Members of the Supervisory Board are appointed for terms of up to three years; however, there is no limit on the number of terms a Supervisory Board member may serve.

Currently, the Supervisory Board does not believe there is a driving interest in limiting members to the "three four-year terms" provision of the Code, given the early stages of development of the Company post bankruptcy and the formation of the Supervisory Board. To the contrary, the Supervisory Board believes that a depth of history and knowledge of the Company, which can be developed through long term service, currently is key to an effective oversight of the Company. The Supervisory Board intends to revisit the provisions in its governing documents on a continuous basis and may determine that limitations of the number of terms for Supervisory Board members is appropriate. Notwithstanding any such determinations, under the nomination rights described above, as long as certain shareholders maintain their share ownership at required levels, they will be able to nominate individuals of their choosing; the result of which may be for individuals nominated by them to serve for longer than any Supervisory Board determined terms.

### ***III.7.1/III.7.2***

Members of the Supervisory Board have been granted restricted stock units as a portion of their annual remuneration. The restricted stock units entitle the recipient to an equal number of the Company's shares after certain time-based vesting requirements have been met. This is a deviation from the Code, which states that supervisory board members shall not be granted shares and/or rights to shares by remuneration.

The remuneration of the Supervisory Board was recommended by the Supervisory Board and approved by shareholders at a meeting held in August 2010, and consists of both cash and shares. The Supervisory

## **LyondellBasell Industries N.V.**

Board believes that granting rights to acquire shares of the Company aligns the Supervisory Board members' interests with those of shareholders, thereby increasing the incentive to make decisions that create long-term value for the Company.

The Company does not have specific policies with respect to holding periods of equity by members of its Supervisory Board. The restricted stock units vest on June 30 of the year in which the director's term expires. As a result, the currently outstanding restricted stock units vest between one to three years, depending on the director's term. Future grants will similarly be tied to the directors' current terms of office. The Supervisory Board is of the opinion that tying the vesting period to the members' term effectively places a holding period on the members' interests as a shareholder, as he will not vest in those shares until he has served a full term.

### **2.3.3 Remuneration of the Management Board**

Mr. Gallogly, as sole member of the Management Board, is remunerated in accordance with the terms and conditions of an employment agreement entered into with an affiliate of the Company and approved by the bankruptcy court in connection with the Company's emergence from bankruptcy in April 2010. The remuneration paid to Mr. Gallogly is based on his duties both as a member of the Management Board and as CEO of the Company.

In accordance with the requirements of the SEC, in its Proxy Statement for the Annual Meeting, the Supervisory Board has included a "Compensation Discussion and Analysis," approved by the Compensation Committee of the Supervisory Board. This Compensation Discussion and Analysis, or CD&A, provides detailed information with respect to the Company's compensation philosophy, programs and practices for certain executive officers (as defined and identified under SEC regulations). The CD&A is applicable to Mr. Gallogly, as one of the executive officers.

Also in accordance with SEC regulations, the Supervisory Board is seeking from shareholders at the Annual Meeting approval of the Company's executive compensation.

Set forth below are the elements of the Remuneration Policy as described in the CD&A included in the proxy statement for the Annual Meeting.

We believe that we should pay for performance and align our executives' interests with those of our shareholders. To this end, our compensation program for our executives, including our Chief Executive Officer, who is the sole member of our Management Board, has been designed to achieve the following objectives:

- support a high performing culture that attracts and retains highly qualified executive talent;
- tie annual incentives to the achievement of Company and individual performance objectives; and
- align executives' incentives with the creation of shareholder value through both medium and long term incentive plans.

Generally, our programs are designed to increase the proportion of "at-risk" pay as a percentage of total compensation as an executive's responsibilities increase. This is based upon the belief that our senior executives have more opportunity to affect the performance of the Company and that executives' performance will be enhanced by ensuring that a significant portion of their potential compensation is tied to the performance of the Company.

## LyondellBasell Industries N.V.

For our executives, base salary increases with responsibility, but at a lesser rate than increases in target incentive compensation percentages. This results in an increased percentage of “at-risk” compensation as the executive’s responsibility is increased.

We believe our salary structure provides a framework for equitable compensation between executives. As a general matter, jobs having greater duties and responsibilities will have higher incentive compensation targets. However, each executive’s compensation package as a whole is analyzed to ensure appropriate compensation given the market for analogous positions within the marketplace and the mix of components of compensation is taken into account. Taken as a whole, our compensation program for executives is designed so that individuals’ incentive target levels rise as their salary level increases, with the portion of performance-based compensation rising as a percentage of total targeted compensation. The result is that each executive’s actual total compensation as a multiple of the total compensation of his subordinates will increase in periods of above-target performance and decrease in times of below-target performance.

We use Company financial and other performance criteria, including safety metrics, as well as individual performance criteria in determining payouts under incentive compensation awards. We attempt to develop performance measures that assess the performance of the Company relative to other companies in addition to absolute performance measures. This is based on our belief that absolute performance can be affected positively or negatively by industry-wide factors over which our executives have no control, such as the cyclicity of feedstock costs and the global economy. We also attempt to isolate the underlying performance necessary to enable achievement of performance criteria considering our unique circumstances within the industry.

For purposes of awards under our incentive programs, we have set performance metrics so as to require high performance in order to receive target incentive compensation levels, and have selected multiple metrics to promote the well-rounded executive performance necessary to enable the Company to achieve long-term success.

Although our incentive programs use performance metrics, we have no threshold measures such that payouts are guaranteed assuming the attainment of specified targets. We use numerical targets as one of the components to determine whether payouts are warranted under each of the metrics; however, the discretionary nature of our programs means that the achievement (or non-achievement) of such targets is only the starting point in the Committee’s determination of payouts for that metric. This is because we believe that judging performance based on an analysis of all relevant considerations provides a more meaningful determination of actual performance than using bright line performance targets. To this end, the Compensation Committee of our Supervisory Board retains discretion to consider other factors in addition to the stated performance metrics to determine relative performance.

Our executive compensation program generally consists of four principal components:

- base salary;
- annual cash incentive compensation;
- medium-term incentive compensation; and
- long-term equity-based incentive compensation.

We have chosen to pay each of these elements because we believe they best serve to advance our compensation objectives.

### **2.3.4 Internal Risk Management and Control Systems, External Factors**

The Management Board is responsible for ensuring that LyondellBasell complies with applicable legislation and regulations. It is also responsible for the financing of LyondellBasell and for managing the internal and external risks related to its business activities.

The establishment of our internal risk management and control system is based on the identification of external and internal risk factors that could influence the operational and financial objectives of the Company, and contains a system of monitoring, reporting, and operational reviews.

To help identify risks, LyondellBasell uses a formal risk management approach, consisting of a set of risks definitions which are discussed amongst senior management of LyondellBasell at least annually. Based on this risk assessment, actions are initiated to further enhance the Company's risk mitigation.

The disclosure of the risks that potentially could have a significant impact on the Company's strategy execution, operations or financial position is derived in part from LyondellBasell's internal risk assessment, comprising elements of the risk assessment model as mentioned in the COSO report.

The Company publishes two annual reports in respect of the financial year 2010 ("2010 Annual Reports"): a Statutory Annual Report in accordance with Dutch legal requirements in accordance with International Reporting Standards (IFRS) and IFRIC interpretations as endorsed by the European Union and an Annual Report on Form 10-K in accordance with U.S. securities laws, based on the United States of America Generally Accepted Accounting Principles ("U.S. GAAP"). Both 2010 Annual Reports include risk factors that are specific to the petrochemical industry, LyondellBasell and ownership of its shares. LyondellBasell also provides sensitivity analyses by providing:

- a narrative explanation of its financial statements;
- the context within which financial information should be analyzed; and
- information about the quality, and potential variability, of LyondellBasell's earnings and cash flow.

In its "Statement of the Board of Management" (which is included on pages 34 through 36 hereof), the Management Board addresses the Company's internal risk management and control systems.

The Company's Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies. However, beginning with the year ended December 31, 2011, our management will be required to conduct an evaluation, under the supervision and with the participation of our CEO and the CFO, of the effectiveness of the Company's internal control over financial reporting and, based on that evaluation, conclude whether the Company's internal control over financial reporting was effective as of December 31, 2011, providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. The Company's external auditor will also be required to confirm the effectiveness of the Company's internal control over financial reporting in its Consent of Independent Registered Public Accounting Firm as included in our 2011 Annual Report on Form 10-K for the year ended December 31, 2011.

With respect to the process of drafting annual reports, LyondellBasell has guidelines for the lay-out and the content of its reports. These guidelines are primarily based on applicable laws. For the Statutory Annual Report, the Company follows the requirements of Dutch law and regulations, including preparation of the consolidated financial statements in accordance with IFRS and IFRIC interpretations as endorsed by the European Union. For the Annual Report on Form 10-K, the Company applies the requirements of the U.S. Securities and Exchange Act of 1934, and prepares the financial statements included therein in accordance

## LyondellBasell Industries N.V.

with U.S. GAAP. With respect to the preparation process of these and the other financial reports, the Company applies internal procedures to safeguard completeness and correctness of such information as part of its disclosure controls and procedures which were deemed ineffective for the period ended December 31, 2010,

LyondellBasell currently has a Finance Disclosure Committee and a Management Disclosure Committee, each consisting of various members of management from different functional areas within the Company. These committees report to and assist the CEO and CFO in the maintenance, review and evaluation of disclosure controls and procedures. The Disclosure Committees' main responsibilities are to ensure compliance with applicable disclosure requirements arising under United States and applicable stock exchange rules. The Company's CEO and CFO attend the meetings of the Disclosure Committees, or otherwise receive reports from the Chairman of the Disclosure Committee on any material topics discussed in the meetings.

### 2.3.5 Shareholders and General Meeting of Shareholders

#### *Powers*

A general meeting of shareholders will be held at least once a year and is expected to take place in Rotterdam. In this meeting, the following items are expected to be discussed and/or approved:

- the written report of the Management Board containing the course of affairs in LyondellBasell and the conduct of the management during the past financial year;
- the adoption of the annual accounts;
- LyondellBasell's reserves and dividend policy and justification thereof by the Management Board;
- the discharge of the members of the Management Board in respect of their management during the previous financial year;
- the discharge of the members of the Supervisory Board in respect of their supervision during the previous financial year;
- each material change in the corporate governance structure of LyondellBasell (if occurred); and
- any other item the Management Board or the Supervisory Board determine to place on the agenda.

The Management Board requires the approval of the general meeting of shareholders and the Supervisory Board for resolutions regarding a significant change in the identity or character of LyondellBasell or its business, including in any event:

- a transfer of the business or virtually all of the business to a third party;
- entry into or termination of long-term cooperation by LyondellBasell or a subsidiary with another legal entity or partnership or as a general partner with full liability in a limited or general partnership if such cooperation or the termination thereof is of far-reaching significance for LyondellBasell; and
- an acquisition or disposal by LyondellBasell or a subsidiary of a participation in the capital of another company, the value of which equals at least one third of the amount of the assets according to the consolidated statement of financial position with explanatory notes attached to the Annual Accounts as most recently adopted.

Proposals placed on the agenda by the Supervisory Board, the Management Board, or at the request of shareholders, provided that they have submitted the proposals in accordance with the provisions of LyondellBasell's Articles of Association, will be discussed and resolved upon. Shareholders are entitled to request the Supervisory Board to place agenda items on the annual general meeting agenda at the latest sixty days before the meeting, and provided that they represent at least 1 percent of LyondellBasell's

## **LyondellBasell Industries N.V.**

outstanding share capital or a value of at least Euro 50,000,000. About two weeks before the term of sixty days closes, LyondellBasell will notify its shareholders about the closing of the term on its website.

The Management Board or Supervisory Board may convene Extraordinary General Meetings as often as they deem necessary. Such meetings must be held if one or more shareholders and others entitled to attend the meetings jointly representing at least one-tenth of the issued share capital make a written request to that effect to the Supervisory Board, specifying in detail the items to be discussed.

The Supervisory Board convened an Extraordinary General Meeting in August 2010 to propose the appointment of Mr. Cooper to fill a vacancy created by the resignation of a former director, for the appointment of Messrs. Carroll, Smith and van der Meer to fill additional vacancies, and the resolution for the remuneration of the Supervisory Board.

### *Logistics of the General Meeting of Shareholders*

To facilitate the attendance of shareholders at LyondellBasell's general meetings of shareholders, LyondellBasell will set a record date. Shareholders registered at such date will be entitled to attend the meeting and to exercise other shareholder rights during the meeting, notwithstanding the subsequent sale of their shares after the record date.

LyondellBasell's practice will be (as long as Dutch law does not prescribe otherwise) to set the record date at twenty-eight days before the meeting as required by Dutch law. Blocking of the shares that have been registered in order for the relevant shareholder to attend the meeting will not take place provided that a record date is set.

The Management Board and Supervisory Board shall provide the shareholders with the facts and circumstances relevant to the proposed resolutions, through an explanation to the agenda, as well as through other documents necessary and/or helpful for this purpose. All documents relevant to the general meeting of shareholders, including the agenda with explanations, shall be posted in the Investor Relations section on LyondellBasell's website at [www.lyondellbasell.com](http://www.lyondellbasell.com). The agenda will clearly indicate which agenda items are voting items, and which items are for discussion only.

LyondellBasell shareholders may appoint a proxy who can attend and address the general meeting of shareholders and vote on their behalf at the meeting. LyondellBasell also uses an internet proxy voting system to vote, thus facilitating shareholder participation without having to attend in person. Shareholders who voted through internet proxy voting are required, however, to appoint a proxy to officially represent them at the meeting in person.

Resolutions passed at the Annual Meeting shall be recorded by a civil law notary and co-signed by the Chairman of the meeting and will thereafter be made available on LyondellBasell's website no later than two weeks after the Annual Meeting.

The draft minutes of the Annual Meeting are available via LyondellBasell's website, and also upon request via mail or e-mail, no later than three months after the meeting. Shareholders are given the opportunity to provide their comments in the subsequent three months, and thereafter the minutes are adopted by the Chairman and the Secretary of the meeting. The adopted minutes also will be available on LyondellBasell's website and, upon request, via regular mail or e-mail.

There are no depositary receipts for shares in the Company's capital issued with the cooperation of LyondellBasell.

All resolutions are made on the basis of the "one share, one vote" principle. All resolutions are adopted by absolute majority, unless the law or our Articles of Association stipulate otherwise.



## **LyondellBasell Industries N.V.**

### *Information to the Shareholders*

To ensure fair disclosure, LyondellBasell distributes Company information that may influence the share price to shareholders and other parties in the financial markets simultaneously and through means that are public to all interested parties.

When LyondellBasell's annual and quarterly results are published by means of a press release, interested parties, including shareholders, can participate through conference calls and view the presentation of the results on LyondellBasell's website. The schedule for communicating the annual financial results is in general published through a press release and is posted on LyondellBasell's website.

It is LyondellBasell's policy to post the presentations given to analysts and investors at investor conferences on its website. Information regarding presentations to investors and analysts and conference calls are announced in advance on LyondellBasell's website. Meetings and discussions with investors and analysts shall, in principle, not take place shortly before publication of regular financial information. LyondellBasell does not assess, comment upon, or correct analysts' reports and valuations in advance, other than to comment on factual errors. LyondellBasell does not pay any fees to parties carrying out research for analysts' reports, or for the production or publication of analysts' reports, and takes no responsibility for the content of such reports.

At the annual general meetings of shareholders, the Management Board and the Supervisory Board will provide shareholders with all requested information, unless this is contrary to an overriding interest of the Company. If this should be the case, the Management Board and Supervisory Board will provide their reasons for not providing the requested information.

Furthermore, the Investor Relations section on LyondellBasell's website provides links to information about LyondellBasell published or filed by LyondellBasell in accordance with applicable rules and regulations.

### *Relationship with Institutional Investors*

LyondellBasell finds it important that its institutional investors participate in LyondellBasell's general meetings of shareholders. The Company believes that applying a record date and providing internet proxy voting are measures that should achieve high levels of participation at the meeting.

## **2.3.6 Audit of Financial Reporting**

### *Financial Reporting*

LyondellBasell has comprehensive internal procedures in place for the preparation and publication of Annual Reports, annual accounts, quarterly figures, and all other financial information. These internal procedures are frequently discussed in the Audit Committee and the Supervisory Board. The Disclosure Committees assist the Management Board in overseeing LyondellBasell's disclosure activities and ensures compliance with applicable disclosure requirements arising under U.S. and Dutch law and regulatory requirements.

The Audit Committee reviews and approves the external auditor's Audit Plan for the audits planned during the financial year. The Audit Plan also includes the activities of the external auditor with respect to their reviews of the quarterly results other than the annual accounts. These reviews are based on agreed upon procedures and are approved by the Audit Committee. The external auditor regularly updates the Audit Committee on the progress of the audits and other activities.

## **LyondellBasell Industries N.V.**

### *Appointment, Role, Assessment of the Functioning of the External Auditor, and the Auditor's Fee*

In accordance with Dutch law, LyondellBasell's external auditor is appointed by the general meeting of shareholders and is nominated for appointment by the Supervisory Board upon advice from the Audit Committee and the Management Board. LyondellBasell's current external auditor is PricewaterhouseCoopers ("PwC"), and the Supervisory Board, on the recommendation of the Audit Committee, is proposing shareholders appoint PwC as its auditor at the Annual Meeting.

The Audit Committee and Management Board will conduct an extensive evaluation of the external auditor's performance every four years as required by the Dutch Corporate Governance Code.

In the years that no formal evaluation is conducted, the external auditor's performance is continuously assessed by the Audit Committee in the Audit Committee meetings. So far, the external auditor has functioned to the satisfaction of both the Audit Committee and the Management Board.

Annually, the Management Board and the Audit Committee provide the Supervisory Board with a report on the relationship with the external auditor, including the required auditor independence. To determine the external auditor's independence, the relationship between the audit services and the non-audit services provided by the external auditor is important, as well as the rotation of the responsible lead audit partner every five years. Non-audit services (including tax fees and non audit-related fees) performed by the external auditor comprised approximately three percent of the external auditor's services in 2010. Based on the proportion audit fees versus non-audit related fees, it was concluded and confirmed by the external auditor that the external auditor acts independently.

The external auditor will be present at the Annual Meeting to respond to questions, if any, from the shareholders about the auditor's report on the financial statements.

The Audit Committee, on behalf of the Supervisory Board, approves the remuneration of the external auditor as well as the non-audit services to be performed, after consultation with the Management Board and the CFO. It has been agreed among the members of the Supervisory Board and the Management Board that the Audit Committee has the most relevant insight and experience to be able to approve both items, and therefore the Supervisory Board has delegated these responsibilities to the Audit Committee.

In principle the external auditor attends all meetings of the Audit Committee, unless this is deemed not necessary by the Audit Committee. The findings of the external auditor are discussed at these meetings.

The Audit Committee reports on all issues discussed with the external auditor to the Supervisory Board, including the external auditor's report with regard to the audit of the annual accounts as well as the content of the annual accounts. In the audit report, the external auditor refers to the financial reporting risks and issues that were identified during the audit, internal control matters, and any other matters requiring communication under the auditing standards generally accepted in the Netherlands and in the United States.

### *Internal Audit Function*

The internal audit function of LyondellBasell forms one of the key elements to address the topics of risk management and internal control over financial reporting as required under the Code and the Sarbanes-Oxley Act, respectively. To ensure the independence of this function, the Company's internal auditor reports to the Audit Committee. The external auditor and the Audit Committee are involved in drawing up the work schedule and audit scope of the internal auditor. The internal auditor regularly provides updates on its findings to the Audit Committee.

### 2.3.7 Takeover Directive; Anti-Takeover Provisions and Control

#### *General*

The EU Takeover Directive requires that certain listed companies must publish information providing insight into defensive structures and mechanisms which they apply. The relevant provision has been implemented into Dutch law by means of a decree of April 5, 2006. Pursuant to this decree, Dutch companies whose securities have been admitted to trading on an EU regulated market have to include information in their annual report which could be of importance for persons who are considering taking an interest in the company. The Company's shares are admitted to trading on the NYSE and not on any EU regulated markets.

According to provision IV.3.11 of the Code, we are required to provide a survey of our actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be used.

Accordingly, we have set out below a number of provisions in the Articles of Association that in a Dutch context technically are not necessarily considered to be anti-takeover measures, but which could restrict the ability of a controlling shareholder to effectively exercise control over the Company:

- As per article 13.4 of the Articles of Association, up to one-third (1/3) of the members of the Supervisory Board may be appointed by the Supervisory Board itself;
- As per article 13.2 of the Articles of Association, the General Meeting of Shareholders will appoint both the members of the Management Board and, subject to the above, the members of the Supervisory Board, upon the nomination of the Supervisory Board. Any such nomination with respect to the appointment of a Supervisory Board member shall, at the discretion of the Supervisory Board be binding. Such a binding nomination may be rendered non-binding by the General Meeting of Shareholders provided that a resolution to that effect shall be adopted by at least two-thirds (2/3) of the valid votes cast, such two-third (2/3) majority representing more than half of the issued share capital. In case of such a vote, the General Meeting of Shareholders will be free in its selection and appointment of a Supervisory Board member to fill the vacancy by means of a resolution adopted by at least two-thirds (2/3) of the valid votes cast, such two-third (2/3) majority representing more than half of the issued capital. If the votes cast in favor of such resolutions do not represent at least two-thirds of the issued share capital, a new meeting can be convened at which the relevant resolution can be adopted by absolute majority;
- As per articles 5.2 and 6.3 of the Articles of Association the Supervisory Board has been designated for a period ending on 13 April 2015 as the body competent to issue shares in the capital of the Company whereby the Supervisory Board is in principle authorized to restrict or exclude any pre-emptive rights of existing shareholders; and
- As per article 24.1 of the Articles of Association, the Articles of Association may only be amended by the General Meeting of Shareholders on the basis of a proposal thereto of the Management Board and subject to approval of the Supervisory Board.

In the event of a hostile takeover bid, in general the Supervisory Board and the Management Board reserve the right to use all powers available to them in the interests of the Company and its affiliated enterprise, taking into consideration the relevant interests of the Company's stakeholders.

**CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATED INCOME STATEMENT**

<u>Millions of U.S. Dollars, except per share data</u>	<u>Note</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Revenue	6	\$ 27,684
Cost of sales	7	25,020
Gross profit		<u>2,664</u>
Selling costs	7	213
Administrative expenses	7	358
Other losses/(gains) – net	11	85
Other operating expense	12	31
Other operating income	13	(64)
Operating profit		<u>2,041</u>
Finance income		18
Finance costs	14	(538)
Share in profit/(loss) in associates and joint ventures, net of tax	19	87
Profit before income tax		<u>1,608</u>
Income tax (expense) benefit on ordinary activities	15	(516)
Profit for the period		<u><u>1,092</u></u>
<b>Attributable to:</b>		
- Owners of the Company	27	1,099
- Non-controlling interests	28	(7)
Total		<u><u>\$ 1,092</u></u>
<b>Earnings per share:</b>		
- Basic	16	<u>\$ 1.94</u>
- Diluted	16	<u>\$ 1.94</u>

The notes on pages 75 to 130 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<b>Period 15 October 2009 to 31 December 2010</b>	
Profit for the period		\$	1,092
Other comprehensive income:			
Fair value movement on available-for-sale financial assets	22		1
Actuarial gain or (losses) on post employment benefits	31	(57)	
Tax on actuarial gain or (losses) on post employment benefits	15	<u>30</u>	(27)
Currency translation of foreign operations	27	129	
Tax on currency translation of foreign operations	30	<u>(4)</u>	125
Other comprehensive income, net of tax			<u>66</u>
Total comprehensive income for the period		\$	<u>1,191</u>
Attributable to:			
- Owners of the Company	27		1,198
- Non-controlling interests	28		<u>(7)</u>
			1,191

The notes on pages 75 to 130 are an integral part of these consolidated financial statements.

**.CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**ASSETS**

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>31 December 2010</u>
Non-current assets:		
Intangible assets	17	\$ 1,838
Property, plant & equipment	18	7,628
Investments in associates & joint ventures	19	1,552
Available-for-sale financial assets	22	7
Deferred income tax assets	30	128
Trade and other receivables	25	105
Total non-current assets		<u>11,258</u>
Current assets:		
Inventories	24	4,614
Trade and other receivables	25	4,550
Income tax receivable		292
Cash and cash equivalents	26	4,222
Total current assets		<u>13,678</u>
Total assets		<u>\$ 24,936</u>

The notes on pages 75 to 130 are an integral part of these consolidated financial statements.

**EQUITY AND LIABILITIES**

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>31 December 2010</u>
Equity attributable to owners of the Company:	27	
Share capital		\$ 30
Share premium		9,863
Other reserves		99
Retained earnings		1,099
		<u>11,091</u>
Non-controlling interest	28	61
Total equity		<u>11,152</u>
Non-current liabilities:		
Borrowings	29	5,983
Deferred income tax liability	30	1,091
Retirement benefit obligation	31	1,526
Provisions for other liabilities and charges	33	348
Accruals and deferred income		213
		<u>9,161</u>
Current liabilities:		
Trade and other payables	32	4,095
Income tax payable		163
Borrowings	29	46
Derivative financial instruments	23	237
Provisions for other liabilities and charges	33	82
		<u>4,623</u>
Total liabilities		<u>13,784</u>
Total equity and liabilities		<u>\$ 24,936</u>

The notes on pages 75 to 130 are an integral part of these consolidated financial statements.



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<b>Millions of U.S. dollars except for number of shares</b>	<b>Note</b>	<b>Share Capital</b>	<b>Share Premium</b>	<b>Other Reserves</b>	<b>Retained Earnings</b>	<b>Equity attributable to the Owners of the Company</b>	<b>Non- Controlling Interest</b>	<b>Total Group Equity</b>
Balance as of 15 October 2009		\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
<i>Transactions with owners:</i>								
Issuance of Class A Common stock related to business combination	5	16	7,115	--	--	7,131	54	7,185
Proceeds from Class B Common stock issued	27	14	2,721	--	--	2,735	--	2,735
Contributions from non-controlling interest	28	--	--	--	--	--	14	14
<i>Employees share-based payments:</i>								
- Issuance of shares	9	--	22	--	--	22	--	22
- Excess deferred tax on shares	30	--	5	--	--	5	--	5
Total transactions with owners		30	9,863	--	--	9,893	68	9,961
<i>Comprehensive income for the period:</i>								
Profit and loss	27/28	--	--	--	1,099	1,099	(7)	1,092
<i>Other comprehensive income:</i>								
Actuarial loss on post employment benefit obligations	27	--	--	(27)	--	(27)	--	(27)
Available for sale investments	27	--	--	1	--	1	--	1
Currency translation differences	27	--	--	125	--	125	--	125
Total Comprehensive Income for the period		--	--	99	1,099	1,198	(7)	1,099
Balance as of 31 December 2010		<u>\$ 30</u>	<u>\$ 9,863</u>	<u>\$ 99</u>	<u>\$ 1,099</u>	<u>\$ 11,091</u>	<u>\$ 61</u>	<u>\$ 11,152</u>

The notes on pages 75 to 130 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>Period 15 October 2009 to 31 December 2010</u>
<b>Cash flows from operating activities</b>		
Result on ordinary activities before tax		\$ 1,608
Adjustments for:		
- Depreciation, amortization and impairments	7	582
- Share based compensation	9	22
- Net finance cost		520
- Other gains/(losses)		85
- Other income	13	(64)
- Share in profit or loss of associates	19	(87)
- Changes in working capital relating to:		
- (Increase)/decrease in trade and other receivables		40
- (Increase)/decrease in inventories		235
- Increase/(decrease) in trade and other payables		344
- Other		11
Cash generated from operations		3,296
Interest paid		(281)
Income taxes paid		(99)
Net cash from operating activities		2,916
<b>Cash flows from investing activities</b>		
Acquisition of former LyondellBasell Industries AF subsidiaries (net of cash acquired)	5	4
Purchase of property, plant and equipment		(466)
Purchase of intangible assets		(20)
Proceeds from disposal of assets	13	154
Interest received		18
Dividends received	19	34
Net cash used in investing activities		(277)
<b>Cash flows from financing activities</b>		
Proceeds from issue of Class B shares	27	2,735
Proceeds from non-controlling interests	28	14
Repayments of borrowings	29	(1,200)
Proceeds from borrowings	29	6
Net cash used in financing activities		1,555
<b>Net increase in cash and cash equivalents</b>		4,195
Cash and cash equivalents at beginning of period		--
Exchange rate differences		27
Cash and cash equivalents at end of the period	26	\$ 4,222

The notes on pages 75 to 130 are an integral part of these consolidated financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 General Information**

LyondellBasell Industries N.V., together with its consolidated subsidiaries (collectively “LyondellBasell N.V.”, the “Group”, “Company” or “We”) is a worldwide manufacturer of chemicals and polymers, a refiner of crude oil, a significant producer of gasoline blending components and a developer and licensor of technologies for production of polymers.

LyondellBasell N.V. is a limited liability company (Naamloze Vennootschap) incorporated under Dutch law by deed of incorporation dated 15 October 2009. The address of its registered office is Weena 737, 3013 AM Rotterdam. LyondellBasell N.V.’s shares are listed on the New York Stock Exchange (“NYSE”).

As a result of LyondellBasell Industries AF S.C.A.’s (“LyondellBasell AF”) emergence from chapter 11 of the U.S. Bankruptcy Code (“chapter 11”) on 30 April 2010 (the “Emergence Date”), LyondellBasell N.V. became the parent holding company for the subsidiaries of LyondellBasell AF after completion of the bankruptcy cases. LyondellBasell AF’s equity interests in its indirect subsidiaries terminated and LyondellBasell N.V. now owns and operates, directly and indirectly, substantially the same business as LyondellBasell AF owned and operated prior to emergence from the bankruptcy cases.

The Financial Statements as for the 15 month period ended 31 December 2010, of LyondellBasell N.V. were approved for issue by both the Supervisory Board and the Management Board on 29 March 2011.

The Financial Statements are subject to adoption by the Annual General Meeting of Shareholders on 5 May 2011.

### **2 Summary of Significant Accounting Policies**

The significant accounting policies applied in the preparation of these Consolidated Financial Statements are set out below.

#### **2.1 Basis of Preparation**

The Consolidated Financial Statements of LyondellBasell N.V. have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretation Committee (“IFRIC”) interpretations as endorsed by the European Union.

As the corporate financial information of LyondellBasell N.V. is included in the Consolidated Financial Statements, the Corporate Income Statement is presented in abbreviated format in accordance with Section 402, Book 2 of The Netherlands Civil Code.

The Consolidated Financial Statements have been prepared under the historical cost convention, as modified for the revaluation of available-for-sale financial assets, and the accounting of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. Consolidated financial information, including subsidiaries, associates and joint ventures, has been prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

#### **2.2 Comparative Information**

In accordance with Articles of Association of LyondellBasell N.V., the first financial year of the Company ended on 31 December 2010. As a result, the Consolidated Financial Statements do not include comparative information.

### **2.3 New standards, amendments and interpretations issued but not effective for the financial year 2010 and we have not elected early adoption**

The Group's and parent entity's assessment of the impact of these new standards and interpretations is set out below:

*IFRS 9, Financial Instruments: Classification and Measurement* – IFRS 9 as issued reflects the first phase of the International Accounting Standards Board's (IASB) work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013 but is available for early adoption. However, the standard has not currently been endorsed by the EU.

LyondellBasell N.V. has not assessed assess IFRS 9's full impact. However, initial indications are that it may affect the classification and measurement of LyondellBasell N.V.'s financial assets. LyondellBasell will quantify the effect in conjunction with the other phases, when issued.

*IAS 24, Related Party Disclosures (Amendment)* – The amended standard is effective for annual periods beginning on or after 1 January 2011. However, the standard has not currently been endorsed by the EU.

The revised standard clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. We do not expect any impact on our financial position or performance.

*IAS 32, Financial Instruments: Presentation, Classification of Rights Issues (Amendment)* – The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on LyondellBasell N.V.

*IFRIC 14, Prepayments of a Minimum Funding Requirement (Amendment)* – The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of LyondellBasell N.V.

*IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments* – IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In the case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of LyondellBasell N.V.

*Improvements to IFRSs (issued in May 2010)* – The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they were effective for annual periods on or after either 1 July 2010 or 1 January 2011.

- *IFRS 3 Business Combinations*  
The change limits the scope of the measurement choices of Non-controlling Interest ("NCI"). NCI's in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation shall be measured either at

fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of NCI shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. The adoption of this improvement will have no effect on the financial statements of LyondellBasell N.V.

- *IFRS 7 Financial Instruments: Disclosures*  
The change emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. A number of amendments have been made to quantitative and credit risk disclosures. The adoption of this improvement may have an effect on disclosures in the financial statements of LyondellBasell N.V.
- *IAS 1 Presentation of Financial Statements*  
The change clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The adoption of this improvement may have effect on the financial statements of LyondellBasell N.V.
- *IAS 27 Consolidated and Separate Financial Statements*  
The change clarifies that the consequential amendments from IAS 27 made to IAS 21 the effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The amendment eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under IAS 39. This includes the effect on accumulated foreign exchange differences on such investments. The adoption of this improvement may have an effect on the financial statements of LyondellBasell N.V.
- *IFRIC 13 Customer Loyalty Programmes*  
The adoption of this improvement will have no effect on the financial statements of LyondellBasell N.V.

The following standards and interpretations became effective for periods starting after or on 1 January 2010. However the Company has early adopted and implemented the following standards and interpretations as of 15 October 2009:

- *IFRIC 9 Reassessment of embedded derivatives and IAS 39, Financial instruments : Recognition and measurement*
- *IFRIC 17 Distribution of Non-cash assets to owners*
- *IFRIC 18 Transfers of assets from customers*
- *IFRIC 16 Hedges of net investment in a foreign operation*
- *IAS 1 (amendment) Presentation of financial statements*
- *IAS 36 (amendment) Impairment of assets*
- *IFRS 2 (amendment) Group cash-settled share based payment transactions*
- *IFRS 5 (amendment) Non-current assets held for sale and discontinued operations*

## **2.4 Consolidation**

*Subsidiaries*—Subsidiaries are all entities (including special purpose entities) over which LyondellBasell N.V. has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether LyondellBasell N.V. controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Subsidiaries are de-consolidated from the date that control ceases and the difference between the

## LyondellBasell Industries N.V.

carrying and the fair value of the remaining investment and proceeds from disposal are recognized in profit or loss.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by LyondellBasell N.V. The consideration transferred is measured at fair value of the assets transferred, the liabilities incurred and equity instruments issued at the date of exchange. The acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any non-controlling interest except for deferred income taxes and certain liabilities associated with employee benefits. Deferred income taxes are recognized and measured in accordance with IAS 12 – Income taxes and employee benefits are recognized and measured in accordance with IAS 19 – Employee benefits. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by LyondellBasell N.V.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having deficit balances.

*Associates and joint ventures (Equity investments)*—Equity investments are all entities over which LyondellBasell N.V. has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The interest in an equity investment is the carrying amount of the investment together with any long-term interest that, in substance, forms part of our net investment in the equity investment.

Investments in equity investments are accounted for using the equity method of accounting and are initially recognized at cost. LyondellBasell N.V.'s investment in equity investments includes goodwill identified on acquisition, net of any accumulated impairment loss.

LyondellBasell N.V.'s share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When LyondellBasell N.V.'s share of losses in an associate equals or exceeds its interest in the equity investment, including any other unsecured receivables, LyondellBasell N.V. does not recognize further losses, unless it has incurred obligations or made payments on behalf of the equity investment.

Unrealized gains on transactions between the Group and equity investments are eliminated to the extent of LyondellBasell N.V.'s interest in the equity investments. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity investments have been changed where necessary to ensure consistency with the policies adopted by LyondellBasell N.V.

## **2.5 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ('CEO'). The CEO, identified for strategic decisions, is responsible for allocating resources and assessing performance. Operating segments are aggregated into a single operating segment since these segments have similar economic characteristics and are similar in the nature of the products and production processes, class of customers and distribution of the products.

## **2.6 Foreign Currency Translation**

*Functional and presentation currency*—Items included in the financial information of each of LyondellBasell N.V.'s entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial information is presented in U.S. Dollars, which is the functional currency of the Company.

*Transactions and balances*—Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated Income Statement, except when deferred in equity as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Consolidated Income Statement within 'Finance Income or Costs'. All other foreign exchange gains and losses are presented in the Consolidated Income Statement within 'Other (losses)/gains – net'

Translation differences on non-monetary financial assets and, liabilities such as equities held at fair value, are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

*Subsidiaries*—In the Consolidated Financial Statements, the results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. All resulting exchange differences are recognized as a separate component within other comprehensive income (currency translation reserve).

Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are recognized in other comprehensive income until the disposal of the net investment, at which time they are recognized in the income statement. Tax charges and credits attributable are also recorded in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## **2.7 Revenue Recognition**

Revenue from product sales is recognized at the time of transfer of title and risk of loss to the customer, which usually occurs at the time of shipment. Revenue is recognized at the time of delivery if LyondellBasell N.V. retains the risk of loss during shipment. For products that are shipped on a consignment basis, revenue is recognized when the customer uses the product. Costs incurred in shipping products sold are included in cost of sales. Billings to customers for shipping costs are included in sales revenue.

Revenue from licensing contracts is recognized on a contract-by-contract basis when LyondellBasell N.V. determines that it has substantially sold its product or rendered service. For proven technologies for which LyondellBasell N.V. is contractually entitled to receive the vast majority of the contract value in cash at or before the date of customer acceptance, LyondellBasell N.V. will generally recognize revenue for the fixed fee at the date of delivery of the process design package and the related license, provided that the undelivered items are considered inconsequential or perfunctory and the customer's billings become due. Future fixed fees for these contracts are recognized when the uncertainties are resolved.

For contracts involving unproven process technology and/or post-delivery technical assistance that is not considered inconsequential or perfunctory, LyondellBasell N.V. recognizes revenue at the date of customer acceptance up to the amount of fixed fees due at customer acceptance date. Future fixed fees for these contracts are recognized on the earlier date of cash receipt or when the uncertainties are resolved.

Dividend income is recognized when the right to receive payment is established.

## **2.8 Share-Based Compensation**

LyondellBasell N.V. operates a number of equity-settled, share-based compensation plans. The fair value of options or shares granted to employees is recognized as costs over the vesting period of the options or shares. The costs are determined based on the fair value of the options and shares and the number of options or shares expected to vest. On each balance sheet date, LyondellBasell N.V. determines if it is necessary to revise the expectation of the number of options or shares that will vest.

Liabilities with respect to cash-settled share-based compensation are recognized as a liability and re-measured at each balance sheet date through the Consolidated Income Statement.

## **2.9 Leases**

LyondellBasell N.V. leases certain property, plant and equipment. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Leases in which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the Consolidated Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under a finance lease is depreciated over the shorter of the useful life of the asset and the lease term.



## **2.10 Taxation of Profit or Loss**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the Consolidated Income Statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In these cases, the applicable tax amount is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and equity investments operate and generate taxable income. Management evaluates positions with respect to applicable tax regulation. Such regulation is subject to interpretation. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## **2.11 Intangible Assets**

*Research and development*—Costs incurred on development projects are recognized as intangible assets when it is probable that LyondellBasell N.V. will achieve economic benefits in the future, considering its commercial and technological feasibility, and costs can be measured reliably. Also in-process research and development acquired in a business combination are recognized at fair value at acquisition date. Research and other development expenditures are recognized as an expense as incurred. Development costs that have a finite useful life and that have been capitalized are amortized from the date that services can be offered on a straight-line basis over the period of its expected useful life. The expected useful life is generally between 5 and 7 years.

Capitalized development projects are impaired if the recoverable amount falls below the carrying value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

*Contracts and emission allowances*—Contracts acquired in a business combination are recognized at fair value at the acquisition date. The customer contracts have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship. The expected useful life is generally between 6 and 13 years.

*Goodwill*—The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. The cost of acquisition is the aggregate of the consideration transferred and the fair value of the non-controlling interest. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in investments in associates and joint ventures.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and whenever there is an indication that the intangible asset may be impaired. Goodwill is carried at cost less accumulated impairment losses. Goodwill is impaired if the recoverable amount of the cash-generating unit or groups of cash-generating units to which it is allocated is lower than the carrying value of the cash-generating unit or groups of cash-generating units concerned. The recoverable amount is defined as the higher of the cash-generating unit's fair value less cost to sell and its value in use. Impairment losses on goodwill are not reversed.

In case of disposal of a business which was part of a cash-generating unit, goodwill is allocated to that business and included in the carrying amount of disposal.

## **LyondellBasell Industries N.V.**

*Other intangible* assets—Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the recognition criteria are met. The capitalized costs are amortized over the estimated useful life, which is between periods of 3 to 10 years.

### **2.12 Property, Plant and Equipment**

Property, plant and equipment are recorded at historical cost. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Costs may also include borrowing costs incurred on debt during construction or major projects exceeding one year, costs of major maintenance as part of turnarounds of major units and committed decommission costs. Land is not depreciated. Depreciation on other assets is computed using the straight-line method over the estimated useful asset lives to their residual values, generally as follows:

- 25 years for major manufacturing equipment
- 30 years for buildings
- 5 to 15 years for light equipment and instrumentation
- 15 years for office furniture
- 4 to 7 years for turnarounds of major units and
- 3 to 5 years for information system equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Upon retirement or sale, LyondellBasell N.V. removes the cost of the asset and the related accumulated depreciation from the accounts and reflects any resulting gain or loss in the Consolidated Income Statement.

In respect to jointly controlled assets, LyondellBasell N.V. recognizes its ownership share.

### **2.13 Impairments of Non-Financial Assets**

Assets that have an indefinite useful life, like goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### **2.14 Non-current Assets (or Disposal Groups) Held-For-Sale**

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

### **2.15 Financial Assets**

*Classification* – LyondellBasell N.V. classifies financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. The classification

## **LyondellBasell Industries N.V.**

depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

*Financial assets at fair value through profit or loss*—This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also classified as held for trading unless they are designated as hedges.

*Loans and receivables*—Financial assets with fixed or determinable payments that are not quoted in an active market and created by LyondellBasell N.V. by providing money, goods or services directly to a debtor, other than:

- Those LyondellBasell N.V. intends to sell immediately or in the short term, which are classified as held for trading; and
- Those for which LyondellBasell N.V. may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

Loans and receivables are included in Trade and other receivables in the Consolidated Statement of Financial Position and are included in current assets, except for maturities greater than 12 months after the balance sheet date

*Available-for-sale financial assets*—Non-derivatives that are either designated in this category or not classified in any of the other financial asset categories.

*Recognition and measurement*—Regular purchases and sales of financial assets are recognized on the trade-date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit or loss are initially measured at fair value and transaction costs are expensed in the income statement.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and LyondellBasell N.V. has transferred substantially all risks and rewards of ownership.

*Financial assets at fair value through profit or loss*—Financial assets that are subsequently carried at fair value with gains and losses presented in the Consolidated Income Statement within ‘other (losses)/gains-net’ in the period in which they arise.

*Loans and receivables and held-to-maturity investments*—Financial assets that are subsequently carried at amortized cost using the effective interest method, or cost if there is no maturity, less an allowance for collectability with changes in carrying value (amortization of discount/premium and transaction costs) recognized in the Consolidated Income Statement under finance income or finance costs.

*Available-for-sale financial assets*—Financial assets that are subsequently carried at fair value with unrealized gains and losses (except for impairment losses) recognized in other comprehensive income until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is taken to the Consolidated Income Statement for the period. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, LyondellBasell N.V. establishes the fair value by using valuation techniques, that include the use of recent at arm’s-length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

## **2.16 Offsetting Financial Instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## **2.17 Derivative Financial Instruments and Hedging Activities**

LyondellBasell N.V. selectively enters into derivative transactions to manage volatility related to market risks associated with changes in commodity pricing, currency exchange rates and interest rates. For a discussion of LyondellBasell N.V.'s policies related to financial instruments and derivatives and hedging strategy, see Note 4 'Financial Risk Management'.

Derivative financial instruments are initially recognized at fair value. Subsequently, LyondellBasell N.V. measures all derivative financial instruments based on fair values derived from market prices of the instruments or valuation techniques such as cash flow analysis. Gains and losses arising from changes in the fair value of the instruments are recognized in the Consolidated Income Statement depending on its category as 'cost of sales', 'other gains/(losses)' or 'finance costs' during the period in which they arise. The Company did not designate any derivatives under hedge accounting during the period.

The full fair value of the derivatives is classified as a non-current asset or liability if the remaining maturity of the derivative is more than 12 months and as a current asset or liability if the remaining maturity is less than 12 months.

## **2.18 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## **2.19 Trade Receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. LyondellBasell N.V. establishes provisions for impairment based on management's estimates of amounts that it believes are unlikely to be collected. Collectability of receivables is reviewed and the allowance for doubtful accounts is adjusted at least quarterly, based on aging of specific accounts and other available information about the associated customers. Provisions for impairment are included in selling costs.

## **2.20 Cash and Cash Equivalents**

Cash equivalents consist of highly liquid debt instruments such as certificates of deposit, commercial paper and money market accounts. Cash equivalents include instruments with maturities of three months or less when acquired. Cash equivalents are stated at cost, which approximates fair value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## **LyondellBasell Industries N.V.**

### **2.21 Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When LyondellBasell N.V. purchases its own equity instruments (treasury shares), the consideration traded is deducted from other reserves at trade date until those shares are cancelled, reissued or disposed of. Upon subsequent sale or reissue of such shares, any consideration received is included in other reserves.

Equity is divided into two categories: equity attributable to owners of the parent and non-controlling interest. The first category refers to LyondellBasell N.V.'s owners, whereas non-controlling interest represent shares issued by a LyondellBasell N.V.'s subsidiary to persons outside LyondellBasell N.V.

Dividends to be distributed to the equity holders are recognized as a liability in the period in which the dividends are approved by the shareholders.

### **2.22 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently recognized at amortized cost. Any difference between proceeds (net of transaction costs) and the redemption value of borrowings that are recognized at amortized costs is recognized in the Consolidated Income Statement over the period of the borrowings using the effective interest method. Corresponding borrowing costs are recognized in the Consolidated Income Statement in the period in which they are incurred.

Borrowings are classified as current liabilities unless LyondellBasell N.V. has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all the facility will be drawn-down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

### **2.23 Deferred Income Taxes**

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities

## LyondellBasell Industries N.V.

relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

In some tax jurisdictions, the Company receives a tax deduction that relates to the remuneration paid in shares, share options or other equity instruments of the Company (share-based compensations). If deductible, the measurement of the deductible temporary difference is based on the Company's share price at the end of the reporting period. If the amount of the tax deduction exceeds the amount of the related cumulative remuneration expense, the excess of the associated current or deferred tax should be recognized in share premium.

### 2.24 Employee Benefits

*Pension plans*—LyondellBasell N.V. operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds determined by periodic actuarial calculations. LyondellBasell N.V. has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, LyondellBasell N.V. pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognized as employee benefit expense when they are due.

*Other post-employment obligations*—Some LyondellBasell N.V. subsidiaries provide post-retirement medical benefits to retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit plans.

*Termination benefits*—Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. LyondellBasell N.V. recognizes termination benefits when LyondellBasell N.V. is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

## **LyondellBasell Industries N.V.**

*Profit-sharing and bonus plans*—LyondellBasell N.V. recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that, among other elements, takes into consideration the profit attributable to the Company's shareholders after certain adjustments. LyondellBasell N.V. recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### **2.25 Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provisions due to passage of time is recognized as interest expense.

## **3 Critical Accounting Estimates and Judgments**

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period as well as the information disclosed.

### **3.1 Critical Accounting Estimates and Assumptions**

For LyondellBasell N.V.'s critical accounting estimates and assumptions, reference is made to the notes to these Consolidated Financial Statements, including the determination of deferred tax assets for loss carry forwards and the provision for tax contingencies (see Note 15 and 30), the determination of the fair values for business combinations (see Note 5), the determination of fair value and value in use of cash-generating units for goodwill impairment testing (see Note 17), the depreciation rates for property, plant and equipment (see Note 18), the assumptions used to determine the provision for retirement benefit obligations and periodic pension cost, such as expected salary increases, return on plan assets and benefit increases (see Note 31) and the more likely than not assessment required to determine whether or not to recognize a provision (Note 33).

Also reference is made to Note 4 'Financial Risk Management' which discusses LyondellBasell N.V.'s exposure to credit risk and financial market risks.

Actual results in the future may differ from those estimates. Estimates and judgments are being continually evaluated based on historic experience and other factors, including expectations of future events believed to be reasonable under the circumstances.

### **3.2 Critical Accounting Judgments in Applying LyondellBasell N.V.'s Accounting Policies**

*Capitalization of research and development costs*—LyondellBasell N.V. has incurred research and development costs associated with developing catalyst systems, polymers and chemicals. Research costs

are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Our intention to complete and our ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure, reliably, the expenditure during development

Significant judgments are required to determine the status of the projects and hence whether or not the relevant development should be capitalized. Management is required to determine whether or not the projects have progressed from a ‘research’ phase into a ‘development’ phase; and the timing of when the criteria outlined above can be clearly demonstrated.

## **4 Financial Risk Management**

### **Financial risk factors**

#### **4.1 Commodity Price Risk**

A substantial portion of our products and raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change. Accordingly, product margins and the level of our profitability tend to fluctuate with changes in the business cycle. We try to protect against such instability through various business strategies. These include provisions in sales contracts allowing us to pass on higher raw material costs through timely price increases, formula price contracts to transfer or share commodity price risk, and increasing the depth and breadth of our product portfolio.

In addition, we selectively use commodity swap, option, and futures contracts with various terms to manage the volatility related to purchases of natural gas and raw materials, as well as product sales. Such contracts are generally limited to durations of one year or less. Cash-flow hedge accounting may be elected for these derivative transactions; however, in some cases, when the duration of a derivative is short, hedge accounting is not elected. When hedge accounting is not elected, the changes in fair value of these instruments will be recorded in earnings. When hedge accounting is elected, gains and losses on these instruments will be deferred in other comprehensive income (“OCI”), to the extent that the hedge remains effective, until the underlying transaction is recognized in earnings. Market risks created by these derivative instruments and the mark-to-market valuations of open positions are monitored by management.

During 2010, we entered into futures contracts with respect to sales of gasoline and heating oil, and purchases of crude oil and sales of gasoline. At 31 December 2010, futures contracts for 28 million gallons of gasoline and heating oil in the notional amount of \$70 million, maturing on 11 February 2011, were outstanding.

We use value at risk (“VAR”), stress testing and scenario analysis for risk measurement and control purposes. VAR estimates the maximum potential loss in fair market values, given a certain move in prices over a certain period of time, using specified confidence levels. Using sensitivity analysis and hypothetical unfavorable changes in market prices ranging from 27% to 28% from those in effect at 31 December 2010, the effect would be to reduce net income by less than \$1 million. The quantitative information about market risk is necessarily limited because it does not take into account the effects of the underlying operating transactions.



## **4.2 Foreign Exchange Risk**

We manufacture and market our products in a number of countries throughout the world and, as a result, are exposed to changes in foreign currency exchange rates. Costs in some countries are incurred, in part, in currencies other than the applicable functional currency.

We enter into transactions denominated in other than the functional currency and are, therefore, exposed to foreign currency risk on receivables and payables. We maintain risk management control systems intended to monitor foreign currency risk attributable to both the outstanding foreign currency balances and future commitments. The risk management control systems involve the centralization of foreign currency exposure management, offsetting exposures and estimating the expected impacts of changes in foreign currency rates on our earnings. We enter into foreign currency forward contracts to reduce the effects of our net currency exchange exposures. For the period ended 31 December 2010, other income (loss), net, in the Consolidated Income Statement reflected a gain of \$29 million, in net exchange rate gains and losses. For forward contracts that economically hedge recognized monetary assets and liabilities in foreign currencies, no hedge accounting is applied. Changes in the fair value of foreign currency forward contracts are reported in the Consolidated Income Statement and offset the currency exchange results recognized on the assets and liabilities.

## **4.3 Interest Rate Risk**

We are exposed to interest rate risk with respect to variable rate debt. Our variable rate debt consists of our \$1,750 million U.S. asset-based facility, our senior term loan facility and our receivable securitization facility. At 31 December 2010, there were no outstanding borrowings under these facilities.

## **4.4 Cash Concentration**

Our cash equivalents are placed in high-quality commercial paper, money market funds and time deposits with major international banks and financial institutions.

We are exposed to market risks, such as changes in commodity pricing, currency exchange rates and interest rates. To manage the volatility related to these exposures, we selectively enter into derivative transactions pursuant to our policies. Designation of the derivatives as fair-value or cash-flow hedges is performed on a specific exposure basis. Hedge accounting may or may not be elected with respect to certain short-term exposures. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged.

## **4.5 Capital Risk Management**

Capital includes equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

*Liquidity and Capital Resources*—As of 31 December 2010, we had cash on hand of \$4,222 million. In addition, we had total unused availability under our credit facilities of \$1,883 million at 31 December 2010, which included the following:

## LyondellBasell Industries N.V.

- \$1,380 million under our \$1,750 million U.S. ABL facility, which matures in 2014. Availability under the U.S. ABL facility is subject to a borrowing base of \$1,750 million at 31 December 2010, and is reduced to the extent of outstanding borrowings and outstanding letters of credit provided under the facility. At 31 December 2010, we had \$370 million of outstanding letters of credit and no outstanding borrowings under the facility.
- €368 million and \$16 million (totaling approximately \$503 million) under our €450 million European receivables securitization facility. Availability under the European receivables securitization facility is subject to a borrowing base comprising €368 million and \$16 million in effect as of 31 December 2010. There were no outstanding borrowings under this facility at 31 December 2010.

We may use cash on hand, cash from operating activities and proceeds from asset divestitures to repay debt, which may include additional purchases of our outstanding bonds in the open market or otherwise. We also plan to finance our ongoing working capital, capital expenditures, debt service and other funding requirements through our future financial and operating performance, which could be affected by general economic, financial, competitive, legislative, regulatory, business and other factors, many of which are beyond our control. We believe that our cash, cash from operating activities and proceeds from our revolving credit facilities provide us with sufficient financial resources to meet our anticipated capital requirements and obligations as they come due.

At 31 December 2010, we had total short-term and long-term debt, including current maturities, of \$6,029 million.

We are seeking to amend and restate our Senior Secured Term Loan Agreement to, among other things, modify certain restrictive covenants

### 4.6 Fair Value Estimates

The following table summarizes financial assets and liabilities outstanding as of 31 December 2010 that are measured at fair value on a recurring basis and the bases used to determine their fair value in the Consolidated Statement of Financial Position.

<u>Millions of U.S. Dollars</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>31 December 2010:</b>				
Liabilities at fair value:				
Derivatives:				
Warrants	\$ 215	\$ 215	\$ --	\$ --
Written put option	21	--	--	21
Gasoline & heating oil	1	--	1	--
	<u>\$ 237</u>	<u>\$ 215</u>	<u>\$ 1</u>	<u>\$ 21</u>

For liabilities classified as Level 1, the fair value is measured using quoted prices in active markets. The total fair value is either the price of the most recent trade at the time of the market close or the official close price, as defined by the exchange in which the asset is most actively traded on the last trading day of the period, multiplied by the number of units held without consideration of transaction costs. For liabilities classified as Level 2, fair value is based on the price a market participant would pay for the security, adjusted for the terms specific to that liability. Broker quotes were obtained from well established and recognized vendors of market data for debt valuations. The inputs for liabilities classified as Level 3 reflect

## **LyondellBasell Industries N.V.**

our assessment of the assumptions that a market participant would use in determining the price of the asset or liability, including our liquidity risk at 31 December 2010.

Quoted market prices as of 31 December 2010 were used to estimate the fair value of our warrants. A Black-Scholes option-pricing model was used to estimate the fair value of the warrants at 30 April 2010.

### **5 Acquisition of LyondellBasell AF's Entities**

On 23 April 2010, the U.S. Bankruptcy Court confirmed LyondellBasell AF's Third Amended Plan of Reorganization (the "Plan" or "Plan of Reorganization") and the Debtors emerged from chapter 11 protection on 30 April 2010. In conjunction with this emergence from chapter 11, LyondellBasell N.V., acquired the ordinary shares of LyondellBasell Subholdings B.V. and LyondellBasell Finance Company LLC. As a result of the acquisition, LyondellBasell N.V. becomes a global manufacturer of chemicals and plastics, a refiner of crude oil, including heavy, high-sulfur crude oil, a significant producer of gasoline blending components and a licensor of technology processes.

If the acquisition had occurred on 1 January 2010, Group revenue would have been approximately \$41,151 million, and profit before allocations would have been \$1,738 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2010, together with the consequential tax effects.

The goodwill of \$467 million mainly arises from the requirements to record the tax effect of the differences for the tax and book basis of the Company's assets and liabilities assumed. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table summarizes the consideration paid and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value of the non-controlling interest at the acquisition date. As per 31 December 2010, there are no assets or liabilities provisionally fair valued.

**LyondellBasell Industries N.V.**

<b><u>Millions of U.S. Dollars</u></b>	<b>30 April 2010</b>
<b>Consideration</b>	
Cash	\$ 123
Issuance of Class A common stock	7,131
Issuance of warrants	101
<b>Total consideration transferred</b>	<b>7,355</b>
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Identifiable intangible assets	1,474
Property, plant & equipment	7,532
Equity investments	1,571
Available-for-sale financial assets	6
Inventories	4,849
Trade receivables and other assets	4,714
Current income tax (net)	119
Cash and cash equivalents	119
Borrowings	(7,153)
Retirement benefit obligations	(1,450)
Provisions	(427)
Deferred income taxes (net)	(650)
Trade payables and other payables	(3,762)
<b>Total identifiable net assets</b>	<b>6,942</b>
Non-controlling interest	(54)
Goodwill	467
<b>Net assets</b>	<b>\$ 7,355</b>

*Fair value of consideration*– The fair value of the Class A common shares issued as part of the consideration was determined using a combination of customary valuation techniques, including among other things:

- The peer group trading analysis methodology which calculates the total reorganization value of LyondellBasell N.V. by applying valuation metrics derived from an analysis of publicly traded peer companies to LyondellBasell N.V.'s estimated Earnings Before Interest, Tax, Depreciation and Amortization(EBITDA):
  - o Valuation metrics consist of implied market trading multiples and are calculated by dividing the publicly traded peer company's market capitalization by its respective EBITDA;
  - o The peer group trading analysis was performed on both a consolidated and reported segment basis; and
  - o Public peer companies were selected based on their comparability to LyondellBasell N.V.'s reportable operating segments, with those comparable companies primarily operating in the diversified commodity chemicals, refining and technology businesses.
- Discounted cash flow valuation methodology which calculates the reorganization value of LyondellBasell N.V. as the sum of the present value of its projected unlevered after-tax free cash flows. The resulting reorganization valuation is representative of LyondellBasell N.V. on a cash-free, debt-free basis:

## LyondellBasell Industries N.V.

- Financial projections beginning 1 May 2010 were estimated based on a 4-year and 8-month detailed forecast followed with a higher level 10-year forecast. These projections reflected certain economic and industry information relevant to the operating businesses of LyondellBasell N.V. and estimated cyclical trends where appropriate. Various time periods within the approximately 15-year forecast period were evaluated including the entire period itself. To the extent that such cycles are, or commodity price volatility within any cycle is, greater or smaller than estimated, the estimate of the reorganization value could vary significantly;
- The projected cash flows associated with the projections were discounted at a range of rates that reflected the estimated range of weighted average cost of capital (“WACC”);
- The imputed discounted cash flow value is comprised of the sum of (i) the present value of the projected unlevered free cash flows over the projection period; and (ii) the present value of a terminal value, which represents the estimate of value attributable to performance beyond the projection period. Cash flows and associated imputed values were calculated on both a consolidated and reportable segment basis;
- WACCs utilized in the consolidated discounted cash flow analysis ranged from 11% to 12%. The range of WACCs utilized were developed from an analysis of the yields associated with LyondellBasell N.V.’s own debt financings and the equity costs of peer companies as well as the anticipated mix of LyondellBasell N.V.’s debt and equity;
- A range of terminal value EBITDA multiples were selected which, where appropriate, represented estimated industry cycle average market capitalization/EBITDA multiples; and
- Additional discounted cash flow analysis was performed for LyondellBasell N.V.’s unconsolidated joint ventures.

LyondellBasell N.V. has issued and outstanding warrants to purchase 11,508,204 shares at an exercise price of \$15.90 per share. The warrants have anti-dilution protection for in kind stock dividends, stock splits, stock combinations and similar transactions and may be exercised at any time during the period beginning on 30 April 2010 and ending at the close of business on the seventh anniversary of the issue date. Upon an affiliate change of control, the holders of the warrants may put the warrants to LyondellBasell N.V. at a price equal to, as applicable, the in-the-money value of the warrants or the Black-Scholes value of the warrants. The fair value of each warrant granted was estimated on the date of grant using a Black-Scholes option-pricing model and assumptions, based on management’s best estimate.

*Identifiable intangible assets*—The fair value of the acquired identifiable intangible assets is \$1,474 million. The following is a summary of the approaches used to determine the fair value of significant intangible assets:

- LyondellBasell N.V. recorded the fair value of developed proprietary technology licensing and catalyst contracts of \$210 million using an excess earnings methodology. Significant assumptions used in the calculation included:
  - Forecasted contractual income (fees generated) for each license technology category less directly attributable marketing as well as research and development costs;
  - Discount rates of 17% based on LyondellBasell N.V.’s WACC adjusted for perceived business risks related to the developed technologies; and
  - Economic lives estimated from 4 to 9 years.
- LyondellBasell N.V. recorded the fair value of favorable utility contracts of \$355 million using discounted cash flows. Significant assumptions used in this calculation included:
  - The forward price of natural gas;
  - The projected market settlement price of electricity;
  - Discount rates of 17% based on LyondellBasell N.V.’s WACC adjusted for perceived business risks; and
  - Economic lives estimated from 11 to 16 years.

## LyondellBasell Industries N.V.

- LyondellBasell N.V. recorded the fair value of \$132 million for in-process-research and development at the cost incurred to date adjusted for the probability for future marketability.
- LyondellBasell N.V. recorded the fair value of emission allowances of \$731 million. Observed market activity for emission allowance trades is primarily generated only by legislation changes. As participants react to legislation, market trades occur as companies pursue their individual lowest cost compliance strategies. Trading, in the absence of an additional significant market participant, generally ceases once compliance is attained. As such, the Company could not identify any objective inputs based on market activity and an avoided cost of replacement methodology was used to determine estimated fair value. The significant assumptions used in valuing emission allowances include:
  - Business demand for utilization of the allowances held;
  - Engineering and construction costs required to reduce each marginal emission denomination; and
  - Development of new technologies to aid in the cost and effectiveness of compliance.
- In addition LyondellBasell N.V. recorded other intangible assets including capitalized software and software licenses at its fair value of \$46 million.

*Property, plant & equipment*—LyondellBasell N.V. recorded property, plant and equipment, which includes land, buildings and equipment, furniture and fixtures and construction in progress, at its fair value of \$7,532 million. Fair value was based on the highest and best use of the assets. LyondellBasell N.V. considered and applied two approaches to determine fair value:

- The market, sales comparison or trended cost approach was utilized for land, buildings and land improvements. This approach relies upon recent sales, offerings of similar assets or a specific inflationary adjustment to original purchase price to arrive at a probable selling price. Certain adjustments were made to reconcile differences in attributes between the comparable sales and the appraised assets.
- The cost approach was utilized for certain assets primarily consisting of LyondellBasell N.V.'s machinery and equipment. This approach considers the amount required to construct or purchase a new asset of equal utility at current prices, with adjustments in value for physical deterioration, functional obsolescence, and economic obsolescence. The machinery and equipment amounts determined under the cost approach were adjusted for functional obsolescence, which represents a loss in value due to unfavorable external conditions such as the facilities' locality, comparative inherent technology and comparative energy efficiency. Physical deterioration is an adjustment made in the cost approach to reflect the real operating age of any individual asset. LyondellBasell N.V.'s estimated economic obsolescence is the difference between the discounted cash flows (income approach) expected to be realized from utilization of the assets as a group, compared to the initial estimate of value from the cost approach method. In the analysis, the lower of the income approach and cost approach was used to determine the fair value of machinery and equipment.

*Equity investments*—The equity in net assets of non-consolidated affiliates was recorded at fair value of \$1,571 million determined using discounted cash flow analyses, and included the following assumptions and estimates:

- Forecasted cash flows, which incorporate projections of sales volumes, revenues, variable costs, fixed costs, other income and costs, and capital expenditures, after considering potential changes in unconsolidated affiliates portfolio and local market conditions;
- A terminal value calculated for investments and long-term receivables with forecasted cash flows, not limited by contractual terms or the estimated life of the main investment asset by assuming a maintainable level of after-tax debt-free cash flow multiplied by a capitalization factor reflecting the investor's weighted average cost of capital ("WACC") adjusted for the estimated long-term perpetual growth rate; and

## LyondellBasell Industries N.V.

- A discount rate ranging from 11% to 15% that considered various factors including market and country risk premiums and tax rates to determine the investor’s WACC given the assumed capital structure of comparable companies.

*Inventory*—LyondellBasell N.V. recorded inventory at its fair value of \$4,849 million, which was determined as follows:

- Finished goods were valued based on the estimated selling price of finished goods on hand less costs to sell, including disposal and holding period costs, and a reasonable profit margin on the selling and disposal effort for each specific category of finished goods being evaluated;
- Work in process was valued based on the estimated selling price once completed less total costs to complete the manufacturing process, costs to sell including disposal and holding period costs, a reasonable profit margin on the remaining manufacturing, selling, and disposal effort; and
- Raw materials were valued based on current replacement cost.

*Trade receivables and other assets*—The fair value of the receivables and other assets is \$4,636 million and includes trade receivables with a fair value of \$ 3,770 million. The gross contractual amounts of these receivables are \$3,863 million and the best estimate of the contractual cash flows not expected to be collected is \$93 million.

*Acquisition costs*—LyondellBasell N.V. did not incur acquisition costs due to bankruptcy laws whereby all acquisition costs are paid by the creditors of the former company.

## 6 Revenue

<u>Millions of U.S. Dollars</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Sale of goods	\$ 27,429
Rendering of services	147
License income	108
Total revenue	<u>\$ 27,684</u>

Reference is made to the Note 37 ‘Segment Reporting’ for more information about revenues.

## 7 Expenses by Nature

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Changes in inventories of finished goods and work in progress		\$ 803
Raw materials and utilities		20,878
Employee benefit expense	8	1,272
Depreciation, amortization and impairment charges	17/18	582
Distribution expenses		786
Other expenses		1,270
Total cost of sales, selling costs, and administration expenses		<u>\$ 25,591</u>

## 8 Employee Benefit Expenses

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Wages & Salaries		\$ 991
Social securities		119
Share based compensation granted to directors and employees	9	22
Pension costs – defined benefit obligations	31	75
Pension costs – defined contribution obligations		8
Other post-employment benefits - defined contribution obligations	31	15
Other employee benefits		42
Total cost of employee benefits		<u>\$ 1,272</u>

## 9 Share-Based Compensation Granted to Directors and Employees

*Medium-Term Incentive Plan*—The Medium-Term Incentive Plan (“MTI”) is designed to link the interests of senior management with the interests of shareholders by tying incentives to measurable corporate performance. The MTI provides for payouts based on our return on assets and cost improvements over the calendar years 2010 through 2012. Benefits under the MTI will vest on the date, following 31 December 2012, on which the Compensation Committee of the Supervisory Board certifies the performance results and will be paid on 31 March following the end of the performance cycle. The MTI provides for an accelerated pro-rata payout in the event of a change in control of the company. We recorded \$4 million of compensation expense for the period ended 31 December 2010 based on the expected achievement of performance results.

*Long-Term Incentive Plan*—Upon the acquisition of the LyondellBasell AF subsidiaries, LyondellBasell N.V. created the 2010 Long-Term Incentive Plan (“LTI”). Under the LTI, the Compensation Committee is authorized to grant restricted stock, restricted stock units, stock options, stock appreciation rights and other types of equity-based awards. The Compensation Committee determines the recipients of the equity awards, the type of award made, the required performance measures, and the timing and duration of each grant. The maximum number of shares of LyondellBasell N.V. stock reserved for issuance under the LTI is 22,000,000. In connection with the acquisition of LyondellBasell Holding B.V. and LyondellBasell Finance



## LyondellBasell Industries N.V.

Company, awards were granted to our senior management and we have since granted awards for new hires and promotions. As of 31 December 2010, there were 9,860,818 shares remaining available for issuance.

The LTI awards resulted in compensation expense of \$22 million for the period ended 31 December 2010 and the related tax benefit was \$8 million.

*Restricted Stock Units*—Restricted stock units entitle the recipient to be paid out an equal number of class A ordinary shares on the fifth anniversary of the grant date, subject to forfeiture in the event of certain termination events. Restricted stock units are accounted for as an equity award with compensation cost recognized ratably over the vesting period. The holders of the restricted stock units are entitled to dividend equivalents to be settled no later than 15 March following the year in which dividends are paid as long as the participant is fully employed at the time of payment.

The following table summarizes restricted stock unit activity for the period ended 31 December 2010 in thousands of units:

	<u>Number of Units</u>	<u>Weighted Average price</u>
Outstanding at 15 October 2009	--	\$ --
Granted	2,037	17.65
Paid	(4)	17.61
Forfeited	(159)	17.61
Outstanding at 31 December 2010	<u>1,874</u>	<u>\$ 17.65</u>

For the period ended 31 December 2010, the compensation expense related to the outstanding restricted stock units was \$5 million, and the related tax benefit was \$1 million. As of 31 December 2010, the unrecognized compensation cost related to restricted stock units was \$29 million, which is expected to be recognized over a weighted-average period of 4 years.

*Stock Options*—Stock options are granted with an exercise price equal to the market price of class A ordinary shares at the date of grant. The stock options are accounted for as an equity award with compensation cost recognized using the graded vesting method. We issued certain stock options to purchase 1% of the number of common stock shares outstanding at the acquisition of LyondellBasell Holding B.V. and LyondellBasell Finance Company. These options vest, retrospectively, in five equal, annual installments beginning on 14 May 2009 and may be exercised for a period of seven years following the grant date at a price of \$17.61 per share, the fair value of the Company's common stock based on its reorganized value at the date of emergence. All other stock options vest in equal increments on the second, third and fourth anniversary of the grant date and have a contractual term of ten years, with accelerated vesting upon death, disability, or change in control and exercise prices ranging from \$16.45 to \$26.75.

The fair value of each stock option award is estimated, based on several assumptions, on the date of grant using the Black-Scholes option valuation model. We estimated volatility based on the historic average of the common stock of our peer companies and the historic stock price volatility over the expected term. The fair value and the assumptions used for the 2010 grants are shown in the table below.

Weighted-average fair value per share of options granted	\$ 7.82
Fair value assumptions:	
Dividend yield	0.00%
Expected volatility	47.0%
Risk-free interest rate	1.63-2.94%
Weighted-average expected term, in years	5.2

**LyondellBasell Industries N.V.**

The following table summarizes stock option activity for the period ended 31 December 2010 in thousands of shares for the non-qualified stock options:

	<u>Shares</u>	<u>Weighted-Average Price</u>	<u>Weighted Average Remaining Term</u>	<u>Aggregate Intrinsic Value (Million)</u>
Outstanding at 15 October 2009	--	--	--	--
Granted on acquisition date	5,639	\$ 17.61	7.0 years	--
Granted during the year	3,088	17.66	9.4 years	--
Exercised	--	--	--	--
Forfeited	(237)	17.61	--	--
Outstanding at 31 December 2010	<u>8,490</u>	<u>17.63</u>	<u>7.5 years</u>	<u>\$ 121</u>
Exercisable at 31 December 2010	1,135	\$ 17.61	6.3 years	\$ 19

Total stock option expense was \$12 million for the period ended 31 December 2010, and the related tax benefit was \$5 million. As of 31 December 2010, the unrecognized compensation cost related to non-qualified stock options was \$35 million, which is expected to be recognized over a weighted-average period of 3 years.

*Restricted Stock Shares*—On 1 May 2010, LyondellBasell N.V. issued restricted ordinary shares. The shares may not be sold or transferred until the restrictions lapse on 14 May 2014. The holder of the shares is entitled to receive dividends and have full voting rights during the restriction period.

The following table summarizes restricted stock shares activity for the period ended 31 December 2010 in thousands of shares:

	<u>Number of Units</u>	<u>Weighted Average price</u>
Outstanding at 15 October 2009	--	--
Granted on acquisition date	1,772	17.61
Paid	--	--
Forfeited	--	--
Outstanding at 31 December 2010	<u>1,772</u>	<u>\$ 17.61</u>

The total restricted stock shares expense was \$5 million for the period ended 31 December 2010, and the related tax benefit was \$2 million. As of 31 December 2010, the unrecognized compensation cost related to restricted stock shares was \$21 million, which is expected to be recognized over a weighted-average period of 3 years.

*Stock Appreciation Rights*—Certain employees in Europe were granted stock appreciation rights (“SARs”) under the LTI. SARs gives those employees the right to receive an amount of cash equal to the appreciation in the market value of the Company’s class A ordinary shares from the award’s grant date to the exercise date. Because the SARs are settled in cash, they are accounted for as a liability award. The SARs vest over three years beginning with the second anniversary of the grant date. We recognized less than \$1 million of compensation expense related to SARs for the period ended 31 December 2010.

## 10 Key Management Remuneration

*Management Board Pay 2010*—Our executive compensation program consists of four principal components:

- base salary;
- annual cash incentive compensation;
- medium-term incentive compensation; and
- long-term equity-based incentive compensation.

The pay of our current management board member is as follows:

<u>U.S. Dollars</u>	<u>Year</u> (1)	<u>Base salary</u>	<u>Stock awards</u> (2)	<u>Option awards</u> (3)	<u>Non-equity incentive plan compensation</u>	<u>Change in pension value</u>	<u>All other compensation</u>	<u>Total</u>
James L. Gallogly <i>Chief Executive Officer</i>	2010	\$1,500,000	\$31,201,292	\$41,334,017	\$3,000,000	\$11,955	\$14,700	\$77,061,964

- (1) Information is based on full year compensation. The recognized expenses in the consolidated financial statements are in total \$ 15.7 million.
- (2) Mr. Gallogly's stock awards include 1,771,794 restricted shares, granted pursuant to the 2010 LTI. The shares vest in full on 14 May 2014, subject to earlier forfeiture. Reference is made to Note 9.
- (3) Amounts shown are the aggregate grant date fair values, calculated in accordance with IFRS 2. The fair values of stock options were estimated at their grant dates using the Black-Scholes option-pricing model. We use the Black-Scholes formula to calculate an assumed value of the options for compensation expense purposes; because the formula uses assumptions, the fair values calculated are not necessarily indicative of the actual values of the stock options. The assumptions used for Mr. Gallogly's stock options were a dividend yield of 0%; a risk-free interest rate of 2.44%; an expected life of 4.5 years; and a stock price volatility of 47%. Reference is made to Note 9.

*Supervisory Board Pay 2010*—The members of our Supervisory Board receive equity and cash compensation for their service on the Board and its committees. Compensation for members of the Supervisory Board is reviewed annually by the Nominating & Governance Committee, and is approved by shareholders.

Members of the Supervisory Board received grants of restricted stock units and cash retainers and fees. At the Extraordinary General Meeting of shareholders in August 2010, our shareholders approved an aggregate of \$2.5 million for Supervisory Board compensation, consisting of \$1.5 million in cash and restricted stock units valued at \$1 million. In accordance with our Articles of Association, these amounts were allocated based on determinations made by the Supervisory Board.

The table below sets forth the allocation of the aggregate amount approved by shareholders. The amounts included in the table are the annual compensation amounts under the Supervisory Board compensation program.

### Annual retainer

Cash	\$ 60,000 (\$80,000 for Chairman of the Board)
Restricted stock units	Valued at \$120,000 (\$150,000 for Chairman of the Board)

### Board meeting fees

Intercontinental travel	\$ 12,500 for each meeting attended
Continental travel	\$ 2,000 for each meeting attended

## LyondellBasell Industries N.V.

### Committee fees

Members	\$ 10,000 (\$11,000 for Audit Committee)
Chairman	\$ 15,000 (\$20,000 for Audit Chair)

Actual amounts earned by or paid to Supervisory Directors in 2010 are in the following table below:

<u>U.S. Dollars</u>	Fees earned (1)	Stock awards (2)	Total
Marvin O. Schlanger, Chairman of the Board	\$ 74,486	\$ 124,114	\$ 198,600
Milton Carroll	76,952	99,295	176,247
Stephen F. Cooper	62,158	99,295	161,453
Joshua J. Harris (3)	49,648	99,295	148,953
Scott Kleinman (3)	62,397	99,295	161,692
Jeffrey S. Serota (3)	62,158	99,295	161,453
Bruce A. Smith	76,541	99,295	175,836
Rudy M. J. van der Meer	40,932	99,295	140,227

- (1) Includes retainers, meeting and committee fees earned or paid through 31 December 2010. Messrs. Cooper and Kleinman each elected to have his Dutch sourced compensation taxed under the so-called "Dutch 30% tax ruling." Under the ruling, the reimbursement by the Company of expenses may be considered income in The Netherlands, and each of Messrs. Cooper and Kleinman were taxed on certain reimbursements of expenses. The amounts in the table include \$17,951 and \$499 for Messrs. Cooper and Kleinman, respectively, for gross-ups paid by the Company as a result of their reimbursements of expenses being taxed. The gross-ups were paid in Euros, and the dollar amounts are based on a conversion rate of 1.339 on December 31, 2010.
- (2) Includes 5,541 restricted stock units for all directors, other than Mr. Schlanger, who received 6,926 restricted stock units. Reference is made to Note 9.
- (3) Each of Messrs. Harris and Kleinman received these securities as a nominee for the sole benefit of an affiliate of Apollo. Mr. Serota received the securities as a nominee for the sole benefit of an affiliate of Ares. Such affiliates have all economic, pecuniary and voting rights, if any, in respect of such securities. Accordingly, Messrs. Harris, Kleinman and Serota each disclaim beneficial ownership of these securities.

## 11 Other Losses/(Gains) – net

<u>Millions of U.S. Dollars</u>	Period 15 October 2009 to 31 December 2010
(Gain)/ Loss - Foreign Exchange	\$ (29)
Fair Value movement Warrants	114
Total	<u>\$ 85</u>

## 12 Other Operating Expenses

<u>Millions of U.S. Dollars</u>	Period 15 October 2009 to 31 December 2010
Reorganization expenses	\$ 23
Other	8
Total other operating expenses	<u>\$ 31</u>

### 13 Other Income

In December 2010 LyondellBasell N.V. completed the sale of LyondellBasell Flavors & Fragrances, LLC, receiving proceeds of \$154 million and recognized a gain of \$64 million in Other Income.

### 14 Finance Costs

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Interest expense on borrowings		\$ 525
Provisions (unwinding of discount)	33	4
Foreign exchange (gains) and losses from borrowings and cash		9
Net finance costs		<u>\$ 538</u>

### 15 Income Tax Expense

<u>Millions of U.S. Dollars</u>		<u>Period 15 October 2009 to 31 December 2010</u>
Current tax on profits for the year		\$ 151
Deferred tax – origination and reversal of temporary differences	30	365
Income tax expense		<u>\$ 516</u>

The tax on LyondellBasell N.V.'s profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

<u>Millions of U.S. Dollars</u>		<u>Period 15 October 2009 to 31 December 2010</u>
Profit before tax		<u>\$ 1,608</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries		504
Tax effects of:		
- Net equity results reported net of tax	30	(26)
- Expenses not deductible for tax purposes		37
- Notional royalties		(15)
- Tax losses for which no deferred income tax asset was recognized		9
- Other		7
Tax charge		<u>\$ 516</u>

The weighted average applicable tax rate was 32%.

## LyondellBasell Industries N.V.

Deferred tax related to items charged or (credited) directly to other comprehensive income during the period is as follows:

<u>Millions of U.S. Dollars</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Retirement benefit obligation	\$ 30
Currency translation differences	(4)
	<u>\$ 26</u>

Deferred tax related to items charged or (credited) directly to equity during the period is as follows:

<u>Millions of U.S. Dollars</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Current tax	\$ --
Deferred tax	
- Equity issuance costs	30 (21)
- Share base payments	30 (5)
	<u>\$ (26)</u>

## 16 Earnings Per Share

*Basic earnings per share*—Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Company and held as treasury shares.

<u>Millions of U.S. Dollars, except per share data</u>	<u>2010</u>
Profit attributable to equity holders of the Company	\$ 1,099
Basic weighted average common stock outstanding	564
Basic earnings per share:	<u>\$ 1.94</u>

*Diluted earnings per share*—Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has unvested restricted stock units that are considered participating securities for earnings per share. Certain outstanding stock options, participating securities and all of the outstanding warrants were anti-dilutive.

**LyondellBasell Industries N.V.**

<u>Millions of U.S. Dollars</u>	<u>2010</u>
Profit attributable to equity holders of the Company	\$ 1,099
Basic weighted average common stock outstanding (in millions)	564
Effect of dilutive securities:	
Stock options	1
Dilutive potential shares	565
Diluted earnings per share:	\$ 1.94
Anti-dilutive stock options and warrants in millions	\$ 17.90
Dividends declared per share of common stock	\$ --

**17 Intangible assets**

**Statement of changes in intangible assets**

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>Research and Development</u>	<u>Goodwill</u>	<u>Emission Allowances</u>	<u>Favorable contracts and other intangibles</u>	<u>Total</u>
Opening balance sheet		\$ --	\$ --	\$ --	\$ --	\$ --
Acquisitions	5	132	467	733	609	1,941
Additions		9	--	--	11	20
Amortization		--	--	(46)	(76)	(122)
Impairment		(3)	--	--	--	(3)
Exchange differences		--	2	--	--	2
		<u>\$ 138</u>	<u>\$ 469</u>	<u>\$ 687</u>	<u>\$ 544</u>	<u>\$ 1,838</u>
Cost		\$ 141	\$ 469	\$ 733	\$ 620	\$ 1,953
Accumulated amortization / impairment		(3)	--	(46)	(76)	(125)
Closing balance		<u>\$ 138</u>	<u>\$ 469</u>	<u>\$ 687</u>	<u>\$ 544</u>	<u>\$ 1,838</u>

*Research and development*—The carrying amount of the research & development with an indefinite useful life is \$138 million. Projects classified as in a development stage are not amortized. LyondellBasell N.V.'s expenditures on research and development recognized as an expense during the period are \$71 million. Amortization expense would normally be recorded as part of Cost of Sales.

*Goodwill*—Goodwill is allocated to the group's cash-generating units (CGUs) identified according to operating segment. We recorded goodwill of \$467 million upon acquisition of the LyondellBasell AF subsidiaries. Goodwill at 31 December 2010 reflects the \$2 million effect of changes in currency exchange rates for the period.

## LyondellBasell Industries N.V.

The allocation of the goodwill is presented in the table below:

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Intermediates and Derivates	\$ 172
Olefins and Polyolefins – Americas	288
Technology	9
Total	<u>\$ 469</u>

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates and are estimated by extrapolating the projections using a long-term growth rate of sales. Based on this analysis, LyondellBasell N.V. did not recognize any impairments.

The calculation of value is most sensitive to the following assumptions:

- Gross margin
- Pre-tax discount rates
- Market share assumptions; and
- Growth rate used to extrapolate cash flows beyond the budget period

*Gross margins*—Gross margins are predicted in the planning period by using key hydrocarbon pricing estimates and product variable margins based on macro economic predictions and individual supply and demand balances.

*Pre-tax discount rates*—Pre-tax discount rates ('discount rates') represent the current market assessment of the risks specific to each cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the nature of the assets and activities of the Company's business and its operating segments and derived from its WACC. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's nature of the assets and activities.

*Market share assumptions*—These assumptions are based on forecasts of demand for our products taking into consideration increases or decreases in global capacity.

*Growth rate estimates*—Rates are based upon managements' best estimates which are determined using published third party sources, internal knowledge and market insights based on macro economic predictions

With regard to the assessment of value in use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value to materially exceed its recoverable amount.



## 18 Property, Plant and Equipment

### Statement of Changes in Property, Plant and Equipment

Millions of U.S. Dollars	Note	Land	Building and Equipment	Assets under Construction	PO Assets	Other	Total
Opening balance sheet		\$ ---	\$ --	\$ --	\$ --	\$ --	\$ --
Acquisitions	5	290	6,175	612	452	3	7,532
Additions		--	--	539	1	--	540
Transfers		--	562	(562)	--	--	--
Disposals		--	(34)	(1)	--	--	(35)
Depreciation		--	(417)	--	(16)	--	(433)
Impairment		--	(5)	(19)	--	--	(24)
Exchange differences		1	52	--	--	--	53
Other Changes		--	(5)	--	--	--	(5)
		<u>\$ 291</u>	<u>\$6,328</u>	<u>\$ 569</u>	<u>\$ 437</u>	<u>\$ 3</u>	<u>\$ 7,628</u>

Millions of U.S. Dollars	Note	Land	Building and Equipment	Assets under Construction	PO Assets	Other	Total
Cost		\$ 291	\$6,750	\$ 569	\$ 453	\$ 3	\$ 8,085
Accumulated depreciation / impairment		--	(422)	--	(16)	--	(438)
Closing balance		<u>\$ 291</u>	<u>\$6,328</u>	<u>\$ 569</u>	<u>\$ 437</u>	<u>\$ 3</u>	<u>\$ 7,628</u>

Depreciation is recorded as part of Cost of Sales, selling cost and administrative expenses.

*PO Assets*—We, together with Bayer AG and Bayer Corporation (collectively “Bayer”), share ownership in a U.S. propylene oxide (“PO”) manufacturing site (the “U.S. PO Joint Venture”) and a separate joint venture for certain related PO technology. Bayer’s ownership interest represents ownership of annual in-kind PO production of the U.S. PO Joint Venture of 1.5 billion pounds in 2010 and 2009. We take in kind the remaining PO production and all co-product styrene monomer (“SM” or “styrene”) and tertiary butyl ether (“TBA”) production from the U.S. PO Joint Venture.

In addition, we and Bayer each have a 50% interest in a separate manufacturing site (the “European PO Joint Venture”), which includes a world-scale PO/SM plant at Maasvlakte near Rotterdam, The Netherlands. We and Bayer each are entitled to 50% of the PO and SM production at the European PO Joint Venture.

We and Bayer do not share marketing or product sales under the U.S. PO Joint Venture. We operate the U.S. PO Joint Venture’s and the European PO Joint Venture’s (collectively the “PO joint ventures”) plants and arrange and coordinate the logistics of product delivery. The partners share in the cost of production and logistics based on their product offtake.

**LyondellBasell Industries N.V.**

We report the cost of our product offtake as inventory and cost of sales in our consolidated financial statements. Related cash flows are reported in the operating cash flow section of the Consolidated Statements of Cash Flows.

*Depreciation and impairment charge*—Depreciation and impairments expenses of \$450 million have been charged in Cost of Sales' and \$1 million has been charged in Selling costs and \$10 million has been charged in Administrative expenses.

**19 Investments in Associates and Joint Ventures**

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Opening balance	\$ --
Acquisitions	1,571
Share in profit/loss on associates and joint ventures, net of tax	87
Dividends received	(34)
Dividends declared	(87)
Currency exchange differences	(7)
Other	22
Closing balance	<u>\$ 1,552</u>

None of the associates or joint ventures is listed on a stock exchange. Associates and joint ventures are an important part of the Group.

**20 Financial Assets and Liabilities by Category**

<u>Millions of U.S. Dollars</u>	<u>Loans and receivables</u>	<u>Available for sale investments</u>	<u>Total</u>
<b>Financial assets at 31 December 2010</b>			
Trade and other receivables, excluding prepayments	\$ 4,367	\$ --	\$ 4,367
Available for sale investments	--	7	7
Cash and cash equivalents	4,222	--	4,222
Total	<u>\$ 8,589</u>	<u>\$ 7</u>	<u>\$ 8,596</u>

<u>Millions of U.S. Dollars</u>	<u>Liabilities at fair value through profit and loss</u>	<u>Other financial liabilities at amortized costs</u>	<u>Total</u>
<b>Financial liabilities at 31 December 2010</b>			
Borrowings	\$ 12	\$ 6,017	\$ 6,029
Derivative financial instruments	237	--	237
Trade and other payables	--	4,095	4,095
Total	<u>\$ 249</u>	<u>\$ 10,112</u>	<u>\$ 10,361</u>

## 21 Credit Quality of Financial Assets

Investments in cash and cash equivalents and transactions involving derivative financial instruments are entered into with counterparties that have sound credit ratings and a good reputation.

We have a global credit risk management policy in place to minimize credit losses due to non-performance of our customer base. We monitor our exposure to credit risk on an on-going basis through a team of credit professionals stationed in our key global markets. We have managed our customer credit risk very closely over the past two years as the world economy slowly recovered from the financial crisis by monitoring our aging analysis along with payment and financial performance. Where appropriate additional security instruments, letters of credit or corporate guarantees, are secured. Due to our global breadth and scale we do not have a significant concentration of customer risk. Our largest counterparty risk amounted to \$80 million at period-end 2010.

## 22 Available-for-Sale Investments

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Opening balance	\$ --
Acquisitions	6
Net gains/(losses) transfer from other comprehensive income	--
Net gains/(losses) transfer to other comprehensive income	1
Total as at 31 December	<u>\$ 7</u>

The available for sale investments include listed equity securities of Shell in Europe. The maximum exposure to credit risk at the reporting date is the carrying value of the equity securities classified as available for sale. None of these investments are impaired.

For further details on available-for-sale investments reference is made to Note 4 'Financing Risk Management'.

## 23 Derivative Financial Instruments

<u>Millions of Dollars</u>	<u>31 December 2010</u>
<b>Liability Derivatives</b>	
Not designated as hedges:	
Warrants	\$ 215
Written put option	21
Others	1
Total	<u>\$ 237</u>

*Written put option*—The subsidiary that holds the Company's equity interest in an associate has a minority shareholder, which holds 16.21% of its equity. The equity interest held by the minority shareholder can be called by the Company or can be put to the Company by the minority interest shareholder at any time after 23 May 2009. The price of the call option is the nominal value of the shares (initial \$18 million investment) plus accrued interest based on LIBOR plus 40 basis points, less paid dividends. The liability recognized in respect of the written put, is measured at management's best estimate of the redemption amount discounted back from the expected redemption date

## LyondellBasell Industries N.V.

For further details on derivatives reference is made to Note 4 'Financing Risk Management'.

### 24 Inventories

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Finished goods	\$ 2,665
Parts and Materials	437
Raw materials and supplies	1,512
Total inventories	<u>\$ 4,614</u>

The cost of inventories recognized as expense and included in 'cost of sales' amounted to \$ 25,020 million.

### 25 Trade and Other Receivables

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Trade receivables	\$ 3,498
Trade receivables on related parties	352
Less – provision for impairment of trade receivables	(12)
Trade receivables net	<u>3,838</u>
Social security and other taxes	299
Prepaid expenses	288
Other	230
Total	<u>4,655</u>
Less non-current portion	(105)
Current portion	<u>\$ 4,550</u>

The carrying value of the trade and other receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The prepaid expenses relate to insurance and rent.

The provision for doubtful trade receivables is determined based on ageing and reviewed periodically. The creation and release of provisions for impaired receivables have been included in Selling costs in the Consolidated Income Statement.

The ageing of the gross trade receivables not impaired at the reporting date was as follows:

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Amounts undue	\$ 3,578
Past due 0-90 days	214
Past due 91-180 days	46
	<u>\$ 3,838</u>

The ageing of the gross trade receivables (partly) impaired at the reporting date was as follows:

**LyondellBasell Industries N.V.**

<u>Millions of U.S. Dollars</u>	<b>31 December 2010</b>	
	<u>Gross</u>	<u>Provision</u>
Amounts undue	\$ --	\$ --
Past due 0-90 days	--	--
Past due 91-180 days	12	12
	<u>\$ 12</u>	<u>\$ 12</u>

As of 31 December 2010, trade receivables of an initial value of \$12 million were impaired and fully provided for. The movement in the provision for doubtful accounts is as follows:

<u>Millions of U.S. Dollars</u>	<b>Period 15 October 2009 to 31 December 2010</b>
Opening balance 15 October 2009	\$ --
Additions	12
Closing balance	<u>\$ 12</u>

As of 31 December 2010, \$249 million of the trade receivables had letters of credit securing their payment. The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

<u>Millions of U.S. Dollars</u>	<b>31 December 2010</b>
USD	\$ 2,502
EUR	1,823
Other	330
	<u>4,655</u>

For further details on trade receivables reference is made to Note 4 'Financial Risk Management'.

## **26 Cash and Cash Equivalents**

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following at 31 December 2010:

<u>Millions of U.S. Dollars</u>	<b>31 December 2010</b>
Cash at bank and on hand	\$ 2,022
Short term deposits	2,200
	<u>\$ 4,222</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

## 27 Equity Attributable to the Owners of the Company

For a breakdown of Equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Equity. For a detail of the non distributable reserves, reference is made to the Corporate Financial Statements.

*Common Stock*—On 30 April 2010, approximately 563.9 million shares of LyondellBasell N.V. common stock, including 300 million shares of class A new ordinary shares were issued in connection with the acquisition of LyondellBasell AF’s entities (note 5). In addition, approximately 263.9 million shares of LyondellBasell N.V. class B ordinary shares were issued in connection with a rights offering for gross proceeds of \$2,800 million (net - \$2,735 million).

*Dividend distribution*—Our credit arrangements include restrictive covenants that limit our ability to pay dividends up to \$50 million per year through 31 December 2011 and to the greater of (i) \$50 million per year and (ii) the aggregate dividends paid since 30 April 2010 not to exceed fifty percent of net income since 1 January 2012 and thereafter.

*Conversion of Class B Ordinary Shares*—LyondellBasell N.V.’s Articles of Association provided that at the earlier of (i) the request of the relevant holder of class B ordinary shares with respect to the number of class B ordinary shares specified by such holder (ii) acquisition by us of one or more class B ordinary shares or (iii) the first date upon which the closing price per share of the class B ordinary shares has exceeded 200% of \$10.61 for at least forty-five trading days within a period of sixty consecutive trading days (provided that the closing price per share of the class B ordinary shares exceeded such threshold on both the first and last day of the sixty day period), each such class B ordinary share would be converted into one class A ordinary share. At the close of business on December 6, 2010, the provision in (iii) was met, and the 263.9 million class B shares outstanding at that date that had not previously been converted in accordance with (i), above, converted into an equal number of class A ordinary shares.

*Treasury shares*—In connection with our formation, we issued one million one hundred twenty-five thousand (1,125,000), four Eurocent (€0.04) each, class A ordinary shares for €45 thousand to Stichting TopCo, a foundation formed under the laws of The Netherlands (the “Foundation”). On 30 April 2010, the Foundation transferred the shares from the Foundation for nil consideration. These shares are classified as Treasury Stock on our Consolidated Statement of Financial Position.

The changes in the outstanding amounts of class A and class B ordinary shares and treasury shares for the period were as follows:

### Class A ordinary shares:

Incorporation of the Company 15 October 2009	1,125,000
Issued 30 April 2010	300,000,000
Share-based compensation	1,774,196
Conversion of class B ordinary shares	263,901,979
Warrants exercised	47
Balance 31 December 2010	<u>566,801,222</u>

### Class B ordinary shares:

Issued 30 April 2010	263,901,979
Conversion to class A ordinary shares	<u>(263,901,979)</u>
Balance 31 December 2010	<u>- -</u>

**LyondellBasell Industries N.V.**

**Class A ordinary shares held as treasury shares:**

Shares contributed by the Foundation 30 April 2010	1,125,000
Shares tendered to exercise warrants	53
Share-based compensation	<u>(2,402)</u>
Balance 31 December 2010	<u>1,122,651</u>

*Other reserves*—Below is a detailed overview of the movements in the number of treasury shares and other reserves:

<u>Millions of U.S. Dollars</u>	<u>Unrecognized –Employee Benefits gains and losses</u>	<u>Available for sale financial assets</u>	<u>Currency translation difference</u>	<u>Total other reserves</u>
Balance as of 15 October 2009	\$ --	\$ --	\$ --	\$ --
Revaluation gross	(57)	1	--	(56)
Revaluation tax	30	--	--	30
Currency translation difference	--	--	--	--
- Group	--	--	129	129
- Equity investments	--	--	--	--
- Withholding tax	--	--	(4)	(4)
Balance as of 31 December 2010	<u>\$ (27)</u>	<u>\$ 1</u>	<u>\$ 125</u>	<u>\$ 99</u>

*Retained earnings*—Below is a detailed overview of the movements in the retained earnings:

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Balance as of 15 October 2009	\$ --
Profit for the period	1,099
Balance as of 31 December 2010	<u>\$ 1,099</u>

**28 Non-Controlling Interest**

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Balance as of 15 October 2009	\$ --
Business combination	54
Net income attributable to non-controlling interest	(7)
Contribution by the partnership	14
Balance as of 31 December 2010	<u>\$ 61</u>

Non-controlling interests primarily represent the interests of unaffiliated investors in a partnership that owns our PO/SM II plant at the Channelview, Texas complex and a subsidiary owning an equity investment in the Al-Waha Petrochemicals Ltd. joint venture.

## 29 Borrowings

The carrying amounts of the borrowings and the fair value of the non-current borrowings are as follows:

<u>Millions of U.S. Dollars</u>	<u>Carrying Value of 31 December 2010</u>	<u>Fair Value of 31 December 2010</u>
<b>Non-current</b>		
Senior Term Loan Facility due 2016	\$ 5	\$ 5
Senior Secured Notes due 2017, \$2,250 million, 8.0%	1,983	2,258
Senior Secured Notes due 2017, €375 million, 8.0%	442	489
Senior Secured Notes due 2018, \$ 3,240 million, 11.0%	3,240	3,686
Guaranteed Notes, due 2027, 8.1%	300	324
Other	13	13
Total	\$ 5,983	\$ 6,775
<b>Current</b>		
Finance payables to equity investees	\$ 11	\$ 11
Other	35	35
Total	46	46
Total borrowings	\$ 6,029	\$ 6,821

The fair values of the senior secured notes, senior term loan facility, and guaranteed notes are based on the price of bonds provided through broker quotes from well established and recognized vendors of market data for debt valuations. The fair value of the finance payable to investees and the others equals the carrying amount, as the impact of discounting is not significant.

The carrying amounts of LyondellBasell N.V.'s borrowings are denominated in the following currencies:

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
US Dollar	\$ 5,565
EUR	454
Other	10
	\$ 6,029

*Senior Secured 8% Notes*—The Senior Secured 8% Notes are jointly and severally, and fully and unconditionally guaranteed by LyondellBasell N.V. and, subject to certain exceptions, each existing and future wholly owned U.S. restricted subsidiary of LyondellBasell N.V. (other than Lyondell Chemical, as issuer), other than any such subsidiary that is a subsidiary of a non-U.S. subsidiary (the “Subsidiary Guarantors” and, together with LyondellBasell N.V., the “Guarantors”).

The Senior Secured 8% Notes rank equally in right of payment with all existing and future senior debt of Lyondell Chemical and the Guarantors; the notes and guarantees rank junior to obligations of our subsidiaries that do not guarantee the Senior Secured 8% Notes.

The Senior Secured 8% Notes and guarantees are secured by:

- a first priority lien on substantially all of Lyondell Chemical’s and the Subsidiary Guarantors’ existing and future property and assets other than the assets securing the U.S. ABL Facility;
- a first priority lien on the capital stock of Lyondell Chemical and all Subsidiary Guarantors (other than any such subsidiary that is a subsidiary of a non-U.S. subsidiary);



## LyondellBasell Industries N.V.

- a first priority lien on 65% of the capital stock and 100% of the non-voting capital stock of the first-tier non-U.S. subsidiaries of Lyondell Chemical or of LyondellBasell N.V.;
- a second priority lien on the accounts receivables, inventory, related contracts and other rights and assets related to the foregoing and proceeds thereof that secure the U.S. ABL Facility on a first priority basis;
- subject, in each case, to certain exceptions permitted liens and releases under certain circumstances.

The Senior Secured 8% Notes are redeemable by Lyondell Chemical (i) prior to maturity at specified redemption premium percentages according to the date the notes are redeemed or (ii) from time to time at a redemption price of 100% of such principal amount plus generally applicable premium as calculated pursuant to a formula.

In addition, Lyondell Chemical has the option to redeem up to 10% of the outstanding Senior Secured 8% Notes annually prior to 1 May 2013 at a redemption price equal to 103% of such notes' principal amount. Also prior to 1 May 2013, Lyondell Chemical has the option to redeem up to 35% of the original aggregate principal amount of the Senior Secured 8% Notes (plus any additional notes), generally at a redemption price of 108% of such principal amount, with the net proceeds of one or more equity offerings, provided that (i) at least 50% of the original aggregate principal amount remains outstanding immediately after such redemption and (ii) the redemption occurs within 90 days of the closing of the equity offering. The value of this embedded derivative is nominal.

The Senior Secured 8% Notes are redeemable at par after 1 May 2016 and contain covenants, subject to certain exceptions, that restrict, among other things, debt and lien incurrence; investments; certain restricted payments; sales of assets and mergers; and affiliate transactions.

Several of the restrictive covenants would be suspended if we receive an investment grade rating from two rating agencies. The Senior Secured 8% Notes are not subject to the maintenance of any specific financial covenant.

In December 2010 we redeemed \$225 million of 8.0% Senior Secured dollar notes and €37.5 million (\$50 million) of 8.0% Senior Secured Euro notes maturing in 2017, pursuant to the terms of the indenture representing repayment of 10% of the outstanding bonds. Interest expense in the period reflects the effect of prepayment premiums of \$7 million and \$1 million, respectively, paid in connection with the repayment of the 8% Senior Secured dollar notes and 8% Senior Secured Euro notes.

*Senior Secured 11% Notes*—The Senior Secured 11% Notes are guaranteed by the same Guarantors that support the Senior Secured 8% Notes, the Senior Term Loan Facility and the U.S. ABL Facility. The Senior Secured 11% Notes are secured by the same security package as the Senior Secured 8% Notes, the Senior Term Loan Facility and the U.S. ABL Facility on a third priority basis and bear interest at a rate equal to 11%.

The Senior Secured 11% Notes are redeemable by Lyondell Chemical (i) at par on or after 1 May 2013 and (ii) from time to time at a redemption price of 100% of such principal amount plus generally applicable premium as calculated pursuant to a formula.

In addition, Lyondell Chemical has the option to redeem up to 35% of the original aggregate principal amount of the Senior Secured 11% Notes (plus any additional notes), generally at a redemption price of 111% of such principal amount, with the net proceeds of one or more equity offerings, provided that (i) at least 50% of the original aggregate principal amount remains outstanding immediately after such redemption and (ii) the redemption occurs within 90 days of the closing of the equity offering. The value

## LyondellBasell Industries N.V.

of this embedded derivative is nominal. The exercise of this option is subject to certain limitations under the Senior Term Loan Facility.

*Registration Rights Agreement*—In connection with the issuance of the Senior Secured 8% Notes and the Senior Secured 11% Notes (collectively, the “Senior Secured Notes”), we entered into registration rights agreements that require us to exchange the Senior Secured Notes for notes with substantially identical terms as the Senior Secured Notes except the new notes will be registered with the SEC under the Securities Act of 1933, as amended, and will therefore be free of any transfer restrictions. The registration rights agreement requires a registration statement for the exchange to be effective with the SEC by 30 April 2011 and the exchange to be consummated within 45 days thereafter. If we do not meet these deadlines, the interest rate on the Senior Secured Notes will be increased by 0.25% per annum for the 90-day period following 30 April 2011 and will increase by an additional 0.25% for each subsequent 90-day period that the registration and exchange are not completed, up to a maximum of 1.00% per annum.

*Senior Term Loan Facility*—Borrowings under the Senior Term Loan Facility will bear interest at either (a) a LIBOR rate adjusted for certain additional costs or (b) a base rate determined by reference to the highest of the administrative agent’s prime rate, the federal funds effective rate plus 0.5%, or one-month LIBOR plus 1.0% (the “Base Rate”), in each case plus an applicable margin.

The Senior Term Loan Facility is guaranteed, jointly and severally, and fully and unconditionally, on a senior secured basis, initially by the Guarantors. Subject to permitted liens and other exceptions, Lyondell Chemical’s obligations and guarantees will be secured on a pari passu basis with the Senior Secured Notes by first priority security interests in the collateral securing the Senior Secured Notes and by a second priority security interest in the collateral securing the U.S. ABL Facility described below.

The Senior Term Loan Facility contains covenants that are substantially similar to the Senior Secured Notes. The Senior Term Loan Facility is not subject to the maintenance of any specific financial covenant.

During the period, we made payments under the Senior Term Loan Facility totaling \$495 million, including a \$1 million mandatory quarterly amortization payment in September 2010 and \$494 million in December 2010. The payment in December 2010 satisfied all future amortization payments under the loan.

*U.S. ABL Facility*—We have a \$1,750 million U.S. asset-based facility (“U.S. ABL Facility”), which may be used for advances or to issue up to \$700 million of letters of credit. Borrowings under the U.S. ABL Facility bear interest at the Base Rate or LIBOR, plus an applicable margin, and the lenders are paid a commitment fee on the average daily unused commitments.

At 31 December 2010, there were no borrowings outstanding under the U.S. ABL facility and outstanding letters of credit totaled \$370 million. Pursuant to the U.S. ABL facility, Lyondell Chemical could, subject to a borrowing base, borrow up to \$1,380 million. The borrowing base is determined using formulae applied to accounts receivable and inventory balances, and is reduced to the extent of outstanding letters of credit under the facility. Advances under this new facility are available to our subsidiaries, Lyondell Chemical, Equistar Chemicals LP (“Equistar”), Houston Refining LP, or LyondellBasell Acetyls LLC.

Obligations under the U.S. ABL Facility are guaranteed jointly and severally, and fully and unconditionally, on a senior secured basis, by the Guarantors (except, in the case of any Guarantor that is a borrower under the facility, to the extent of its own obligations in its capacity as a borrower). The borrowers’ obligations under the U.S. ABL Facility and the related guarantees are secured by (i) a first priority lien on all present and after-acquired inventory, accounts receivable, related contracts and other rights, deposit accounts into which proceeds of the foregoing are credited, and books and records related thereto, together with all proceeds of the foregoing, in each case to the extent of the rights, title and interest therein of any ABL borrowers and (ii) a second priority lien on the Senior Secured Notes and Senior Term Loan Facility collateral.

## LyondellBasell Industries N.V.

Mandatory prepayments of the loans under the U.S. ABL Facility will be made from net cash proceeds from certain sales of collateral securing the facility and insurance and condemnation awards involving the facility.

The U.S. ABL Facility contains covenants that are substantially similar to the Senior Secured Notes.

In addition, during the first two years, in the event (i) excess availability under the U.S. ABL Facility falls below \$300 million for five consecutive business days or below \$250 million on any business day, or (ii) total liquidity falls below \$550 million for five consecutive business days or below \$500 million on any business day, we are required to comply with a minimum fixed charge coverage ratio of not less than 1.00 to 1.00, measured quarterly. Following the second anniversary of the effective date, in the event (i) excess availability under the U.S. ABL Facility falls below \$400 million for five consecutive business days or below \$325 million on any business day, or (ii) total liquidity falls below \$650 million for five consecutive business days or below \$575 million on any business day, we are also required to meet the minimum fixed charge coverage ratio. The fixed charge coverage ratio is defined in the facility, generally, as the ratio of earnings before interest, taxes, depreciation and amortization less capital expenditures to consolidated interest expense, plus dividends on preferred or other preferential stock, adjusted for relevant taxes, and scheduled repayments of debt. The availability under the U.S. ABL Facility was \$1,380 million as of 31 December 2010.

*Guaranteed Notes due 2027*—We have outstanding fixed interest rate Guaranteed Notes of \$300 million with a maturity date of 15 March 2027. The interest rate is 8.1% and the interest payment dates are 15 September and 15 March.

The Guaranteed Notes are guaranteed by LyondellBasell Industries Holdings B.V., a subsidiary of LyondellBasell N.V. The 2027 Guaranteed Notes provide certain restrictions with respect to the level of maximum debt that can be incurred and security that can be granted by the operating companies in Italy and The Netherlands that are direct or indirect wholly owned subsidiaries of LyondellBasell Industries Holdings B.V.

The 2027 Notes contain customary provisions for default, including, among others, the non-payment of principal and interest on the 2027 Notes, certain failures to perform or observe any other obligation under the 2027 Agreement on the 2027 Notes, the occurrence of certain defaults under other indebtedness, failure to pay certain indebtedness and the insolvency or bankruptcy of certain LyondellBasell N.V. subsidiaries.

*Receivables securitization programs*—On 4 May 2010, the Company entered into a three-year European securitization facility. At 31 December 2010, there were no borrowings outstanding under this facility.

### 30 Deferred Income Tax

The balance sheet classifications are as follows:

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Deferred tax assets:	
- Deferred tax asset to be recovered after more than 12 months	\$ (66)
- Deferred tax asset to be recovered within 12 months	(62)
	<u>(128)</u>
Deferred tax liabilities:	
- Deferred tax liability to be recovered after more than 12 months	167
- Deferred tax liability to be recovered within 12 months	924
	<u>1,091</u>
Deferred tax liabilities (net)	<u>\$ 963</u>

The gross movement on the deferred income tax account is as follows:

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Opening balance		\$ --
Deferred taxes assumed through business combination	5	650
Income statement charge	15	365
Tax charge / (credit) relating to components of other comprehensive income	15	(26)
Tax charge / (credit) directly relating to equity	15	(26)
Deferred tax liabilities (net)		<u>\$ 963</u>

The movement in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

<u>Millions of U.S. Dollars</u>	<u>Intangible assets</u>	<u>Accelerated tax depreciation</u>	<u>Inventory</u>	<u>Other</u>	<u>Total</u>
<b>Deferred tax liabilities</b>					
Opening balance sheet	\$ --	\$ --	\$ --	\$ --	\$ --
Acquisitions	388	1,723	693	20	2,824
Charged/(credited) to the income statement	(28)	36	(170)	11	(151)
Total	<u>\$ 360</u>	<u>\$ 1,759</u>	<u>\$ 523</u>	<u>\$ 31</u>	<u>\$ 2,673</u>

**LyondellBasell Industries N.V.**

<u>Millions of U.S. Dollars</u>	<b>Retirement benefit obligation</b>	<b>Tax losses</b>	<b>Deferred interest carry forward</b>	<b>Other</b>	<b>Total</b>
<b>Deferred tax assets</b>					
Opening balance sheet	\$ --	\$ --	\$ --	\$ --	\$ --
Acquisitions	426	631	852	265	2,174
(Charged)/credited to the income statement	31	(555)	44	(85)	(516)
(Charged)/credited to other comprehensive income	30	--	--	(4)	26
(Charged)/credited directly to equity	--	21	--	5	26
<b>Total</b>	<b>\$ 487</b>	<b>\$ 97</b>	<b>\$ 896</b>	<b>\$ 230</b>	<b>\$ 1,710</b>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The company did not recognize deferred tax assets of \$ 548 million in respect of losses amounting to \$ 2,107 million that can be carried forward against future taxable income. Tax losses will not expire before 2015.

Certain income tax returns of LyondellBasell N.V. and its subsidiaries are under examination by tax authorities. In many cases, these audits may result in proposed assessments by the tax authorities. The Company believes that its tax positions comply with applicable tax law and intends to defend its positions through appropriate administrative and judicial processes.

### **31 Retirement Benefit Obligations**

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>2010</u>
Asset in the Consolidated Statement of Financial Position:		
- Defined benefit pension plans		\$ (20)
Liabilities in the Consolidated Statement of Financial Position:		
- Defined benefit pension plans		1,194
- Other post employment benefit plans		332
<b>Total liabilities</b>		<b>\$ 1,526</b>
Income statement charge:		
- Defined benefit pension plans	8	\$ 75
- Other post employment benefit plans		15
<b>Total charges</b>		<b>\$ 90</b>
Actuarial losses recognized in the Consolidated Statement of Other Comprehensive Income in the period (before tax)		
		\$ 57
Cumulative actuarial losses recognized in the Consolidated Statement of Other Comprehensive Income (before tax)		
		57

**LyondellBasell Industries N.V.**

We have defined benefit pension plans which cover employees in various countries. We also sponsor postretirement benefit plans other than pensions for U.S. and Canadian employees, which provide medical benefits to those employees. In Italy and Germany, we provide other post employment benefits such as early retirement and deferred compensation severance benefits. We use a measurement date of 31 December for all of our benefit plans.

***Pension benefits***

The amounts recognized in the balance sheet are determined as follows:

<b><u>Millions of U.S. Dollars</u></b>	<b><u>31 December 2010</u></b>
Present value of funded obligations	\$ (2,366)
Fair value of the plan assets	1,760
	<u>(606)</u>
Present value of unfunded obligations	(568)
	<u>                    </u>
Net liability	<u>\$ (1,174)</u>

Changes in the present value of the defined benefit obligations are as follows:

<b><u>Millions of U.S. Dollars</u></b>	<b><u>Period 15 October 2009 to 31 December 2010</u></b>
Opening balance sheet	\$ --
Liabilities assumed through acquisition	2,824
Service cost	48
Interest cost	96
Plan participants contributions	2
Amendments	10
Actuarial losses (gains)/loss	77
Curtailments	1
Benefits paid	(135)
Exchange differences	11
	<u>                    </u>
Closing balance sheet	<u>\$ 2,934</u>

**LyondellBasell Industries N.V.**

Changes in the fair values of plan assets are as follows:

<u>Millions of U.S. Dollars</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Opening balance sheet	\$ --
Acquisition	1,706
Expected return	80
Actuarial gains and (losses)	39
Employer contributions	63
Employee contributions	2
Benefits paid	(135)
Expenses paid	(1)
Exchange differences	6
Closing balance sheet	<u>\$ 1,760</u>

The expected contributions to be paid to the plans during 2011 are \$ 280 million.

The major categories of plan assets as a percentage of total plan assets are:

Common stock	56%
Fixed income securities	33%
U.S. government securities	6%
Property	2%
Other	3%

Our pension plans have not invested in securities of LyondellBasell Industries N.V. and there have been no significant transaction between any of the pension plans in the Company or related parties thereof.

The amounts recognized in the Consolidated Income Statement are as follows:

<u>Millions of U.S. Dollars</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Current service costs	\$ 48
Interest cost	96
Expected return on asset	(80)
Past service cost	10
Curtailment (gain)/loss recognized	1
	<u>\$ 75</u>

**LyondellBasell Industries N.V.**

Principal actuarial assumptions

Weighted-average assumptions to determine benefit obligations are as follows:

- Discount rate	5.10%
- Rate of salary increase	3.67%
- Rate of price inflation	2.73%
- Rate of pension increase	1.78%

Weighted-average assumptions to determine net pension cost:

- Discount rate	5.34%
- Expected long-term rate of return on plan assets	7.48%
- Rate of salary increase	3.66%
- Rate of price inflation	2.70%
- Rate of pension increase	1.92%

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

***Other post employment benefits plan***

The amounts recognized in the balance sheet are determined as follows:

<b><u>Millions of U.S. Dollars</u></b>	<b><u>31 December 2010</u></b>
Present value of funded obligations	\$ --
Fair value of the plan assets	--
	--
Present value of unfunded obligations	(332)
Net liability	<u>\$ (332)</u>

Changes in the present value of the defined benefit obligations are as follows:

<b><u>Millions of U.S. Dollars</u></b>	<b><u>Period 15 October 2009 to 31 December 2010</u></b>
Opening balance sheet	\$ --
Liabilities assumed through acquisition	316
Service cost	4
Interest cost	12
Plan participants contributions	6
Actuarial losses (gains)/loss	20
Benefits paid	(21)
Other	(5)
Closing balance sheet	<u>\$ 332</u>



**LyondellBasell Industries N.V.**

The amounts recognized in the Consolidated Income Statement are as follows:

<u>Millions of U.S. Dollars</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Current service costs	\$ 4
Interest cost	11
	<u>\$ 15</u>

Principal actuarial assumptions

Weighted-average assumptions to determine benefit obligations are as follows:

- Discount rate	5.02%
- Rate of salary increase	3.97%
- Rate of price inflation	2.00%
- Rate of pension increase	0.00%

Weighted-average assumptions to determine net pension cost:

- Discount rate	5.69%
- Rate of salary increase	3.69%
- Rate of price inflation	2.00%
- Rate of pension increase	0.00%

For 2011, the weighted average assumed annual rate of increase in the cost of covered health care benefits is 9.22%. It is assumed to decrease gradually to 4.94% in the year 2026 and remain at that level thereafter. Changing the assumed health care cost trend would have the following effect:

<u>Millions of U.S. Dollars</u>	<u>One percentage point increase</u>	<u>One percentage point decrease</u>
Effect on total of service and interest cost components in 2011	\$ --	\$ --
Effects on benefit obligation as of 31 December 2010	4	(3)

### **32 Trade and Other Payables**

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>31 December 2010</u>
Trade payables		\$ 1,968
Amounts due to related parties	35	793
Social securities and other taxes		134
Accrued expenses		1,200
		<u>\$ 4,095</u>

### 33 Provisions for Other Liabilities and Charges

Millions of U.S. Dollars	Note	Asset retirement obligation	Environ- mental	Restruc- turing	Other	Total
Opening balance sheet		\$ --	\$ --	\$ --	\$ --	\$ --
Liabilities assumed by acquisition	5	142	93	94	98	427
Additions		--	17	21	34	72
Used during the period		(11)	(3)	(36)	(15)	(65)
Unwinding of discount		4	--	--	--	4
Exchange differences		--	--	--	--	--
Other		(8)	--	--	--	(8)
		<u>\$ 127</u>	<u>\$ 107</u>	<u>\$ 78</u>	<u>\$ 118</u>	<u>\$ 430</u>
Of which:						
Non-current		\$ 116	\$ 102	\$ 40	\$ 90	\$ 348
Current		11	5	38	28	82
		<u>\$ 127</u>	<u>\$ 107</u>	<u>\$ 78</u>	<u>\$ 118</u>	<u>\$ 430</u>
Closing balance		<u>\$ 127</u>	<u>\$ 107</u>	<u>\$ 78</u>	<u>\$ 118</u>	<u>\$ 430</u>

*Asset retirement obligations*—At some sites, we are contractually obligated to decommission our plants upon site exit. We have provided for the net present value of the estimated costs. Typically such costs are incurred within three years after a plant's closure.

*Environmental remediation*—Our accrued liability for future environmental remediation costs at current and former plant sites and other remediation sites totaled \$107 million as of 31 December 2010. The accrued liabilities for individual sites range from less than \$1 million to \$37 million. The remediation expenditures are expected to occur over a number of years, and not to be concentrated in any single year.

In our opinion, it is reasonably possible that losses in excess of the liabilities recorded may have been incurred. However, we cannot estimate any amount or range of such possible additional losses. New information about sites, new technology or future developments such as involvement in investigations by regulatory agencies, could require us to reassess our potential exposure related to environmental matters.

### 34 Contingencies and Commitments

#### 34.1 Contingencies

*Legal claims*—LyondellBasell N.V., its subsidiaries and its equity investments are, from time to time, defendants in lawsuits or other contested legal proceedings, some of which are not covered by insurance. Many of these suits or proceedings make no specific claim for relief. Although final determination of legal liability and the resulting financial impact with respect to any such litigation cannot be ascertained with any degree of certainty, LyondellBasell N.V. does not believe that any ultimate uninsured liability resulting from the legal proceedings in which we or our equity investments are currently involved (directly or indirectly) will individually, or in the aggregate, have a material adverse effect on the business or financial position of LyondellBasell N.V. However, the adverse resolution in any reporting period of one or more of these suits could have a material impact on LyondellBasell N.V.'s results of operations for that period,

## LyondellBasell Industries N.V.

which may be mitigated by contribution or indemnification obligations of co-defendants or others, or by any insurance coverage that may be available.

Although LyondellBasell N.V. and its joint ventures are involved in numerous and varied legal proceedings, a significant portion of the outstanding litigation arose in five contexts: (1) claims for personal injury or death allegedly arising out of exposure to the products produced by or located on the premises of the respective entities; (2) claims for personal injury or death, and/or for remediation cleanup costs, natural resource damages or property damage allegedly arising out of the generation and disposal of chemical wastes at Superfund and other waste disposal sites; (3) claims for personal injury, property damage and/or air, noise and water pollution allegedly arising out of operations; (4) employment and benefits related claims; and (5) commercial disputes.

*Litigation and Other Matters*—On 12 April 2005, BASF Corporation (“BASF”) filed a lawsuit in New Jersey against Lyondell Chemical asserting various claims relating to alleged breaches of a product sales contract and seeking damages in excess of \$100 million. Lyondell Chemical denies it breached the contracts. Lyondell Chemical believed the maximum refund due to BASF was \$22.5 million on such product sales and has paid such amount to BASF. On 13 August 2007, the jury returned a verdict in favor of BASF in the amount of approximately \$170 million (which includes the above \$22.5 million). On 3 October 2007, the judge determined that prejudgment interest on the verdict was \$36 million. Lyondell Chemical is appealing this verdict and has posted a bond, which is collateralized by a \$200 million letter of credit.

On 21 April 2010, oral arguments related to the appeal were held and on 28 December 2010, the judgment was reversed and the case was remanded. The parties have filed motions with the Bankruptcy Court for a determination as to whether the case will proceed in the Bankruptcy Court or New Jersey state court. We do not expect the resolution of this matter to have a material adverse effect on our consolidated financial position, liquidity, or results of operations, although it is possible that any such resolution could have a material adverse effect on our results of operation for any period in which a resolution occurs.

On December 20, 2010, one of our subsidiaries received demand letters from affiliates of Access Industries, a shareholder of the Company. The Access affiliates have demanded that our subsidiary, LyondellBasell Industries Holdings B.V. (“LBIH”) indemnify them and their shareholders, members, affiliates, officers, directors, employees and other related parties for all losses, including attorney’s fees and expenses, arising out of a pending lawsuit and pay \$50 million in management fees for 2009 and 2010 in addition to other unspecified amounts related to advice purportedly given in connection with financing and other strategic transactions. We conducted an initial investigation of the facts underlying the demand letters and engaged in discussions with Access. We requested that Access withdraw its demands, and on January 17, 2011, Access declined to withdraw its demands.

In the pending lawsuit, the plaintiffs are seeking damages from numerous parties, including Access and its affiliates. The damages sought from Access and its affiliates include, among other things, the return of all amounts earned by them related to their acquisition of shares of Lyondell Chemical prior to its acquisition by Basell AF S.C.A. in December 2007, distributions by Basell AF S.C.A. to its shareholders before it acquired Lyondell Chemical, and management and transaction fees and expenses. We cannot at this time determine the amount of liability, if any, that may be sought from LBIH by way of indemnity if a judgment is rendered or a settlement is paid in the lawsuit.

The Access affiliates assert that LBIH’s responsibility for indemnity and the claimed fees and expenses arises out of a management agreement entered into on December 11, 2007, between Nell and Basell AF S.C.A. They assert that LBIH, as a former subsidiary of Basell AF S.C.A., is jointly and severally liable for Basell AF S.C.A.’s obligations under the agreement, notwithstanding that LBIH was not a signatory to the agreement and the liabilities of Basell AF S.C.A., which was a signatory, were discharged in the LyondellBasell bankruptcy proceedings.

## LyondellBasell Industries N.V.

We do not believe that the management agreement is in effect or that the Company, LBIH, or any other Company-affiliated entity owes any obligations under the management agreement. We intend to defend vigorously any proceedings, claims or demands that may be asserted.

We have identified an agreement related to a project in Kazakhstan under which a payment was made that raises compliance concerns under the U.S. Foreign Corrupt Practices Act (the “FCPA”). We have engaged outside counsel to investigate these activities, under the oversight of the Audit Committee of the Supervisory Board, and to evaluate internal controls and compliance policies and procedures. We made a voluntary disclosure of these matters to the U.S. Department of Justice and are cooperating fully with that agency. The ultimate outcome of this matter cannot be predicted at this time or whether other matters raising compliance issues will be discovered, including under other statutes. In this respect, we may not have conducted business in compliance with the FCPA and may not have had policies and procedures in place adequate to ensure compliance. Therefore, we cannot reasonably estimate a range of liability for any potential penalty resulting from these matters. Violations of these laws could result in criminal and civil liabilities and other forms of relief that could be material to us.

Certain of our non-U.S. subsidiaries conduct business in countries subject to U.S. economic sanctions, including Iran. U.S. laws and regulations, and new European regulations, prohibit certain persons from engaging in business activities, in whole or in part, with sanctioned countries, organizations and individuals. The U.S. Congress recently passed legislation that could result in the imposition of sanctions on U.S. and non-U.S. persons and entities doing business with Iran. In connection with our continuing review of compliance risks in this area, certain activities have been identified that raise compliance issues under applicable sanctions laws and regulations. We have made voluntary disclosure of these matters to the U.S. Treasury Department and intend to cooperate fully with that agency. The ultimate outcome of this matter cannot be predicted at this time because our investigations are ongoing. Therefore, we cannot reasonably estimate a range of liability for any potential penalty resulting from these matters. In addition, our management has made the decision to cease all business with the government, entities and individuals in Iran and we are working with regulatory authorities to implement this decision. These business activities present a potential risk that could subject the Company to civil and criminal penalties as well as private legal proceedings that could be material to us. Likewise, violations of these laws could result in criminal and civil liabilities and other forms of relief that could be material to us. We cannot predict the ultimate outcome of this matter at this time because our investigations and withdrawal activities are ongoing.

We and our equity investments are, from time to time, defendants in lawsuits and other commercial disputes, some of which are not covered by insurance. Many of these suits make no specific claim for relief. Although final determination of any liability and resulting financial impact with respect to any such matters cannot be ascertained with any degree of certainty, we do not believe that any ultimate uninsured liability resulting from these matters will, individually or in the aggregate, have a material adverse effect on the financial position, liquidity or results of operations of LyondellBasell N.V.

*Indemnification*—We are parties to various indemnification arrangements, including arrangements entered into in connection with acquisitions, divestitures and the formation of joint ventures. Pursuant to these arrangements, we provide indemnification to and/or receive indemnification from other parties in connection with liabilities that may arise in connection with the transactions and in connection with activities prior to completion of the transactions. These indemnification arrangements typically include provisions pertaining to third party claims relating to environmental and tax matters and various types of litigation. As of 31 December 2010, we had not accrued any significant amounts for our indemnification obligations, and we are not aware of other circumstances that would likely lead to significant future indemnification obligations. We cannot determine with certainty the potential amount of future payments under the indemnification arrangements until events arise that would trigger a liability under the arrangements.

In addition, certain third parties entered into agreements with the subsidiaries of the Company, to indemnify us for a significant portion of the potential obligations that could arise with respect to costs

## LyondellBasell Industries N.V.

relating to contamination at the Berre site in France and the Ferrara and Brindisi sites in Italy. These indemnity obligations are currently in dispute. We did not recognize any of these assets.

As part of our technology licensing contracts, we give indemnifications to our licensees for liabilities arising from possible patent infringement claims with respect to proprietary licensed technology. Such indemnifications have a stated maximum amount and generally cover a period of five to ten years.

### 34.2 Commitments

LyondellBasell N.V. has various purchase commitments for materials, supplies and services incident to the ordinary conduct of business, generally for quantities required for its businesses and at prevailing market prices. These commitments are designed to assure sources of supply and are not expected to be in excess of normal requirements. Our capital expenditure commitments at 31 December 2010 were in the normal course of business.

*Operating lease commitments*—We lease office facilities, railcars, vehicles, and other equipment under long-term operating leases. Some leases contain renewal provisions, purchase options and escalation clauses. Additionally, we have entered into a long-term agreement with an information technology service provider that is cancellable by us with a six-month notice period and payment of a cancellation fee. This agreement is classified as an operating lease.

The operating lease expense for 2010 totaled \$184 million. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

<u>Millions of U.S. Dollars</u>	<b>31 December 2010</b>
No later than 1 year	\$ 280
Later than 1 year and no later than 5 years	820
Later than 5 years	590
Total	<u>\$ 1,690</u>

*Financial Assurance Instruments* — We have obtained letters of credit, performance and surety bonds and have issued financial and performance guarantees to support trade payables, potential liabilities and other obligations. Considering the frequency of claims made against the financial instruments we use to support our obligations, and the magnitude of those financial instruments in light of our current financial position, management does not expect that any claims against or draws on these instruments would have a material adverse effect on our consolidated financial statements. We have not experienced any unmanageable difficulty in obtaining the required financial assurance instruments for our current operations.

### 35 Related Parties

The Company has related party transactions with affiliates of our major shareholders, Access Industries (“Access”) and Apollo Management (“Apollo”), and with the Company’s associates and joint ventures.

*Access*—In May 2010, we entered into a tax cooperation agreement with Access. The tax cooperation agreement allows either party to provide the other with information and support in connection with tax return preparation and audits for a fee. There were no payments made or received under this agreement during 2010.

*Apollo*—As a result of the distribution and the issuance of ordinary shares of LyondellBasell N.V. common stock under a rights offering on the acquisition (Note 5), we began reporting transactions between the Company and entities in which Apollo and its affiliates own interests as related party transactions. These

## LyondellBasell Industries N.V.

transactions include the sales of product under a long-term contract that renews automatically each year on 31 July unless a 90 day notice of termination has been received. Other product sales are made on the spot market.

*Associates and Joint Ventures*—The Company has related party transactions with its equity investees. These related party transactions include the sales and purchases of goods in the normal course of business as well as certain financing arrangements and are at arm's length basis. In addition, under arm's length contractual arrangements with certain of the Company's equity investees, we receive certain services, utilities, materials and facilities at some of our manufacturing sites and we provide certain services to our equity investees

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
<b>The Company billed related parties for:</b>	
Sale of products:	
Apollo affiliates	\$ 235
Equity investees	488
Shared services agreements –	
Apollo affiliates	--
Equity investees	22
<b>Related parties billed the Company for:</b>	
Sales of products	
Equity investees	\$ 803
Shared services agreements –	
Equity investees	56
<b>Year-end balances with related parties:</b>	
Receivable from Apollo affiliates	40
Receivable from Equity investees	312
Loans to Equity investees	35
Loans from Equity investees	11
Payables to Equity investees	793

### 36 Non-Cash Transaction

As discussed in Note 5 'Acquisition of LyondellBasell AF's entities', the Company acquired the Lyondell AF entities on 30 April 2010. Except for \$ 123 million in cash, the acquisition of these entities is by means of equity issue (Class A common stock) and warrants issue. The fair value of the equity issue and warrants are determined at \$ 7,131 million and \$ 101 million respectively.

### 37 Segment Information

LyondellBasell N.V. operates in five segments:

- Olefins and Polyolefins—Americas, primarily manufacturing and marketing of olefins, including ethylene; its co-products, primarily propylene, butadiene, and aromatics, which include benzene and toluene; as well as ethanol; and polyolefins, including polyethylene, comprising HDPE, LDPE and linear low density polyethylene (“LLDPE”), and polypropylene; and *Catalloy* process resins;
- Olefins and Polyolefins—Europe, Asia, International, primarily manufacturing and marketing of olefins, including ethylene and its co-products, primarily propylene and butadiene; polyolefins, including polyethylene, comprising HDPE, LDPE and polypropylene; polypropylene-based compounds, materials and alloys (“PP Compounds”), *Catalloy* process resins and polybutene-1 polymers;
- Intermediates and Derivatives, primarily manufacturing and marketing of PO; PO co-products, including styrene and the TBA intermediates tertiary butyl alcohol (“TBA”), isobutylene and tertiary butyl hydroperoxide; PO derivatives, including propylene glycol, propylene glycol ethers and butanediol; ethylene derivatives, including ethylene glycol, ethylene oxide (“EO”), and other EO derivatives; acetyls, including vinyl acetate monomer, acetic acid and methanol and fragrance and flavor chemicals;
- Refining and Oxyfuels, primarily manufacturing and marketing of refined petroleum products, including gasoline, ultra-low sulfur diesel, jet fuel, lubricants (“lube oils”), alkylate, and oxygenated fuels, or oxyfuels, such as methyl tertiary butyl ether (“MTBE”), ethyl tertiary butyl ether (“ETBE”); and
- Technology, primarily licensing of polyolefin process technologies and supply of polyolefin catalysts and advanced catalysts.

Accounting policies for internal reporting are based on US GAAP and materially similar to those described in Summary of Significant Accounting Policies (see Note 2), except for:

*Business Combination versus fresh start accounting*—In accordance with Financial Accounting Standards Board (“FASB”) Accounting Codification (“ASC”) Topic 852, Reorganizations (“ASC 852”), the Group applied fresh start accounting as of 30 April 2010. Fresh start accounting requires that all relevant assets and liabilities be measured at their fair value as at 30 April 2010 based on the restructuring of the organization. Under IFRS and this financial report, the restructuring of the Group has been accounted for under IFRS 3(R), Business combinations. One of the key differences between ASC 852 and IFRS 3 (R) is that IFRS 3 (R) recognizes the so called measurement period. Any changes to estimates due to contingencies as of 30 April 2010 are accounted for retrospectively under IFRS but prospectively under U.S.GAAP.

*Inventories*—The Group measures its inventories in accordance with the Last In First Out (“LIFO”) method, which is permitted under US GAAP. LIFO is prohibited under IFRS according to IAS 2, Inventories and therefore for the Consolidated Financial Statements the inventories are measured using First in First Out (“FIFO”) basis. This method difference between the reportable segments and the consolidated information has resulted in differing cost of sales and net profit for the period.

*Other*—Amongst others, there are minor differences between the subsequent measurement in the asset retirement obligation and measurement of retirement benefit obligations. If material, these differences are disclosed in the segment and consolidated financial statement reconciliation.

**LyondellBasell Industries N.V.**

Sales between segments are made primarily at prices approximating prevailing market prices.

<u>Millions of U.S. Dollars</u>	<u>Olefins and Polyolefins – Americas</u>	<u>Olefins and Polyolefins – Europe, Asia &amp; International</u>	<u>Intermediates and Derivatives</u>	<u>Refining and Oxyfuels</u>	<u>Technology</u>	<u>Other</u>	<u>Total</u>
<b>2010</b>							
Sales and other operating revenues:							
Customers	\$ 5,993	\$ 8,522	\$ 3,714	\$ 9,180	\$ 291	\$ (16)	\$ 27,684
Intersegment	2,413	207	40	1,141	74	(3,875)	--
	<u>8,406</u>	<u>8,729</u>	<u>3,754</u>	<u>10,321</u>	<u>365</u>	<u>(3,891)</u>	<u>27,684</u>
Operating income (loss)	1,043	411	512	241	69	(22)	2,254
Income from equity investments	16	68	2	--	--	--	86
Capital expenditures	146	105	76	108	19	12	466
Depreciation and amortization expense	151	146	81	107	78	(5)	558

Reconciliation of operating income for reportable segments to the Company's Consolidated Income Statement is summarized in the following table.

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Total operating income for reportable segment		\$ 2,254
Measurement difference		
- Inventories valuation		(209)
Measurement period changes		46
Classification difference		
- Gain on sale of assets	13	64
- Fair value changes on warrants	11	(114)
Total Company's operating income		<u>\$ 2,041</u>

Long-lived assets used in continuing operations, including goodwill, are summarized and reconciled to consolidated totals in the following table:

<u>Millions of Dollars</u>	<u>Olefins and Polyolefins – Americas</u>	<u>Olefins and Polyolefins – Europe, Asia &amp; International</u>	<u>Intermediates &amp; Derivatives</u>	<u>Refining and Oxyfuels</u>	<u>Technology</u>	<u>Other</u>	<u>Total</u>
<b>31 December 2010</b>							
Property, plant and equipment, net	\$ 1,696	\$ 2,458	\$ 2,137	\$ 937	\$ 351	\$ 49	\$ 7,628
Equity and other investments	164	1,276	112	--	--	--	1,552
Goodwill	354	178	246	--	9	--	787



**LyondellBasell Industries N.V.**

Reconciliation of goodwill for reportable segments to the Consolidated Statement of Financial Position is summarized in the following table.

<u>Millions of Dollars</u>	Olefins and Polyolefins – Americas	Olefins and Polyolefins – Europe, Asia & International	Intermediates & Derivatives	Technology	Total
Total Goodwill for reportable segment	\$ 354	\$ 178	\$ 246	\$ 9	\$ 787
Measurement period changes	(66)	(178)	(74)	--	(318)
Company's goodwill	<u>\$ 288</u>	<u>\$ --</u>	<u>\$ 172</u>	<u>\$ 9</u>	<u>\$ 469</u>

The following geographic data for revenues are based upon the delivery location of the product and for long-lived assets, the location of the assets.

<u>Millions of Dollars</u>	<u>31 December 2010</u>
Europe	\$ 10,480
North America	14,046
All other	3,158
Total	<u>\$ 27,684</u>

<u>Millions of Dollars</u>	<u>Property, plant &amp; equipment 31 December 2010</u>
United States	\$ 3,792
Non-U.S.	
Germany	1,706
The Netherlands	752
France	609
Other non-U.S.	769
Total non-U.S.	3,836
Total	<u>\$ 7,628</u>

### 38 Subsequent Events

We have evaluated subsequent events through the date the financial statements were issued.

**Corporate Financial Statements**

**Corporate Statement of Income**

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Income from Group companies after taxes	2	\$ 1,183
Other income and expenses after tax		(84)
Profit attributable to the equity holders		<u>\$ 1,099</u>

**Corporate Statement of Financial Position**

Before appropriation of profit

<u>Millions of U.S. Dollars</u>	<u>Note</u>	<u>31 December 2010</u>
<i>Non-current assets</i>		
Goodwill	2	\$ 469
Investments in Group companies	2	11,158
Deferred tax assets		<u>13</u>
Total non-current assets		11,640
<i>Current assets</i>		
Receivables from group companies	2	105
Cash and cash equivalents	3	<u>99</u>
Total current assets		204
<b>Total assets</b>		<b><u>11,844</u></b>
<i>Equity</i>		
	4	
Share capital		\$ 30
Share premium		9,863
Legal reserves		183
Retained earnings		(84)
Profit for the year		<u>1,099</u>
Total equity attributable to equity holders		11,091
<i>Non-current liabilities</i>		
Long term loan to group companies	5	535
<i>Current liabilities</i>		
Other liabilities	6	<u>218</u>
<b>Total equity and liabilities</b>		<b><u>11,844</u></b>

## Notes to the Corporate Financial Statements

### 1 General

With reference to the Corporate Statement of Income of LyondellBasell Industries N.V., use has been made of the exemption pursuant to Section 402 of Book 2 of the Dutch Civil Code. For the principles for the recognition and measurement of assets and liabilities and determination of result for its Corporate Financial Statements, LyondellBasell Industries N.V., applies the option provided in Section 2:362 (8) of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as ‘Accounting policies’) of the Corporate Financial Statements of LyondellBasell Industries N.V., are the same as those applied for the Consolidated Financial Statements under IFRS. Investment in subsidiaries and other companies in which the company has control are measured at net asset value. The net asset value is based on the net book value of assets, provisions and liabilities, based on the accounting policies applied in the Consolidated Financial Statement. Goodwill is measured consistent with the accounting policies of the Consolidated Financial Statement. Goodwill presented in the Corporate Financial Statement reflects the goodwill on subsidiaries directly acquired by the Company. Goodwill on subsidiaries indirectly acquired via intermediate subsidiaries is recognized as part of the net asset value of such intermediate subsidiary.

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (‘IFRS’) as adopted by the European Union. Reference is made to the notes to the Consolidated Financial Statements.

For the purpose of the Corporate Financial Statements, the “Company” refers only to LyondellBasell N.V. and the “Group” refers to LyondellBasell N.V. and its subsidiaries.

### 2 Goodwill, investments and receivables

<u>Millions of U.S. Dollars</u>	Note	Receivables			Total
		Goodwill	Investments	from group companies	
Opening balance		\$ --	\$ --	\$ --	\$ --
Acquisition		467	6,265	623	7,355
Equity contribution		--	3,050	(505)	2,545
Income from investments, net of tax		--	1,183	--	1,183
Group restructuring	5	--	535	--	535
Equity settled transactions		--	28	--	28
Other		--	--	(13)	(13)
Additions to other reserves		2	97	--	99
		<u>\$ 469</u>	<u>\$ 11,158</u>	<u>\$ 105</u>	<u>\$ 11,732</u>
Of which:					
Non-current		\$ 469	\$ 11,158	\$ --	\$ 11,627
Current		--	--	105	105
		<u>\$ 469</u>	<u>\$ 11,158</u>	<u>\$ 105</u>	<u>\$ 11,732</u>

## LyondellBasell Industries N.V.

*Acquisition*—On 30 April 2010, the Company acquired the ordinary shares of LyondellBasell Subholdings B.V. and LyondellBasell Finance Company LCC. For further information, reference is made to Note 5 - Acquisition of LyondellBasell AF's Entities of the Consolidated Financial Statements.

*Group restructuring*— On 15 December 2010, the Company purchased 1,544,128 shares of the share capital of Lyondell France Holdings SAS from Lyondell Chimie France LLC ("LCF"). As consideration for the shares transferred, the Company and LCF LLC entered a long term loan agreement for the amount of \$535 millions (refer to Note 5). The shares were subsequently contributed to LyondellBasell Subholdings B.V.

*Equity settled transactions*—For further information, reference is made to Note 9 and Note 30 of the Consolidated Financial Statements - Share-based compensation granted to director and employees.

### 3 Cash and cash equivalents

The cash and cash equivalents are held by the Group's in-house banking unit Basell Finance Company B.V. The interest rate on the account with Basell Finance Company B.V. is subject to a floating interest rate, based on current market rates. At 31 December 2010, the rate was 1.07%.

### 4 Equity attributable to equity holders

For a break down of Equity attributable to equity holders, reference is made to the Consolidated Statement of Changes in Group Equity and the notes thereto.

*Legal reserves*—Movements in legal reserves (net of tax), which cannot be distributed freely, are presented below:

Millions of U.S. Dollars	Cumulative translation difference	Fair Value reserve	Other legal reserves	Total
Opening balance sheet	\$ --	\$ --	\$ --	\$ --
Exchange rate difference in respect of subsidiary	125	--	--	125
Changes in fair value of derivatives	--	1	--	1
Changes in actuarial loss on post employment benefit obligations	--	--	(27)	(27)
Addition / (Release) retained earnings	--	--	84	84
	<u>\$ 125</u>	<u>\$ 1</u>	<u>\$ 57</u>	<u>\$ 183</u>

## LyondellBasell Industries N.V.

*Retained earnings*—Movements in retained earnings are as follows:

<u>Millions of U.S. Dollars</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Opening balance sheet	\$ --
Additions to the legal reserve	(84)
Profit attributable to the equity holders	<u>\$ (84)</u>

The reconciliation with retained earnings as per Consolidated Statement of Financial Position is as follows:

<u>Millions of U.S. Dollars</u>	<u>31 December 2010</u>
Retained earnings as per Consolidated Statement of Financial Position	\$ 1,099
Non-distributable reserves	(84)
Profit for the year	(1,099)
Retained earnings as per Corporate Statement of Financial Position	<u>\$ (84)</u>

### **5 Long-term loan to group companies**

The \$535 million loan from related party has a maturity date of 15 December 2013. The interest rate is variable, set for a period of 3 months, using the United States of America LIBOR rate, plus 400 basis points. Reference is made to Note 2.

### **6 Other liabilities**

Other liabilities include \$215 million consisting of the fair value at 31 December 2010 of the 11,508,104 stock warrants granted at acquisition date. As of 31 December 2010, 100 warrants have been exercised. The expiration date is fixed at 30 April 2017. For more detailed information, reference is made to the Note 5 of the Consolidated Financial Statements.

### **7 Commitments and contingencies not included in the balance sheet**

The Company has provided a guarantee to the debt holders of its indirect subsidiary Lyondell Chemical Company with regards to company's borrowings. The outstanding principal amount is around \$5,722 million at 31 December 2010, composed of a Senior Secured Asset-Back Credit Agreement, a Senior Term Loan Credit Agreement, Senior Secured Dollar Notes and a Senior Secured Euro Note. Reference is made to Note 29 of the Consolidated Financial Statements - Borrowings.

In addition, the Company has entered into several guaranties agreements with several counterparts on behalf of some of its subsidiaries for the supply of some raw materials. The total guaranteed amount at 31 December 2010 is \$1.5 billion.

The Company receives a fee of 0.88% over all the outstanding guarantees per calendar year.

## 8 Auditor's fee

The fees listed below relate to the procedures applied to the Company and its consolidated group entities by PricewaterhouseCoopers Accountants N.V., The Netherlands, the external auditor as referred to in section 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta), as well as by other Dutch and foreign-based PricewaterhouseCoopers individual partnerships and legal entities, including their tax services and advisory groups:

<u>Millions of U.S. Dollars</u>	<u>Period 15 October 2009 to 31 December 2010</u>
Financial statements audit fees	\$ 10.3
Other Assurance fees	0.8
All other Fees	0.3
	<hr/> <u>\$ 11.4</u>

The total fees of PricewaterhouseCoopers Accountants N.V, The Netherlands, charged to the Company and its consolidated group entities amounted to \$2.4 million in 2010.

The financial statements audit fees include the aggregate fees billed for professional services rendered for the audit of LyondellBasell Industries N.V. annual financial statements and annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with the audits.

The other assurance fees include the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Group's financial statements and are not reported under audit services. This category includes fees related to the performance of audits of benefit plans, agreed-upon or expanded audit procedures relating to accounting records required to respond to or comply with financial, accounting or regulatory reporting matters and consultations as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by regulatory or standard setting bodies.

Other fees relate to permitted services are not included in the above categories.

## 9 Director's remuneration

Reference is made to Note 10 - Employee benefits of the Consolidated Financial Statements.

Rotterdam, 29 March 2011

### **Supervisory Board**

Marvin O. Schlanger  
Milton Carroll  
Stephen F. Cooper  
Joshua J. Harris  
Scott Kleinman  
Jeffrey S. Serota  
Bruce A. Smith  
Rudy M.J. van der Meer

### **Management Board**

James L. Gallogly



## **Other information**

### **Independent auditor's report**

#### ***Report on the financial statements***

We have audited the accompanying financial statements for the period 15 October 2009 to 31 December 2010 of LyondellBasell Industries N.V., Rotterdam as set out on pages 68 to 136. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the statements of comprehensive income, changes in equity and cash flows for the period from 15 October 2009 to 31 December 2010 and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2010, the company income statement for the period from 15 October 2009 to 31 December 2010 and the notes, comprising a summary of accounting policies and other explanatory information.

#### ***Management board's responsibility***

The management board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the management board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion with respect to the consolidated financial statements***

In our opinion, the consolidated financial statements give a true and fair view of the financial position of LyondellBasell Industries N.V. as at 31 December 2010, and of its result and its cash flows for the period from 15 October 2009 to 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

**LyondellBasell Industries N.V.**

***Opinion with respect to the company financial statements***

In our opinion, the company financial statements give a true and fair view of the financial position of LyondellBasell Industries N.V. as at 31 December 2010, and of its result for the period from 15 October 2009 to 31 December 2010 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Rotterdam, 29 March 2011

PricewaterhouseCoopers Accountants N.V.

Original has been signed by A.F. Westerman RA

## **LyondellBasell Industries N.V.**

### **Proposed appropriation of result**

The part of the profit remaining after the appropriation to the reserves shall be at the disposal of the general meeting (article 22 sub 3 Articles of Association). The Board of Management, with the approval of the Supervisory Board, may also appropriate the complete profit to the reserves.

On 28 March, 2011, the Board of Management, with approval of the Supervisory Board, has appropriated an amount of \$ 1,042 million out of the profit to Other reserves. The remaining part of the profit over 2010, amounting to \$ 57 million, is available for distribution as dividend.

The Board of Management, with the approval of the Supervisory Board, will propose to the AGM to determine the dividend over 2010 at \$ 0.10 per ordinary share. Subject to the provisions of Article 22 of the Articles of Association, the 2010 final dividend will become payable as of 19 May 2011, which is 10 working days after the date of the shareholders' meeting. The payout ratio of this dividend amounts to 5.5% of the profit for 2010.

### **Subsequent events**

As from 1 January 2011, LyondellBasell Industries N.V. and LyondellBasell Subholdings B.V. will be included in the existing fiscal unity headed by LyondellBasell Industries Holdings B.V. LyondellBasell Industries N.V. will become the parent entity of this new fiscal unity.

Under the Dutch Corporate Income Tax Act, LyondellBasell Industries N.V. and its subsidiaries are jointly and severally liable for any taxes payable by the tax group. The companies in consolidated tax group are:

- LyondellBasell Industries N.V.
- LyondellBasell Subholdings B.V.
- LyondellBasell Finance Netherlands B.V.
- Lyondell Chemie International B.V.
- Lyondell Chemie POSM B.V.
- Lyondell PO11 C.V.
- Lyondell Chemie Investment Nederland B.V.
- Lyondell Chemie Nederland B.V.
- Lyondell Chemie (PO11) B.V.
- Lyondell Chemie Utilities B.V.
- Basell Benelux B.V.
- Basell Service Company B.V.
- Basell International Holdings B.V.
- Basell Europe Holdings B.V.
- Basell Finance Company B.V.
- Basell China Holdings B.V.
- Basell (Thailand) Holdings B.V.
- Basell Nederland B.V.
- Basell Finance and Trading Company B.V.
- LyondellBasell Netherlands Holdings B.V.
- LyondellBasell Brasil Holdings B.V.
- LyondellBasell Kazakhstan Holdings B.V.
- Basell Sales and Marketing Company B.V.

Further, reference is made to Note 38 - Subsequent events of the Consolidated Financial Statements.

## **LyondellBasell Industries N.V.**

### **Legal structure**

The list of our subsidiaries and equity interests is available at the Chamber of Commerce in Rotterdam.