

LyondellBasell Industries AF S.C.A.

2010 First Quarter Report

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**PART II**

Quarterly Financial Report for the period ended March 31, 2010 (unaudited)

# **PART I**

## **NOTICE**

LyondellBasell Industries N.V., a company with limited liability incorporated in the Netherlands is the successor in interest to LyondellBasell Industries AF S.C.A., a Luxembourg company. LyondellBasell Industries AF S.C.A. is no longer part of the LyondellBasell group. Lyondell Chemical Company, along with certain of its subsidiaries and affiliates, emerged from Chapter 11 bankruptcy protection on April 30, 2010.

## NO OFFER; FORWARD-LOOKING STATEMENTS

The financial statements and other information included on LyondellBasell's website at [www.lyondellbasell.com](http://www.lyondellbasell.com) are not intended and do not constitute an offer to sell or a solicitation of an offer to purchase any securities. LyondellBasell is not required by U.S. securities laws to file, and currently does not file, annual, quarterly or periodic reports with the United States Securities and Exchange Commission ("SEC"). The materials included on LyondellBasell's website are being provided for informational purposes only and are provided subject to the qualifications set forth therein, including without limitation with respect to the attached consolidated financial statements, and all related notes to the consolidated financial statements.

The attached LyondellBasell Quarterly Financial Report for the period ended March 31, 2010 and issued on May 19, 2010 contains consolidated financial statements that are unaudited and have been prepared from LyondellBasell's books and records in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information, but have not been filed with the SEC. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normally recurring adjustments, considered necessary for a fair presentation have been included. For further information, please refer to our audited consolidated financial statements for the year ended December 31, 2009.

Certain of the statements contained in the Quarterly Financial Report are "forward-looking statements" within the meaning of the U.S. federal securities laws. Some of the forward-looking statements may be identified by words such as "estimate," "believe," "expect," "anticipate," "plan," "may," "should" or other words that convey the uncertainty of future events or outcomes. These forward-looking statements are based on expectations and assumptions of management about future events which are believed to be reasonable at the time made and are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond LyondellBasell's control. LyondellBasell's actual results could be materially affected by factors including, but not limited to:

- the ability of LyondellBasell to comply with the terms of its financing facilities;
- the availability, cost and price volatility of raw materials and utilities, particularly the cost of oil and natural gas;
- uncertainties associated with the United States and worldwide capital markets and economies;
- the supply and demand balances for LyondellBasell's and its joint ventures' products, and the related effects of industry production capacities and operating rates;
- legal and environmental proceedings;
- tax rulings, consequences or proceedings;
- the business cyclicality of the chemical, polymers and refining industries;
- operating interruptions (including leaks, explosions, fires, weather-related incidents, mechanical failure, unscheduled downtime, supplier disruptions, labor shortages, strikes, work stoppages or other labor difficulties, transportation interruptions, spills and releases and other environmental risks);
- current and potential governmental regulatory actions in the U.S. and in other countries, including potential climate change regulation;
- political unrest and terrorist acts;
- competitive product and pricing pressures;
- LyondellBasell's ability to achieve expected cost savings and other synergies;
- risks and uncertainties posed by international operations, including foreign currency fluctuations;
- LyondellBasell's ability to service its substantial indebtedness;
- availability of cash and access to capital markets; and
- technological developments and LyondellBasell's ability to develop new products and process technologies.

Any of these factors, or a combination of these factors and other factors which are not currently known to LyondellBasell, could materially affect LyondellBasell's future results of operations (including those of its joint ventures) and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not

guarantees of future performance, and LyondellBasell's actual results (including those of its joint ventures) and future developments may differ materially from those projected in the forward-looking statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels.

All forward-looking statements in the Quarterly Financial Report are qualified in their entirety by the cautionary statements contained herein and on LyondellBasell's website. See Item 1.A. to LyondellBasell's Form 10 filed with the SEC on April 28, 2010 for additional information about factors that may affect LyondellBasell's businesses and operating results (including those of its joint ventures). These factors are not necessarily all of the important factors that could affect LyondellBasell and its joint ventures. You may find the Form 10 at [www.sec.gov](http://www.sec.gov) or via the link on the company website at <http://www.lyondellbasell.com/InvestorRelations/FinancialInformation/SECFilings>.

The Quarterly Financial Report contains time sensitive information that is accurate only as of the time hereof. LyondellBasell undertakes no obligation to update the information presented herein except to the extent required by law.

In addition, the Quarterly Financial Report contains summaries of contracts and other documents. These summaries may not contain all of the important information and reference is made to the actual contract or document for a more complete understanding of the contract or document involved.

## **PART II**

# **LyondellBasell Industries AF S.C.A.**

**(Debtor-In-Possession)**

## **Quarterly Financial Report**

**For the Period Ended March 31, 2010**

**LyondellBasell Industries N.V., a company with limited liability, incorporated in the Netherlands (“LyondellBasell N.V.”) is the successor in interest to LyondellBasell Industries AF S.C.A., a Luxembourg company. LyondellBasell Industries AF S.C.A. is no longer part of the LyondellBasell group. Lyondell Chemical Company, along with certain of its subsidiaries and affiliates, emerged from chapter 11 on April 30, 2010.**

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**FINANCIAL INFORMATION**  
**CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**(DEBTOR-IN-POSSESSION)**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

<u>Millions of dollars</u>	<b>For the three months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Sales and other operating revenues:</b>		
Trade	\$ 9,606	\$ 5,807
Related parties	149	93
	9,755	5,900
<b>Operating costs and expenses:</b>		
Cost of sales	9,130	5,792
Selling, general and administrative expenses	217	207
Research and development expenses	41	42
	9,388	6,041
Operating income (loss)	367	(141)
Interest expense (\$663 million and \$557 million contractual interest for the three months ended March 31, 2010 and 2009, respectively)	(411)	(445)
Interest income	2	20
Other income (expense), net	(198)	90
Loss from continuing operations before equity investments, reorganization items and income taxes	(240)	(476)
Income (loss) from equity investments	55	(20)
Reorganization items	207	(948)
Income (loss) from continuing operations before income taxes	22	(1,444)
Provision for (benefit from) income taxes	12	(432)
Income (loss) from continuing operations	10	(1,012)
Loss from discontinued operations, net of tax	--	(4)
<b>Net income (loss)</b>	<b>\$ 10</b>	<b>\$ (1,016)</b>

See Notes to the Consolidated Financial Statements.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**(DEBTOR-IN-POSSESSION)**

**CONSOLIDATED BALANCE SHEETS**

<u>Millions, except shares and par value data</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 537	\$ 558
Short-term investments	2	11
Accounts receivable:		
Trade, net	3,413	3,092
Related parties	229	195
Inventories	3,590	3,277
Prepaid expenses and other current assets	946	1,133
Total current assets	8,717	8,266
Property, plant and equipment, net	14,687	15,152
Investments and long-term receivables:		
Investment in PO joint ventures	880	922
Equity investments	1,125	1,085
Other investments and long-term receivables	90	112
Intangible assets, net	1,748	1,861
Other assets	338	363
Total assets	\$ 27,585	\$ 27,761
<b>LIABILITIES AND DEFICIT</b>		
Liabilities not subject to compromise:		
Current liabilities:		
Current maturities of long-term debt	\$ 487	\$ 497
Short-term debt	6,675	6,182
Accounts payable:		
Trade	1,694	1,627
Related parties	519	501
Accrued liabilities	1,220	1,390
Deferred income taxes	163	170
Total current liabilities	10,758	10,367
Long-term debt	304	305
Other liabilities	1,317	1,361
Deferred income taxes	2,012	2,081
Commitments and contingencies		
Liabilities subject to compromise	22,058	22,494
Stockholder's deficit:		
Common stock, €124 par value, 403,226 shares authorized and issued at March 31, 2010 and December 31, 2009	60	60
Additional paid-in capital	563	563
Retained deficit	(9,303)	(9,313)
Accumulated other comprehensive loss	(295)	(286)
LyondellBasell AF's share of stockholder's deficit	(8,975)	(8,976)
Non-controlling interests	111	129
Total deficit	(8,864)	(8,847)
Total liabilities and deficit	\$ 27,585	\$ 27,761

See Notes to the Consolidated Financial Statements.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**(DEBTOR-IN-POSSESSION)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<u>Millions of dollars</u>	<b>For the three months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 10	\$ (1,016)
Loss from discontinued operations, net of tax	--	4
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	424	416
Amortization of debt-related costs	106	98
Inventory valuation adjustment	--	55
Equity investments –		
Equity (income) loss	(55)	20
Distributions of earnings	13	2
Deferred income taxes	(15)	(434)
Reorganization items	(207)	948
Reorganization-related payments, net	(87)	(22)
Unrealized foreign currency exchange loss (gains)	202	(15)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(480)	332
Inventories	(384)	310
Accounts payable	122	(213)
Repayment of accounts receivable securitization facility	--	(503)
Accrued interest	7	84
Prepaid expenses and other current assets	158	(107)
Other, net	(187)	(526)
	(373)	(567)
Net cash used in operating activities – continuing operations	(373)	(567)
Net cash used in operating activities – discontinued operations	--	(4)
	(373)	(571)
<b>Cash flows from investing activities:</b>		
Expenditures for property, plant and equipment	(139)	(197)
Proceeds from insurance claims	--	16
Advances and contributions to affiliates	--	--
Proceeds from disposal of assets	--	14
Short-term investments	12	12
Other	--	(18)
	(127)	(173)
Net cash used in investing activities	(127)	(173)

See Notes to the Consolidated Financial Statements.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**(DEBTOR-IN-POSSESSION)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)**

<u>Millions of dollars</u>	<u>For the three months ended March 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of debtor-in-possession term loan facility	--	2,050
Proceeds from note payable	--	100
Repayment of note payable	--	(100)
Repayments of debtor-in-possession term loan facility	(3)	(2)
Net borrowings under debtor-in-possession revolving credit facility	525	--
Net repayments under pre-petition revolving credit facilities	--	(766)
Net repayments on revolving credit facilities	(3)	(510)
Proceeds from short-term debt	8	--
Repayments of short-term debt	(9)	(29)
Repayments of long-term debt	(9)	(49)
Payments of debt issuance costs	(13)	(93)
Other, net	(6)	--
	490	601
Effect of exchange rate changes on cash	(11)	(25)
<b>Decrease in cash and cash equivalents</b>	(21)	(168)
Cash and cash equivalents at beginning of period	558	858
Cash and cash equivalents at end of period	\$ 537	\$ 690

See Notes to the Consolidated Financial Statements.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**(DEBTOR-IN-POSSESSION)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 1. Emergence from Chapter 11 Proceedings

*Organization*—As part of the emergence from chapter 11 proceedings on April 30, 2010 (the “Emergence Date”), LyondellBasell Industries N.V. (“LyondellBasell N.V.”) became the successor parent holding company for the subsidiaries of LyondellBasell Industries AF S.C.A. after completion of the Bankruptcy Cases. LyondellBasell N.V. is a limited liability company (*naamloze vennootschap*) incorporated under Dutch law by deed of incorporation dated October 15, 2009. LyondellBasell Industries AF S.C.A., which was the predecessor parent holding company, is no longer part of the consolidated LyondellBasell group subsequent to the Emergence Date.

*Background*—LyondellBasell Industries AF S.C.A., a corporate partnership formed in the Grand Duchy of Luxembourg in April 2005, is wholly owned by Prochemie GmbH (“Prochemie”). Prochemie is owned 50% by Nell Limited, an affiliate of Access Industries, and 50% by ProChemie Holding Ltd.

LyondellBasell Industries AF S.C.A., together with its consolidated subsidiaries (collectively “the Company” or “LyondellBasell AF”), 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.

On January 6, 2009, certain of LyondellBasell AF’s indirect U.S. subsidiaries, including Lyondell Chemical Company (“Lyondell Chemical”), and its German indirect subsidiary, Basell Germany Holdings GmbH (“Germany Holdings” and collectively, the “Initial Debtors”), voluntarily filed petitions for relief under chapter 11 of title 11 of the United States Code (the “U.S. Bankruptcy Code”) in the U.S. Bankruptcy Court in the Southern District of New York (“U.S. Bankruptcy Court”). In April and May of 2009, voluntary petitions for relief under chapter 11 of the U.S. Bankruptcy Code were filed by LyondellBasell AF and its General Partner, LyondellBasell AF GP S.à r.l., and by thirteen additional U.S. subsidiaries (collectively, with the Initial Debtors, the “Debtors”). Through the Emergence Date, the Debtors continued to operate their businesses as debtors-in-possession (“DIP”) under the jurisdiction of the U.S. Bankruptcy Court and in accordance with the applicable provisions of the U.S. Bankruptcy Code.

On March 10, 2010, the Debtors filed a Third Amended Plan of Reorganization and Third Amended Disclosure Statement with the U.S. Bankruptcy Court, which incorporated the terms of the Amended Lender Litigation Settlement. The Third Amended Plan of Reorganization also incorporated a settlement (i) with the Bank of New York as trustee for the ARCO Notes and the Equistar Notes, whereby the holders of ARCO and Equistar Notes will share in certain distributions under any plan of reorganization in a formula driven relationship to distributions to be made on account of certain prepetition secured debt (ii) with the trustee for the Millennium Notes and certain holders of the Millennium Notes.

On March 11, 2010, the U.S. Bankruptcy Court approved the Third Amended Disclosure Statement Relating to the Third Amended Plan of Reorganization for the Debtors as containing adequate information within the meaning of the Bankruptcy Code. The U.S. Bankruptcy Court also approved the process for soliciting votes to accept or reject the Plan of Reorganization. The Plan of Reorganization specifies the proposed treatment of each class of claims and interests upon confirmation of the Plan of Reorganization.

On April 23, 2010, the U.S. Bankruptcy Court confirmed LyondellBasell AF’s Third Amended Plan of Reorganization (“Plan of Reorganization”) and the Debtors emerged from chapter 11 protection on April 30, 2010.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 1. Emergence from Chapter 11 Proceedings – (Continued)

*Emergence from chapter 11 proceedings*—As a result of the emergence from chapter 11 proceedings, certain prepetition liabilities against the Debtors were discharged to the extent set forth in the Plan of Reorganization and otherwise applicable law and the Debtors are permitted to make distributions to their creditors in accordance with the terms of the Plan of Reorganization.

The Plan of Reorganization sets forth the structure of the Debtors that are being reorganized in connection with the Bankruptcy Cases (the “Reorganized Debtors”).

Under the Plan of Reorganization, the organizational structure of the Company in North America was simplified by the removal of 90 legal entities. The ultimate ownership of 49 of these entities (identified as Schedule III Debtors in the Plan) were transferred to a new owner, the Millennium Custodial Trust, a trust established for the benefit of certain creditors, and these entities are no longer part of LyondellBasell N.V. In addition, certain real properties owned by the Debtors, including the Schedule III Debtors (as defined in the Third Amended Plan of Reorganization), were transferred to the Environmental Custodial Trust, which now owns and will be responsible for these properties. Any associated liabilities of the entities transferred to and owned by the Millennium Custodial Trust will be the responsibility of those entities and claims regarding those entities will be resolved solely using their assets and the assets of the trust. In total, \$250 million of cash was used to fund the two trusts, including approximately \$80 million to the Millennium Custodial Trust and approximately \$170 million to fund the Environmental Custodial Trust and to make certain direct payments to the Environmental Protection Agency and certain state environmental agencies.

As part of the emergence from chapter 11 proceedings, approximately 563.9 million shares of common stock of LyondellBasell N.V. were issued under the Plan, including 300 million shares of Class A new common stock issued in exchange for allowed claims under the Plan of Reorganization. Approximately 263.9 million shares of LyondellBasell N.V. Class B stock were issued in connection with a rights offering for gross proceeds of \$2.8 billion.

Pursuant to the Plan of Reorganization, administrative and priority claims, as well as the new money debtor-in-possession (DIP) financing were repaid in full. The DIP roll-up lenders received new third lien notes in the same principal amount as the DIP roll-up notes. Holders of senior secured claims received a combination of LyondellBasell N.V. Class A shares, rights to purchase Class B shares of LyondellBasell N.V., LyondellBasell N.V. stock warrants and cash in accordance with the Plan of Reorganization. Pursuant to the Amended Lender Litigation Settlement approved by the U.S. Bankruptcy Court on March 11, 2010, allowed general unsecured claims received a combination of cash and Class A shares of LyondellBasell N.V.

In conjunction with the emergence from chapter 11, LyondellBasell N.V., through its wholly owned subsidiary, LBI Escrow Corporation, (“LBI Escrow”) raised \$3.25 billion of first priority debt, including \$2.25 billion and €375 million offerings of senior secured notes in a private placement and borrowings of \$500 million under a senior term loan facility as part of its exit financing. Upon emergence, LBI Escrow merged with and into Lyondell Chemical, which replaced LBI Escrow as the issuer of the senior secured notes and as borrower under the term loan. The net proceeds from the sale of the notes, together with borrowings under the term loan, a new European securitization facility, and proceeds from the \$2.8 billion rights offering, were used to repay and replace certain existing debt, including the debtor-in-possession credit facilities and an existing European securitization facility, and to make certain related payments. In addition, LyondellBasell N.V. entered into a new \$1,750 million asset-based revolving credit facility, which can be used for advances or to issue up to \$700 million of letters of credit.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**1. Emergence from Chapter 11 Proceedings – (Continued)**

Effective May 1, 2010, LyondellBasell N.V. adopted fresh-start accounting pursuant to Accounting Standards Codification 852, “Reorganizations.” Accordingly, LyondellBasell AF’s financial statements for periods prior to May 1, 2010 will not be comparable to the financial statements prepared for LyondellBasell N.V. after emergence from bankruptcy. The consolidated financial statements included herein do not include the effects of fresh-start accounting. See Note 23 for an unaudited pro-forma presentation of the impact of emergence from chapter 11 proceedings and fresh start accounting on LyondellBasell N.V.’s financial position.

*Debtor in Possession Financial Information*—The financial statements of the Debtors are presented below.

Basis of Presentation

*Condensed Combined Debtors-in-Possession Financial Statements*—The following financial statements represent the condensed combined financial statements for the Debtors only. The Debtors’ non-Debtor subsidiaries are treated as non-consolidated affiliates in these financial statements. Accordingly, the net income of the non-Debtor subsidiaries is included in “Income from equity investments” in the statement of income, while the net assets of the non-Debtor affiliates are included as “Investments in non-Debtor affiliates.”

*Claims*—LyondellBasell AF recognizes claims at the probable allowed amount. Claims for rejected contracts are recorded at the earlier of default by LyondellBasell AF under the contract or notification to the U.S. Bankruptcy Court of rejection.

*Intercompany Transactions*—Intercompany transactions between the Debtors have been eliminated in the accompanying combined financial statements. Intercompany transactions between the Debtors and non-Debtor affiliates have not been eliminated. Intercompany loans, which comprise the following balances, are classified as “Receivables – non-Debtor affiliates” in Stockholder’s Deficit in the accompanying combined balance sheet in accordance with U.S. GAAP:

<u>Millions of dollars</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Short-term loans receivable	\$ 2,773	\$ 2,601
Long-term loans receivable	22	22
Net receivables – non-Debtor affiliates	<u>\$ 2,795</u>	<u>\$ 2,623</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**1. Emergence from Chapter 11 Proceedings – (Continued)**

*Reorganization Items*—The Debtors reorganization items were as follows for the three months ended March 31:

<u>Millions of dollars</u>	<u>2010</u>	<u>2009</u>
Asset write-offs and rejected contracts	\$ (185)	\$ 662
Estimated claims	(108)	38
Professional fees	80	54
Employee severance costs	--	81
Plant closure costs	7	17
Other	3	--
Total	<u>\$ (203)</u>	<u>\$ 852</u>

See Note 4 for further discussion of the Debtors' reorganization.

*Liabilities Subject to Compromise*—See Note 14 for a description of liabilities subject to compromise. In addition, the Debtors' balances in liabilities subject to compromise of \$22,631 million and \$23,085 million at March 31, 2010, and December 31, 2009, respectively, include payables to non-Debtor affiliates of \$573 million and \$591 million, respectively.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**1. Emergence from Chapter 11 Proceedings – (Continued)**

**CONDENSED COMBINED DEBTORS-IN-POSSESSION  
STATEMENT OF OPERATIONS**

<u>Millions of dollars</u>	<b>For the three months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Sales and other operating revenues:</b>		
Trade	\$ 5,382	\$ 3,341
Non-Debtor affiliates	244	81
	5,626	3,422
<b>Operating costs and expenses:</b>		
Cost of sales	5,377	3,411
Selling, general and administrative expenses	105	82
Research and development expenses	11	14
	5,493	3,507
Operating income (loss)	133	(85)
Interest expense (\$610 million and \$517 million contractual interest for the three months ended March 31, 2010 and 2009, respectively)	(381)	(377)
Interest income	42	7
Other expense, net	(75)	(7)
Loss before equity investments, reorganization items and income taxes	(281)	(462)
Income of non-Debtor affiliates	89	8
Reorganization items	203	(852)
Income (loss) before income taxes	11	(1,306)
Provision for (benefit from) income taxes	1	(365)
<b>Income (loss) from continuing operations</b>	10	(941)
Loss from discontinued operations, net of tax	-	(3)
<b>Net income (loss)</b>	\$ 10	\$ (944)

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**1. Emergence from Chapter 11 Proceedings – (Continued)**

**CONDENSED COMBINED DEBTORS-IN-POSSESSION**

**BALANCE SHEET**

<u>Millions of dollars</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 311	\$ 280
Short-term investments	--	9
Accounts receivable:		
Trade, net	1,465	1,336
Related parties	--	1
Non-Debtor affiliates	325	400
Inventories	2,167	1,980
Current deferred income tax assets	6	6
Prepaid expenses and other current assets	452	612
Total current assets	<u>4,726</u>	<u>4,624</u>
Property, plant and equipment, net	9,512	9,648
Investments and long-term receivables:		
Investment in PO joint venture	569	569
Investments in non-Debtor affiliates	4,927	5,034
Other investments and long-term receivables	14	28
Intangible assets, net	1,241	1,317
Noncurrent deferred tax assets	115	115
Other assets	184	186
Total assets	<u>\$ 21,288</u>	<u>\$ 21,521</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**1. Emergence from Chapter 11 Proceedings – (Continued)**

**CONDENSED COMBINED DEBTORS-IN-POSSESSION**

**BALANCE SHEET—(Continued)**

<u>Millions of dollars</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<b>LIABILITIES AND DEFICIT</b>		
Liabilities not subject to compromise:		
Current liabilities:		
Short-term debt	\$ 6,083	\$ 5,556
Accounts payable:		
Trade	874	880
Related parties	20	33
Non-Debtor affiliates	712	695
Accrued liabilities	615	762
Short-term loans payable – non-Debtor affiliates	156	132
Deferred income taxes	74	74
Total current liabilities	<u>8,534</u>	<u>8,132</u>
Other liabilities	197	159
Deferred income taxes	1,584	1,617
Commitments and contingencies		
Liabilities subject to compromise	22,631	23,085
Stockholder's deficit:		
Common stock	60	60
Additional paid-in capital	563	563
Retained deficit	(9,303)	(9,313)
Receivables - non-Debtor affiliates	(2,795)	(2,623)
Accumulated other comprehensive loss	(294)	(288)
Debtors' share of stockholder's deficit	<u>(11,769)</u>	<u>(11,601)</u>
Non-controlling interests	111	129
Total deficit	<u>(11,658)</u>	<u>(11,472)</u>
Total liabilities and deficit	<u>\$ 21,288</u>	<u>\$ 21,521</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**1. Emergence from Chapter 11 Proceedings – (Continued)**

**CONDENSED COMBINED DEBTORS-IN-POSSESSION**

**STATEMENT OF CASH FLOWS**

<u>Millions of dollars</u>	<b>For the three months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 10	\$ (944)
Loss from discontinued operations, net of tax	--	3
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	270	279
Reorganization items	(203)	852
Reorganization-related payments	(79)	(21)
Income from equity investments	(89)	(8)
Deferred income taxes	2	(365)
Amortization of debt-related costs	100	95
Unrealized foreign currency exchange losses	119	7
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(144)	(6)
Inventories	(186)	62
Accounts payable	(91)	338
Repayment of accounts receivable securitization facility	--	(503)
Prepaid expenses and other current assets	162	(33)
Other, net	(45)	(103)
Net cash used in operating activities - continuing operations	(174)	(347)
Net cash used in operating activities - discontinued operations	--	(3)
Net cash used in operating activities	(174)	(350)
<b>Cash flows from investing activities:</b>		
Expenditures for property, plant and equipment	(64)	(60)
Net advances to non-Debtor affiliates	(264)	(653)
Proceeds from disposal of assets	--	14
Other	7	12
Net cash used in investing activities	(321)	(687)

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**1. Emergence from Chapter 11 Proceedings – (Continued)**

**COMBINED DEBTORS-IN-POSSESSION  
CONDENSED STATEMENT OF CASH FLOWS—(Continued)**

<u>Millions of dollars</u>	<b>For the three months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from financing activities:</b>		
Short-term borrowings	--	(7)
Proceeds from issuance of debtor-in-possession term loan facility	--	2,050
Proceeds from note payable	--	100
Repayment of note payable	--	(100)
Net borrowings under debtor-in-possession revolving credit facility	525	--
Net repayments under pre-petition revolving credit facilities	--	(766)
Repayment of North American securitization facility	--	(115)
Payment of debt issuance costs	(13)	(93)
Net proceeds from non-Debtor affiliate loans	14	--
Other financing	--	1
Net cash provided by financing activities	526	1,070
Effect of exchange rate changes on cash	--	--
<b>Increase in cash and cash equivalents</b>	31	33
Cash and cash equivalents at beginning of period	280	386
Cash and cash equivalents at end of period	\$ 311	\$ 419

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 2. Basis of Presentation

In the consolidated financial statements presented herein, LyondellBasell AF continues to consolidate its Debtor and non-Debtor subsidiaries as if LyondellBasell AF and the Initial Debtors filed voluntary petitions for relief under chapter 11 of the U.S. Bankruptcy Code on January 6, 2009. This consolidated presentation best reflects the substance of the group relationship during the administration of the bankruptcy proceedings.

Pursuant to accounting principles generally accepted in the United States of America (“U.S. GAAP”), certain pre-petition liabilities of the Debtors have been reclassified to long-term liabilities on the accompanying consolidated balance sheet as liabilities subject to compromise (see Note 14). Liabilities subject to compromise currently include the Debtors’ long-term debt that is considered undersecured and amounts due from the Debtors to vendors and employees for goods and services received prior to the January 6, 2009, April 24, 2009 and May 8, 2009 petition dates and include damage claims created by the Debtors’ rejection of executory contracts. The Debtors continue to analyze and reconcile these amounts; therefore, the amounts reflected herein are current estimates and subject to change as additional analysis takes place. The Debtors recognize claims at the probable allowed amounts. Claims for rejected contracts are recorded at the earlier of default by the Debtors under the contract or notification to the U.S. Bankruptcy Court of rejection. Liabilities subject to compromise are distinguished from pre-petition liabilities of the Debtors estimated to be fully secured, post-petition liabilities of the Debtors and liabilities of the non-Debtors for all of which the balance sheet classification is unchanged.

In addition, the accompanying consolidated financial statements are unaudited and have been prepared from the books and records of LyondellBasell AF in accordance with the U.S. Securities and Exchange Commission’s (“SEC”) instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements for the year ended December 31, 2009.

#### 3. Accounting and Reporting Changes

*Revenue Recognition*—In April 2010, the Financial Accounting Standards Board (the “FASB”) issued additional guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. This amendment is effective beginning third quarter of 2010. Earlier application of this amendment is permitted. LyondellBasell AF is currently evaluating the impact of the adoption of this amendment on its consolidated financial statements.

*Income Taxes*—In April 2010, the FASB issued additional guidance on accounting for certain tax effects of the 2010 Health Care Reforms Act. The Accounting Standards Update (“ASU”) requires entities to immediately recognize, in continuing operations in the Consolidated Statement of Operations, in the period that includes the enactment date, the impact of the change in tax law. The adoption of these changes, in March 2010, did not have a material effect on LyondellBasell AF’s consolidated financial statements.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 3. Accounting and Reporting Changes – (Continued)

*Fair Value Measurement*—In January 2010, the FASB issued additional guidance on improving disclosures regarding fair value measurements. The ASU requires entities to disclose the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, as well as the reasons for any transfers in or out of Level 3. Except for a requirement to disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, all of the amendments are effective for LyondellBasell AF beginning in the first quarter of 2010. LyondellBasell AF's application of these amendments as of March 31, 2010, did not have a material effect on its consolidated financial statements. The requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements does not become effective for LyondellBasell AF until 2011. LyondellBasell AF does not expect this additional requirement to have a material impact on its consolidated financial statements.

*Variable Interest Entities*—In June 2009, the FASB amended the consolidation guidance applicable to variable interest entities ("VIEs") and increased the disclosure requirements concerning an enterprise's continuing involvement with VIEs. LyondellBasell AF's application of these changes in the first quarter of 2010 did not have a material effect on its consolidated financial statements.

*Multiple-element Arrangements*—In October 2009, the FASB ratified the consensus reached by the EITF to require companies to allocate revenue in multiple-element arrangements based on an element's estimated selling price if vendor-specific or other third-party evidence of value is not available. This amendment is effective beginning January 1, 2011. Earlier application of this amendment is permitted. LyondellBasell AF is currently evaluating both the timing and the impact of the adoption of this amendment on its consolidated financial statements.

*Transfer and Servicing*—In June 2009, the FASB revised the requirements for accounting for transfers of financial assets. These revisions eliminate the concept of a "qualifying special-purpose entity," change the requirements for de-recognizing financial assets, and require additional disclosures regarding transfers of financial assets, securitization transactions, and exposures to risks related to transferred financial assets. LyondellBasell AF's adoption of these changes in the first quarter of 2010 did not have a material effect on its consolidated financial statements.

#### 4. Reorganization

Reorganization items recognized by the Debtors since the January 6, 2009 bankruptcy are classified as "Reorganization items" on the Consolidated Statement of Operations.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**4. Reorganization – (Continued)**

LyondellBasell AF’s charges for reorganization items, including charges recognized by the Debtors as described in Note 1, were as follows for the three months ended March 31:

<u>Millions of dollars</u>	<u>2010</u>	<u>2009</u>
Asset write-offs and rejected contracts	\$ (185)	\$ 662
Estimated claims	(108)	38
Accelerated amortization of debt issuance costs	- -	30
Professional fees	81	62
Employee severance costs	(8)	139
Plant closures costs	9	17
Other	4	- -
Total	<u>\$ (207)</u>	<u>\$ 948</u>

Estimated claims in the above table comprise adjustments made to reflect the Debtors’ estimated claims to be allowed. Such claims are classified as “Liabilities subject to compromise.”

On March 13, 2009, the U.S. Bankruptcy Court approved the long-term idling of Debtor Equistar Chemicals, LP’s (“Equistar”) Chocolate Bayou olefins plant near Alvin, Texas, the reduction of approximately 220 employees supporting olefins operations at the site and the rejection of certain executory contracts and unexpired leases related to the facility. In the same March 13, 2009 order, the U.S. Bankruptcy Court authorized Equistar to reject its ground lease at the Chocolate Bayou plant, pursuant to which Equistar leased the real property occupied by the olefins plant operations, and to permanently shut down the unit by August 4, 2009. The decision to permanently cease production at the Chocolate Bayou olefins plant reflected the Company’s reduced projections for olefins demand, the limited feedstock flexibility of the site, the high fixed costs associated with the plant’s scale and the adverse terms of the property lease and related site service agreements. In the first quarter of 2009, the Debtors wrote off the \$612 million carrying value of the facility and other assets.

On April 26, 2010, the U.S. Bankruptcy Court approved a settlement related to abandoning the site. Pursuant to the settlement agreement, Equistar has agreed to perform certain decommissioning and decontamination work regarding the real property, which is estimated to take approximately two years. The current owner has agreed to provide support services, utilities and access to Equistar in return for monthly payments from Equistar; and the former owner has agreed to make a cash payment to Equistar in settlement of this and other disputes between the former owners and Equistar. During the first quarter of 2010, net costs related to the settlement and for support services provided by the owner and for operating the facility totaled \$10 million.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 4. Reorganization – (Continued)

As of the commencement of these chapter 11 cases, certain of the Debtors were partners in a joint venture that produced ethylene glycol at a facility in Beaumont, Texas. The facility sustained damage during Hurricane Ike in September 2008, and was not returned to service. On February 26, 2009, the Debtors received Bankruptcy Court approval for the reduction of the workforce at this facility, following completion of initial phases of certain post-hurricane remediation at the site. On July 17, 2009, the Debtors filed a motion with the U.S. Bankruptcy Court seeking to withdraw as general partner from the joint venture; to reject the related operating agreement; and to transfer custody and control of the facility and its assets to its joint venture partner. On August 11, 2009, the U.S. Bankruptcy Court granted the Debtor's motion. The Debtors' earnings for the first quarter of 2009 reflect a \$50 million pretax charge to write off the carrying value of this facility.

In addition to the charges noted above, the Debtors had reorganization income totaling \$213 million and reorganization charges totaling \$190 million during the first quarters of 2010 and 2009, respectively, including adjustments related to rejection of certain executory contracts; the net write off of unamortized debt issuance costs, premiums and discounts; allowed claims for environmental liabilities; professional fees associated with the chapter 11 proceedings; and related employee severance and other costs.

The non-Debtors also recognized charges of \$96 million during the first quarter of 2009, including charges for employee severance and the write off of unamortized debt issuance costs, as a result of the bankruptcy.

#### 5. Insurance Claims

LyondellBasell AF received insurance proceeds in the first quarter 2009 and on April 24, 2009 of \$16 million and \$56 million, respectively, representing partial settlement of outstanding claims related to damages sustained in 2005 at the polymers plant in Münchsmünster, Germany. These proceeds are being used to finance the construction of the polyethylene plant in Münchsmünster, Germany (see Note 18). These gains on involuntary conversion totaled \$72 million and are included in "Other income, net," in the consolidated statements of income for the three months ended March 31, 2009.

#### 6. Investment in PO Joint Ventures

LyondellBasell AF, together with Bayer AG and Bayer Corporation (collectively "Bayer"), share ownership in a U.S. propylene oxide ("PO") manufacturing joint venture (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 2009. LyondellBasell AF takes in kind the remaining PO production and all co-products styrene monomer ("SM" or "styrene"), and tertiary butyl ether ("TBA") production from the U.S. PO Joint Venture.

In addition, LyondellBasell AF and Bayer each have a 50% interest in a separate manufacturing joint venture (the "European PO Joint Venture"), which includes a world-scale PO/SM plant at Maasvlakte near Rotterdam, The Netherlands. LyondellBasell AF and Bayer each are entitled to 50% of the PO and SM production at the European PO Joint Venture.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**6. Investment in PO Joint Ventures – (Continued)**

Changes in LyondellBasell AF's investment in the U.S. and European PO joint ventures for the three-month periods ended March 31, 2010 and 2009 are summarized as follows:

<u>Millions of dollars</u>	<u>U.S. PO Joint Venture</u>	<u>European PO Joint Venture</u>	<u>Total PO Joint Ventures</u>
Investment in PO joint ventures – January 1, 2010	\$ 533	\$ 389	\$ 922
Cash contributions (return of investment)	--	(3)	(3)
Depreciation and amortization	(10)	(5)	(15)
Effect of exchange rate changes	--	(24)	(24)
Investment in PO joint ventures – March 31, 2010	<u>\$ 523</u>	<u>\$ 357</u>	<u>\$ 880</u>
Investment in PO joint ventures – January 1, 2009	\$ 562	\$ 392	\$ 954
Cash contributions	8	11	19
Depreciation and amortization	(9)	(4)	(13)
Effect of exchange rate changes	--	(18)	(18)
Investment in PO joint ventures – March 31, 2009	<u>\$ 561</u>	<u>\$ 381</u>	<u>\$ 942</u>

LyondellBasell AF's PO/SM plant at Maasvlakte near Rotterdam, the Netherlands was temporarily idled during the first quarter 2009 and resumed operations in mid-May 2009.

**7. Equity Investments**

The changes in equity investments are as follows for the three months ended March 31:

<u>Millions of dollars</u>	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 1,085	\$ 1,215
Income (loss) from equity investments	55	(20)
Dividends received	(13)	(2)
Contributions to joint venture	5	--
Currency exchange effects	(13)	(34)
Other	6	(8)
Ending balance	<u>\$ 1,125</u>	<u>\$ 1,151</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**7. Equity Investments – (Continued)**

Summarized balance sheet information and LyondellBasell AF's share of equity investments was as follows:

<u>Millions of dollars</u>	<u>March 31, 2010</u>		<u>December 31, 2009</u>	
	<u>100%</u>	<u>Company Share</u>	<u>100%</u>	<u>Company Share</u>
Current assets	\$ 3,109	\$ 1,124	\$ 2,760	\$ 1,016
Noncurrent assets	6,775	2,145	6,887	2,172
Total assets	9,884	3,269	9,647	3,188
Current liabilities	2,365	855	1,881	695
Noncurrent liabilities	3,812	1,061	4,207	1,180
Net assets	<u>\$ 3,707</u>	<u>\$ 1,353</u>	<u>\$ 3,559</u>	<u>\$ 1,313</u>

Summarized income statement information and LyondellBasell AF's share for the periods for which the respective equity investments were accounted for under the equity method is set forth below:

<u>Millions of dollars</u>	<u>For the three months ended March 31,</u>			
	<u>2010</u>		<u>2009</u>	
	<u>100%</u>	<u>Company Share</u>	<u>100%</u>	<u>Company Share</u>
Revenues	\$ 2,338	\$ 744	\$ 1,226	\$ 423
Cost of sales	(2,035)	(653)	(1,110)	(390)
Gross profit	303	91	116	33
Net operating expenses	(63)	(21)	(74)	(30)
Operating profit	240	70	42	3
Interest income	7	3	2	--
Interest expense	(37)	(12)	(16)	(7)
Foreign currency translation	22	10	(45)	(21)
Income from equity investments	1	--	2	--
Income (loss) before income taxes	233	71	(15)	(25)
(Provision for) benefit from income taxes	(51)	(16)	9	5
Net income (loss)	<u>\$ 182</u>	<u>\$ 55</u>	<u>\$ (6)</u>	<u>\$ (20)</u>

In 2009, LyondellBasell AF recognized pretax impairment charges totaling \$228 million for impairment of the carrying value of its investments in certain joint ventures. The carrying value of LyondellBasell AF's equity investments at March 31, 2010 and December 31, 2009 of \$1,125 million and \$1,085 million, respectively, reflect the 2009 impairment of \$228 million, which is excluded from LyondellBasell AF's share of its equity investments' net assets of \$1,353 million and \$1,313 million, respectively.

A joint venture of LyondellBasell AF is in default under an agreement as a result of LyondellBasell AF's voluntary filing for relief under chapter 11 of the U.S. Bankruptcy Code on April 24, 2009. The parties are currently negotiating in good faith and at present there is no evidence that such negotiations will not be concluded successfully.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**8. Accounts Receivable**

LyondellBasell AF's allowance for doubtful accounts receivable, which is reflected in the Consolidated Balance Sheets as a reduction of accounts receivable, totaled \$93 million and \$109 million at March 31, 2010 and December 31, 2009, respectively.

In December 2007, in connection with the acquisition of Lyondell Chemical, certain U.S. subsidiaries entered into a \$1,150 million accounts receivable securitization facility to sell, through a wholly owned, bankruptcy-remote subsidiary, on an ongoing basis and without recourse, interests in a pool of U.S. accounts receivable to financial institutions participating in the facility.

On January 9, 2009, as a result of the filing for relief under chapter 11 of the U.S. Bankruptcy Code, the \$1,150 million accounts receivable sales facility was terminated and repaid in full, using \$503 million of the initial proceeds of the DIP Financing. For a discussion of LyondellBasell AF's other accounts receivable securitization programs, see Note 11.

**9. Inventories**

Inventories consisted of the following components:

<u>Millions of dollars</u>	<u>March 31, 2010</u>	<u>December 31 2009</u>
Finished goods	\$ 2,192	\$ 2,073
Work-in-process	221	164
Raw materials and supplies	1,177	1,040
Total inventories	<u>\$ 3,590</u>	<u>\$ 3,277</u>

In the first quarter of 2009, LyondellBasell AF recorded a charge of \$55 million to adjust the value of its inventory to market value, which was lower than the carrying cost at March 31, 2009.

**10. Property, Plant and Equipment**

The components of property, plant and equipment, at cost, and the related accumulated depreciation were as follows:

<u>Millions of dollars</u>	<u>March 31, 2010</u>	<u>December 2009</u>
Land	\$ 287	\$ 297
Manufacturing facilities and equipment	17,457	17,665
Construction in progress	1,055	1,029
Total property, plant and equipment	18,799	18,991
Less accumulated depreciation	(4,112)	(3,839)
Property, plant and equipment, net	<u>\$ 14,687</u>	<u>\$ 15,152</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**10. Property, Plant and Equipment – (Continued)**

Depreciation and amortization expense is summarized as follows:

<u>Millions of dollars</u>	<b>For the three months ended</b>	
	<b>March 31, 2010</b>	<b>March 31, 2009</b>
Property, plant and equipment	\$ 378	\$ 371
Investment in PO joint ventures	11	13
Technology, patent and license costs	19	8
Software costs	9	4
Other	7	20
Total depreciation and amortization	<b>\$ 424</b>	<b>\$ 416</b>

On February 25, 2010, based on the continued impact of global economic conditions on polypropylene demand, LyondellBasell AF announced a project to cease production at, and permanently shut down, its polypropylene plant at Terni, Italy. LyondellBasell AF recognized charges of \$23 million related to plant and other closure costs in the first quarter of 2010. In conjunction with the project, LyondellBasell AF has started consultation with representatives of the works council with respect to the consequences for approximately 120 affected employees at the site.

LyondellBasell AF believes that there are asset retirement obligations associated with some of its facilities, but that the present value of those obligations normally is not material in the context of an indefinite expected life of the facilities. LyondellBasell AF continually reviews the optimal future alternatives for its facilities. Any decision to retire one or more facilities may result in an increase in the present value of such obligations.

The liabilities that had been recognized for all asset retirement obligations were \$122 million and \$132 million at March 31, 2010 and December 31, 2009, respectively.

**11. Short-Term Debt**

On April 8, 2010, Lyondell Chemical completed the financing of a new \$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. Advances under this new facility are available to Lyondell Chemical, Equistar, Houston Refining, or LyondellBasell Acetyls as of April 30, 2010.

Consistent with the terms of the Plan of Reorganization, on the Emergence Date, Lyondell Chemical issued Plan Roll-up Notes under an indenture of approximately \$3,240 million replacing the DIP roll-up loans incurred under the Bankruptcy Cases as part of the DIP Term Loan Facility.

The outstanding balances of the debt identified as New Money Loans, ABL Facility, and Receivables securitization program in the table below were repaid in connection with LyondellBasell AF’s emergence from bankruptcy. See Note 1 for a complete discussion of the chapter 11 emergence from bankruptcy.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**11. Short-Term Debt – (Continued)**

Existing loans, notes and other short-term debt due to banks and other unrelated parties consisted of the following:

<u>Millions of dollars</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Debtor-in-Possession Credit Agreements:		
Term Loan facility due 2010:		
New Money Loans	\$ 2,167	\$ 2,167
Roll-up Loans – Senior Secured Credit Facility:		
Term Loan A due 2013 – U.S. tranche	385	385
Term Loan A due 2013 – Dutch tranche	119	122
Term Loan B due 2014 – U.S. tranche (\$1 million of discount)	2,015	2,012
Term Loan B due 2014 – German tranche	465	465
Revolving Credit Facility – U.S. tranche	202	202
Revolving Credit Facility – Dutch tranche	54	54
ABL Facility	850	325
Receivables securitization program	353	377
Accounts receivable factoring facility	22	24
Financial payables to equity investees	11	12
Other	32	37
Total short-term debt	<u>\$ 6,675</u>	<u>\$ 6,182</u>

On March 17, 2010, the Debtors exercised the option to extend the maturity date of the DIP Financing from April 6, 2010 to June 3, 2010. In addition, the Debtors requested and received consent from the DIP Term Loan and Revolving Credit Facility lenders to permit the applicable Debtors to take necessary actions to effect exit transactions in a manner consistent with the plan of reorganization.

*DIP Financing*—On January 8, 2009, the Debtors received interim U.S. Bankruptcy Court approval, and on March 1, 2009, the final U.S. Bankruptcy Court approval, of the debtor-in-possession financings that provided for facilities in an aggregate amount up to \$8,500 million, as follows, comprising: (i) a \$6,500 million term loan facility (“DIP Term Loan Facility”) consisting of: (a) \$3,250 million of new funding (the “New Money Loans”) and (b) \$3,250 million of a dollar-for-dollar “roll up” of previously outstanding senior secured loans (the “Roll-Up Loans”); and (ii) an asset-based facility with a revolving credit line initially in an amount up to \$1,540 million, (“DIP ABL Facility” and together with the DIP Term Loan Facility, the “DIP Financing”) subject to a borrowing base, with an option to increase this facility through the addition of new lenders by an amount up to \$460 million so that the aggregate DIP ABL Facility equaled an amount up to \$2,000 million. On March 12, 2009 and July 15, 2009, new lenders were added increasing the DIP Financing by \$30 million and \$50 million, respectively, to \$8,120 million.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 11. Short-Term Debt – (Continued)

The initial proceeds of the DIP Financing were used: (i) to refinance, in full, (A) the Senior Secured Inventory-Based Facility, (B) the \$1,150 million Accounts Receivable Securitization Facility (see Note 8), (C) the \$200 million North American accounts receivable securitization program, and (D) the \$100 million super emergency interim DIP Financing; (ii) to pay related transaction costs, fees and expenses; (iii) to provide working capital; and (iv) for other general corporate purposes of the Debtors as well as the non-U.S. subsidiaries of LyondellBasell AF. Pursuant to the DIP Financing, not more than €700 million of the proceeds under the DIP Financing may be used to fund LyondellBasell AF's non-U.S. subsidiaries. From inception of the DIP Financing agreements to March 31, 2010, the maximum amount advanced to LyondellBasell AF's non-U.S. subsidiaries, was \$634 million (€481 million at historical rates). At March 31, 2010 and December 31, 2009, advances of \$335 million (€249 million at historical rates) and \$115 million (€80 million at historical rates), respectively, were outstanding.

*DIP Term Loan Facility*—On January 9, 2009, the Debtors borrowed \$2,167 million under the DIP Term Loan Facility and received proceeds, net of related fees, of \$2,089 million. Of the \$2,089 million in proceeds: (i) \$672 million was used, together with borrowings under the DIP ABL Facility, to refinance, in full, the pre-existing asset-based facilities; (ii) \$507 million was used to fund the operations of non-U.S. subsidiaries; and (iii) \$100 million was used to repay a demand note related to emergency post-petition funding. In the three months ended March 31, 2010 and 2009, the Debtors paid fees of \$13 million and \$39 million, respectively, primarily related to the DIP Facilities, including fees associated with amendments to the DIP Financing agreement. The DIP Term Loan facility was repaid in full on April 30, 2010.

Through April 30, 2010, loans under the DIP Term Loan Facility bore interest at either the Base Rate or the Eurodollar Rate (both as defined in the DIP Term Loan Facility), plus, in either case, an applicable margin. The Eurodollar Rate could not decrease below 3% for New Money Loans, and for 62% of the Roll-Up Loans, cannot decrease below 3.25%. In the case of New Money Loans, the applicable margin per annum was 9% for Base Rate Loans and 10% for Eurocurrency Loans. The applicable margin per annum for Roll-Up Loans was 2.69% for Base Rate Loans and 3.69% for Eurocurrency Loans, subject to adjustment. In the event of default, interest would have increased by 200 basis points. Interest on Eurocurrency Loans was payable on the last day of the applicable interest period and on the maturity date, and, for Base Rate Loans, on the last day of each calendar month and on the maturity date. Additional fees under the DIP Term Loan Facility included a 1.5% per annum fee on the daily unused portion of the New Money Loan commitments and a 3% exit fee due upon prepayment of New Money Loans. An exit fee was also applicable to any voluntary reduction of the New Money Loan commitments and Roll-Up Loans. To the extent a New Money Loan commitment was voluntarily reduced or an outstanding New Money Loan was prepaid, such amounts could not be borrowed or re-borrowed. As of December 31, 2009, LyondellBasell AF had recorded a \$195 million liability related to the 3% exit fee and a corresponding deferred asset, which was fully amortized as of April 30, 2010 and is reflected in "Amortization of debt-related costs" in the Statement of Cash Flows. The exit fee was paid in full on April 30, 2010, as part of LyondellBasell AF's emergence from bankruptcy.

*DIP ABL Facility*—Pursuant to the DIP ABL Facility and through April 30, 2010, the Debtors could, subject to a borrowing base, after giving effect to a \$100 million unused availability requirement, borrow up to \$1,620 million. The borrowing base was determined using formulae applied to accounts receivable and inventory balances, and was reduced to the extent of outstanding letters of credit under the facility, which were limited to \$700 million. The DIP ABL was repaid in full on April 30, 2010.

On January 9, 2009, the Debtors borrowed \$810 million under the DIP ABL Facility, paying \$93 million of fees related to the new facility and, together with proceeds from the DIP Term Loan Facility, refinanced the pre-existing asset-based facilities. At March 31, 2010 and December 31, 2009, there were net borrowings of \$850 million and \$325 million, respectively, outstanding under the DIP ABL Facility and outstanding letters of credit totaled \$613 million and \$424 million, respectively.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 11. Short-Term Debt – (Continued)

*Receivables securitization programs*— LyondellBasell AF had an accounts receivable securitization program under which LyondellBasell AF could receive funding of up to €450 million against eligible receivables of certain European subsidiaries. Transfers of accounts receivable under this program did not qualify as sales; therefore, the transferred accounts receivable and the proceeds received through such transfers were included in trade receivables, net, and short-term debt in the consolidated balance sheets. At March 31, 2010 and December 31, 2009, amounts of \$353 million and \$377 million, respectively, were funded under the European receivables securitization program. This facility was refinanced, in full, on May 4, 2010 and replaced with a new European securitization facility.

*Accounts Receivable Factoring Facility*—On October 8, 2009, a non-debtor subsidiary of LyondellBasell AF entered into an accounts receivable factoring facility for up to €100 million. The factoring facility is for an indefinite period, non-recourse, unsecured and terminable by either party subject to notice. The amount of outstanding receivables sold under this facility was \$22 million and \$24 million as of March 31, 2010 and December 31, 2009, respectively.

#### 12. Accounts Payable

Accounts payable at March 31, 2010 and December 31, 2009 included liabilities in the amount of \$10 million and \$13 million, respectively, for checks issued in excess of associated bank balances, but not yet presented for collection.

#### 13. Long-Term Debt

On April 8, 2010, LBI Escrow issued \$2,250 million of 8% senior secured notes due 2017 and €375 million of senior secured notes due 2017, (collectively, the “Senior Secured Notes”). Also on April 8, 2010, LBI Escrow entered into a six-year, \$500 million senior term loan facility (the “Senior Term Loan Facility”) and borrowed \$500 million thereunder. On April 30, 2010, Lyondell Chemical was merged with and replaced LBI Escrow as issuer of the Senior Secured Notes and borrower under the Senior Term Loan Facility.

Consistent with the Plan of Reorganization, the outstanding balances of the Dutch Tranche of Term loan A and the revolving credit facility, identified in the table below, were settled with Class A shares of LyondellBasell N.V. and rights to purchase LyondellBasell N.V. Class B shares in a rights offering, as part of LyondellBasell AF’s emergence from bankruptcy. See Note 1 for a complete discussion of the chapter 11 emergence from bankruptcy.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**13. Long-Term Debt – (Continued)**

Existing loans, notes and other long-term debt due to banks and other unrelated parties consisted of the following:

<u>Millions of dollars</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Bank credit facilities:		
Senior secured credit facility:		
Term loan A due 2013 – Dutch tranche	\$ 322	\$ 331
\$1,000 million revolving credit facility	163	164
Guaranteed Notes, due 2027	300	300
Other	6	7
Total	<u>791</u>	<u>802</u>
Less current maturities	<u>(487)</u>	<u>(497)</u>
Long-term debt	<u>\$ 304</u>	<u>\$ 305</u>

As a result of the Bankruptcy Cases, LyondellBasell AF's \$8,000 million Interim Loan, \$615 million Senior Notes due 2015, €500 million Senior Notes due 2015, Senior Debentures due 2026 and portions of the Senior Secured Credit Facility comprising the U.S. tranche of Term Loan A, the U.S. and German tranches of Term Loan B, the U.S. tranche of the Revolving Credit Facility, as well as the 10.25% Debentures due 2010, the 9.8% Debentures due 2020, the 7.55% and 7.625% Debentures due 2026, a \$6 million note payable to KIC Ltd. and a \$1 million note payable to the State of Maryland, all of which are estimated to be undersecured, are classified as "Liabilities subject to compromise" on the consolidated balance sheets (see Note 14). On April 30, 2010, all such debt was discharged pursuant to the Third Amended Plan of Reorganization.

At March 31, 2010 and December 31, 2009, long-term debt comprised the \$300 million guaranteed notes due 2027 and other debt, all of which is held by non-debtors.

In the three months ended March 31, 2010 and 2009, amortization of debt premiums, including adjustments to fair values included in accounting for the acquisition of Lyondell Chemical, and debt issuance costs resulted in amortization expense of \$79 million and \$98 million, respectively, that was included in interest expense in the Consolidated Statements of Operations. In the first quarter of 2009, in conjunction with the reclassification of debt to "Liabilities Subject to Compromise," LyondellBasell AF wrote off the associated unamortized debt issuance costs of \$30 million, which are reflected in "Reorganization items" in the Consolidated Statements of Operations.

For discussion of the impact of the chapter 11 filing on LyondellBasell's debt, as well as the senior secured superpriority DIP Financing approved by the U.S. Bankruptcy Court, see Note 1.

**14. Liabilities Subject to Compromise**

As a result of the Bankruptcy Cases, the payment of prepetition indebtedness may be subject to compromise or other treatment under the Debtors' plan of reorganization. Although actions to enforce or otherwise effect payment of prepetition claims are generally stayed, at hearings held in January 2009, the Bankruptcy Court granted final approval of the Debtors' "first-day" motions, generally designed to stabilize the Debtors' operations and covering, among other things, employee wages, health and benefit plans, qualified pension and savings plans, supplier relations, customer relations, business operations, utilities, tax matters, cash management and retention of professionals.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**14. Liabilities Subject to Compromise – (Continued)**

The Debtors have paid substantially all of their undisputed postpetition claims in the ordinary course of business. In addition, the Debtors may reject prepetition executory contracts and unexpired leases with respect to the Debtors' operations with the approval of the U.S. Bankruptcy Court. Damages resulting from rejection of executory contracts and unexpired leases are treated as general unsecured prepetition claims and are classified as liabilities subject to compromise.

On May 14, 2009, the U.S. Bankruptcy Court entered an order establishing June 30, 2009 as the claims bar date. The claims bar date is the date by which most claims against the Debtors arising prior to the Debtors' chapter 11 filings were required to be filed if the claimants wished to receive any distribution in the Bankruptcy Cases. On May 26, 2009, the Debtors commenced notification, including publication, to all known actual and potential creditors informing them of the bar date and the required procedures with respect to the filing of proofs of claim. As part of the Bankruptcy Cases, claims timely filed by the claims bar date will ultimately be reconciled against the amounts listed by, with certain exceptions, the Debtors in their Schedules of Assets and Liabilities. In most cases, to the extent the Debtors object to any filed claims, the Bankruptcy Court will make the final determination as to the amount, nature and validity of such claims. Moreover, the treatment of allowed claims against the Debtors will be determined pursuant to the terms of the Third Amended Plan of Reorganization, which was filed and approved by the U.S. Bankruptcy Court in March 2010.

Prepetition liabilities subject to compromise are reported at the expected allowed amount, even if they potentially will be settled for lesser amounts in accordance with the terms of the Third Amended Plan of Reorganization. Accordingly, the amounts currently classified as liabilities subject to compromise may be subject to future adjustments depending on U.S. Bankruptcy Court actions, further developments with respect to disputed claims, the values of any collateral securing such claims, or other events. The total amount to be paid by LyondellBasell AF to settle claims is fixed under the Plan of Reorganization. As a result, all of LyondellBasell AF's liabilities subject to compromise at March 31, 2010 have been effectively resolved at the Emergence Date as disclosed in the unaudited pro forma adjustments in Note 23.

Liabilities subject to compromise consist of the following:

<u>Millions of dollars</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Accounts payable	\$ 484	\$ 602
Employee benefits	994	997
Accrued interest	288	277
Conversion fee – Interim Loan	161	161
Estimated claims	1,556	1,726
Interest rate swap obligations	201	201
Related party payable	1	82
Other accrued liabilities	52	78
Long-term debt	18,321	18,370
Total liabilities subject to compromise	<u>\$ 22,058</u>	<u>\$ 22,494</u>

The Plan of Reorganization requires that, upon emergence, certain liabilities previously reported as liabilities subject to compromise be retained by LyondellBasell N.V. Accordingly, approximately \$862 million of pension and other post-retirement benefit liabilities were reclassified from liabilities subject to compromise to current or long-term liabilities, as appropriate, upon emergence from bankruptcy.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**14. Liabilities Subject to Compromise – (Continued)**

All of the debt classified in LSTC at March 31, 2010, except for KIC Ltd, was discharged pursuant to the Plan of Reorganization through distributions of a combination of LyondellBasell N.V. Class A shares, the rights to purchase Class B shares of LyondellBasell N.V. in a rights offering, LyondellBasell N.V. stock warrants and cash. The claim from KIC Ltd was transferred to the Millennium Custodial Trust under the Plan of Reorganization. See Note 1 for a complete discussion of the chapter 11 emergence from bankruptcy.

The following debt outstanding immediately preceding the Chapter 11 filings, on January 6, 2009, has been reclassified from long-term debt and is currently reflected on the consolidated balance sheets as “Liabilities subject to compromise.”

<u>Millions of dollars</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Bank credit facilities:		
Interim Loan	\$ 8,000	\$ 8,000
First lien secured debt:		
Senior Secured Credit Facility:		
Term Loan A due 2013 - U.S. tranche	1,044	1,044
Term Loan B due 2014:		
U.S. tranche	5,459	5,459
German tranche	1,258	1,258
Revolving Credit Facility	548	548
Debentures due 2010, 10.25%	100	100
Debentures due 2020, 9.8%	225	225
Debentures due 2026, 7.55%	150	150
Senior Notes due 2015, \$615 million	615	615
Senior Notes due 2015, €500 million	674	723
Senior Debentures due 2026, 7.625%	241	241
State of Maryland	1	1
KIC Ltd	6	6
Total	<u>\$ 18,321</u>	<u>\$ 18,370</u>

As part of its ongoing claims resolution process, LyondellBasell AF is investigating differences between claim amounts filed by creditors and LyondellBasell AF’s best estimates of the probable allowed amount of its liabilities subject to compromise. Adjustments to its liabilities subject to compromise are reasonably possible as additional information becomes available with respect to these claims. Any adjustment to the liabilities subject to compromise balance would affect only the amount of the payout received by a claimant in the affected class of claims. The total amount to be paid by LyondellBasell AF to settle claims is fixed under the Plan of Reorganization.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 15. Financial Instruments and Derivatives

Prior to the Emergence Date, LyondellBasell AF continued to be exposed to market risks, such as changes in commodity pricing, currency exchange rates and interest rates. To manage the volatility related to these exposures, LyondellBasell AF selectively entered into derivative transactions pursuant to LyondellBasell AF's policies. Designation of the derivatives as fair-value or cash-flow hedges was performed on a specific exposure basis. Hedge accounting may or may not have been elected with respect to certain short-term exposures. The changes in fair value of these hedging instruments would have been offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged.

As a result of the voluntary filings of petitions for relief under chapter 11 of the U.S. Bankruptcy Code and the associated perceived credit risk, LyondellBasell AF was limited in its ability to further engage in derivative transactions. LyondellBasell AF was not participating in interest rate transactions prior to its emergence from bankruptcy due to a lack of willing counterparties and its foreign currency transactions were restricted to a few currencies and primarily to spot or near spot transactions. LyondellBasell AF continued to enter into commodity derivative contracts in the ordinary course of business on a limited basis.

*Commodity Prices*—LyondellBasell AF was exposed to commodity price volatility related to anticipated purchases of natural gas, crude oil and other raw materials and sales of its products prior to its emergence from bankruptcy. LyondellBasell AF selectively used commodity swap, option, and futures contracts with various terms to manage the volatility related to these risks. Such contracts were generally limited to durations of one year or less. Cash-flow hedge accounting was normally elected for these derivative transactions; however, in some cases, when the duration of a derivative was short, hedge accounting was not elected. When hedge accounting was not elected, the changes in fair value of these instruments were recorded in earnings. When hedge accounting was elected, gains and losses on these instruments were deferred in accumulated other comprehensive income ("AOCI"), to the extent that the hedge remained effective, until the underlying transaction was recognized in earnings.

LyondellBasell AF entered into futures contracts during the first three months of 2010 and 2009, with respect to sales of gasoline and heating oil. These futures transactions were not designated as hedges, and the changes in the fair value of the futures contracts were recognized in earnings. LyondellBasell AF settled futures positions for gasoline of 103 million gallons and 213 million gallons, respectively, in the first three months of 2010 and 2009, resulting in net gains of \$1 million and \$5 million, respectively. LyondellBasell AF settled futures positions for heating oil of 92 million gallons and 161 million gallons, respectively, in the first three months of 2010 and 2009, resulting in net gains of \$1 million and \$10 million, respectively. At March 31, 2010, futures contracts for 39 million gallons of gasoline and heating oil in the notional amount of \$86 million, maturing in April 2010, were outstanding. At December 31, 2009, futures contracts for 19 million gallons of gasoline and heating oil in the notional amount of \$38 million, maturing in February 2010, were outstanding. The fair values, based on quoted market prices, resulted in a net receivable of less than \$1 million at March 31, 2010 and a net payable of \$2 million at December 31, 2009.

In addition, LyondellBasell AF settled futures positions for crude oil of 1 million barrels during the first three months of 2010, resulting in net gains of \$5 million. These futures transactions were not designated as hedges.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 15. Financial Instruments and Derivatives – (Continued)

LyondellBasell AF also entered into futures contracts during the first three months of 2010 with respect to purchases of crude oil and sales of gasoline. These futures transactions were not designated as hedges. LyondellBasell AF settled futures positions for gasoline of 1 million barrels in the first three months of 2010, resulting in a net loss of \$3 million. LyondellBasell AF settled futures positions for crude oil of 1 million barrels in the first three months of 2010, resulting in a net gain of \$1 million. At March 31, 2010, futures contracts for 3 million barrels of gasoline and crude oil in the notional amount of \$285 million, maturing in April and May 2010, were outstanding. The fair values, based on quoted market prices, resulted in a net payable of less than \$1 million at March 31, 2010.

LyondellBasell AF's earnings for the three months ended March 31, 2009, included a \$48 million gain, previously deferred in AOCI in connection with the termination of swaps for 2.8 million barrels of distillates which were scheduled to mature from January 2009 to April 2009. These swaps were designated as cash flow hedges. Accordingly, changes in the fair value of these commodity swaps were deferred in AOCI until the underlying transaction occurred. There were no commodity swaps outstanding at either March 31, 2010, or December 31, 2009.

*Foreign Currency Rates*—Prior to its emergence from bankruptcy, LyondellBasell AF entered into transactions denominated in other than the functional currency and was, therefore, exposed to foreign currency risk on receivables and payables. LyondellBasell AF maintained 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 involved the centralization of foreign currency exposure management, the offsetting of exposures and the estimating of expected impacts of changes in foreign currency rates on LyondellBasell AF's earnings.

For forward contracts that economically hedge recognized monetary assets and liabilities in foreign currencies, no hedge accounting was applied. Changes in the fair value of foreign currency forward contracts are reported in the Consolidated Statements of Operations and offset the currency exchange results recognized on the assets and liabilities.

Certain LyondellBasell AF subsidiaries have entered into license agreements denominated in U.S. dollars whereas the functional currency of the subsidiaries entering into these transactions is the euro. Accordingly, these subsidiaries have recognized embedded derivatives, which are accounted for separately from the host license agreements. These embedded derivatives are treated as foreign exchange forward contracts and recognized at fair value. The changes in the fair values are recognized in the income statement as the contracts are not designated as hedges. LyondellBasell AF recognized gains of \$5 million and \$3 million in "Other income" related to these embedded derivatives for the three-month periods ended March 31, 2010 and 2009, respectively. Payables of \$15 million and \$20 million that were outstanding at March 31, 2010, and December 31, 2009, respectively.

LyondellBasell AF has designated the \$300 million of outstanding 8.1% Guaranteed Notes due 2027, \$250 million of the outstanding 8.375% Senior Notes due 2015 and the \$500 million Dutch Tranche Term A loan due 2013 as net investment hedges of part of its investment in subsidiaries and equity investments denominated in U.S. dollar or U.S. dollar related functional currencies. The changes in the euro value of the debt, to the extent that they are designated as a hedge, are recorded in "Accumulated other comprehensive income." As a result of devaluation in the hedged investment, the \$500 million Dutch Tranche Term A loan due 2013 net investment hedge was de-designated during the first quarter of 2009. Subsequently all related foreign exchange translation differences were recorded in earnings. LyondellBasell AF recognized a loss of \$35 million in the three months ended March 31, 2010 and a loss of \$19 million in the three months ended March 31, 2009 in accumulated other comprehensive income.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 15. Financial Instruments and Derivatives – (Continued)

In January 2009, after certain of its subsidiaries filed voluntary petitions for reorganization under chapter 11 of the U.S. Bankruptcy Code, LyondellBasell AF received notice of termination of its \$365 million cross-currency interest rate swap. This interest rate swap, which was designated as a hedge, was entered into in conjunction with the issuance of the \$615 million Senior Notes due 2015. The swap involved the payment of fixed interest and, upon maturity, principal amounts in euro in exchange for corresponding receipts in U.S. dollars. LyondellBasell AF recognized a \$15 million loss in Other income, net, in the Consolidated Statements of Operations in the three months ended March 31, 2009 related to the termination of the swap.

*Foreign Currency Gain (Loss)*—Other income, net, in the Consolidated Statements of Operations reflected a loss of \$203 million and a gain of \$15 million related to changes in currency exchange rates for the three months ended March 31, 2010 and 2009, respectively.

*Interest Rates*—In January 2009, after certain of its subsidiaries filed voluntary petitions for protection under chapter 11 of the U.S. Bankruptcy Code, LyondellBasell AF received notice of termination of its interest rate swap agreements in the notional amount of \$2,350 million. These interest rate swaps were designated as cash-flow hedges of the interest cash flows for the period between April 2009 and June 2013 and effectively converted a portion of LyondellBasell AF's variable rate, long-term debt to fixed rate debt for the period of the hedge. The fair value of these interest rate swap agreements resulted in payables of \$201 million at March 31, 2010 and December 31, 2009, which were classified as "Liabilities subject to compromise." Pursuant to the provisions of the Plan of Reorganization, these interest rate swaps were discharged on April 30, 2010.

*Stock Option Plans*—LyondellBasell AF had outstanding total return swaps on shares of Royal Dutch Shell plc and BASF AG, which economically hedged obligations stemming from the stock option and share appreciation rights plans. The initial agreement for the total return swaps matured in October 2008 and was renewed for an additional three-year period. LyondellBasell AF received amounts equal to the dividends paid on the underlying shares. At maturity of the swap, LyondellBasell AF would have paid or received the difference between the price of the underlying shares at the settlement date and the price at the inception of the swap, adjusted for the payment of financing costs. Under the total return swaps LyondellBasell AF retained an economic interest in the underlying shares without owning these shares. The total return swaps were valued at fair value with any gains or losses included in the Consolidated Statements of Operations. In January 2009, LyondellBasell AF received notice of termination of the total return swaps after certain of its subsidiaries filed voluntary petitions for relief under chapter 11 of the U.S. Bankruptcy Code (see Note 1). LyondellBasell AF recognized a \$7 million loss in the three months ended March 31, 2009 related to the termination of the swap.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**15. Financial Instruments and Derivatives – (Continued)**

The following table summarizes financial instruments outstanding as of March 31, 2010 and December 31, 2009 that are measured at fair value on a recurring basis and the bases used to determine their fair value in the consolidated balance sheets:

<u>Millions of dollars</u>	<u>Notional Amount</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>March 31, 2010</b>					
<b>Assets at fair value:</b>					
Derivatives:					
Gasoline and heating oil	\$ 86	\$ --	\$ --	\$ --	\$ --
<b>Liabilities at fair value:</b>					
Derivatives:					
Gasoline and crude oil	285	--	--	--	--
Foreign currency	213	15	--	15	--
	<u>\$ 498</u>	<u>\$ 15</u>	<u>\$ --</u>	<u>\$ 15</u>	<u>\$ --</u>
<b>December 31, 2009</b>					
<b>Liabilities at fair value:</b>					
Derivatives:					
Gasoline, heating oil and crude oil	\$ 38	\$ 2	\$ --	\$ 2	\$ --
Foreign currency	234	20	--	20	--
	<u>\$ 272</u>	<u>\$ 22</u>	<u>\$ --</u>	<u>\$ 22</u>	<u>\$ --</u>

The following table provides the fair value of derivative instruments and their balance sheet classifications at March 31, 2010:

<u>Millions of Dollars</u>	<u>Balance Sheet Classification</u>
<b>Fair Value of Derivative Instruments</b>	
<b>Liability Derivatives</b>	
Not designated as hedges:	
Foreign currency	Accrued liabilities \$ 15
Commodities	Accrued liabilities --
Total derivatives	<u>\$ 15</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**15. Financial Instruments and Derivatives – (Continued)**

The following table summarizes the pretax effect of derivative and non-derivative instruments, effective and terminated, included in Accumulated Other Comprehensive Income ("AOCI"), reclassified from AOCI to income and charged directly to income for the three months ended March 31, 2010:

<u>Millions of dollars</u>	<b>Effect of Financial Instruments for the three months ended March 31, 2010</b>			<b>Income Statement Classification</b>
	<b>Gain (Loss) Recognized in AOCI</b>	<b>Gain (Loss) Reclassified from AOCI to Income</b>	<b>Additional Gain (Loss) Recognized in Income</b>	
Derivatives designated as cash-flow hedges:				
Interest rate	\$ --	\$ (13)	\$ --	Interest Expense
Derivatives not designated as hedges:				
Commodities	--	--	5	Cost of sales
Foreign currency	--	--	5	Other income
	--	--	10	
Total derivatives	<u>\$ --</u>	<u>\$ (13)</u>	<u>\$ 10</u>	
Non-derivatives designated as hedges of foreign currency:				
Net foreign investment –				
8.1% Guaranteed Notes due 2027	\$ (19)	\$ --	\$ --	
8.375% Senior Notes due 2015	(16)	--	--	
Total non-derivatives	<u>\$ (35)</u>	<u>\$ --</u>	<u>\$ --</u>	

The amounts included in AOCI represent the effective portion of the hedge. The ineffective portion of hedges is recognized in income and is not material. Foreign currency derivatives not designated as hedges are offset by foreign exchange losses of \$208 million resulting from the underlying exposures of foreign currency denominated assets and liabilities. The net pre-tax amount to be reclassified from AOCI to income within the next 12 months is a \$4 million loss for interest rate swaps.

The carrying value and the estimated fair value of LyondellBasell's non-derivative financial instruments are shown in the table below:

<u>Millions of dollars</u>	<b>March 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Short and long-term debt, including current maturities and debt classified as liabilities subject to compromise	<u>\$ 25,787</u>	<u>\$ 15,199</u>	<u>\$ 25,354</u>	<u>\$ 13,986</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**15. Financial Instruments and Derivatives – (Continued)**

The following table summarizes the bases used to measure certain liabilities at fair value on a recurring basis, which are recorded at historical cost or amortized cost, in the consolidated balance sheet:

<u>Millions of dollars</u>	<b>Carrying Value March 31, 2010</b>	<b>Fair Value Measurement</b>			
		<b>Fair Value March 31, 2010</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Short and long-term debt, including current maturities	\$ 25,787	\$ 15,199	\$ --	\$ 13,925	\$ 1,274
Accounts payable, including related parties	484	299	--	299	--
Other short-term accruals	1,447	1,140	--	75	1,065
<b>Total</b>	<b>\$ 27,718</b>	<b>\$ 16,638</b>	<b>\$ --</b>	<b>\$ 14,299</b>	<b>\$ 2,339</b>

The fair value of all nonderivative financial instruments included in current assets, including cash and cash equivalents, accounts receivable and accounts payable, approximated carrying value due to the short maturity of those instruments.

The following table is a reconciliation of the beginning and ending balances of Level 2 inputs:

<u>Millions of dollars</u>	<b>Fair Value Measurement Using Significant Other Observable Inputs (Level 2)</b>			
	<b>Total</b>	<b>Short and long-term debt, including current maturities</b>	<b>Accounts payable, including related parties</b>	<b>Other short- term accruals</b>
Balance at December 31, 2009	\$ 13,550	\$ 13,204	\$ 277	\$ 69
Purchases, sales, issuances, and settlements (net)	(225)	(12)	(118)	(95)
Transfers in and/or out of Level 2	974	733	140	101
Balance at March 31, 2010	<b>\$ 14,299</b>	<b>\$ 13,925</b>	<b>\$ 299</b>	<b>\$ 75</b>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**15. Financial Instruments and Derivatives – (Continued)**

The following table is a reconciliation of the beginning and ending balances of Level 3 inputs:

<u>Millions of dollars</u>	<u>Fair Value Measurement Using Significant Unobservable Inputs (Level 3)</u>		
	<u>Total</u>	<u>Short and long-term debt, including current maturities</u>	<u>Other short-term accruals</u>
Balance at December 31, 2009	\$ 2,022	\$ 782	\$ 1,240
Purchases, sales, issuances, and settlements (net)	346	521	(175)
Transfers in and/or out of Level 3	(29)	(29)	--
Balance at March 31, 2010	<u>\$ 2,339</u>	<u>\$ 1,274</u>	<u>\$ 1,065</u>

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 asset and liability. Broker quotes were obtained from well established and recognized vendors of market data for debt valuations. Quotes were then adjusted downwards, if applicable, to represent the lower of received broker quotes or recommended settlement values as set forth in LyondellBasell AF's third amended plan of reorganization. As such, the inputs for liabilities classified as Level 3 reflect LyondellBasell AF's assessment of the assumptions that a market participant would use in determining the price of the asset or liability, including the liquidity risk of LyondellBasell AF at March 31, 2010.

**16. Pension and Other Postretirement Benefits**

Net periodic pension benefits included the following cost components for the three months ended March 31:

<u>Millions of dollars</u>	<u>2010</u>		<u>2009</u>	
	<u>U.S.</u>	<u>Non-U.S.</u>	<u>U.S.</u>	<u>Non-U.S.</u>
Service cost	\$ 11	\$ 9	\$ 11	\$ 10
Interest cost	23	13	23	22
Expected return on plan assets	(24)	(7)	(25)	(13)
Curtailments and settlements	--	--	--	--
Amortization	3	--	3	--
Net periodic pension benefit cost	<u>\$ 13</u>	<u>\$ 15</u>	<u>\$ 12</u>	<u>\$ 19</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**16. Pension and Other Postretirement Benefits – (Continued)**

Net periodic other postretirement benefits included the following cost components for the three months ended March 31:

<u>Millions of dollars</u>	<u>2010</u>		<u>2009</u>	
	<u>U.S.</u>	<u>Non-U.S.</u>	<u>U.S.</u>	<u>Non-U.S.</u>
Service cost	\$ 1	\$ --	\$ 2	\$ 2
Interest cost	4	--	5	--
Amortization	(2)	--	(2)	--
Net periodic benefit cost	<u>\$ 3</u>	<u>\$ --</u>	<u>\$ 5</u>	<u>\$ 2</u>

Pre-petition obligations related to pension and other postretirement benefits are unsecured and therefore included in liabilities subject to compromise. Under the Plan of Reorganization, except with respect to the Supplemental Executive Retirement Plan (the “SERP”), all benefit plans and collective bargaining agreements will remain in force subsequent to our emergence from chapter 11 proceedings. Accordingly, approximately \$863 million of pension and other post-retirement benefit liabilities were reclassified from liabilities subject to compromise to current or long-term liabilities, as appropriate, upon emergence from bankruptcy. See Note 14 for further discussion.

**17. Income Taxes**

The effective income tax rate for the first quarter 2010 was 54.5% resulting in tax expense of \$12 million on pretax income of \$22 million. The 2010 effective income tax rate was higher than the statutory 35% rate primarily due to the effects of non-deductible costs relating to the voluntary filings of petitions for relief under chapter 11 of the U.S. Bankruptcy Code, and to the recognition of valuation allowances established to reduce deferred tax assets not expected to be realized. The higher effective tax rate over statutory rate was partially offset by tax exempt income in jurisdictions other than the U.S. The effective income tax rate for the first quarter 2009 was 29.8% resulting in a tax benefit of \$432 million on a pretax loss of \$1,444 million. The 2009 effective income tax rate was lower than the statutory 35% rate primarily due to the effects of non-deductible costs relating to the voluntary filings of petitions for relief under chapter 11 of the U.S. Bankruptcy Code.

**18. Commitments and Contingencies**

*Commitments*—LyondellBasell AF 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. At March 31, 2010, LyondellBasell AF had commitments of approximately \$29 million related to rebuilding an expanded world-scale high-density polyethylene plant at its Münchsmünster, Germany site. LyondellBasell AF’s other capital expenditure commitments at March 31, 2010 were in the normal course of business.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**18. Commitments and Contingencies – (Continued)**

*CEO Compensation*—During the second quarter 2009, the U.S. Bankruptcy Court approved an employment agreement between LyondellBasell AF and its chief executive officer (“CEO”) under which the CEO will receive certain equity awards, including restricted shares and options to purchase shares of LyondellBasell’s common stock, upon LyondellBasell AF’s emergence from bankruptcy. Accordingly, these equity awards have not been accrued as of March 31, 2010. As a result of the emergence from chapter 11 proceedings, the liability for the equity awards will be accrued over the vesting period, beginning on the Emergence Date.

The restricted stock, which is also contingent upon continued employment, is valued at \$25 million and vests on May 14, 2014. The stock options, which would equal 1% of the number of common stock shares expected to be outstanding at the Debtor’s emergence from bankruptcy, vest and become exercisable in five equal, annual installments beginning on May 14, 2010. Vesting is contingent upon employment through each applicable vesting date. The stock options may be exercised for a period of seven years following the grant date at a price equal to the per share value of the common stock anticipated in the plan of reorganization even if employment ends on or after the fifth anniversary of LyondellBasell AF’s emergence from bankruptcy.

*Consultants’ Fees*—In connection with the Bankruptcy Cases, LyondellBasell AF has retained the services of and entered into Bankruptcy Court-approved contractual agreements with various outside consultants to assist it in the bankruptcy process. The contractual agreements provide for various fee payments upon, or shortly after, emergence from the Bankruptcy Cases, the most significant of which are “success fees.” The success fees are contingent upon emergence from the Bankruptcy Cases. Accordingly, LyondellBasell AF has not currently accrued any liability with respect to these commitments, which are currently estimated at approximately \$76 million.

*Environmental Remediation*—LyondellBasell AF’s accrued liability for future environmental remediation costs at current and former plant sites and other remediation sites, except those classified as “Liabilities subject to compromise,” totaled \$84 million and \$89 million as of March 31, 2010 and December 31, 2009, respectively. As of March 31, 2010, the liabilities for individual sites range from less than \$1 million to \$19 million. The remediation expenditures are expected to occur over a number of years, and not to be concentrated in any single year. In the opinion of management, there is no material estimable range of reasonably possible loss in excess of the liabilities recorded for environmental remediation. However, it is possible that new information about the sites for which the accrual has been established, new technology or future developments such as involvement in investigations by regulatory agencies or resolution by the U.S. Bankruptcy Court of LyondellBasell AF’s legal position regarding environmental liabilities, could require LyondellBasell AF to reassess its potential exposure related to environmental matters.

The following table summarizes the activity in LyondellBasell’s accrued environmental liability included in “Accrued liabilities” and “Other liabilities” for the three months ended March 31:

<u>Millions of dollars</u>	<u>2010</u>	<u>2009</u>
Balance at January 1	\$ 89	\$ 256
Amounts paid	(1)	(1)
Foreign exchange effects	(4)	(18)
Balance at March 31	<u>\$ 84</u>	<u>\$ 237</u>

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 18. Commitments and Contingencies – (Continued)

Remediation liabilities for other sites, which include LyondellBasell AF's obligations with respect to soil contamination at the Ferrara and Brindisi sites in Italy, totaled \$84 million at March 31, 2010. A former shareholder indemnified LyondellBasell AF for the full potential obligation that could arise with respect to costs arising from soil contamination at the Ferrara and Brindisi sites in Italy. Accordingly, LyondellBasell AF has recorded a corresponding receivable from the former shareholder.

As a result of the Bankruptcy cases, the Debtors have discontinued funding and/or ceased performing cleanups at various third-party sites (including sites where the Debtors were subject to a Comprehensive Environmental Response, Compensation and Liability Act or similar state order to fund or perform such cleanup, such as the river and the other portions of the Kalamazoo River Superfund Site that the Debtors do not own). Several government agencies originally contested the Debtors' position and actions. As a result of the Debtors' settlement with governmental agencies and its emergence from chapter 11 proceedings, the Debtors have resolved their liability through creation of the Environmental Custodial Trust and agreement on allowed claim values as set forth in the Debtors' Third Amended Plan of Reorganization and Settlement Agreement Among the Debtors, the Environmental Custodial Trust Trustee, The United States, and Certain environmental Agencies filed with the U.S. Bankruptcy Court on March 30, 2010 and approved by the court on April 23, 2010. Accordingly, in 2009, liabilities in the amount of \$129 million related to the Kalamazoo River Superfund Site, as well as \$40 million in liabilities related to certain other third-party sites, were reclassified from "Other liabilities" to "Liabilities subject to compromise." Upon the Debtors' emergence from bankruptcy, certain real properties owned by the Debtors, including the Schedule III Debtors (as defined in the Third Amended Plan of Reorganization), were transferred to the Environmental Custodial Trust, which now owns and will be responsible for these properties. Consistent with the Debtors' settlement with the governmental agencies and its Third Amended Plan of Reorganization, approximately \$170 million of cash was also used to fund the Environmental Custodial Trust and to make certain direct payments to the Environmental Protection Agency and certain state environmental agencies.

*Litigation and Other Matters*—On April 12, 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 contract. Lyondell Chemical believes the maximum refund due to BASF is \$22.5 million on such product sales and has paid such amount to BASF. On August 13, 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 October 3, 2007, the judge determined that prejudgment interest on the verdict would be \$36 million. Lyondell Chemical is appealing this verdict and has posted a bond, which is collateralized by a \$200 million letter of credit. Accordingly, the judgment is deemed to be fully secured and not subject to compromise under bankruptcy law. On August 14, 2009, the Bankruptcy Court entered an order modifying the automatic stay to permit Lyondell Chemical to continue with the state court appeal.

Together with alleged past manufacturers of lead-based paint and lead pigments for use in paint, a Millennium subsidiary has been named as a defendant in various legal proceedings in the U.S. alleging personal injury, property damage, and remediation costs allegedly associated with the use of these products. The majority of these legal proceedings assert unspecified monetary damages in excess of the statutory minimum and, in certain cases, equitable relief such as abatement of lead-based paint in buildings. Legal proceedings relating to lead pigment or paint are in various trial stages and post-dismissal settings, some of which are on appeal. These cases were stayed pursuant to the automatic stay provided by the Bankruptcy Code.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 18. Commitments and Contingencies – (Continued)

On April 16, 2009, the U.S. Bankruptcy Court held a hearing on a motion by the Debtors (the “Stay Motion”) to enforce the automatic stay and for an injunction against further prosecution of a lawsuit filed in the Superior Court of California by certain California city and county government plaintiffs, captioned *County of Santa Clara, et al. v. Atl. Richfield Co., et al.*, Case No. CV 788657 (the “Santa Clara Lawsuit”), that asserted a public nuisance claim against the defendants in that action, including Millennium Holdings LLC (a Debtor), arising from the alleged effects of exposure to lead paint in houses and buildings, and seeking an order requiring the defendants to fund a remedial fund for lead paint removal. On April 23, 2009, the U.S. Bankruptcy Court entered an order on the Stay Motion: (i) requiring the California government plaintiffs to file a commitment by a stated deadline agreeing to refrain from proceeding against Millennium Holdings, LLC, in the Santa Clara Lawsuit or asserting claims against such Debtor based on the operative facts in that case without first moving for and obtaining leave to do so from the U.S. Bankruptcy Court; and (ii) if such plaintiffs fail to file such a commitment by the deadline, enjoining them from proceedings against such Debtor in the Santa Clara Lawsuit or otherwise asserting claims based on the operative facts in that case. The U.S. Bankruptcy Court also stated from the bench at the hearing on the Stay Motion that any such claim asserted against the Debtors would be a pre-petition claim that is barred by the automatic stay provisions of the U.S. Bankruptcy Code (and would not qualify under any “police power” exception to the automatic stay). In response to the Bankruptcy Court’s April 23, 2009 order, all of the California government plaintiffs filed the required commitment by the stated deadline.

Millennium’s defense costs to date for lead-based paint and lead pigment litigation largely have been covered by insurance. Millennium has insurance policies that potentially provide approximately \$1 billion in indemnity coverage for lead-based paint and lead pigment litigation. Millennium’s ability to collect under the indemnity coverage would depend upon, among other things, the resolution of certain potential coverage defenses that the insurers are likely to assert and the solvency of the various insurance carriers that are part of the coverage block at the time of such a request.

Pursuant to the Third Amended Plan of Reorganization, on April 30, 2010, 49 entities including Millennium Holdings LLC (identified as Schedule III Debtors in the Plan of Reorganization) were transferred to a new owner, the Millennium Custodial Trust, a trust established for the benefit of certain creditors, and these entities are no longer part of LyondellBasell. Any associated liabilities of the entities transferred to and owned by the Millennium Custodial Trust will be the responsibility of those entities and claims regarding those entities will be resolved solely using their assets and the assets of the trust. Approximately \$80 million of cash was used to fund the Millennium Custodial Trust.

As part of its technology licensing contracts, LyondellBasell AF gives indemnifications to its licensees for liability 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.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 18. Commitments and Contingencies – (Continued)

*Indemnification*—LyondellBasell AF S.C.A. and its subsidiaries are parties to various indemnification arrangements, including arrangements entered into in connection with acquisitions, divestitures and the formation of joint ventures. For example, Lyondell Chemical entered into indemnification arrangements in connection with the transfer of assets and liabilities from Atlantic Richfield Company to Lyondell Chemical prior to Lyondell Chemical’s initial public offering and in connection with Lyondell Chemical’s acquisition of the outstanding shares of ARCO Chemical Company; Equistar and its owner companies (including Lyondell Chemical and Millennium) entered into indemnification arrangements in connection with the formation of Equistar; and Millennium entered into indemnification arrangements in connection with its demerger from Hanson plc. Pursuant to these arrangements, Lyondell Chemical and its subsidiaries 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 March 31, 2010, LyondellBasell AF has not accrued any significant amounts for such indemnification obligations and it is not aware of other circumstances that would likely lead to significant future indemnification obligations. LyondellBasell AF 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, LyondellBasell AF expects to take the position that many, if not all, potential liabilities arising from these indemnification arrangements are general unsecured prepetition claims that will be discharged through the Debtors’ Third Amended Plan of Reorganization, which was confirmed by the U.S. Bankruptcy Court on April 23, 2010 and became effective on April 30, 2010.

*Other*—LyondellBasell AF has 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”). It has 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. LyondellBasell AF made a voluntary disclosure of these matters to the U.S. Department of Justice and is 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, LyondellBasell AF may not have conducted business in compliance with the FCPA and may not have had policies and procedures in place adequate to ensure compliance. LyondellBasell AF cannot reasonably estimate any potential penalty that may arise from these matters. LyondellBasell AF is in the process of adopting and implementing more stringent policies and procedures designed to ensure compliance. Violations of these laws could result in criminal and civil liabilities and other forms of relief that could be material to LyondellBasell AF and, subsequent to emergence, LyondellBasell N.V.

Certain of LyondellBasell AF’s non-U.S. subsidiaries conduct business in countries subject to U.S. economic sanctions, including Iran. U.S. laws and regulations prohibit U.S. persons from engaging in business activities, in whole or in part, with sanctioned countries, organizations and individuals. The U.S. Congress is considering legislation that, if adopted, might result in U.S. sanctions being imposed on non-U.S. entities doing business with Iran. LyondellBasell AF and LyondellBasell N.V. intend to comply with all applicable sanctions laws and regulations and are adopting certain more significant compliance policies and procedures. These business activities present a potential risk that could subject LyondellBasell AF to civil and criminal penalties. In connection with LyondellBasell AF’s continuing review of compliance risks in this area, certain activities have been identified that raise compliance issues under applicable sanctions laws and regulations. LyondellBasell AF has made voluntary disclosure of these matters to the U.S. Treasury Department and intends to cooperate fully with that agency. LyondellBasell AF’s investigations are ongoing, therefore the ultimate outcome of this matter cannot be predicted at this time. Violations of these laws could result in criminal and civil liabilities and other forms of relief that could be material to LyondellBasell AF and, subsequent to emergence, LyondellBasell N.V.

## LYONDELLBASELL INDUSTRIES AF S.C.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 18. Commitments and Contingencies – (Continued)

LyondellBasell AF and its joint ventures 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, management does 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 AF.

*General*—In the opinion of management, the matters discussed in this note are not expected to have a material adverse effect on the financial position or liquidity of LyondellBasell AF. However, the adverse resolution in any reporting period of one or more of these matters could have a material impact on LyondellBasell AF's results of operations for that period, which may be mitigated by contribution or indemnification obligations of others, or by any insurance coverage that may be available.

#### 19. Management Incentive Plans

In August 2009, the Bankruptcy Court authorized the implementation of the Debtors' management incentive plan (the "MIP"). The MIP is designed to provide the Debtors' workforce with appropriate market-level competitive compensation and to align the interests of the Debtors, their employees and their creditors. The MIP covers the Debtors' senior officers and managers, and provides for payouts upon LyondellBasell AF achieving certain EBITDAR (earnings before interest, taxes, depreciation and amortization and restructuring) targets. Under the MIP, approximately \$25 million of payments will be made over a one year period following the Emergence Date. Payment was subject to emergence from the Bankruptcy Cases. As a result of the emergence from chapter 11 proceedings, the liability for the MIP will be accrued over the vesting period, beginning on the Emergence Date. Accordingly, as of March 31, 2010, LyondellBasell AF has not accrued any liability.

Upon emergence from chapter 11 proceedings, LyondellBasell N.V. replaced the MIP with the 2010 Medium Term Incentive Plan (the "MTI") and also created the 2010 Long Term Incentive Plan (the "LTI"). The MTI is designed to link the interests of shareholders with those of senior management by tying incentives to measurable corporate performance. The MTI covers LyondellBasell N.V.'s senior officers, and provides for payouts based on LyondellBasell N.V.'s return on assets and cost improvements over the calendar years 2010 through 2012. Benefits under the MTI will vest on the date, following December 31, 2012, on which the compensation committee certifies the performance results and will be paid in a single lump-sum payment on March 31 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. Accordingly, as of March 31, 2010, no liability for the MTI has been accrued.

The LTI is a plan under which executives and senior management can become shareholders, thereby aligning their interests with shareholders. Certain of LyondellBasell N.V.'s senior managers and executives will be eligible to participate in the LTI. Under the LTI, LyondellBasell N.V.'s compensation committee will be 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 measurables, 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. No awards under the LTI will become effective prior to LyondellBasell N.V.'s emergence from bankruptcy. Accordingly, as of March 31, 2010, no liability for the LTI has been accrued.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**20. Stockholder’s Deficit and Non-Controlling Interests**

*Non-controlling Interest*—The non-controlling interest represents an unrelated investor’s 21% interest in a partnership that owns the PO/SM II plant in Channelview, Texas. LyondellBasell AF owns the remaining 79% interest. Non-controlling interest was \$111 million and \$129 million at March 31, 2010 and December 31, 2009, respectively. The \$18 million decrease was primarily due to distributions to non-controlling interest shareholders of \$22 million, net of \$4 million of net income. Comprehensive loss for the three months ended March 31, 2010, attributable to non-controlling interests of \$2 million included the \$4 million of net income less \$6 million of fixed operating fees paid to Lyondell Chemical by the PO/SM II plant, in which a 30% interest is held by an unrelated investor. Non-controlling interest decreased \$18 million from \$135 million at December 31, 2008 to \$117 million at March 31, 2009. This decrease was primarily due to distributions to non-controlling interest shareholders of \$22 million, net of \$4 million of net income. Comprehensive loss for the three months ended March 31, 2009, attributable to non-controlling interests of \$1 million included the \$4 million of net income, net of \$5 million of fixed operating fees paid to Lyondell Chemical by the PO/SM II plant.

*Comprehensive Income (Loss)*—The components of comprehensive income (loss) were as follows for the three months ended March 31:

<u>Millions of dollars</u>	<u>2010</u>	<u>2009</u>
Net income (loss)	\$ 10	\$ (1,016)
Other comprehensive income (loss), net of tax:		
Foreign currency translation	42	(12)
Unrealized loss on available-for-sale securities	(12)	(14)
Financial derivatives	(38)	(60)
Changes in unrecognized employee benefits gains and losses	(1)	(30)
Total other comprehensive income (loss)	<u>(9)</u>	<u>(116)</u>
Comprehensive income (loss)	<u>\$ 1</u>	<u>\$ (1,132)</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**21. Segment and Related Information**

LyondellBasell AF operates in five segments:

- Olefins and Polyolefins–Americas, primarily manufacturing and marketing of polyolefins, including polyethylene, comprising HDPE, LDPE and linear low density polyethylene (“LLDPE”), and polypropylene; and *Catalloy* process resins; and ethylene; its co-products, including propylene, butadiene, benzene and toluene; and the ethylene derivative, ethanol;
- Olefins and Polyolefins–Europe, Asia, International (“O&P–EAI”), 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 ethylene derivatives, including ethylene glycol, ethylene oxide (“EO”), and other EO derivatives; acetyls, including vinyl acetate monomer, acetic acid and methanol; PO; PO co-products, including styrene and tertiary butyl alcohol (“TBA”), TBA derivative isobutylene; PO derivatives, including propylene glycol, propylene glycol ethers and butanediol; and fragrance and flavor chemicals; and
- Refining and Oxyfuels, primarily manufacturing and marketing of refined petroleum products, including gasoline, ultra-low sulfur diesel, jet fuel, aromatics, lubricants (“lube oils”), naphtha, VGO, liquefied petroleum gas, bitumen, heating oil, and gasoline blending components, such as methyl tertiary butyl ether (“MTBE”), ethyl tertiary butyl ether (“ETBE”) and alkylate;
- Technology, primarily licensing of polyolefin process technologies and supply of polyolefin catalysts and advanced catalysts.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**21. Segment and Related Information – (Continued)**

Summarized financial information concerning reportable segments is shown in the following table for the periods presented. Presentation of prior years' amounts have been reclassified to conform to LyondellBasell AF current operating segments:

<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><u>Three Months Ended</u></b>							
<b><u>March 31, 2010</u></b>							
Sales and other operating revenues:							
Customers	\$ 2,335	\$ 2,959	\$ 1,316	\$ 3,061	\$ 82	\$ 2	\$ 9,755
Intersegment	685	160	--	354	28	(1,227)	--
	<u>3,020</u>	<u>3,119</u>	<u>1,316</u>	<u>3,415</u>	<u>110</u>	<u>(1,225)</u>	<u>9,755</u>
Segment operating income (loss)	145	71	123	(128)	31	(59)	183
Current cost adjustment							184
Operating income							<u>367</u>
Income (loss) from equity investments	4	52	(1)	--	--	--	55
<b><u>Three Months Ended</u></b>							
<b><u>March 31, 2009</u></b>							
Sales and other operating revenues:							
Customers	\$ 1,224	\$ 1,724	\$ 769	\$ 2,083	\$ 100	\$ --	\$ 5,900
Intersegment	289	751	--	142	22	(1,204)	--
	<u>1,513</u>	<u>2,475</u>	<u>769</u>	<u>2,225</u>	<u>122</u>	<u>(1,204)</u>	<u>5,900</u>
Segment operating income (loss)	(101)	(74)	78	(44)	50	(9)	(100)
Current cost adjustment							(41)
Operating loss							<u>(141)</u>
Loss from equity investments	(2)	(11)	(7)	--	--	--	(20)

Sales and other operating revenues and operating income (loss) in the "Other" column above include elimination of intersegment transactions.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**22. Subsequent Events**

LyondellBasell AF has evaluated subsequent events through the date the financial statements were issued.

**23. Reorganization and Fresh Start Accounting Pro Forma Information (Unaudited)**

As a result of the emergence from chapter 11 proceedings, LyondellBasell N.V. will apply “fresh start” accounting to the opening May 2010 consolidated financial statements as required under ASC 852, “Reorganizations.”

The unaudited pro forma consolidated balance sheet of LyondellBasell AF is presented as of March 31, 2010 and applies LyondellBasell AF's accounting policies. We prepared the following unaudited pro forma consolidated balance sheet by applying adjustments to the historical unaudited consolidated balance sheet of LyondellBasell AF. The unaudited pro forma balance sheet gives effect to the Plan of Reorganization and fresh-start accounting as if the Emergence Date had occurred on March 31, 2010.

The following unaudited pro forma balance sheet adjusts historical information for the effects of:

- The Plan of Reorganization, which includes the effectiveness of the Plan of Reorganization and the debt restructuring transactions contemplated by the Plan of Reorganization including the issuance of the Senior Secured Notes, the Senior Term Loan Facility, the European Securitization and the Rights Offering (collectively referred to as "Reorganization Adjustments" in the unaudited pro forma consolidated balance sheet), and;
- The estimated adjustments required under fresh-start accounting for entities emerging from the Bankruptcy Cases (classified as "Fresh-Start Adjustments" in the unaudited pro forma consolidated balance sheet).

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**23. Reorganization and Fresh Start Accounting Pro Forma Information (Unaudited) – (Continued)**

The tables below summarize the impact of the Plan and the adoption of Fresh Start Accounting on March 31, 2010.

**PRO FORMA CONDENSED CONSOLIDATED**

**BALANCE SHEET (Unaudited)**

<u>Millions of dollars</u>	<u>March 31, 2010</u>	<u>Reorganization Adjustments</u>	<u>Fresh Start Adjustments</u>	<u>Pro Forma Reorganized March 31, 2010</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 537	\$ 1,710	(a) \$ --	\$ 2,247
Accounts receivable	3,642	--	--	3,642
Inventories	3,590	--	907 (i)	4,497
Prepaid expenses and other current assets	948	(4) (i)	5	949
Total current assets	8,717	1,706	912 (i)	11,335
Property, plant and equipment, net	14,687	--	(7,169) (i)	7,518
Investments and long-term receivables	2,095	--	(478) (i)	1,617
Goodwill	--	--	1,306 (i)	1,306
Intangible assets, net	1,748	174 (b)	(206) (i)	1,716
Other assets	338	(110) (i)	110 (i)	338
Total assets	<u>\$ 27,585</u>	<u>\$ 1,770</u>	<u>\$ (5,525)</u>	<u>\$ 23,830</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**23. Reorganization and Fresh Start Accounting Pro Forma Information (Unaudited) – (Continued)**

**PRO FORMA CONDENSED CONSOLIDATED**

**BALANCE SHEET (Unaudited) – (Continued)**

<u>Millions of dollars</u>	<u>March 31,</u> <u>2010</u>	<u>Reorganization</u> <u>Adjustments</u>		<u>Fresh Start</u> <u>Adjustments</u>	<u>Pro Forma</u> <u>Reorganized</u> <u>March 31,</u> <u>2010</u>
Liabilities not subject to compromise:					
Current liabilities:					
Current maturities of long-term debt	\$ 487	\$ (480)	(c)	\$ --	\$ 7
Short-term debt	6,675	(6,295)	(d)	--	380
Accounts payable	2,213	--		--	2,213
Accrued liabilities	1,220	(176)	(i)	--	1,044
Deferred income taxes	163	(163)	(i)	450	450
Total current liabilities	<u>10,758</u>	<u>(7,114)</u>		<u>450</u>	<u>4,094</u>
Long-term debt	304	6,491	(d)(e)	--	6,795
Other liabilities	1,317	964	(f)	(189)	2,092
Deferred income taxes	2,012	(2,012)	(i)	971	971
Commitments and contingencies					
Liabilities subject to compromise	22,058	(22,058)	(g)	--	--
Stockholder's equity:					
LyondellBasell AF:					
Common stock	60	--		(60)	--
Additional paid-in capital	563	--		(563)	--
Retained (deficit) earnings	(9,303)	15,638	(g)	(6,335)	--
Accumulated other comprehensive loss	(295)	--		295	--
LyondellBasell AF's share of stockholder's equity (deficit)	<u>(8,975)</u>	<u>15,638</u>		<u>(6,663)</u>	<u>--</u>
LyondellBasell Industries N.V.:					
Class A ordinary shares	--	17	(h)	--	17
Class B ordinary shares	--	14	(h)	--	14
Retained earnings	--	--		--	--
Additional paid-in capital	--	9,830	(h)	--	9,830
New LyondellBasell Industries N.V.'s share of stockholder's equity	<u>--</u>	<u>9,861</u>		<u>--</u>	<u>9,861</u>
Non-controlling interests	111	--		(94)	17
Total equity (deficit)	<u>(8,864)</u>	<u>25,499</u>		<u>(6,757)</u>	<u>9,878</u>
Total liabilities and equity	<u>\$ 27,585</u>	<u>\$ 1,770</u>		<u>\$ (5,525)</u>	<u>\$ 23,830</u>

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**23. Reorganization and Fresh Start Accounting Pro Forma Information (Unaudited) – (Continued)**

**Reorganization and Fresh-Start Adjustments**

The estimated total reorganization enterprise value on a cash-free and debt-free basis is approximately \$15.2 billion. This value has been adjusted in the below unaudited pro forma balance sheet as of March 31, 2010 to reflect higher pro forma cash on hand. This accompanied with fees associated with the issuance of equity results in a pro forma reorganization value of approximately \$14.8 billion. The unaudited pro forma consolidated financial information gives effect to reorganization adjustments and fresh-start adjustments contemplated by the Third Amended Plan of Reorganization which was confirmed by the U.S. Bankruptcy Court on April 23, 2010 which include the following:

- (a) Net cash inflows after giving effect to transactions pursuant to the Plan of Reorganization; including the proceeds from issuance of new notes, borrowing under the new Senior Term Loan Facility, receipts of Rights Offering proceeds, payments relating to the discharge of debts and other liabilities subject to compromise and the funding of custodial and litigation trusts.
- (b) The capitalization of estimated new debt issuance costs.
- (c) Settlement of the \$322 million prepetition Term loan A due 2013, Dutch tranche and \$163 million of outstanding borrowing under the \$1,000 million revolving credit facility.
- (d) Repayment in cash of outstanding liabilities under the DIP New Money loan of \$2,167 million, the DIP ABL Facility of \$850 million and the European receivable securitization program of \$353 million, exchange of \$3,240 million of existing DIP roll-up loans for third lien Plan Roll-up Notes and borrowing under the European receivable securitization program of \$315 million.
- (e) Issuance of \$3,256 million of first priority debt, including \$2,250 million 8% Senior Secured Notes due 2017 and €375 million 8% Senior Secured Notes due 2017, in a private placement, and borrowings of \$500 million under a senior term loan facility, bearing interest of 5.5% as part of exit financing.
- (f) Adjustments to other liabilities to primarily reflect the assumption of certain liabilities previously estimated to be subject to compromise of \$863 million and the fair value of issued warrants of \$101 million.
- (g) Adjustments to reflect the discharge of liabilities subject to compromise through a series of transactions involving equity and cash and to recognize a gain of \$15,638 million on the settlement of pre-petition liabilities.
- (h) Issuance of approximately 300 million shares of Class A ordinary shares as part of the settlement and release of senior secured claims against the Debtors and approximately 263.9 million Class B shares in connection with a rights offering with net proceeds of \$2,730 million.
- (i) Adjustments to reflect the fair value of inventory, equity investments, investments in the Company's Propylene Oxide Joint Ventures, property plant and equipment and corresponding non-controlling interests, deferred revenue, payment of DIP Facilities exit fee and related deferred tax.
- (j) Adjustments to eliminate LyondellBasell AF common stock of \$60 million, additional paid in capital of \$563 million, accumulated other comprehensive loss of \$295 million and retained deficit of \$6,335 million.

**LYONDELLBASELL INDUSTRIES AF S.C.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**23. Reorganization and Fresh Start Accounting Pro Forma Information (Unaudited) – (Continued)**

The unaudited pro forma consolidated balance sheet is presented for informational purposes only. The unaudited pro forma consolidated balance sheet is not necessarily indicative of what LyondellBasell N.V.'s financial position will be. Following emergence from bankruptcy, the historical financial statements of LyondellBasell AF will not be comparable to the financial statements of LyondellBasell N.V. due to the effects of the consummation of the Plan of Reorganization as well as adjustments for fresh-start accounting. In addition, the amount of new stockholders' equity in the unaudited pro forma consolidated balance sheet is not an estimate of the market value of the common stock of LyondellBasell N.V. as of the Emergence Date or at any other time. We make no representations as to the market value, if any, of the ordinary shares of LyondellBasell N.V.

## ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

This discussion should be read in conjunction with the information contained in the Consolidated Financial Statements of LyondellBasell Industries AF S.C.A. (formerly known as Basell AF S.C.A. or “Basell”), together with its consolidated subsidiaries (collectively, “LyondellBasell AF” or “the Company”), and the notes thereto contained elsewhere in this report as well as the LyondellBasell AF’s Consolidated Financial Statements for the year ended December 31, 2009.

LyondellBasell AF uses both the first-in, first-out (“FIFO”) and last-in, first-out (“LIFO”) methods of accounting to determine inventory cost. The LIFO method is used for certain U.S. inventories to maintain consistency with LyondellBasell AF’s U.S. federal income tax treatment of those inventories. Operating results on this basis are discussed in the following “Overview” and “Results of Operations” sections. This discussion is supplemented by a discussion of LyondellBasell AF’s segment operating results under the “Segment Analysis” heading of “Results of Operations.” For purposes of evaluating segment results, management reviews operating results determined using current cost, which approximates results using the LIFO method of accounting for inventory. LyondellBasell Industries N.V. (“LyondellBasell N.V.”) intends to adopt the LIFO method of accounting for inventory on a company-wide basis upon adoption of fresh start accounting.

References to industry benchmark prices or costs, including the weighted average cost of ethylene production, are generally to industry prices and costs reported by Chemical Marketing Associates, Incorporated (“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 to Bloomberg.

### **EMERGENCE FROM CHAPTER 11 PROCEEDINGS**

On January 6, 2009, certain of LyondellBasell AF’s U.S. subsidiaries and one of its European holding companies, Basell Germany Holdings GmbH (“Germany Holdings” and collectively, the “Initial Debtors”) filed voluntary petitions for relief under chapter 11 of title 11 of the United States Bankruptcy Code (the “U.S. Bankruptcy Code”) in the U.S. Bankruptcy Court. In addition, voluntary petitions for relief under chapter 11 of the U.S. Bankruptcy Code were filed by LyondellBasell Industries AF S.C.A., the Luxembourg holding company, and its General Partner, LyondellBasell AF GP S.à r.l. on April 24, 2009 and by thirteen additional U.S. subsidiaries on May 8, 2009 (collectively with the Initial Debtors, the “Debtors”). All 94 of these cases (the “Bankruptcy Cases”) were jointly administered under the caption “*In re Lyondell Chemical Company, et al.*,” and the Debtors operated their businesses and managed their properties as “debtors in possession” under the jurisdiction of the U.S. Bankruptcy Court and in accordance with the applicable provisions of the U.S. Bankruptcy Code and orders of the U.S. Bankruptcy Court.

On April 23, 2010, the U.S. Bankruptcy Court confirmed LyondellBasell AF’s Third Amended Plan of Reorganization and the Debtors emerged from chapter 11 protection on April 30, 2010 (the “Emergence Date”). As a result of the emergence from chapter 11 proceedings, certain prepetition liabilities against the Debtors were discharged to the extent set forth in the Plan of Reorganization and otherwise applicable law and the Debtors were permitted to make distribution to their creditors in accordance with the terms of the Plan of Reorganization.

As part of the emergence from chapter 11 proceedings, LyondellBasell Industries N.V. (“LyondellBasell N.V.”) became the successor parent holding company for the subsidiaries of LyondellBasell AF after completion of the Bankruptcy Cases. LyondellBasell N.V. is a company with limited liability (*naamloze vennootschap*) incorporated under Dutch law by deed of incorporation dated October 15, 2009. LyondellBasell AF, which was the predecessor parent holding company, is no longer part of the consolidated LyondellBasell group subsequent to the Emergence Date.

The Plan of Reorganization sets forth the structure of the Debtors that are being reorganized in connection with the Bankruptcy Cases (the “Reorganized Debtors”).

Under the Plan of Reorganization, the organizational structure of the Company in North America was simplified by the removal of 90 legal entities. The ultimate ownership of 49 of these entities (identified as Schedule III Debtors in the Plan of Reorganization) were transferred to a new owner, the Millennium Custodial Trust, a trust established for the benefit of certain creditors, and these entities are no longer part of LyondellBasell N.V. In addition, certain real properties owned by the Debtors, including the Schedule III Debtors, were transferred to the Environmental Custodial Trust, which now owns and will be responsible for these properties. Any associated liabilities of the entities transferred to and owned by the Millennium Custodial Trust will be the responsibility of those entities and claims regarding those entities will be resolved solely using their assets and the assets of the trust. In total, \$250 million of cash was used to fund the two trusts, including approximately \$80 million to the Millennium Custodial Trust and approximately \$170 million to fund the Environmental Custodial Trust and to make certain direct payments to the Environmental Protection Agency and certain state environmental agencies.

Pursuant to the Third Amended Plan of Reorganization, administrative and priority claims, as well as the new money debtor-in-possession (“DIP”) financing were repaid in full. The DIP roll-up lenders received new notes in the same principal amount as the DIP roll-up notes. Holders of senior secured claims received Class A shares of the LyondellBasell N.V. in exchange for their claims. Pursuant to the Amended Lender Litigation Settlement approved by the U.S. Bankruptcy Court on March 11, 2010, allowed general unsecured claims received a combination of cash and Class A shares of LyondellBasell N.V.

See “Liquidity and Capital Resources” below for a discussion of the emergence financing.

## OVERVIEW

**General**—LyondellBasell AF is 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. LyondellBasell AF has five reporting segments: Olefins and Polyolefins–Americas (“O&P–Americas”), Olefins and Polyolefins–Europe, Asia and International (“O&P–EAI”), Intermediates and Derivatives (“I&D”), Refining and Oxyfuels, and Technology.

Global market conditions continued their improvement from late 2009 in the first quarter 2010. Industry operating rates and sales volumes improved during the course of the first quarter 2010, and compared favorably to the first quarter 2009. Demand improved in the durable goods sector of the global economy, including the housing and automotive markets.

The first quarter of 2009 was negatively impacted by significant economic uncertainty and resulting lower demand and reduced operating rates as well as margin and price volatility. In contrast the first quarter of 2010 was characterized by an improving global economy and areas of good performance related to expanding demand. Additionally, certain portions of LyondellBasell’s business benefitted from planned and unplanned competitor operating disruptions

LyondellBasell AF’s operating results increased in the first quarter 2010, compared to the first quarter 2009, primarily due to significantly higher sales volumes and improved product margins. A substantial portion of the higher sales volumes were concentrated in the O&P–EAI, O&P–Americas, and the I&D business segments, and reflected improvement in the durable goods markets, while higher product margins were realized primarily in the O&P–Americas and the O&P–EAI segments. Partly offsetting the above were the lower operating results from the Refining and Oxyfuels segment, primarily due to the benefit of a favorable hedge in 2009, lower crude processing rates, and higher maintenance costs at the Houston and Berre refineries.

Net income in the first quarter 2010 was impacted by substantially lower reorganization costs as compared to the first quarter 2009.

The segment operating results, on a current cost basis, are reviewed in the “Segment Analysis” below.

## RESULTS OF OPERATIONS

**Revenues**—LyondellBasell AF had revenues of \$9,755 million in the first quarter 2010 compared to revenues of \$5,900 million in the first quarter 2009. The \$3,855 million increase in the first quarter of 2010 compared to the first quarter of 2009 was primarily due to higher demand and reflected the effect of higher sales volumes and higher average product sales prices.

**Cost of Sales**—LyondellBasell AF's cost of sales were \$9,130 million in the first quarter 2010 compared to \$5,792 million in the first quarter 2009. Cost of sales in the first quarter 2010 included a charge of \$23 million for plant closure and other costs related to a polypropylene plant in Terni, Italy (see "Other" in Note 21 to the Consolidated Financial Statements). The remaining increase was primarily due to higher raw material and utility costs, as well as the effect of higher sales volumes. The higher raw material costs reflect the effects of higher crude oil and NGL-based raw material prices.

**SG&A Expenses**—Selling, general and administrative ("SG&A") expenses were \$217 million in the first quarter 2010 compared to \$207 million in the first quarter 2009. The increase was primarily due to unfavorable currency exchange rate effects on costs of non-U.S. operations as the U.S. dollar weakened versus the euro.

**Operating Income (Loss)**—LyondellBasell AF had operating income of \$367 million in the first quarter 2010 compared to an operating loss of \$141 million in the first quarter 2009. The increase reflected higher sales volumes and product margins due to stronger global market conditions in the first quarter 2010 compared to the first quarter 2009. Operating results for each of LyondellBasell AF's business segments are reviewed further in the "Segment Analysis" section below.

**Interest Expense**—Interest expense was \$411 million in the first quarter 2010 and \$445 million in the first quarter 2009. The \$34 million decrease in interest expense was primarily due to the reclassification of approximately \$10 billion of debt to liabilities subject to compromise, as a result of the chapter 11 filing, partially offset by \$40 million of higher interest expense on the debtor-in-possession financing. LyondellBasell AF's contractual interest expense was \$663 million and \$557 million for the first quarter 2010 and 2009, respectively.

**Other Income (Expense), net**—LyondellBasell AF had other expense, net, of \$198 million in the first quarter of 2010 compared to other income, net, of \$90 million in the first quarter of 2009. Other expense in the first quarter 2010 included \$202 million of unrealized foreign exchange losses. Other income in the first quarter 2009 included involuntary conversion gains of \$72 million, representing partial settlements of outstanding insurance claims related to damages sustained in 2005 at the polymers plant in Münchsmünster, Germany.

**Reorganization Items**—LyondellBasell AF had income related to reorganization items of \$207 million in the first quarter 2010 compared to expense related to \$948 million of reorganization items in the first quarter 2009. Reorganization items in 2010 included a \$185 million adjustment primarily related to rejected contracts, a \$136 million reduction of environmental remediation liabilities and a net \$1 million contract settlement, partially offset by \$81 million of professional fees, damages related to the rejection of executory contracts of \$25 million and plant closure cost of \$9 million. Reorganization items in 2009 included charges to write off the carrying value of assets of \$612 million related to the shutdown of the olefins plant at Chocolate Bayou, Texas and \$50 million related to the long-term idling of the ethylene glycol facility in Beaumont, Texas; severance charges of \$139 million; professional fees of \$62 million; and a \$30 million charge for the write off of deferred debt issuance costs related to the Senior Notes due 2015.

**Income Tax**—The effective income tax rate for the first quarter 2010 was 54.5% resulting in tax expense of \$12 million on pretax income of \$22 million. The 2010 effective income tax rate was higher than the statutory 35% rate primarily due to the effects of non-deductible costs relating to the voluntary filings of petitions for relief under chapter 11 of the U.S. Bankruptcy Code, and to the recognition of valuation allowances established to reduce deferred tax assets not expected to be realized. The higher effective tax rate over statutory rate was partially offset by tax exempt income in jurisdictions other than the U.S. The effective income tax rate for the first quarter 2009 was 29.8% resulting in a tax benefit of \$432 million on a pretax loss of \$1,444 million. The 2009 effective income tax rate was lower than the statutory 35% rate primarily due to the effects of non-deductible costs relating to the voluntary filings of petitions for relief under chapter 11 of the U.S. Bankruptcy Code.

**Income (Loss) from Continuing Operations**—LyondellBasell AF had income of \$10 million from continuing operations in the first quarter 2010 compared to a loss of \$1,012 million from continuing operations in the first quarter 2009. The following table summarizes the major components contributing to income (loss) from continuing operations:

<u>Millions of dollars</u>	<u>For the three months ended</u>	
	<u>March 31, 2010</u>	<u>March 31, 2009</u>
Operating income (loss)	\$ 367	\$ (141)
Income (loss) from equity investments	55	(20)
Interest expense, net	(409)	(425)
Other income (expense), net	(198)	90
Reorganization items	207	(948)
Provision for (benefit from) income taxes	12	(432)
Income (loss) from continuing operations	<u>\$ 10</u>	<u>\$ (1,012)</u>

**Loss from Discontinued Operations, Net of Tax**—LyondellBasell AF had a loss from discontinued operations of \$4 million in the first quarter 2009 related to the TDI business sold in September 2008.

## Segment Analysis

LyondellBasell AF's operations are primarily in five reportable segments: Refining and Oxyfuels; O&P–Americas; O&P–EAI; I&D; and Technology. The following tables reflect selected financial information for LyondellBasell AF's reportable segments. Operating income (loss) is reported on a current cost basis for segment reporting.

<u>Millions of dollars</u>	<u>For the three months ended</u>	
	<u>March 31,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
<b>Sales and other operating revenues:</b>		
O&P–Americas segment	\$ 3,020	\$ 1,513
O&P–EAI segment	3,119	2,475
I&D segment	1,316	769
Refining and Oxyfuels segment	3,415	2,225
Technology segment	110	122
Other, including intersegment eliminations	(1,225)	(1,204)
Total	\$ 9,755	\$ 5,900
<b>Operating income (loss):</b>		
O&P–Americas segment	\$ 145	\$ (101)
O&P–EAI segment	71	(74)
I&D segment	123	78
Refining and Oxyfuels segment	(128)	(44)
Technology segment	31	50
Other, including intersegment eliminations	(59)	(9)
Current cost adjustment	184	(41)
Total	\$ 367	\$ (141)
<b>Income (loss) from equity investments:</b>		
O&P–Americas segment	\$ 4	\$ (2)
O&P–EAI segment	52	(11)
I&D segment	(1)	(7)
Total	\$ 55	\$ (20)

### *Olefins and Polyolefins–Americas Segment*

**Overview**—In its O&P–Americas segment, LyondellBasell AF manufactures and markets olefins, including ethylene and its co-products, primarily propylene, butadiene and aromatics, which include benzene and toluene, as well as ethanol; and polyolefins, which include polyethylene, comprising high density polyethylene (“HDPE”), low density polyethylene (“LDPE”) and linear low density polyethylene (“LLDPE”), and polypropylene and Catalloy process resins. The manufacturing and marketing is generally in the Americas, which includes the U.S., Canada, Mexico and South America.

During the first quarter 2010 compared to the first quarter 2009, which was negatively impacted by lower demand and reduced operating rates as well as margin and price volatility as a result of continued economic uncertainty, the O&P–Americas segment experienced improvement late in the first quarter 2010 due to industry supply disruptions. The first quarter 2010 results reflected higher ethylene margins and higher volumes for ethylene and polyolefins. The increase in average product sales prices more than offset the increase in raw material prices, which was driven by increases in crude oil and ethane prices. Results for polypropylene were higher in the first quarter 2010 compared to the first quarter 2009, while polyethylene results were negatively impacted by increases in the price of ethylene.

The first quarter of 2009 was characterized by reduced demand and operating rates related to the then current economic uncertainty. In contrast the first quarter of 2010 benefitted from stronger product demand and late in the

quarter the O&P–Americas results further benefitted from competitor operating issues. Ethylene margins improved significantly as a result of the improved supply demand balance created by these operating issues.

*Ethylene Raw Materials*—Benchmark crude oil and natural gas prices generally have been indicators of the level and direction of movement of raw material and energy costs for ethylene and its co-products in the O&P–Americas segment. Ethylene and its co-products are produced from two major raw material groups:

- crude oil-based liquids (“liquids” or “heavy liquids”), including naphthas, condensates, and gas oils, the prices of which are generally related to crude oil prices; and
- natural gas liquids (“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., LyondellBasell AF has the ability to shift its 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.

During the first quarter 2010, production economics continued to favor NGLs. During March 2010, approximately 70% of the Company’s U.S. ethylene production was from NGLs, predominantly ethane. However, as prices for co-products increased during the quarter, selected heavy liquid feedstocks became more competitive, especially for LyondellBasell AF’s crackers located on the U.S. Gulf Coast.

The following table shows the average U.S. benchmark prices for crude oil and natural gas for the applicable three-month periods, as well as benchmark U.S. sales prices for ethylene and propylene, which LyondellBasell AF produces and sells or consumes internally. 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 and is subject to revision:

	<b>Average Benchmark Price and Percent Change Versus Prior Year Period Average</b>		
	<b>For the three months ended</b>		
	<b>March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
Crude oil – dollars per barrel	78.88	43.31	82%
Natural gas – dollars per million BTUs	5.36	4.22	27%
Weighted average cost of ethylene production – cents per pound	34.29	23.82	44%
United States – cents per pound			
Polyethylene (high density)	83.33	59.67	40%
Ethylene	52.33	31.50	66%
Polypropylene	87.83	51.50	71%
Propylene – polymer grade	61.50	24.83	148%

The following table sets forth the O&P–Americas segment’s sales and other operating revenues, operating income and selected product sales volumes:

<u>Millions of dollars</u>	<u>For the three months ended</u>	
	<u>March 31,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
Sales and other operating revenues	\$ 3,020	\$ 1,513
Operating income (loss)	145	(101)
Income (loss) from equity investments	4	(2)
 <b><u>Production Volumes, in millions of pounds</u></b>		
Ethylene	2,019	1,988
Propylene	755	676
 <b><u>Sales Volumes, in millions of pounds</u></b>		
Polypropylene	615	541
Polyethylene	1,339	1,236

**Revenues**—Revenues of \$3,020 million in the first quarter 2010 compared to revenues of \$1,513 million in the first quarter 2009. The increase in revenue of \$1,507 million primarily reflects higher product sales prices across the segment and the effect of higher ethylene and polyethylene sales volumes. As noted above, benchmark sales prices in the first quarter of 2010 were higher on average compared to the first quarter 2009.

**Operating Income (Loss)**—The O&P–Americas segment had operating income of \$145 million in the first quarter 2010 compared to an operating loss of \$101 million in the first quarter 2009. The increase of \$246 million primarily reflects higher ethylene margins and sales volumes. These higher product margins and sales volumes were partially offset by lower polyethylene product margins, which were negatively impacted by significant ethylene price increases in the first quarter 2010 compared to the same period in 2009. Results for polypropylene, including Catalloy, improved by approximately \$10 million compared to the first quarter 2009.

#### ***Olefins and Polyolefins–Europe, Asia and International Segment***

**Overview**—In its O&P–EAI segment, LyondellBasell AF manufactures and markets olefins, including ethylene and propylene, primarily for internal consumption, and butadiene; and polyolefins, which include polyethylene, comprising high density polyethylene (“HDPE”), low density polyethylene (“LDPE”) and polypropylene, as well as polypropylene-based compounds, materials and alloys (“PP Compounds”), *Catalloy* process resins and polybutene-1 (“PB-1”) polymers. The manufacturing and marketing is generally in Europe, Asia and other regions outside of the Americas with the exception of PP Compounds and PB-1, which are manufactured and marketed globally by the O&P–EAI segment.

During the first quarter 2010, the O&P–EAI segment experienced higher olefins and polyethylene product margins and higher sales volumes across most products, compared to the first quarter 2009, which reflected the effects of global economic uncertainty.

Demand for ethylene in Europe improved in the first quarter 2010 compared to the first quarter 2009. Ethylene margins improved as benchmark ethylene sales prices increased more than the benchmark weighted average costs of ethylene production during the first quarter 2010. Ethylene captive consumption increased in the first quarter 2010 compared to the first quarter 2009 due to higher downstream demand, which in turn resulted in higher operating rates, despite a planned turnaround of an ethylene production facility. Ethylene and butadiene product margins increased, primarily due to the improved economic environment resulting in improved supply and demand balances.

PE product margins in Europe were higher, while PE sales volumes strengthened, particularly in the International regions.

The sales volumes for PP Compounds increased as a result of higher demand, primarily from the automotive industry. The benefit of increased PP Compounds sales volumes was partly offset by lower margins in the first quarter 2010. Margins in the first quarter of 2009 benefited as raw material prices decreased significantly.

*Ethylene Raw Materials*—In Europe, heavy liquids are the primary raw materials for LyondellBasell AF's 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 LyondellBasell AF produces and consumes internally or purchases 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 three months ended</b>		
	<b>March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
Brent crude oil - dollars per barrel	77.79	56.29	38%
Weighted average cost of ethylene production – €0.01 per pound	28.97	22.07	31%
Western Europe – €0.01 per pound			
Polyethylene (high density)	51.41	37.50	37%
Ethylene	41.58	26.99	54%
Polypropylene (homopolymer)	51.33	34.32	50%
Propylene	38.93	20.90	86%
Average Exchange Rate –\$U.S. to € to	1.3849	1.3044	6%

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>For the three months ended</b>	
	<b>March 31, 2010</b>	<b>March 31, 2009</b>
<b>Millions of dollars</b>		
Sales and other operating revenues	\$ 3,119	\$ 2,475
Operating income (loss)	71	(74)
Income (loss) from equity investments	52	(11)
<b>Production Volumes, in millions of pounds</b>		
Ethylene	861	785
Propylene	509	468
<b>Sales Volumes, in millions of pounds</b>		
Polypropylene	1,590	1,591
Polyethylene	1,364	1,117

**Revenues**—Revenues increased in the first quarter 2010 to \$3,119 million compared to \$2,475 million in the first quarter 2009, primarily due to higher sales prices. Revenues also benefitted from increased sales volumes across most products with particular improvement from PP compounding. Revenues also benefitted from the favorable effect of changes in currency exchange rates as the euro strengthened 7% versus the U.S. dollar.

**Operating Income (Loss)**—The O&P–EAI segment had operating income of \$71 million in the first quarter 2010 compared to an operating loss of \$74 million in the first quarter 2009. The increase in the first quarter 2010 compared to the first quarter 2009 primarily reflects the effects of higher olefin and polyethylene product margins. Additionally, the first quarter 2010 benefitted from increased PP compounds sales volumes. Fixed costs increased in the first quarter 2010 due to unfavorable currency effects and the timing of corporate allocations.

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

**Overview**—In its I&D segment, LyondellBasell AF manufactures and markets propylene oxide (“PO”); PO co-products, including styrene monomer (“styrene” or “SM”) and tertiary butyl alcohol (“TBA”); TBA derivative, isobutylene; and PO derivatives, including ethylene glycol (“PG”), propylene glycol ethers (“PGE”) and butanediol (“BDO”); ethylene derivatives, including ethylene glycol (“EG”), ethylene oxide (“EO”) and other EO derivatives; acetyls, including vinyl acetate monomer (“VAM”), acetic acid and methanol; and flavors and fragrances.

First quarter 2010 I&D operating results primarily reflected higher sales volumes for most products and improved results for intermediates C<sub>4</sub> products, compared to the first quarter 2009. The higher sales volumes were primarily due to improved first quarter 2010 demand for PO and PO derivatives, ethylene derivatives and other intermediate chemical products. LyondellBasell AF’s propylene oxide business benefitted from planned and unplanned competitor downtime as the market for durable goods end-uses strengthened. Demand for durable goods in the 2009 period was negatively impacted by inventory corrections and reductions in production in response to market uncertainty during that time. Product margins, which were particularly strong in the 2009 period, were lower in the first quarter 2010 due to higher raw materials costs.

In the first quarter 2009, due to lower PO demand, two of LyondellBasell AF’s PO facilities remained idled, having been initially idled in late 2008. In mid-May 2009, LyondellBasell AF restarted one of the idled PO facilities, which is located in Europe and is part of LyondellBasell AF’s joint venture with Bayer (see Note 10 to the Consolidated Financial Statements). The second PO facility restarted in September 2009.

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

	<u>For the three months ended</u>	
	<u>March 31,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
<b><u>Millions of dollars</u></b>		
Sales and other operating revenues	\$ 1,316	\$ 769
Operating income	123	78
Loss from equity investments	(1)	(7)
<b><u>Sales Volumes, in millions of pounds</u></b>		
PO and derivatives	869	680
EO and derivatives	265	223
Styrene	589	394
Acetyls	289	224
C4 chemicals	472	290

**Revenues**—Revenues were \$1,316 million in the first quarter 2010 compared to \$769 million in the first quarter 2009. The 70% increase in revenue reflects the effect of higher product sales prices and higher sale volumes across most products, particularly for PO and PO derivatives. Revenues in the first quarter 2010 also reflected the favorable effect of changes in currency exchange rates as the U.S. dollar was weaker relative to the euro compared to the first quarter 2009.

**Operating Income**—The I&D segment had operating income of \$123 million in the first quarter 2010 compared to operating income of \$78 million in the first quarter 2009. Operating results in the first quarter 2010 reflected the effect of higher sales volumes across most products and higher product margins for C<sub>4</sub> products, partially offset by

lower product margins for PO and PO derivative as well as other intermediate products, compared to the first quarter 2009.

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

**Overview**—In its Refining and Oxyfuels segment, LyondellBasell AF produces refined petroleum products, including gasoline, ultra low sulfur diesel, jet fuel, aromatics, lubricants and oxygenated fuels, or oxyfuels, such as methyl tertiary butyl ether (“MTBE”), ethyl tertiary butyl ether (“ETBE”) and alkylate.

LyondellBasell AF’s full-conversion Houston refinery processes heavy, high sulfur Venezuelan crude oil supplied under a long-term contract with PDVSA Oil and purchased on the spot market, as well as other heavy crude oils. Under the crude oil contract the refinery purchases up to 215,000 barrels per day of heavy, high sulfur crude oil, which constitutes approximately 80% of its rated crude oil refining capacity of 268,000 barrels per day. The Houston refinery generally purchases the balance of its crude requirements on the spot market.

In the first quarter 2010, benchmark heavy crude refining margins averaged higher compared to the first quarter 2009, primarily due to an increase in the differential between the cost of heavy and light crude oil during the latter part of the quarter.

Refining and Oxyfuels segment operating results in the first quarter 2010 compared to the first quarter 2009 primarily reflected the effects of the settlement in 2009 of a favorable hedge related to distillates, lower crude processing volumes, and the timing of oxyfuel shipments. Volumes were lower due to sulfur recovery constraints at the Houston refinery and maintenance at the Berre refinery. Oxyfuels results in the Americas were lower compared to the first quarter 2009, primarily due to lower sales volumes related to the timing of shipments and mix of sales.

See “Financial Condition – Liquidity and Capital Resources” regarding the May 2010 fire at the Houston Refinery.

The following table sets forth the Refining and Oxyfuels segment’s sales and other operating revenues, operating loss and sales volumes for certain gasoline blending components for the applicable three month periods:

	<b><u>For the three months ended</u></b>	
	<b><u>March 31,</u></b>	<b><u>March 31,</u></b>
	<b><u>2010</u></b>	<b><u>2009</u></b>
<b><u>Millions of dollars</u></b>		
Sales and other operating revenues	\$ 3,415	\$ 2,225
Operating loss	(128)	(44)
<b><u>Sales Volumes, in millions</u></b>		
Gasoline blending components – MTBE/ETBE (gallons)	189	205
<b><u>Crude processing rates (thousands of barrels per day):</u></b>		
Houston Refining	263	269
Berre Refinery	73	86
<b><u>Market margins – \$ per barrel</u></b>		
WTI – 2-1-1	6.85	9.64
WTI Maya	8.94	4.46
Total	15.79	14.10
Urals – 4-1-2-1	5.91	6.96
<b><u>Market margins – cents per gallon</u></b>		
ETBE – NWE	49.10	46.38

**Revenues**—The Refining and Oxyfuels segment had revenues of \$3,415 million in the first quarter 2010 compared to \$2,225 million in the first quarter 2009. The increase in revenues was primarily due to higher average sales prices, partly offset by the effect of lower sales volumes for refining and oxyfuels products. Unplanned outages at a Houston refinery processing unit contributed to the lower volumes at the Houston refinery.

**Operating Loss**—The Refining and Oxyfuels segment had an operating loss of \$128 million in the first quarter 2010 compared to an operating loss of \$44 million in the first quarter 2009. Operating results in the first quarter 2009 included a \$48 million benefit from the settlement of hedging activity at the Houston refinery related to distillates. The underlying operating results in the first quarter of 2010 for the Houston refinery reflected higher maintenance costs related to planned and unplanned outages, which negatively impacted production of higher margin ultra low sulfur diesel, partially offset by lower distribution costs. Lower product margins as well as planned maintenance contributed to lower operating results for the Berre refinery in the first quarter 2010 compared to the first quarter 2009. Operating income for oxyfuels was lower in the first quarter 2010 compared to the first quarter 2009 due primarily to the effect of lower sales volumes and higher costs related to ethanol purchases. Sales volumes in the first quarter 2010 were negatively impacted by a delay of a large shipment at quarter end

### *Technology Segment*

**Overview**—LyondellBasell AF's Technology segment primarily develops and licenses leading polyolefin process technologies and develops, manufactures and sells polyolefin catalysts. LyondellBasell AF's Technology segment, which is largely based in Europe, sells licenses denominated in U.S. dollars and Euros. The mix of U.S. dollar and Euro contracts and the resulting effect of changes in currency exchange rates can have a significant effect on segment results.

The following table sets forth the Technology segment's sales and other operating revenues and operating income for the applicable three month periods:

	<u>For the three months ended</u>	
	<u>March 31,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
<u>Millions of dollars</u>		
Sales and other operating revenues	\$ 110	\$ 122
Operating income	31	50

**Revenues**—The Technology segment had revenues of \$110 million in the first quarter 2010 compared to \$122 million in the first quarter 2009. The decrease in the first quarter 2010 compared to the first quarter 2009 was primarily due to lower process license revenue, partly offset by higher catalyst sales volumes.

**Operating Income**—The Technology segment had operating income of \$31 million in the first quarter 2010 compared to operating income of \$50 million in the first quarter 2009. The decrease in the first quarter 2010 was primarily due to the effects of lower licensing revenue, partly offset by the effect of higher catalyst sales volumes.

## **FINANCIAL CONDITION**

The following table summarizes operating, investing and financing activities for the three months ended March 31:

<u>Millions of dollars</u>	<u>2010</u>	<u>2009</u>
Source (use) of cash:		
Operating cash flow	\$ (373)	\$ (571)
Investing cash flow	(127)	(173)
Financing cash flow	490	601

**Operating Activities**—Operating activities used cash of \$373 million and \$571 million in the first quarter 2010 and 2009, respectively. The use of cash in the first quarter 2010 primarily reflected the increase in the main components of working capital – accounts receivable and inventory, net of accounts payable, payments for reorganization items and certain annual payments relating to sales rebates, employee bonuses and property taxes, partially offset by higher earnings and lower vendor prepayments in the first quarter 2010. The use of cash in the first quarter 2009 reflected the effects of prepayments required by third parties as a result of the Company’s chapter 11 filing and certain annual payments relating to sales rebates, employee bonuses and property taxes as reflected in Other, net, partially offset by working capital decreases.

In the first quarter 2010, the main components of working capital – accounts receivable and inventory, net of accounts payable – used cash of \$742 million compared to providing cash of \$429 million in the first quarter 2009. The increase in these components of working capital during the first quarter 2010 primarily reflected a \$480 million increase in accounts receivable due to higher sales volumes, and a \$384 million increase in inventory primarily due to the timing and receipts of crude oil shipments and additions to inventory in preparation for maintenance at a U.S. olefins plant scheduled for the second quarter of 2010, partially offset by a \$122 million increase in accounts payable due to the higher costs of feedstocks.

The main components of working capital in the first quarter 2009 primarily reflected the effects of selling finished product from inventory while the Company reduced operating rates, partially offset by decreases in accounts payable due to less favorable payment terms and lower costs of feedstocks. Working capital in the first quarter 2009 was also affected by a \$503 million required payment to terminate the accounts receivable securitization program.

**Investing Activities**—Investing activities used cash of \$127 million in the first quarter 2010 and \$173 million in the first quarter 2009. The cash used in the first quarter 2010 included \$139 million of capital expenditures, partially offset by \$12 million in proceeds from a money market fund that had suspended rights to redemption in 2008. The cash used in the first quarter 2009 was primarily related to capital expenditures, partially offset by proceeds from the sale of assets and insurance claims related to damages sustained in 2005 at the polymers plant in Münchsmünster, Germany.

The following table summarizes capital expenditures as well as 2010 planned capital spending:

<u>Millions of dollars</u>	<b>For the three months ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Capital expenditures by segment:</b>		
O&P–Americas	\$ 30	\$ 34
O&P–EAI	59	117
I&D	4	4
Refining and Oxyfuels	35	31
Technology	10	10
Other	1	1
Total Capital expenditures by segment	139	197
<b>Less:</b>		
Contributions to PO Joint Ventures	--	--
Consolidated capital expenditures of LyondellBasell AF's continuing operations	\$ 139	\$ 197

The above capital expenditures excludes costs of major periodic maintenance and repair activities, including turnarounds and catalyst recharges, of \$74 million and \$20 million, in the first quarters of 2010 and 2009, respectively.

**Financing Activities**—Financing activities provided cash of \$490 million in the first quarter 2010 and \$601 million in the first quarter 2009. In the first quarter of 2010, LyondellBasell AF borrowed \$525 million under the DIP

revolving credit facility and made payments of \$13 million related to the extension of the DIP Financing facilities. In addition, LyondellBasell AF made a \$12 million mandatory quarterly amortization payment of the Dutch Tranche A Dollar Term Loan, \$3 million of which was related to the DIP Roll-Up Loans, and also made payments on the European Securitization Facility and the French Factoring Facility of \$1 million and \$2 million, respectively.

In the first quarter of 2009, LyondellBasell AF borrowed \$2,167 million under the Term Loan portion of the DIP Financing arrangement, receiving net proceeds of \$2,050 million. In addition, LyondellBasell AF borrowed \$810 million under the \$1,570 million DIP ABL facility, receiving net proceeds of \$711 million, and repaid the \$810 million during the first quarter 2009.

The chapter 11 filing constituted a termination event under the asset-based credit facilities in the U.S., and LyondellBasell AF used \$880 million of the net proceeds under the DIP Financing arrangement to repay \$766 million and \$114 million outstanding under the previous inventory-based credit facility and the North American accounts receivable securitization program, respectively, and, as noted under Operating Activities, used \$503 million to repurchase outstanding accounts receivable sold under the Company's previous receivables securitization facility. In addition, LyondellBasell repaid a \$100 million demand note related to emergency postpetition funding, \$45 million (70 million Australian dollars) outstanding under an Australian term loan and made net repayments of \$404 million, related to the European receivables securitization program, which was not terminated, and was amended and restated in March 2009. During the first quarter of 2009, the Company also made a mandatory \$6 million quarterly amortization payment of the Dutch Tranche A Dollar Term Loan, \$2 million of which was related to the DIP Roll-Up Loans, and borrowed \$9 million related to a letter of credit presented for payment under the Senior Secured Revolving Credit Facility.

For a discussion of amounts borrowed and balances outstanding on the DIP Financing, see the "DIP Financing" section in Liquidity and Capital Resources below.

**Liquidity and Capital Resources**—LyondellBasell N.V. had approximately \$3.6 billion of availability at April 30, 2010, including cash and cash equivalents and amounts available under its \$1,750 million U.S. ABL Facility. At April 30, 2010, there were no borrowings under the U.S. ABL Facility and outstanding letters of credit totaled \$625 million. The borrowing base was \$1,750 million.

Total short-term and long-term debt, including current maturities, was \$7,246 million as of April 30, 2010.

The consummation of the Plan of Reorganization has created a significantly de-levered capital structure.

On May 17, 2010, a fire was experienced in one of the crude distillation units at the Houston refinery. The affected unit has a throughput capacity of approximately 140,000 barrel per day. As a result of the fire, the crude distillation will be down for repair. The outage period is subject to several factors currently being evaluated. Management does not believe that the impact of the fire and resulting shut down will have a material adverse effect on the consolidated results of operations of LyondellBasell Industries N.V.

### *Emergence Financing*

In conjunction with the emergence from chapter 11, LyondellBasell N.V., through its wholly owned subsidiary, LBI Escrow Corporation ("LBI Escrow"), raised \$3.25 billion of first priority debt, including \$2.25 billion and €375 million offerings of senior secured notes in a private placement and borrowings of \$500 million under a senior term loan facility as part of the exit financing. On April 30, 2010, Lyondell Chemical was merged with and replaced LBI Escrow as issuer of the senior secured notes and the senior term loan facility. The net proceeds from the sale of the notes, together with borrowings under the term loan, a new European securitization facility, and proceeds from a \$2.8 billion rights offering, is being used to repay and replace certain existing debt, including the debtor-in-possession credit facilities and an existing European securitization facility, and to make certain related payments.

*Rights Offering*—As part of the emergence from chapter 11 proceedings, approximately 563.9 million shares of common stock of LyondellBasell N.V. were issued under the Plan of Reorganization, including 300 million shares

of Class A common stock issued in exchange for allowed claims. Approximately 263.9 million shares of Class B stock were issued in connection with a rights offering for gross proceeds of \$2.8 billion.

*Senior Secured Notes*—On April 8, 2010 LBI Escrow issued \$2,250 million of 8% senior secured notes due 2017 and €375 million of senior secured notes due 2017 (collectively, the “Senior Secured Notes”). Interest on the Senior Secured Notes will accrue at a rate of 8% per annum and will be payable on May 1 and November 1 beginning on November 1, 2010.

The Senior Secured Notes will be 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 the Lyondell Chemical (the “Subsidiary Guarantors” and, together with LyondellBasell N.V., the “Guarantors”).

The Senior Secured Notes will rank equally in right of payment with all existing and future senior debt of Lyondell Chemical and the Guarantors, except that the notes and guarantees will rank junior to obligations of LyondellBasell N.V. subsidiaries that do not guarantee the Senior Secured Notes.

The Senior Secured Notes and guarantees will be 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 all U.S. Subsidiary Guarantors of LyondellBasell N.V., a first priority lien on 65% of the capital stock of the first-tier non-U.S. subsidiaries of Lyondell Chemical or of LyondellBasell N.V. and a second-priority lien on the accounts receivables, inventory, related contracts and other rights and other assets related to the foregoing and proceeds that secure the U.S. ABL Facility on a first priority basis, subject, in each case, to certain exceptions and permitted liens.

Lyondell Chemical may, at any time prior to May 1, 2013, redeem up to 35% of the original aggregate principal amount of the notes with net proceeds of specified equity offerings. Prior to May 1, 2013, Lyondell Chemical may redeem up to 10% of the outstanding Senior Secured Notes at a redemption price equal to 103% of the principal amount. Prior to May 1, 2013, Lyondell Chemical may also redeem some of the Senior Secured Notes at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the applicable redemption date, and a make-whole premium.

The Senior Secured Notes contains covenants that restrict, among other things, debt incurrence, lien incurrence, investments, certain restricted payments, sales of assets and mergers, amendment of terms of certain indebtedness and material obligations, alterations in the conduct of LyondellBasell N.V.’s business, and affiliate transactions and distributions by LyondellBasell N.V. and its subsidiaries. The Senior Secured Notes do not require LyondellBasell N.V. to maintain compliance with any specific financial covenants. Several of the restrictive covenants would be suspended if LyondellBasell N.V. maintains an Investment Grade rating from two rating agencies.

*Senior Term Loan Facility*—On April 8, 2010, LBI Escrow Corporation entered into a six-year, \$500 million senior term loan facility (the “Senior Term Loan Facility”) and received net proceeds of \$495 million.

Borrowings under the Senior Term Loan Facility will bear interest at either (a) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits in the London interbank market for the interest period relevant to such borrowing adjusted for certain additional costs (“LIBOR”) 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 will be unconditionally 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 perfected first priority security interests in the Senior Secured Notes collateral and by a second priority security interest in the ABL Facility Collateral, as defined.

The Senior Term Loan Facility contains covenants that are substantially similar to the Senior Secured Notes. The Senior Term Loan Facility does not require LyondellBasell N.V. to maintain compliance with any specific financial covenants.

*U.S. ABL Facility*—On April 8, 2010, LyondellBasell N.V. entered into a \$1,750 million U.S. asset-based lending facility (the “U.S. ABL Facility”), under which funds were available upon emergence from bankruptcy. Letters of credit outstanding under the DIP ABL Facility at the Emergence Date were transferred to the new U.S. ABL Facility

Borrowings under the U.S. ABL Facility will bear interest at either an applicable margin plus the Base Rate or an applicable margin plus LIBOR. A commitment fee on the average daily unused commitments under the U.S. ABL Facility will be paid to the lenders.

Obligations under the U.S. ABL Facility will be guaranteed jointly and severally, and fully and unconditionally, on a senior secured basis, by the Guarantors (except, in the case of any Guarantor which is a Borrower, to the extent of its own obligations in its capacity as a Borrower). The ABL Borrowers’ obligations under the U.S. ABL Facility and the related guarantees will be secured by (i) a first priority perfected lien on the ABL Facility Collateral and (ii) a second priority perfected lien on the Senior Secured Notes and Term Loan Collateral.

Mandatory prepayments of the loans under the U.S. ABL Facility will be made from net cash proceeds from certain sales of ABL Facility Collateral and insurance and condemnation awards involving and to the extent of ABL Facility Collateral.

The US ABL contains covenants that are substantially similar to the Senior Secured Notes.

In addition, LyondellBasell N.V. is required to comply with a minimum fixed charge coverage ratio of not less than 1.00 to 1.00, measured quarterly, in the event excess availability under the US ABL falls below \$300 million for five consecutive business days or below \$250 million on any business day.

*Plan Roll-Up Notes*—On the Emergence Date, Lyondell Chemical issued Plan Roll-up Notes under an indenture of approximately \$3,240 million in exchange for DIP roll-up loans incurred under the Bankruptcy Cases as part of the DIP Term Loan Facility. The Plan Roll-up Notes are guaranteed by the same Guarantors that support the Senior Secured Notes, the Senior Term Loan Facility and the U.S. ABL Facility.

The 8 Year Plan Roll-up Notes are secured by the same security package as the Senior Secured 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%.

*Receivables securitization programs*—On April 28, 2010, two non-U.S. subsidiaries of LyondellBasell N.V. entered into a three-year securitization agreement (the “European Securitization”) under which they may sell up to €450 million in trade receivables to the purchaser. The European Securitization replaces the previous accounts receivable securitization program of LyondellBasell AF. Transfers of accounts receivable under this program do not qualify as sales; therefore, the transferred accounts receivable and the proceeds received through such transfers are included in trade receivables, net, and short-term debt in the consolidated balance sheets.

#### *Pre-emergence Overview of Capital Structure*

At March 31, 2010, the Company had cash and cash equivalents of \$537 million. In addition, the Company had availability of \$1,240 million under its credit facilities, including \$1,083 million under the DIP Term Loan facility and \$157 million under the DIP ABL Facility. There were net borrowings of \$850 million under the DIP ABL Facility and outstanding letters of credit totaled \$613 million at March 31, 2010. The borrowing base was \$1,620 million, after giving effect to a \$100 million minimum unused availability requirement.

Total short-term and long-term debt, including current maturities of debt not subject to compromise, was \$7,466 million as of March 31, 2010.

In connection with the January 6, 2009 chapter 11 cases, on January 7, 2009, LyondellBasell AF received U.S. Bankruptcy Court authorization to obtain emergency post-petition financing in an aggregate amount of up to \$100 million, which matured on January 9, 2009. After obtaining forbearance agreements from the required number of secured lenders under the current senior secured and other secured loans, the Debtors received U.S. Bankruptcy Court approval of the DIP Financing, which provided senior secured super priority debtor-in-possession financing facilities in an aggregate amount of up to \$8,040 million on March 1, 2009 (with \$3,250 million representing a dollar-for-dollar roll up, or conversion, of previously outstanding senior secured loans), with an option to increase one of the facilities by up to \$460 million through the addition of new lenders.

*DIP Financing*—On January 8, 2009, the Debtors received interim U.S. Bankruptcy Court approval of senior secured superpriority DIP Financing. On March 1, 2009, the Debtors received final U.S. Bankruptcy Court approval of the DIP Financing, comprising: (i) a \$6,500 million term loan facility (“DIP Term Loan Facility”); and (ii) up to \$1,540 million, subject to a borrowing base, representing a new asset-based facility (“DIP ABL Facility”). The DIP Term Loan Facility consists of: (a) \$3,250 million of new funding (the “New Money Loans”); and (b) \$3,250 million representing a dollar-for-dollar roll up, or conversion, of previously outstanding senior secured loans (“Roll-Up Loans”).

The initial proceeds of the DIP Financing were used: (i) to refinance, in full, (A) the Senior Secured Inventory-Based Facility, (B) the \$1,150 million Accounts Receivable Securitization Facility (see Note 13 to the Consolidated Financial Statements), (C) the \$200 million North American accounts receivable securitization program, and (D) the \$100 million super emergency interim DIP Financing; (ii) to pay related transaction costs, fees and expenses; (iii) to provide working capital; and (iv) for other general corporate purposes of the Debtors as well as the non-U.S. subsidiaries of LyondellBasell AF. Not more than €700 million of the proceeds under the DIP Financing could be used to fund LyondellBasell AF’s non-U.S. subsidiaries. Net advances of \$335 million (€249 million) were made to LyondellBasell AF’s non-U.S. subsidiaries during the first quarter 2010. Total cash held by LyondellBasell AF’s foreign operations were not to exceed €200 million, after excluding certain items, including restricted cash, which is defined as cash that is not immediately available due to bi-monthly settlement procedures under the European receivables securitization program, tax and legal considerations in certain countries and pursuant to letters of credit and guarantees. On a weekly basis, cash in excess of the €200 million limit was required to be transferred to Lyondell Chemical Company, provided that the excess is at least €5 million.

The Roll-Up Loans were replaced with the Plan Roll-Up Notes, and the DIP ABL Facility and New Money Loans were repaid in connection with emergence from bankruptcy on April 30, 2010.

*Accounts Receivable Factoring Agreement*—On October 8, 2009, a non-debtor subsidiary of LyondellBasell AF entered into an accounts receivable factoring facility for up to €100 million. The factoring facility is for an indefinite period, non-recourse, unsecured and terminable by either party subject to notice. At March 31, 2010 \$22 million was outstanding under the accounts receivable factoring agreement.

## **ACCOUNTING AND REPORTING CHANGES**

For a discussion of the potential impact of new accounting pronouncements on LyondellBasell’s consolidated financial statements, see Note 2 to the Consolidated Financial Statements.