

LyondellBasell Industries AF S.C.A.

2009 Management's Discussion and Analysis of
Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the information contained in the LyondellBasell Industries AF S.C.A. (formerly known as Basell AF S.C.A. or "Basell") audited Consolidated Financial Statements for the year ended December 31, 2009 and the related notes thereto. This discussion contains forward-looking statements that involve risks and uncertainties. LyondellBasell Industries AF S.C.A.'s ("LyondellBasell AF") actual results could differ materially from those discussed in the forward-looking statements as a result of numerous factors.

In reviewing the following discussion and analysis, certain points concerning the historical and future results of operations of LyondellBasell AF should be considered:

- Following our emergence from bankruptcy, our historical financial statements will not be comparable to financial statements for future periods. LyondellBasell AF acquired Lyondell Chemical Company ("Lyondell Chemical") on December 20, 2007. Operating results prior to such date in 2007 do not include the results of Lyondell Chemical. Some significant changes in operating results are due to the effects of the acquisition of Lyondell Chemical, rather than changes in the business performance of LyondellBasell AF's predecessor, Basell. As a result, the financial information for 2008 is generally not comparable to 2007. Moreover, on January 6, 2009, April 24, 2009 and May 8, 2009, the Debtors filed voluntary 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"). The effects of operating the businesses of the Debtors as "debtors-in-possession" under the jurisdiction of the U.S. Bankruptcy Court likely affected our operations in ways that would make 2009 more difficult to compare with 2008.
- As a result of its recent reorganization, LyondellBasell AF reassessed segment reporting based on the current management structure. Based on this analysis, LyondellBasell AF concluded that management is focused on the Refining and Oxyfuels segment; the Olefins and Polyolefins – Americas ("O&P—Americas") segment; the Olefins and Polyolefins – Europe, Asia, International ("O&P—EAI") segment; the Intermediates and Derivatives ("I&D") segment; and the Technology segment. See "Segment Analysis" below for a description of the segments.
- LyondellBasell AF's consolidated operating results, which are discussed in the following "Overview" and "Results of Operations" sections, are determined using 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 (see Note 2 to the Consolidated Financial Statements). This discussion is supplemented by a discussion of LyondellBasell AF's segment operating results under the "Segment Analysis" heading in "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 AF intends to adopt the LIFO method of accounting for inventory on a company-wide basis upon emergence from bankruptcy and adoption of fresh start accounting.
- In addition to comparisons of current operating results with the same period in the prior year, LyondellBasell AF has included, as additional disclosure, certain "trailing quarter" comparisons of fourth quarter 2009 operating results to third quarter 2009 operating results. LyondellBasell AF's businesses are highly cyclical, in addition to experiencing some less significant seasonal effects. Trailing quarter comparisons may offer important insight into current business direction.
- After tax amounts referred to in the discussion herein are tax effected using the U.S. statutory rate of 35%.

References to industry benchmark prices or costs, including the weighted average cost of ethylene production, are generally to industry prices and costs reported by CMAI, except that references to industry benchmarks for

refining and oxyfuels market margins are to industry prices reported by Platts, a reporting service of The McGraw-Hill Companies and crude oil and natural gas benchmark price references are to Bloomberg.

OVERVIEW

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: Refining and Oxyfuels, Olefins and Polyolefins—Americas, Olefins and Polyolefins—Europe, Asia and International, Intermediates and Derivatives, and Technology.

Our performance is driven by, among other things, global economic conditions generally and their impact on demand for our products, raw material and energy prices, and industry-specific issues, such as production capacity. Our businesses are subject to the cyclical and volatility seen in the chemicals and refining industries generally. While the global financial crisis and recession, and other factors discussed below, contributed to our filing under chapter 11 under the U.S. Bankruptcy Code, industry analysts believe many of our products are currently near or at their trough levels and forecast cyclical upside in the coming years. We have seen some favorable developments in late 2009 that may continue to be reflected in our 2010 performance, such as continued delays in the construction of Mideast and Asian production capacity which was expected to exacerbate current excess capacity issues, raw material pricing improvements and extensive government intervention globally. However, there can be no assurance that these positive developments will continue or that there will not be further adverse developments.

CHAPTER 11 FILING

The global financial crisis and recession have created substantial uncertainty for the global economy and the markets in which LyondellBasell AF operates. By December 2008, it became apparent that LyondellBasell AF was experiencing a substantial tightening in liquidity, as the significant decline in crude oil and raw material prices negatively affected the availability of borrowing under LyondellBasell AF's asset-based working capital and credit facilities. This, coupled with the simultaneous decline in demand for LyondellBasell AF's products, resulted in a further deterioration of LyondellBasell AF's liquidity.

In December 2008, LyondellBasell AF entered into agreements with the lenders under the Interim Loan Agreement extending the payment dates for certain payments due in December 2008. LyondellBasell AF also hired advisors in December 2008, including a Chief Restructuring Officer, to assist in evaluating the strategic options available to LyondellBasell AF and continued to work collaboratively with its lenders and other parties to extend payment dates and restructure its debt obligations.

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 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") are being jointly administered under the caption "*In re Lyondell Chemical Company, et al.*" and the Debtors are continuing to operate their businesses and manage 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.

Although under applicable non-bankruptcy law the commencement of the Bankruptcy Cases constituted an event of default under many of the debt agreements of LyondellBasell AF and many of its direct and indirect subsidiaries and affiliates, and an event of termination under certain of their asset-backed facilities, the ability of the lenders to enforce their rights under the credit facilities and the ability of other creditors to seek payment of prepetition liabilities or to take actions against the Debtors under other agreements has been stayed with respect to the Debtors in substantially all cases in accordance with applicable provisions of the U.S. Bankruptcy Code.

Moreover, the termination provisions in many agreements with the Debtors triggered by the commencement of the Bankruptcy Cases are not enforceable under the U.S. Bankruptcy Code. Since the commencement of the Bankruptcy Cases, the Debtors have replaced certain of their asset-backed facilities through new, debtor-in-possession financing (the “DIP Financing”). In addition, the required number of secured lenders entered into forbearance agreements, as applicable, with respect to the exercise of certain remedies under the amended and restated pre-petition Senior Secured Credit Agreement and Interim Loan, each originally dated as of December 20, 2007. For additional information on the DIP Financing and the amendments thereto, see Note 16 to the Consolidated Financial Statements.

In connection with the 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. The Debtors received U.S. Bankruptcy Court approval of 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 an option to increase one of the facilities by up to \$460 million through the addition of new lenders. Of this total, \$3,250 million consisted of new funding under a term loan facility; \$3,250 million represented a dollar-for-dollar roll-up, or conversion, of previously outstanding senior secured loans; and up to \$1,540 million, subject to a borrowing base, represented a new asset-based facility. 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.

- The DIP Financing credit agreements have been amended a number of times to, among other things, address certain changes in reporting requirements, to increase certain investment and indebtedness limitations for the purpose of permitting certain business operations and opportunities, to provide for the confidentiality of certain proprietary business information, modify and extend certain milestones related to the plan of reorganization and disclosure statement and to extend the maturity of the DIP Financing agreements from December 15, 2009 to April 6, 2010, with a one-time option to extend the maturity to June 3, 2010. The maturity date of the DIP Financing agreements also will be adjusted with the plan confirmation milestone, if that milestone is adjusted based on the U.S. Bankruptcy Court’s availability.
- The Debtors have operated and continue to operate their businesses and manage their properties as debtors-in-possession. In general, this means that the Debtors operate in the ordinary course without U.S. Bankruptcy Court intervention. Prior approval is required, however, where the Debtors intend to engage in certain out of the ordinary course of business. As part of the bankruptcy process, the Debtors have been negotiating a plan of reorganization with their creditors. For additional information regarding the status of the plan of reorganization and the related disclosure statement, see Notes 3 and 4 to the Consolidated Financial Statements
- The amended DIP Financing matures on, and requires the Debtors to emerge from the Bankruptcy Cases by April 6, 2010, unless extended by the Debtors to June 3, 2010, provided that if the confirmation date of the plan of reorganization is extended due to the lack of the U.S. Bankruptcy Court’s availability, the maturity date of the DIP Financing will be extended by up to twenty-one days. The capital structure of the Debtors on emergence from chapter 11 will be set in the reorganization plan that must be confirmed by the U.S. Bankruptcy Court.

As part of their reorganization plan, the Debtors have developed and finalized a new long range plan, which encompasses reductions in the total workforce and the closure of at least 10 or more manufacturing sites, many of which have already been announced, and at least 20 offices, including R&D sites. The planned reduction in workforce currently includes more than 3,000 employees, or approximately 17% of the LyondellBasell AF’s employees, and 1,800 contractors, or approximately 30% of LyondellBasell AF’s contractors. In April 2009, the Debtors announced a voluntary separation program for eligible U.S. employees and in May 2009 announced voluntary separation programs for The Netherlands and Germany.

On July 2, 2009, Nell Limited (“Nell”), an Access Industries affiliate and the indirect owner of 100% of the share capital of LyondellBasell AF, transferred its indirect ownership interest in LyondellBasell AF to Prochemie GmbH (“Prochemie”), a wholly owned subsidiary of ProChemie Holding Ltd. (“ProChemie Holding”). As of July 2,

2009 Nell and ProChemie Holding each own 50% of Prochemie, which owns 100% of the share capital of LyondellBasell AF.

2009 Versus 2008—Although global market conditions in 2009 improved compared to late 2008, compared to the full year 2008, market conditions in 2009 were significantly weaker. Demand was particularly weak in durable goods market sectors, including housing and automotive markets. Similarly, while industry operating rates and sales volumes improved during the course of 2009 compared to late 2008, for the full year 2009 they were below the levels experienced for the full year 2008, despite the significant decline in business activity late in 2008.

Refining margins were significantly lower in 2009 as a result of weak demand for distillates, such as diesel and heating oil. Heavy crude oil refining margins were also negatively affected by a contraction in the differential between the price of light and heavy crude oil. After peaking at a record-setting level in mid-2008, prices for crude oil and natural gas liquids (“NGLs”) on average were significantly lower in 2009. In 2009, chemical product margins also generally declined because of the weaker pricing environment and lower average sales prices. An exception was the U.S. polyethylene market, which experienced strong export demand and higher product margins during the latter half of 2009.

LyondellBasell AF’s underlying operating results in 2009, compared to 2008, primarily reflected the negative effects of significantly lower product margins and sales volumes. These were partly offset by the benefits of lower fixed costs, strong margins for LyondellBasell AF’s propylene oxide and advanced polyolefin products and higher U.S. polyethylene margins. A substantial portion of the lower product margins was due to refining operations, while the lower sales volumes were concentrated in the base chemicals and polymers products and reflected the weakness in demand. The lower fixed costs resulted from LyondellBasell AF’s aggressive cost reduction program.

Net income in 2009 also reflected charges related to LyondellBasell AF’s planned reorganization under chapter 11, including professional fees, write offs of plant asset values, contract rejection claims, employee severance costs and other costs associated with the chapter 11 proceedings and plant closures. For a detailed description of reorganization charges, see “Results of Operations” below.

Net income in 2008 included charges for asset impairments, reflecting declines in the value of inventory, goodwill and other intangible assets, as markets weakened and product sales prices and margins declined significantly at the end of 2008.

2008 Versus 2007—Compared to 2007, the 2008 business environment for refiners and manufacturers of chemicals and polymers was marked by significant volatility in crude oil and raw material prices and, in the latter part of the year, a rapid deterioration in the global economy. During 2007, benchmark crude oil prices steadily rose to then-record levels in December 2007. During 2008, these benchmark crude oil prices continued to increase through June 2008, rising nearly 50% in the period. Benchmark heavy crude refining margins benefited from strong demand for diesel fuel and the cost differential between light crude oil and heavy crude oil, while margins for fuels products, such as methyl tertiary butyl ether (“MTBE”) and ethyl tertiary butyl ether (“ETBE”), benefited from high gasoline prices. However, the significant escalation of crude oil and raw material prices put downward pressure on chemical and polymer product margins and upward pressure on working capital requirements.

The second half of 2008 was pivotal, marked by a number of significant events, including a fourth quarter contraction of the U.S. and Western European economies of 6.3% and 5.9%, respectively, a 70% decrease in crude oil prices, two U.S. Gulf Coast hurricanes, an extended maintenance turnaround at the refinery in Houston, Texas (the “Houston Refinery”) that was prolonged by a crane incident, and a crisis in the global financial markets. Demand in markets for LyondellBasell AF’s products was significantly lower in the fourth quarter 2008 as customers reduced inventories. At the same time, the rapid decline in crude oil and raw material prices negatively impacted inventory carrying values.

LyondellBasell AF had an operating loss in 2008 compared to a profit in 2007, despite the acquisition of Lyondell Chemical and the addition of fuels products to its product portfolio. The 2008 operating loss was primarily due to asset impairment losses, reflecting declines in the value of inventory, goodwill and other intangible assets as

well as the significant decline in market conditions that led to substantial erosion of product profit margins, lower sales volumes and plant operating rates.

LyondellBasell AF's operating income in 2008 was also adversely affected by lost production at its Houston Refinery attributable to the following: a major planned maintenance turnaround; a fluid catalytic cracker ("FCC") unit upgrade and catalyst changes; unplanned maintenance on the Houston Refinery's FCC unit; an incident involving a contractor company's crane at the Houston Refinery in July 2008, which in turn led to a re-scoping and time extension of the major maintenance turnaround; and finally, an approximately two- to three-week period in September 2008 when substantially all of LyondellBasell AF's U.S. Gulf Coast operations were temporarily off-line as a result of Hurricane Ike.

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

RESULTS OF OPERATIONS

Revenues—LyondellBasell AF had revenues of \$30,828 million in 2009 compared to revenues of \$50,706 million in 2008 and \$17,120 million in 2007. The \$19,878 million decrease in 2009 compared to 2008 reflected the effect of significantly lower sales prices and sales volumes due to lower crude oil and natural gas prices and weaker demand. LyondellBasell AF's revenues in 2008 and 2007 increased \$33,801 million, or 67%, and \$990 million, or 6%, respectively, solely as a result of LyondellBasell AF's acquisition of Lyondell Chemical in 2007 and the oil refinery at Berre l'Etang petrochemical complex in France (the "Berre Refinery") in 2008. The remaining \$775 million, or 5%, increase in 2008 revenues reflected higher average sales prices partially offset by the effect of lower sales volumes

Cost of Sales—LyondellBasell AF's cost of sales were \$29,372 million in 2009 compared to \$48,780 million in 2008 and \$15,196 million in 2007. The \$19,408 million decrease in 2009 compared to 2008 was primarily due to lower market prices for crude oil, crude oil-based and natural gas liquids raw materials, lower fixed and variable costs, and lower sales volumes and operating rates, reflecting the weak demand. The increases in 2008 and 2007 reflected the acquisitions of Lyondell Chemical and the Berre Refinery, which added \$34,313 million and \$1,045 million, respectively to cost of sales. The remaining increase of \$316 million, or 2% in 2008 primarily reflected higher raw material and energy costs, compared to 2007.

SG&A Expenses—Selling, general and administrative ("SG&A") expenses were \$850 million in 2009 compared to \$1,197 million in 2008 and \$740 million in 2007. The \$347 million decrease in 2009 compared to 2008 was primarily the result of LyondellBasell AF's 2009 cost reduction program, and a favorable effect from changes in currency exchange rates. Currency exchange rates had a favorable effect on costs of non-U.S. operations as the U.S. dollar strengthened versus the euro in 2009 compared to 2008. LyondellBasell AF's SG&A expenses in 2008 included \$564 million of expenses solely as a result of the Lyondell Chemical and Berre Refinery acquisitions. The remaining SG&A decrease of \$107 million in 2008 was primarily due to the favorable currency translation effects of a stronger U.S. dollar in 2008 compared to 2007.

In-process Research and Development—LyondellBasell AF recognized a \$95 million charge for in-process research and development ("IPR&D") related to the December 20, 2007 acquisition of Lyondell Chemical. For a discussion of IPR&D, see Note 7 to the Consolidated Financial Statements.

Operating Income—LyondellBasell AF had operating income of \$317 million in 2009 compared to an operating loss of \$5,928 million in 2008 and operating income of \$934 million in 2007. Results in 2009 compared to 2008 reflected the benefits of LyondellBasell AF's cost reduction program, offset by the unfavorable effects of lower product margins, sales volumes, and currency exchange rates on non-U.S. operating income. Results in 2008 were impacted by charges of \$4,982 million and \$225 million, respectively, for impairment of goodwill related to the December 20, 2007 acquisition of Lyondell Chemical and the carrying value of the Berre Refinery; and a charge of \$1,256 million to adjust LyondellBasell AF's inventory to market value. The remainder of the decrease in operating income in 2008 was primarily due to lower product margins and the effect of lower sales volumes across all business segments compared to 2007. The declines in product margins and sales volumes in 2008 were

attributable to the negative effects of Hurricane Ike and the refinery turnaround as well as to the higher cost of raw materials.

Operating results for each of LyondellBasell AF's business segments are reviewed further in the "Segment Analysis" section below.

Interest Expense—Interest expense was \$1,795 million in 2009 compared to \$2,476 million in 2008 and \$353 million in 2007. The decrease in interest expense in 2009 was primarily due to various debt instruments becoming subject to compromise as a result of the chapter 11 filing. LyondellBasell AF's contractual interest expense was \$2,720 million for 2009, \$2,407 million for 2008 and \$283 million for 2007. The increase in interest expense in 2008 was primarily due to an increase in debt used to fund the acquisition of Lyondell Chemical in December 2007, including the \$7,506 million of debt retained by Lyondell Chemical. Interest expense in 2008 also included a \$55 million non-cash charge related to the termination of an interest rate swap associated with the Structured Finance Transaction.

Other Income, net—LyondellBasell AF had other income, net, of \$325 million in 2009 compared to \$113 million in 2008 and \$127 million in 2007. In 2009 and 2008, LyondellBasell AF recognized involuntary conversion gains of \$120 million and \$79 million, respectively, representing partial insurance settlements of outstanding insurance claims related to damages sustained in 2005 at the polymers plant in Münchsmünster, Germany, and foreign exchange gains of \$113 million and \$20 million, respectively, as a result of changes in currency exchange rates. Other income, net, in 2009 also included benefits totaling \$72 million resulting from indemnifications received from previous plant owner for employee benefit and environmental remediation costs related to plant closures and a \$15 million gain related to settlement of a U.K. pension claim. Other income, net, in 2007 included the benefit from a \$200 million break-up fee related to the proposed merger with Huntsman, partially offset by a \$57 million charge related to a 2005 exit fee from a U.K. pension plan.

Reorganization Items—LyondellBasell AF had reorganization items totaling \$2,961 million in 2009, including charges for the write off of assets associated with a lease rejection; damage claims related to certain executory contracts; the net write off of unamortized debt issuance costs, premiums and discounts; environmental liabilities; professional fees associated with the chapter 11 proceedings; shutdown costs related primarily to the shutdown of its olefins plant at Chocolate Bayou, Texas and the long-term idling of its ethylene glycol facility in Beaumont, Texas; as well as employee severance and other costs. For additional information on reorganization items, see Note 4 to the Consolidated Financial Statements.

Income Tax—LyondellBasell AF's effective income tax rate for 2009 was 33%, resulting in a tax benefit of \$1,411 million on a pretax loss of \$4,277 million. The 2009 estimated annual effective income tax rate was lower than the statutory 35% rate primarily due to the effects of non-deductible costs partially related to the voluntary filings of petitions for relief under chapter 11 of the U.S. Bankruptcy Code, and the provision of valuation allowances in jurisdictions where future tax benefits are not expected to be recognized. The negative rate impact was partially offset by the recognition of tax benefits related to a favorable tax ruling in The Netherlands. During 2008, LyondellBasell AF had a tax benefit of \$848 million on a pretax loss of \$8,184 million. The effective income tax rate of 10.4% in 2008 primarily reflected the effect of goodwill impairment charges, which are not deductible for tax purposes and the provision of valuation allowances in jurisdictions where future tax benefits are not expected to be realized. The effective income tax rate of 29.7% in 2007 primarily reflected the effect of decreases in statutory and other tax rates in Germany and Italy partly offset by the effect of the purchased IPR&D charge, which was not deductible for tax purposes.

Loss from Continuing Operations—LyondellBasell AF had a loss of \$2,866 million in 2009 compared to a loss of \$7,336 million in 2008 and income of \$661 million in 2007. The following table summarizes the major components contributing to the loss from continuing operations:

	For the twelve months ended December 31,		
	2009	2008	2007
Millions of dollars			
Operating income (loss)	\$ 317	\$ (5,928)	\$ 934
Income (loss) from equity investments	(181)	38	162
Interest expense, net	(1,777)	(2,407)	(283)
Other income, net	325	113	127
Reorganization items	(2,961)	--	--
Provision for (benefit from) income taxes	(1,411)	(848)	279
Income (loss) from continuing operations	<u>\$ (2,866)</u>	<u>\$ (7,336)</u>	<u>\$ 661</u>

In 2009, the loss from equity investments for the O&P—EAI segment included charges of \$228 million for impairment of the carrying value of LyondellBasell AF's equity investments in certain joint ventures (see Note 11 to the Consolidated Financial Statements).

The table below summarizes some of the items of special note with regards to LyondellBasell AF's income (loss) from continuing operations for the periods shown:

	For the twelve months ended December 31,		
	2009	2008	2007
Millions of dollars			
Pretax charges (benefits):			
Impairments	\$ 245	\$ 5,207	\$ 20
Reorganization items	2,961	--	
Inventory valuation adjustment to market value	127	1,256	--
Huntsman breakage fee	--	--	(200)
Management fees	--	--	100
Purchased IPR&D	--	--	95
Benefit from employee pension and post-retirement plan amendments	--	--	(48)
Merger and acquisition costs	--	--	46
Interest rate swap termination – Structured Financing Transaction	--	55	--
Hurricane costs	5	55	--
Gains related to insurance settlements	(120)	(79)	--
Provisions for uncollectible accounts receivable	18	47	(14)
Total pretax income effect	<u>3,236</u>	<u>6,541</u>	<u>(1)</u>
Tax effect of above items	(1,133)	(546)	34
Decrease in non-U.S. statutory tax rates	--		(117)
Total	<u>\$ 2,103</u>	<u>\$ 5,995</u>	<u>\$ (84)</u>

Impairments in 2009 include an adjustment related to prior periods which increased LyondellBasell AF's income from operations and net income for the three-month period ended December 31, 2009, by \$65 million. The adjustment related to an overstatement of goodwill impairment in 2008.

Income (Loss) from Discontinued Operations, Net of Tax—LyondellBasell AF had income from discontinued operations of \$1 million and \$15 million, respectively, in 2009 and 2008 related to the sale of a toluene di-isocyanate business 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.

	For the twelve months ended December 31,		
	2009	2008	2007
Millions of dollars			
Sales and other operating revenues:			
Refining and Oxyfuels segment	\$ 12,078	\$ 18,362	\$ 478
O&P—Americas segment	8,614	16,412	2,817
O&P—EAI segment	9,401	13,489	13,145
I&D segment	3,778	6,218	429
Technology segment	543	583	497
Other, including intersegment eliminations	(3,586)	(4,358)	(246)
Total	<u>\$ 30,828</u>	<u>\$ 50,706</u>	<u>\$ 17,120</u>
Operating income (loss) (a):			
Refining and Oxyfuels segment	\$ (357)	\$ (2,378)	\$ 21
O&P—Americas segment	169	(1,355)	61
O&P—EAI segment	(2)	220	934
I&D segment	250	(1,915)	(42)
Technology segment	210	202	152
Other, including intersegment eliminations	18	(134)	(248)
Current cost adjustment	29	(568)	56
Total	<u>\$ 317</u>	<u>\$ (5,928)</u>	<u>\$ 934</u>
Income (loss) from equity investments:			
O&P—Americas segment	\$ 7	\$ 6	\$ 12
O&P—EAI segment	(172)	34	150
I&D segment	(16)	(2)	--
Total	<u>\$ (181)</u>	<u>\$ 38</u>	<u>\$ 162</u>

(a) Certain data for 2009 and 2008 was revised. See Note 29 to the consolidated financial statements.

Fourth Quarter 2009 versus Third Quarter 2009—LyondellBasell AF had a loss from continuing operations of \$852 million in the fourth quarter 2009 compared to \$649 million in the third quarter 2009 as lower underlying operating results were more than offset by the effects of lower reorganization and impairment charges. Underlying operating results were lower in the fourth quarter 2009 due to lower margins on chemical products and the effect of lower oxyfuels sales volumes and margins. The fourth quarter 2009 included after tax charges of \$644 million and \$11 million related to reorganization items and impairments, respectively, compared to \$603 million and \$140 million, respectively, in the third quarter 2009. The fourth quarter 2009 impairment charges primarily related to emissions allowances, while the third quarter 2009 impairment charges related to the carrying value of certain equity investments as a result of weak current and projected market conditions.

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 MTBE, 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. Under the crude oil contract the refinery purchases 230,000 barrels per day of heavy, high sulfur crude oil, which constitutes approximately 86% of its rated crude oil refining capacity of 268,000 barrels per day. In early 2009, the Houston Refinery exercised an option to reduce the contractual volume to 215,000 barrels per day through July 31, 2011. The pricing under the crude oil contract is market based. The Houston Refinery generally purchases the balance of its crude oil requirements on the spot market.

On April 1, 2008, LyondellBasell AF completed the purchase of the Berre Refinery. The Berre Refinery provides raw materials for one of LyondellBasell AF's European sites that operates a world-scale steam cracker and polypropylene and polyethylene plants, as well as a butadiene extraction unit at Berre l'Etang and a polyethylene plant at nearby Fos sur Mer. The refinery's products include naphtha, liquefied petroleum gas, gasoline, diesel and jet fuel, heating oil and bitumen.

2009 Versus 2008—Benchmark refining margins for 2009 were lower compared to the same period in 2008, generally reflecting the weaker global economy and consequent weaker demand for gasoline and distillate products, such as diesel and heating oil. The weaker demand resulted in lower prices for light crude oil, while OPEC-mandated production cuts resulted in lower supplies of heavy crude oil and lower price discounts relative to light crude oil. Both factors compressed the price differential between light and heavy crude oil. Benchmark margins for oxyfuels in 2009 were comparable to 2008.

Refining and Oxyfuels segment operating results in 2009 primarily reflected the effects of significantly lower U.S. refining margins compared to the same period in 2008. The operating results of the Berre Refinery, which was acquired on April 1, 2008, reflected the weak distillate markets in 2009. Operating results in 2009 benefited from higher margins for gasoline blending components and lower utility and fixed costs, but were negatively affected by outages of some of the Houston Refinery's sulfur recovery units during the second quarter 2009 and of a crude unit during the fourth quarter 2009. As a result of LyondellBasell AF's cost reduction program, fixed costs were significantly lower in 2009 compared to 2008.

In 2008, as further discussed below, operating results were negatively impacted by lost production at the Houston Refinery due to the effects of a hurricane and a scheduled maintenance turnaround of one of the refinery's crude trains and coker units during the third quarter 2008 that was delayed by an incident involving a contractor's crane and an unplanned second quarter 2008 outage of a FCC unit.

2008 Versus 2007—During 2008, LyondellBasell AF's Refining and Oxyfuels segment comprised the refining and fuels businesses of Lyondell Chemical, acquired on December 20, 2007, and, beginning on April 1, 2008, the newly-acquired Berre Refinery.

Benchmark heavy crude refining margins in 2008 benefited from strong demand for diesel fuel and the cost differential between light crude oil and heavy crude oil, while margins for oxyfuels products, MTBE and ETBE, benefited from high gasoline prices.

During 2008, the Refining and Oxyfuels segment benefited from strong margins for heavy crude at the Houston Refinery and for the segment's oxyfuels products. The operating results for the Berre Refinery were breakeven. Operating results were negatively affected by planned and unplanned outages at the Houston Refinery.

LyondellBasell AF scheduled a maintenance turnaround at the Houston Refinery in 2008 for one of the refinery's crude trains and coker units. As a result of an incident in July 2008, involving a contractor company's crane, and Hurricane Ike later in the third quarter 2008, the coker unit was not restarted until early December 2008. In addition, operating results in the 2008 period were negatively impacted by the unplanned outage of a fluid

catalytic cracker unit and other operating units at Houston Refining, all of which resulted in lost production and additional maintenance costs.

The following table sets forth the Refining and Oxyfuels segment's sales and other operating revenues, operating income and sales volumes for certain gasoline blending components for the applicable periods. The 2007 period reflected the acquired Lyondell Chemical refining and oxyfuels business from December 21, 2007.

<u>Millions of dollars</u>	<u>For the twelve months ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Sales and other operating revenues	\$ 12,078	\$ 18,362	\$ 478
Operating income (loss)	(357)	(2,378)	21
 <u>Sales volumes, in millions</u>			
Gasoline blending components – MTBE/ETBE (gallons)	831	1,018	39
 <u>Crude processing rates (thousands of barrels per day):</u>			
Houston Refining	244	222	279
Berre Refinery ⁽¹⁾	86	102	--

(1) Berre Refinery purchased April 1, 2008

The following table shows market refining margins for the U.S. and Europe and ETBE margins in Northwest Europe ("NWE"). In the U.S., "WTI," or West Texas Intermediate, is a light crude oil, while "Maya" is a heavy crude oil. In Europe, "Urals – 4-1-2-1" is a measure of West European refining margins.

	<u>For the twelve months ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Market margins – \$ per barrel</u>			
WTI – 2-1-1	6.98	12.37	13.37
WTI Maya	5.18	15.71	12.41
Total	12.16	28.08	25.78
 Urals – 4-1-2-1	 5.57	 10.98	 8.67
 <u>Market margins – cents per gallon</u>			
ETBE – NWE	68.86	68.61	53.33

Revenues—The Refining and Oxyfuels segment had revenues of \$12,078 million in 2009 compared to revenues of \$18,362 million in 2008 and \$478 million in 2007. The decrease in revenues in 2009 from 2008 was primarily due to lower sales prices, partially offset by higher sales volumes at the Houston Refinery. The decrease during 2009 was partially offset by the effect of a full year of operation of the Berre Refinery, which was acquired April 1, 2008. The 2007 period reflected the revenues of the acquired Lyondell Chemical refining and oxyfuels business from December 21, 2007.

Operating Income—The Refining and Oxyfuels segment had an operating loss of \$357 million in 2009 compared to an operating loss of \$2,378 million in 2008 and operating income of \$21 million in 2007. Operating results in 2009 were negatively affected by lower crude refining margins, partially offset by lower utility costs due to lower natural gas prices and lower fixed costs. The latter reflected LyondellBasell AF's cost reduction program. The lower refining margins were primarily attributable to U.S. refining markets, although margins were lower for both the Houston and Berre refineries.

In 2008, operating results were negatively impacted by scheduled maintenance turnarounds of crude and coker units and the related July 2008 crane incident at the Houston Refinery, as well as by operating disruptions related to Hurricane Ike by an estimated \$205 million. In addition to the turnaround and hurricane effects, operating results were negatively affected by an estimated \$220 million as a result of lost production due to unplanned maintenance at the Houston Refinery's FCC and other operating units. Operating results were also negatively impacted by impairment charges against goodwill of \$2,305 million and other assets of \$218 million and inventory valuation adjustments of \$442 million.

The 2007 period reflected the operating results of the acquired Lyondell Chemical refining and oxyfuels business from December 21, 2007.

Fourth Quarter 2009 versus Third Quarter 2009—The Refining and Oxyfuels segment had an operating loss of \$200 million in the fourth quarter 2009 compared to \$33 million in the third quarter 2009. Operating results in the fourth quarter 2009 primarily reflected the negative effects of lower sales volumes for oxyfuels and the Houston Refinery. In addition to seasonality, the lower oxyfuels sales volumes reflected the fourth quarter 2009 conversion of a U.S. facility from MTBE production to ETBE production and a fourth quarter 2009 maintenance turnaround at a facility in France. The lower Houston refinery volumes reflected a scheduled maintenance turnaround of a crude and coker unit as well as an unplanned 10-day outage of a crude unit.

Olefins and Polyolefins—Americas Segment

Overview—In its O&P—Americas segment, LyondellBasell 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.

2009 Versus 2008—While improving during the course of 2009, ethylene market demand in the U.S. remained weak, resulting in lower industry operating rates compared to rates in the 90% to 95% range during 2008. Ethylene margins contracted as benchmark sales prices decreased more than the benchmark weighted average cost of ethylene production. Polyolefins markets were weaker in 2009 compared to 2008 with the notable exception of U.S. polyethylene markets, which benefited from strong export demand during 2009.

The O&P—Americas segment operating results for 2009 primarily reflected the strong polyethylene (“PE”) export markets in 2009, lower olefins product margins and lower fixed costs. As a result of weak ethylene demand during late 2008 and the first half of 2009, LyondellBasell AF idled and subsequently shut down the Chocolate Bayou olefins plant, near Alvin, Texas. LyondellBasell AF also idled and subsequently restarted the La Porte, Texas olefins plant in January 2009. Polyolefins product results for 2009 reflected strong PE export markets in 2009, which benefited PE product margins and sales volumes. However, other polyolefins product markets were weaker and resulted in net lower sales volumes compared to 2008. As a result of LyondellBasell AF's cost reduction program, fixed costs were significantly lower in 2009 compared to 2008.

In the third quarter 2008, operating results were negatively impacted by lost production at certain U.S. Gulf Coast plants due to the effects of a hurricane.

2008 Versus 2007—In 2008, LyondellBasell AF's O&P—Americas segment included the olefins and polyolefins businesses of Lyondell Chemical, which were acquired on December 20, 2007.

During 2008, U.S. ethylene producers using crude oil-based raw materials experienced pressure on product margins as increases in average benchmark ethylene and co-product sales prices failed to keep pace with increases in average raw material costs. Benchmark prices of crude oil-based liquid raw materials averaged higher in 2008, despite the significant decline in crude oil prices in the latter part of 2008 from the record levels reached in mid-2008. Polyolefins markets experienced weakened demand during 2008 compared to 2007. The slowdown of the global economy, the crises in financial markets and the third quarter 2008 U.S. Gulf Coast hurricanes had the most significant negative effects on demand.

The O&P—Americas segment's underlying operating results declined in 2008 compared to 2007, despite the acquisition of the Lyondell Chemical business, due to the significant volatility in raw material costs. Higher raw material costs and declines in polyolefin sales prices during 2008 compared to 2007 put pressure on polyolefin product margins. Furthermore, the rapid decline in crude oil prices, particularly in the fourth quarter 2008, resulted in adjustments of the inventory values to reflect their lower market value. Operating results were also negatively affected by Hurricane Ike, which resulted in lost production and additional costs in 2008.

Ethylene Raw Materials—Benchmark crude oil and natural gas prices generally have been indicators of the level and direction of the 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, 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, from time to time the relationships among these materials and their applicable benchmarks may vary significantly due to the influence of other market factors.

In the U.S., LyondellBasell AF has the ability to shift the ratio of raw materials it uses in the production of ethylene and its co-products to take advantage of the relative costs of heavy liquids and NGLs.

During 2009, production economics favored NGLs. As a result, LyondellBasell AF increased its use of NGLs and minimized liquids consumption at its U.S. plants. This included the above-noted permanent shutdown of LyondellBasell AF's liquids-based Chocolate Bayou facility. During 2009, approximately 70% of LyondellBasell AF's U.S. ethylene production was produced from NGLs.

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

	Average Benchmark Price and Percent Change Versus Prior Year Period Average					
	For the twelve months ended			For the twelve months ended		
	December 31,			December 31,		
	2009	2008	Change	2008	2007	Change
Crude oil – dollars per barrel	61.58	99.51	(38.1)%	99.51	72.23	37.8%
Natural gas – dollars per million BTUs	3.78	8.86	(57.3)%	8.86	6.81	30.1%
Weighted average cost of ethylene production – cents per pound	26.21	45.39	(42.0)%	45.39	37.93	19.0%
United States – cents per pound						
Polyethylene – (high density)	66.50	86.42	(23.1)%	86.42	73.25	18.0%
Ethylene	33.94	58.50	(42.0)%	58.50	48.75	20.0%
Polypropylene	64.42	87.63	(26.5)%	87.63	77.08	13.7%
Propylene – polymer grade	37.92	59.96	(36.8)%	59.96	50.41	18.9%

As indicated in the table above, 2009 average natural gas and crude oil prices decreased significantly compared to 2008. NGLs have been the favored raw material in ethylene production in the U.S. during much of 2009 as NGL prices have been lower relative to crude oil, and prices for heavy liquid ethylene co-products such as propylene have generally not been high enough to economically justify heavy liquid cracking.

The following table sets forth the O&P—Americas segment's sales and other operating revenues, operating income, income from equity investments and selected product sales volumes. The 2007 period includes the acquired Lyondell Chemical olefins and polyolefins business from December 21, 2007.

Millions of dollars	For the twelve months ended December 31,		
	2009	2008	2007
Sales and other operating revenues	\$ 8,614	\$ 16,412	\$ 2,817
Operating income	169	(1,355)	61
Income (loss) from equity investments	7	6	12
Production volumes, in millions of pounds			
Ethylene	8,129	7,990	9,012
Propylene	2,913	3,975	5,049
Sales volumes, in millions of pounds			
Polypropylene	2,509	2,928	3,300
Polyethylene	5,593	5,256	377

Revenues—Revenues were \$8,614 million in 2009 compared to \$16,412 million in 2008 and \$2,817 million in 2007. The decrease in 2009 revenue reflected the effect of lower product sales prices and net lower sale volumes. Net lower 2009 sales volumes reflected the effect of lower sales volumes for polypropylene and ethylene and co-products, partly offset by higher sales volumes for polyethylene which benefited from the strong U.S. export

markets. The 2007 period includes the revenues of the acquired Lyondell Chemical olefins and polyolefins business from December 21, 2007.

Operating Income—The O&P—Americas segment had operating income of \$169 million in 2009 compared to an operating loss of \$1,355 million in 2008 and operating income of \$61 million in 2007. The underlying operations of the O&P—Americas segment in 2009 reflected the benefit of lower fixed costs, resulting from LyondellBasell AF's cost reduction program, partially offset by net lower product margins and the effect of net lower sales volumes. Operating results for 2008 were negatively affected by the \$120 million estimated impact of lost production due to Hurricane Ike, and related costs of \$39 million, including a \$7 million pretax charge for impairment of the carrying value of assets. Operating results for 2008 also included inventory valuation adjustments of \$619 million and goodwill impairment charges of \$624 million.

The 2007 period includes the operating results for the acquired Lyondell Chemical olefins and polyolefins business from December 21, 2007.

Fourth Quarter 2009 versus Third Quarter 2009—The O&P—Americas segment had operating income of \$69 million in the fourth quarter 2009 compared to \$132 million in the third quarter 2009. The decline in fourth quarter 2009 operating results was primarily due to lower product margins and, to a lesser extent, lower sales volumes. The lower product margins were primarily due to seasonally lower PE product margins, which were only partly offset by higher product margins for olefins. PE product margins were particularly strong in the third quarter 2009. The lower sales volumes were primarily due to olefins and reflected the effects of a maintenance turnaround at an ethylene facility in the fourth quarter 2009. In addition, fourth quarter 2009 results reflected a \$29 million after-tax charge for impairment of the carrying value of certain emission allowances.

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 its internal consumption and butadiene; and polyolefins, which include polyethylene, comprising HDPE and 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.

2009 Versus 2008—While improving during the course of 2009, ethylene market demand in Europe remained weak, resulting in lower industry operating rates in the range of 75% to 80% compared to rates in the 85% to 90% range prior to the fourth quarter downturn in 2008. Ethylene margins contracted as benchmark sales prices decreased more than the benchmark weighted average cost of ethylene production. Global polyolefin markets were considerably weaker in 2009 compared to 2008. The general weakness in global polyolefin markets resulted in lower sales volumes, due to weaker demand, and lower product margins, as selling prices decreased significantly.

The O&P—EAI segment operating results for 2009 reflected the negative effects of significantly lower product margins compared to 2008 for olefins products, while polyolefin product results for 2009 reflected generally weaker global polyolefin markets, which resulted in lower sales volumes across all polyolefins product lines and net lower product margins compared to 2008. As a result of LyondellBasell AF's cost reduction program, fixed costs were significantly lower in 2009, partly offsetting the negative effects of the weak markets.

2008 versus 2007—During 2008 compared to 2007, European producers using crude oil-based raw materials experienced lower profitability as increases in average benchmark product sales prices failed to keep pace with increases in average raw material costs. Despite the significant decline in crude oil prices in the latter part of 2008 from the record levels reached in mid-2008, benchmark prices of crude oil-based liquid raw materials averaged higher in 2008. Polyolefins markets experienced weakened demand during 2008 compared to 2007. The slowdown of the global economy and the crises in financial markets were the most significant contributing factors to the decrease in demand.

The O&P—EAI segment's underlying operating results declined in 2008 compared to 2007 due to the significant volatility in raw material costs and the decline in polyolefin demand. Higher average raw material costs and declines in average polyolefin sales prices during 2008 compared to 2007, and especially in the fourth quarter of 2008, put pressure on polyolefin product margins, which were only partially offset by higher olefins margins. Furthermore, the rapid decline in crude oil prices, particularly in the fourth quarter 2008, resulted in adjustments of the inventory values to reflect their lower market value.

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. During 2009, contract benchmark prices for ethylene and propylene were set on a monthly basis compared to prior years when they were set on a quarterly basis.

	Average Benchmark Price and Percent Change Versus Prior Year Period Average					
	For the twelve months ended			For the twelve months ended		
	December 31,			December 31,		
	2009	2008	Change	2008	2007	Change
Brent crude oil – dollars per barrel	68.30	101.83	(32.9)%	101.83	71.56	42.3%
Weighted average cost of ethylene production – €0.01 per pound	18.74	31.01	(39.6)%	31.01	27.47	12.9%
Western Europe - €0.01 per pound						
Polyethylene (high density)	42.90	58.51	(26.7)%	58.51	57.30	2.1%
Ethylene	33.41	50.00	(33.2)%	50.00	40.99	22.0%
Polypropylene (homopolymer)	39.92	54.15	(26.3)%	54.15	55.28	(2.0)%
Propylene	27.66	43.55	(36.5)%	43.55	38.96	11.8%
Average Exchange Rate - € to \$US	1.3972	1.4739	(5.2)%	1.4739	1.3808	6.7%

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.

	For the twelve months ended December 31,		
	2009	2008	2007
Millions of dollars			
Sales and other operating revenues	\$ 9,401	\$ 13,489	\$ 13,145
Operating income	(2)	220	934
Income (loss) from equity investments	(172)	34	150
Production Volumes, in millions of pounds			
Ethylene	3,503	3,615	3,953
Propylene	2,149	2,135	2,477
Sales volumes, in millions of pounds			
Polypropylene	6,858	7,023	8,131
Polyethylene	4,943	4,821	4,669

Revenues—Revenues were \$9,401 million in 2009 compared to \$13,489 million in 2008 and \$13,145 million in 2007. The decrease in 2009 revenues compared to 2008 reflected the effect of lower product sales prices and net lower sale volumes as well as the unfavorable effects of changes in currency exchange rates as the U.S. dollar averaged higher in relation to the euro in 2009 compared to 2008. Lower 2009 polypropylene and ethylene co-product sales volumes were partly offset by higher sales volumes for polyethylene and ethylene products. In 2008, compared to 2007, product prices were essentially flat or slightly higher across the segment, and were offset by the effect of significantly lower polypropylene volumes compared to 2007.

Operating Income—The O&P—EAI segment had an operating loss of \$2 million in 2009 compared to income of \$220 million in 2008 and \$934 million in 2007. In 2009, the underlying operations of the O&P—EAI segment reflected significantly lower net product margins and lower sales volumes, primarily in Europe, offset by the benefit of lower fixed costs compared to 2008. The lower fixed costs were primarily a result of LyondellBasell AF's cost reduction program. In 2008, operating income primarily reflected the negative effect of higher raw material costs on olefin and polyolefin margins as well as the effect of lower sales volumes compared to 2007.

Income (loss) from equity investments—The O&P—EAI segment recognized a \$172 million loss in 2009 and income of \$34 million and \$150 million in 2008 and 2007, respectively, from its equity investments. The 2009 loss was primarily due to recognition of a \$228 million after-tax impairment of the carrying value of LyondellBasell AF's investment in certain joint ventures as a result of weak current and projected market conditions. This loss was based on estimates of fair values developed in connection with LyondellBasell AF's estimation of its reorganization enterprise value. The decrease in 2008 compared to 2007 reflected the weaker global markets for polyolefins.

Fourth Quarter 2009 versus Third Quarter 2009—The O&P—EAI segment had an operating loss of \$47 million in the fourth quarter 2009 compared to operating income of \$118 million in the third quarter 2009. The decline in fourth quarter 2009 operating results was primarily due to lower product margins, higher fixed costs and, to a lesser extent, the unfavorable effects of changes in currency exchange rates as the U.S. dollar strengthened in the fourth quarter compared to the third quarter 2009.

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 propylene 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.

2009 Versus 2008—While improving during the course of 2009, markets for PO and PO derivatives, ethylene derivatives and other intermediate chemical products generally experienced weaker demand in 2009 compared to 2008 particularly in durable goods markets.

The I&D segment operating results in 2009 primarily reflected the negative effects of lower sales volumes compared to 2008. As a result of LyondellBasell AF's cost reduction program, fixed costs were significantly lower in 2009, partly offsetting the negative effects of the weak markets. Product margins were relatively stable. In response to lower PO demand, LyondellBasell AF temporarily idled two PO facilities 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.

In the third quarter 2008, operating results were negatively impacted by lost production at certain U.S. Gulf Coast plants due to the effects of a hurricane.

2008 versus 2007—In 2008, LyondellBasell AF's I&D segment included the intermediates and derivatives businesses of Lyondell Chemical, which were acquired on December 20, 2007.

As noted previously, during 2008 compared to 2007, U.S. and European chemical producers experienced significantly higher raw material costs, which put pressure on product margins.

The operating results for the I&D segment declined in 2008 compared to 2007 due to the significant volatility in raw material costs. Furthermore, the rapid decline in crude oil prices, particularly in the fourth quarter 2008, resulted in adjustments of the inventory values to reflect their lower market value. Operating results were also negatively affected by Hurricane Ike, which resulted in lost production and additional costs in 2008.

The following table sets forth the Intermediates & Derivatives segment's sales and other operating revenues, operating income, income from equity investments and selected product sales volumes. The 2007 period includes the acquired Lyondell Chemical intermediate and derivatives business from December 21, 2007.

<u>Millions of dollars</u>	<u>For the twelve months ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Sales and other operating revenues	\$ 3,778	\$ 6,218	\$ 429
Operating income	250	(1,915)	(42)
Loss from equity investments	(16)	(2)	--
 <u>Sales volumes, in millions of pounds</u>			
PO and derivatives	2,695	2,997	103
EO and & derivatives	1,231	1,387	72
Styrene	2,291	3,183	126
Acetyls	1,213	1,197	34
C ₄ chemicals	1,401	1,597	45

Revenues—Revenues were \$3,778 million in 2009 compared to \$6,218 million in 2008 and \$429 million in 2007. The decrease in 2009 revenue compared to 2008 reflected the effect of lower product sales prices and net lower sale volumes, a trend which began in the latter part of 2008. In addition, the unfavorable effects of changes in currency exchange rates as the U.S. dollar averaged higher in relation to the euro in 2009 compared to 2008 contributed to the decrease in revenue. The 2007 period includes the revenues of the acquired Lyondell Chemical intermediates and derivatives segment business from December 21, 2007.

Operating Income—The I&D segment had operating income of \$250 million in 2009 compared to operating losses of \$1,915 million in 2008 and \$42 million in 2007. Results in 2009 reflected lower fixed costs compared to 2008 as a result of LyondellBasell AF's cost reduction program, and lower utility costs compared to 2008 due to lower natural gas prices. Product margins in 2009 were flat compared to 2008, as lower product prices were offset by lower raw material costs. Results in 2008 were impacted by charges of \$1,992 million for impairment of goodwill related to the December 20, 2007 acquisition of Lyondell Chemical and inventory valuation adjustments of \$65 million. The 2007 period includes the operating results of the acquired Lyondell Chemical Intermediates & Derivatives segment business from December 21, 2007.

Fourth Quarter 2009 versus Third Quarter 2009—The I&D segment had operating income of \$59 million in the fourth quarter 2009 compared to \$72 million in the third quarter 2009. The decline in fourth quarter 2009 operating results was primarily due to lower product margins and the effect of lower sales volumes, partially offset by the benefit of lower fixed costs. The lower product margins primarily reflected higher raw material and utility costs.

Technology Segment

Overview—LyondellBasell AF's Technology segment primarily develops and licenses 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.

2009 Versus 2008—Technology segment results for 2009 were primarily affected by lower license revenue, reflecting weaker global markets compared to 2008. The segment results also reflected the negative effects of changes in currency exchange rates as the U.S. dollar strengthened versus the euro. The 2009 results benefited from lower R&D expense, reflecting LyondellBasell AF's cost reduction program and a government subsidy, and the effects of higher catalyst sales volumes.

2008 Versus 2007—During 2008 compared to 2007, the Technology business segment benefited from recognizing more licenses in revenue. The unfavorable effect of lower sales volumes and prices on catalyst sales in 2008 was substantially offset by the favorable effects of changes in currency exchange rates as the euro averaged 7% higher versus the U.S. dollar in 2008 compared to 2007.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Millions of dollars			
Sales and other operating revenues	\$ 543	\$ 583	\$ 497
Operating income	210	202	152

Revenues—The Technology segment had revenues of \$543 million in 2009 compared to \$583 million in 2008 and \$497 million in 2007. The 7% decrease in 2009 compared to 2008 reflected lower license revenues, offset by the effect of higher catalyst sales. Currency exchange rates had an unfavorable effect on operating income of non-U.S. operations as the U.S. dollar strengthened versus the euro in 2009 compared to 2008. In 2008, Technology segment revenues increased 17% compared to 2007. The increase was primarily due to the effects of the weaker U.S. dollar, partly offset by lower sales volumes and prices on catalyst sales. Currency exchange rates had a favorable effect on non-U.S. operations as the U.S. dollar weakened versus the euro in 2008 compared to 2007.

Operating Income—The Technology segment had operating income of \$210 million in 2009, \$202 million in 2008 and \$152 million in 2007. The increase in operating income in 2009 was primarily the result of higher catalysts sales volumes, partly offset by an unfavorable effect from changes in currency exchange rates. Currency exchange rates had an unfavorable effect on operating income as the U.S. dollar strengthened versus the euro in 2009 compared to 2008. The increase in operating income in 2008 compared to 2007 was primarily the result of higher licensing activity, particularly in the first quarter of 2008, and the favorable effect of currency exchange rates, partially offset by lower product margins and the effect of lower sales volumes for catalysts. Operating income in 2008 also included a \$10 million government subsidy recognized as a reduction of R&D expense.

Fourth Quarter 2009 versus Third Quarter 2009—The Technology segment had operating income of \$62 million in the fourth quarter 2009 compared to \$31 million in the third quarter 2009. The increase was primarily due to higher licensing income, partly offset by the effect of lower sales volumes for catalysts.

FINANCIAL CONDITION

The following table summarizes LyondellBasell AF's operating, investing and financing activities, and reflects the consolidation of Lyondell Chemical from December 21, 2007.

<u>Millions of dollars</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Source (use) of cash:			
Operating cash flow	\$ (787)	\$ 1,090	\$ 1,180
Investing cash flow	(611)	(1,884)	(11,899)
Financing cash flow	1,101	1,083	10,416

Operating Activities—Operating activities used cash of \$787 million in 2009, and provided cash of \$1,090 million in 2008 and \$1,180 million in 2007. The use of cash in 2009 primarily reflected a \$573 million increase in cash used by the main components of working capital – accounts receivable and inventory, net of accounts payable – and cash used for vendor prepayments. The cash disbursements in 2009 included vendor prepayments of \$329 million due to prepayments required by certain third parties as a result of LyondellBasell AF's chapter 11 filing

Changes in the main components of working capital used cash of \$573 million in 2009 and provided cash of \$747 million in 2008. The increase in cash used by the main components of working capital in 2009 primarily reflected a \$503 million required repayment to terminate the accounts receivable securitization program in early 2009. Operationally, cash used by the main components of working capital increased a minimal \$70 million, despite the effect of rising prices during 2009, as LyondellBasell AF focused on reducing working capital levels.

In 2008, the main components of working capital provided cash of \$747 million compared to \$216 million in 2007. The increase in 2008 primarily reflected the effects of declining crude oil prices on sales prices and the value of inventory, the disruptive effects of Hurricane Ike on LyondellBasell AF's U.S Gulf Coast operations and the planned and unplanned outages related to the Houston Refinery turnaround. Other factors impacting the main components of working capital included a general tightening of trade credit in the industry and the delay, in December 2008, of certain payments.

Cash from operating activities decreased \$90 million in 2008 compared to 2007. The main components of working capital provided an additional \$531 million of cash in 2008 that was more than offset by the effects of lower 2008 earnings and certain one-time payments in 2008 related to the acquired Lyondell Chemical operations.

Investing Activities—Investing activities used cash of \$611 million in 2009, \$1,884 million in 2008, and \$11,889 million in 2007. The cash used in 2009 primarily included \$779 million of capital expenditures, partially offset by proceeds from insurance claims and sales of assets of \$120 million and \$20 million, respectively, and \$23 million from a net reduction of short-term investments. The cash provided by insurance claims related to damages sustained in 2005 at the polymers plant in Münchsmünster, Germany.

The cash used in 2008 was primarily related to business acquisitions and capital expenditures, partially offset by proceeds from the sales of assets and from insurance claims related to the polymers plant in Münchsmünster, Germany. Acquisitions in 2008 included the April 2008 acquisition of the Shell oil refinery, inventory and associated infrastructure and businesses at the Berre Refinery for a preliminary purchase price of \$766 million and the February 2008 acquisition of Solvay Engineered Polymers, Inc., a leading supplier of polypropylene compounds in North America, for \$134 million (see Note 7 to the Consolidated Financial Statements). Cash payments related to the purchase of the Berre Refinery totaling \$927 million included \$536 million paid at closing and \$373 million paid for final adjustment of working capital. Asset sales included the September 2008 sale of the TDI business for proceeds of €77 million (\$113 million) and the July 2008 sale of a Canadian plant for proceeds of \$18 million. The cash used in 2007 was primarily related to the acquisition of Lyondell Chemical.

As a result of financial difficulties experienced by major financial institutions beginning in the latter part of 2008, LyondellBasell AF received notice that rights of redemption had been suspended with respect to a money market fund in which LyondellBasell AF had invested approximately \$174 million. LyondellBasell AF had been

advised that additional redemptions were forthcoming, and has received redemptions totaling \$160 million through December 31, 2009, including \$23 million in 2009 and \$137 million in 2008, and an additional \$12 million in January 2010.

The following table summarizes capital expenditures for 2009, 2008 and 2007 as well as 2010 planned capital spending. The 2010 planned capital spending reflects permitted spending per the DIP Financing arrangement, which is described in Liquidity and Capital Resources below.

<u>Millions of dollars</u>	<u>Plan 2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital expenditures by segment:				
Refining and Oxyfuels	\$ 157	\$ 167	\$ 196	\$ 4
O&P—Americas	170	142	201	42
O&P—EAI	285	411	509	333
I&D	49	23	66	6
Technology	53	32	33	26
Other	11	6	24	--
Total capital expenditures by segment	<u>725</u>	<u>781</u>	<u>1,029</u>	<u>411</u>
Less:				
Contributions to PO Joint Ventures	<u>7</u>	<u>2</u>	<u>29</u>	<u>--</u>
Consolidated capital expenditures of LyondellBasell AF's continuing operations	<u>\$ 718</u>	<u>\$ 779</u>	<u>\$ 1,000</u>	<u>\$ 411</u>

The above capital expenditures excludes costs of major periodic maintenance and repair activities (“turnarounds”) of \$154 million for the 2010 Plan, \$39 million in 2009 and \$164 million in 2008. The turnarounds excluded from the 2007 period were immaterial.

The 2009 and 2008 capital expenditures include expenditures to rebuild the polymers plant in Münchmünster, Germany, which are partially offset by insurance proceeds. The capital spending of Lyondell Chemical is included prospectively from December 21, 2007.

Financing Activities—Financing activities provided cash of \$1,101 million in 2009, \$1,083 million in 2008 and \$10,416 million in 2007. In 2009, LyondellBasell AF borrowed \$2,167 million under the Term Loan portion of the DIP financing arrangement, receiving net proceeds of \$2,089 million and subsequently paid additional bank fees of \$97 million. In addition, LyondellBasell AF paid fees of \$93 million related to the issuance of the DIP ABL facility, and at December 31, 2009 had \$325 million of net borrowings outstanding under this facility.

The chapter 11 filing constituted a termination event under the asset-based credit facilities in the U.S., and LyondellBasell 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 LyondellBasell AF’s previous \$1,150 million receivables securitization facility. In addition, LyondellBasell AF repaid a \$100 million demand note related to emergency post petition funding.

In 2009, LyondellBasell AF made net repayments totaling \$201 million under its European receivables securitization program, which was amended and restated in March 2009. Also in 2009, LyondellBasell AF repaid \$45 million (70 million Australian dollars) outstanding under an Australian term loan and \$11 million of other loans, including \$6 million outstanding under an Argentinean bank loan, and also made mandatory quarterly amortization payments of the Dutch Tranche A Dollar Term Loan totaling \$24 million, \$6 million of which was related to the DIP Roll-Up Loans.

A non-debtor subsidiary of LyondellBasell AF entered into an accounts receivable factoring agreement in 2009 and received \$24 million of proceeds. See the “Accounts Receivable Factoring Agreement” section in “Liquidity and Capital Resources.” Also in 2009, LyondellBasell AF received \$18 million of proceeds from an Argentinean bank loan and borrowed \$17 million related to a letter of credit presented for payment under the Senior Secured Revolving Credit Facility.

LyondellBasell AF also had other cash used by financing activities of \$21 million, which primarily reflected the effects of bank overdrafts.

The cash provided in 2008 primarily reflected a net \$1,510 million borrowed under the credit facilities offset by \$384 million of long-term debt repayments. The borrowings were used to fund the business acquisitions described in the “Investing Activities” section above.

The \$10,416 million of cash provided in 2007 primarily reflected issuance of long-term debt to finance the purchase of Lyondell Chemical, offset by repayments of related long-term debt and restricted cash of \$1,371 million. See Note 16 to the Consolidated Financial Statements. LyondellBasell AF also paid dividends of \$522 million in 2007. 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

Chapter 11 Proceedings—During our chapter 11 proceedings, we satisfied our liquidity and capital requirements primarily with cash from operations, our DIP Facilities and our European securitization arrangements. The chapter 11 proceedings caused uncertainty in our relationships with customers, suppliers, hedging counterparties, vendors and others with whom we conduct business.

At December 31, 2009, LyondellBasell AF had cash and cash equivalents of \$558 million. In addition, LyondellBasell AF had availability of \$1,946 million under its credit facilities, including \$1,083 million under the DIP Term Loan facility and \$863 million under the DIP ABL Facility. At December 31, 2009, borrowings outstanding under the DIP ABL Facility totaled \$325 million and outstanding letters of credit totaled \$424 million, which includes a \$200 million letter of credit issued to secure appeal bonds posted in connection with the BASF lawsuit (see Note 25 to the Consolidated Financial Statements). The borrowing base was \$1,612 million, after giving effect to a \$100 million minimum unused availability requirement.

In order to emerge from the Bankruptcy Cases, the Bankruptcy Court must find that the Debtors’ plan of reorganization complies with the requirements of the U.S. Bankruptcy Code. In addition, the Debtors must repay certain of their obligations under the DIP Financing and must raise additional debt and equity capital. The Debtors believe that their current and forecasted level of activity through April 6, 2010, the maturity date of the DIP Financing agreements, will be sufficient to maintain compliance with the DIP Financing and related forbearance agreements and to allow the Debtors to seek approval of a plan of reorganization and related restructuring of their debt. However, should business activity levels be below expectations or should margin volatility require more liquidity than the amount to which the Debtors have access through the DIP Financing or should any non-Debtor legal entity be subjected to an involuntary bankruptcy proceeding, the Debtors could default on their DIP Financing obligations. Upon an event of default, the DIP Financing lenders could seek to impose onerous credit and other terms as a condition for waiving the default or demand other concessions. Ultimately, the lenders could declare all the funds borrowed under the DIP Financing, together with accrued and unpaid interest, due and payable and could exercise remedies against their collateral and seek other relief. The outcome of these events and, in general, the Bankruptcy Cases is uncertain, which raises substantial doubt about the ability of LyondellBasell AF to continue as a going concern. For additional information on the chapter 11 filing, see the “Chapter 11 Filing” section above and Note 3 to the Consolidated Financial Statements.

Total short-term and long-term debt, including current maturities of debt not subject to compromise, was \$6,984 million as of December 31, 2009.

In early 2009, after certain of LyondellBasell AF's subsidiaries filed voluntary petitions for protection under chapter 11 of the U.S. Bankruptcy Code on January 6, 2009, LyondellBasell AF received notices of termination for all of its interest rate swap agreements, including notional amounts of \$2,350 million under which LyondellBasell AF's variable rate, long-term debt would effectively have been converted to fixed rate debt and \$365 million of cross-currency swaps.

Overview of Capital Structure

In connection with the January 6, 2009 chapter 11 cases, on January 7, 2009, LyondellBasell 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 (as defined below).

The amended DIP Financing described below matures on, and requires the Debtors to emerge from the Bankruptcy Cases by, April 6, 2010, unless extended by the Debtors to June 3, 2010 pursuant to the Debtor's one-time extension option, provided that if the confirmation date of the plan of reorganization is extended due to the lack of the U.S. Bankruptcy Court's availability, the maturity date of the DIP Financing will be extended by up to twenty-one days. The capital structure of the Debtors on emergence from chapter 11 will be set in the reorganization plan that must be confirmed by the U.S. Bankruptcy Court.

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.

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 12 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 may be used to fund LyondellBasell AF's non-U.S. subsidiaries. Net advances of \$115 million (€80 million) were made to LyondellBasell AF's non-U.S. subsidiaries during 2009. Total cash held by LyondellBasell AF's foreign operations may not exceed €200 million, after excluding certain items, including restricted cash, which is defined as cash that is not immediately available due to 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 must be transferred to Lyondell Chemical, provided that the excess is at least €5 million.

The required pre-petition secured lenders entered into forbearance agreements, as applicable, with respect to the exercise of certain remedies under the amended and restated pre-petition Senior Secured Credit Agreement and Interim Loan, each originally dated as of December 20, 2007.

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. On March 1, 2009,

the Debtors received final Bankruptcy Court approval of the DIP Financing arrangement. As a result, LyondellBasell AF had access to an additional \$1,083 million under the DIP Term Loan Facility, and could use an additional €260 million to fund its non-U.S. subsidiaries. In the year ended December 31, 2009, the Debtors paid fees of \$97 million, primarily related to the DIP Facilities.

Upon completion of the syndication of the DIP Facilities on March 5, 2009, the roll up of previously outstanding senior secured loans in an aggregate amount equal to \$3,250 million into the DIP Term Loan Facility became effective. This roll up was comprised of: (i) \$385 million of the U.S. Tranche A Dollar Term Loan; (ii) \$2,015 million of the U.S. Tranche B Dollar Term Loan; (iii) \$465 million of the German Tranche B Euro Term Loan; (iv) \$202 million of the U.S. Revolving Credit Facility, all of which was held by the Debtors; and (v) \$128 million of the Dutch Tranche A Dollar Term Loan, of which \$122 million was outstanding at December 31, 2009; and (vi) \$54 million of the Dutch Revolving credit facility.

Loans under the DIP Term Loan Facility bear 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 cannot 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 is 9% for Base Rate Loans and 10% for Eurocurrency Loans. The applicable margin per annum for Roll-Up Loans is 2.69% for Base Rate Loans and 3.69% for Eurocurrency Loans, subject to adjustment. In the event of default, interest will increase by 200 basis points. Interest on Eurocurrency Loans is 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 include a 1.5% per annum fee on the daily unused portion of the New Money Loan commitments and a 3% exit fee due upon repayment of the New Money and Roll-Up Loans. An exit fee is also applicable to any voluntary reduction of the New Money Loan commitments. To the extent a New Money Loan commitment is voluntarily reduced or an outstanding New Money Loan is prepaid, such amounts cannot be borrowed or re-borrowed. LyondellBasell AF has recorded a \$195 million liability related to the 3% exit fee and a corresponding deferred asset, which is being amortized to interest expense over the term of the DIP Term Loan Facility.

Subject to certain limitations, net proceeds arising from the disposition of assets, or the settlement of casualty claims relating to collateral on which DIP Term Facility lenders have a first priority security interest, or from the incurrence of debt, must first be used to repay outstanding New Money Loans under the DIP Term Facility and then used reduce undrawn commitments, next used to pay down the DIP ABL Facility loans and, finally, to repay the Roll-Up Loans.

DIP ABL Facility—Pursuant to the DIP ABL Facility, the Debtors may currently, subject to a borrowing base, borrow up to \$1,620 million. The borrowing base is determined using formulae applied to accounts receivable and inventory balances, and is reduced to the extent of outstanding letters of credit under the facility, which are limited to \$700 million. Under the terms of the DIP ABL Facility, the asset-based facility may be increased up to an aggregate maximum commitment amount of \$2,000 million, in increments of at least \$25 million. On March 12, 2009 and July 15, 2009, the Debtors exercised their option to increase the DIP ABL Facility by designating a New Lender, increasing the commitments under the DIP ABL Facility from \$1,540 million to \$1,620 million.

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. The Debtors subsequently repaid the \$810 million principal amount outstanding under the DIP ABL Facility on January 23, 2009. At December 31, 2009, \$325 million was outstanding under the DIP ABL facility.

Subject to certain limitations in the DIP ABL Facility Agreement and provisions in the DIP Term Loan Agreement, net proceeds arising from the disposition of assets, the incurrence of debt or casualty claims related to collateral of the ABL Facility must be used to repay outstanding loans under the DIP ABL Facility. In addition, if on any day the total amount of loans outstanding under the DIP ABL Facility, including the amount of outstanding letters of credit, exceed the maximum available under the DIP ABL Facility, a payment equal to or greater than the excess borrowings must be made on the following business day.

DIP Financing Amendments—The DIP Financing credit agreements have been amended as follows:

- Effective as of July 24, 2009, the DIP Financing credit agreements were amended to, among other things, address certain changes in specific reporting requirements, to increase certain investment and indebtedness limitations for the purpose of permitting certain business operations and opportunities, and to provide for the confidentiality of certain proprietary business information.
- On August 14, 2009, the DIP Financing agreements were amended further to modify the delivery terms for the plan of reorganization and disclosure statement.
- Effective October 5, 2009, the DIP Financing agreements were amended to extend the milestone related to the approval of the disclosure statement for the plan of reorganization from October 15 to November 13, 2009 and the plan confirmation milestone from December 1 to December 15, 2009.
- In October 2009 and December 2009, the DIP Financing agreements were further amended to, among other things, extend the milestone related to the approval of the disclosure statement for the plan of reorganization to April 6, 2010 and the plan confirmation milestone to May 20, 2010, subject to further extension based on the U.S. Bankruptcy Court’s availability. These amendments extended the maturity of the DIP Financing agreements from December 15, 2009 to April 6, 2010, with a one-time option to further extend the maturity to June 3, 2010. The maturity date of the DIP Financing agreements will be adjusted with the plan confirmation milestone, as may be extended based on the U.S. Bankruptcy Court’s availability.

Covenants—Subject to certain exceptions, the DIP Facilities contain covenants that restrict, among other things, debt incurrence, lien incurrence, investments, certain payments on indebtedness, sales of assets and mergers, amendment of terms of certain indebtedness and material obligations, alterations in the conduct of LyondellBasell AF’s business, and affiliate transactions and distributions by LyondellBasell AF and its subsidiaries.

In addition, the DIP Facilities contain covenants that establish or require the Debtors to maintain quarterly capital expenditures at levels below the maximum defined in the DIP Facilities, daily minimum levels of liquidity and monthly minimum levels of cumulative Consolidated EBITDAR (as defined in the DIP Facilities).

The amended DIP Facilities also contain a covenant establishing certain milestones related to the plan of reorganization, including obtaining the U.S. Bankruptcy Court’s confirmation of the plan by May 20, 2010, subject to the extension described in the “Chapter 11 Filing” section above, and the U.S. Bankruptcy Court’s availability.

Security and Guarantees—Loans under the DIP Financing agreements are secured by priming first priority interests in and liens on substantially all pre-petition and post-petition property of the borrowers and U.S. guarantors under the DIP Financing agreements, including, but not limited to, material fee-owned property and equipment, general intangibles, investment and intellectual property, and proceeds of the foregoing, as well as share capital of certain subsidiaries. The collateral provided by Basell Germany Holdings GmbH (“Germany Holdings”) is limited to the share capital of its direct subsidiaries.

Guarantors include each borrower, certain Debtors, any Additional Debtor, (as defined in the DIP Financing agreements), LyondellBasell AF and each LyondellBasell AF subsidiary that is a guarantor of the pre-existing Senior Secured Credit Facility and Interim Loan. The guarantees are joint and several and full and unconditional.

Accounts Receivable Securitization Programs—LyondellBasell AF has an accounts receivable securitization program, which provides additional funding up to €450 million to certain European subsidiaries. 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.

The European accounts receivable securitization program provides that a certain termination event, occurs thirty in connection with the standstill period related to the Senior Notes due 2015. On January 26, 2010, LyondellBasell AF obtained an amendment to the European accounts receivable securitization program to, among other things, extend the program to April 6, 2010, with an option to further extend the program to June 3, 2010, provided that the DIP Financing agreements are also extended to June 3, 2010. The parties to the securitization program have generally agreed to postpone such termination event until April 6, 2010. Absent a deferral of the expiration of the standstill period related to the 2015 Senior Notes, the purchaser may require a change in the settlement process that may reduce available liquidity during certain periods. LyondellBasell AF had \$377 million of borrowings outstanding under the European securitization program at December 31, 2009.

The Debtors had an accounts receivable securitization program, which was entered into in 2005, to provide funding up to \$200 million to North American subsidiaries of LyondellBasell AF. In connection with the commencement of the Bankruptcy Cases, this facility was terminated and repaid with proceeds from the DIP Financing.

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 December 31, 2009, \$24 million was outstanding under the accounts receivable factoring agreement.

Prepetition Indebtedness

Immediately prior to the Debtors' filing for relief under chapter 11 of the U.S. Bankruptcy Code, LyondellBasell AF's debt primarily consisted of outstanding amounts under debt instruments that are referenced in Notes 16, 19, and 21 to the Consolidated Financial Statements). The treatment of such existing prepetition debt is discussed in Notes 3, 4, 16, 19 and 21 to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements—LyondellBasell AF was a party to a \$1,150 million Accounts Receivable Securitization Facility that was scheduled to mature in December 2012 and that had some characteristics of an off-balance sheet arrangement. The Accounts Receivable Securitization Facility terminated as a result of the Chapter 11 filing and was repaid, in full, on January 9, 2009, using proceeds from the DIP Financing. See Note 13 to the Consolidated Financial Statements for additional accounts receivable information.

Other obligations that do not give rise to liabilities that would be reflected in LyondellBasell's balance sheet are described below under "Purchase Obligations" and "Operating Leases."

Contractual and Other Obligations—The following table summarizes, as of December 31, 2009, LyondellBasell AF’s minimum payments for long-term debt, including current maturities, short-term debt, and contractual and other obligations for the next five years and thereafter. With certain noted exceptions, liabilities subject to compromise are excluded. As further discussed below, the ultimate settlement of the following obligations and the liabilities subject to compromise is dependent upon approval of LyondellBasell AF’s plan of reorganization and its emergence from bankruptcy. Assuming approval of the plan of reorganization, the liabilities subject to compromise will be settled upon emergence from bankruptcy through case payments, issuance of equity interests in LyondellBasell AF or a combination of both.

Millions of dollars	Payments Due By Period						
	Total	2010	2011	2012	2013	2014	Thereafter
Total debt	\$ 6,984	\$ 6,679	\$ --	\$ --	\$ --	\$ --	\$ 305
Interest on total debt	693	299	24	24	24	24	297
Pension benefits:							
PBO	2,778	212	151	159	209	165	1,882
Assets	(1,638)	--	--	--	--	--	(1,638)
Funded status	1,140						
Other postretirement benefits	353	24	24	24	26	26	229
Advances from customers	323	145	19	12	67	43	37
Other	509	21	11	16	15	8	438
Deferred income taxes	2,081	26	79	95	175	167	1,539
Other obligations:							
Purchase obligations:							
Take - or - pay contracts	16,599	1,998	1,994	1,994	1,932	1,927	6,754
Other contracts	34,944	9,695	6,375	4,092	3,934	3,751	7,097
Operating leases	1,992	267	227	189	168	148	993
Total	<u>\$65,618</u>	<u>\$19,366</u>	<u>\$8,904</u>	<u>\$6,605</u>	<u>\$6,550</u>	<u>\$6,259</u>	<u>\$ 17,933</u>

Total Debt—Total debt includes the DIP Financing agreement and long- and short-term credit facilities and debt obligations of LyondellBasell AF’s non-Debtor subsidiaries, and excludes \$18,370 million of debt classified as “Liabilities subject to compromise.” See Notes 16, 19 and 21 to the Consolidated Financial Statements for a discussion of covenant requirements under the credit facilities and indentures and additional information regarding debt and liabilities subject to compromise. LyondellBasell AF’s future capital structure, including debt, will depend upon approval of its plan of reorganization and the Company’s emergence from bankruptcy.

Interest—LyondellBasell AF’s debt and related party debt agreements contain provisions for the payment of monthly, quarterly or semi-annual interest at a stated rate of interest over the term of the debt. As a result of the Bankruptcy Cases, a substantial portion of the Debtor’s pre-petition debt was classified as “Liabilities subject to compromise.” The Debtors are obligated to pay interest, at the non-default rate, on the outstanding amounts under the Senior Secured Credit Facility not designated as Roll-Up Loans, subject to a minimum liquidity test and to the extent “liquidity”, as defined in the final order approving the DIP Financing, is greater than, \$1,015 million after giving effect to the payment. The interest payments in the above table do not include projected interest payments for that portion of the Senior Secured Credit Facility included in “Liabilities subject to compromise.” Payment obligations on debt and related party debt agreements not classified as “Liabilities subject to compromise” are reflected in the table above. As noted above, LyondellBasell AF’s future capital structure, including debt and related interest, will depend upon approval of the its plan of reorganization and its emergence from bankruptcy.

Pension Benefits—LyondellBasell AF maintains several defined benefit pension plans, as described in Note 23 to the Consolidated Financial Statements. At December 31, 2009, the projected benefit obligation for LyondellBasell AF’s pension plans, including Equistar and Millennium plans, exceeded the fair value of plan assets by \$1,159 million. Subject to future actuarial gains and losses, as well as actual asset earnings, LyondellBasell, together with its consolidated subsidiaries, will be required to fund the \$1,159 million, with interest, in future years. LyondellBasell’s pension contributions were \$52 million in 2009, \$80 million in 2008 and \$63 million in 2007. Required contributions are expected to be approximately \$96 million in 2010. Estimates of pension benefit

payments through 2014 are included in the table above. At December 31, 2009, these obligations are classified as “Liabilities subject to compromise.” Their ultimate settlement depends upon approval of the LyondellBasell AF’s plan of reorganization and LyondellBasell AF’s emergence from bankruptcy.

Other Postretirement Benefits—LyondellBasell AF provides other postretirement benefits, primarily medical benefits to eligible participants, as described in Note 23 to the Consolidated Financial Statements. Other postretirement benefits are unfunded and are paid by LyondellBasell as incurred. Estimates of other postretirement benefit payments through 2014 are included in the table above.

Advances from Customers—LyondellBasell AF received advances from customers in prior years in connection with long-term sales agreements under which LyondellBasell AF is obligated to deliver product primarily at cost-based prices. These advances are treated as deferred revenue and will be amortized to earnings as product is delivered over the remaining terms of the respective contracts, which primarily range from 4 to 13 years. The unamortized long-term portion of such advances totaled \$287 million as of December 31, 2009.

Other—Other primarily consists of accruals for environmental remediation costs, obligations under deferred compensation arrangements, and anticipated asset retirement obligations. See “Critical Accounting Policies” below for a discussion of obligations for environmental remediation costs.

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

Purchase Obligations—LyondellBasell AF is party to various obligations to purchase products and services, principally for raw materials, utilities and industrial gases. These commitments are designed to assure sources of supply and are not expected to be in excess of normal requirements. The commitments are segregated into take-or-pay contracts and other contracts. Under the take-or-pay contracts, LyondellBasell AF is obligated to make minimum payments whether or not it takes the product or service. Other contracts include contracts that specify minimum quantities; however, in the event that LyondellBasell AF does not take the contractual minimum, it is only obligated for any resulting economic loss suffered by the vendor. The payments shown for the other contracts assume that minimum quantities are purchased. For contracts with variable pricing terms, the minimum payments reflect the contract price at December 31, 2009. The table excludes contracts which have been rejected as part of the bankruptcy process. Claims related to such rejected contracts are included in “Liabilities subject to compromise.”

Operating Leases—LyondellBasell AF leases various facilities and equipment under noncancelable lease arrangements for various periods. See Note 20 to the Consolidated Financial Statements for related lease disclosures. The table excluded leases which have been rejected as part of the bankruptcy process. Claims related to such rejected leases are included in “Liabilities subject to compromise.”

RELATED PARTY TRANSACTIONS

LyondellBasell AF has related party transactions with LyondellBasell AF’s equity holders and its affiliates (see Notes 9 and 26 to the Consolidated Financial Statements). LyondellBasell AF believes that such transactions are effected on terms substantially no more or less favorable than those that would have been agreed upon by unrelated parties on an arm’s length basis.

In addition, LyondellBasell AF has related party transactions with Access Industries.

CRITICAL ACCOUNTING POLICIES

LyondellBasell AF applies those accounting policies that management believes best reflect the underlying business and economic events, consistent with accounting principles generally accepted in the U.S. LyondellBasell AF’s more critical accounting policies include those related to operating as a going concern, long-lived assets, the valuation of goodwill, accruals for long-term employee benefit costs such as pension and other postretirement costs, liabilities for anticipated expenditures to comply with environmental regulations, and accruals for taxes based on

income. Inherent in such policies are certain key assumptions and estimates made by management. Management periodically updates its estimates used in the preparation of the financial statements based on its latest assessment of the current and projected business and general economic environment. These critical accounting policies have been discussed with LyondellBasell AF's Supervisory Board. LyondellBasell AF's significant accounting policies are summarized in Note 2 to the Consolidated Financial Statements.

Going Concern—The 2008 global financial crisis and ongoing recession have created substantial uncertainty for the global economy and the markets in which LyondellBasell operates. During the fourth quarter of 2008 and the year ending December 31, 2009, demand and product margins for LyondellBasell's products declined significantly. These conditions are likely to continue and are expected to negatively impact LyondellBasell's operating cash flow and liquidity. LyondellBasell has taken steps to reduce costs, working capital and discretionary capital spending. LyondellBasell expects that these actions will be sufficient to allow it to continue to operate until such time as it emerges from bankruptcy and beyond. However, as noted below, there are a number of factors that are beyond LyondellBasell's control that create doubt about its ability to continue as a going concern.

On January 6, 2009, certain of LyondellBasell AF's subsidiaries (collectively the "Initial Debtors") filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court. On April 24, 2009, to protect against claims by certain financial and U.S. trade creditors, LyondellBasell AF S.C.A., the Luxembourg holding company, and its General Partner, LyondellBasell AF GP S.a.r.l., also filed voluntary petitions for relief under chapter 11 of the U.S. Bankruptcy Court. On May 8, 2009, thirteen additional U.S. subsidiaries also filed voluntary petitions for relief under chapter 11 of the U.S. Bankruptcy Code (LyondellBasell AF, its general partner and the Initial Debtors, are collectively, the "Debtors"). All 94 of these cases are being jointly administered under the jurisdiction of the U.S. Bankruptcy Court under the caption "*In re Lyondell Chemical Company, et al.*"

In connection with the chapter 11 cases, and after obtaining forbearance agreements from the required number of secured lenders under certain senior secured loans, the Debtors received U.S. Bankruptcy Court approval of the DIP Financing, as defined under the "Overview of Capital Structure" section above.

The DIP Financing contains, among others, affirmative covenants and financial maintenance covenants. The DIP Financing matures on April 6, 2010, subject to the one-time extension option. The capitalization of LyondellBasell AF upon emergence of the Debtors from chapter 11 is subject to U.S. Bankruptcy Court confirmation of a reorganization plan.

The ability of LyondellBasell AF and the Debtors to continue as going concerns is dependent upon, among other things, LyondellBasell AF's ability (i) to comply with the loan covenants in the DIP financing and to meet its post petition obligations as they become due; (ii) to comply with the other terms and conditions of the DIP Financing; and (iii) to obtain confirmation of a plan of reorganization under the U.S. Bankruptcy Code in a timely manner to exit chapter 11 as of the applicable maturity date, which in turn requires LyondellBasell AF to raise additional debt and equity capital.

Liabilities Subject to Compromise—Liabilities subject to compromise include the Debtors' long-term debt that is considered undersecured; 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 damage claims, including environmental claims, created by the Debtors' rejection of certain executory contracts.

As part of its ongoing claims resolution process, LyondellBasell AF is investigating differences between claim amounts filed by creditors and LyondellBasell AF's 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.

Long-Lived Assets—With respect to long-lived assets, key assumptions included the estimates of the asset fair values and useful lives at the acquisition date and the recoverability of carrying values of fixed assets and other intangible assets, as well as the existence of any obligations associated with the retirement of fixed assets. Such estimates could be significantly modified and/or the carrying values of the assets could be impaired by such factors as new technological developments, new chemical industry entrants with significant raw material or other cost

advantages, uncertainties associated with the European, U.S. and world economies, the cyclical nature of the chemical and refining industries, and uncertainties associated with governmental actions, whether regulatory or, in the case of Houston Refining, with respect to its crude oil contract.

The current recession and continuing weakness in financial markets have created substantial uncertainty for the global economy and the markets in which LyondellBasell AF operates.

Earnings for 2009 included pretax impairment charges of \$17 million, primarily related to the impairment of LyondellBasell AF's emissions allowances that are subject to reallocation to other industry participants under a proposed regulation by the Texas Commission on Environmental Quality. As part of its reorganization, LyondellBasell AF also recognized charges totaling \$680 million, including \$624 million for the write off of the carrying value and related assets of its Chocolate Bayou olefins facility near Alvin, Texas and \$55 million for the write off of its ethylene glycol facility in Beaumont, Texas.

Earnings for 2008 included a \$218 million pretax charge for impairment of the carrying value of the assets related to LyondellBasell AF's Berre Refinery. Also in 2008, LyondellBasell AF recognized a \$7 million charge for impairment of its ethylene glycol facility in Beaumont, Texas.

Earnings for 2007 included a \$12 million pretax charge for impairment of the net book value of LyondellBasell AF's Canadian facility in Varennes, Québec and \$8 million for capitalized engineering costs for a new polymers plant in Germany.

For purposes of recognition and measurement of the above-noted impairments, long-lived assets were grouped with other assets and liabilities at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets and liabilities.

The estimated useful lives of long-lived assets range from 3 to 30 years. Depreciation and amortization of these assets, including amortization of deferred turnaround costs, under the straight-line method over their estimated useful lives totaled \$1,774 million in 2009. If the useful lives of the assets were found to be shorter than originally estimated, depreciation and amortization charges would be accelerated over the revised useful life.

Long-Term Employee Benefit Costs—The costs to LyondellBasell AF of long-term employee benefits, particularly pension and other postretirement medical and life insurance benefits, are incurred over long periods of time, and involve many uncertainties over those periods. The net periodic benefit cost attributable to current periods is based on several assumptions about such future uncertainties, and is sensitive to changes in those assumptions. It is management's responsibility, often with the assistance of independent experts, to select assumptions that in its judgment represent its best estimates of the future effects of those uncertainties. It also is management's responsibility to review those assumptions periodically to reflect changes in economic or other factors that affect those assumptions.

The current benefit service costs, as well as the existing liabilities, for pensions and other postretirement benefits are measured on a discounted present value basis. The discount rate is a current rate, related to the rate at which the liabilities could be settled. LyondellBasell AF's assumed discount rate is based on published average rates for high-quality (Aa rating) ten-year fixed income securities. For the purpose of measuring the benefit obligations at December 31, 2009, LyondellBasell AF decreased its average assumed discount rates from 6.00% to 5.75% for U.S. plans and from 5.73% to 5.51% for non-U.S. plans, reflecting market interest rates at December 31, 2009. The December 31, 2009 rate also will be used to measure net periodic benefit cost during 2010.

The benefit obligation and the periodic cost of other postretirement medical benefits also are measured based on assumed rates of future increase in the per capita cost of covered health care benefits. As of December 31, 2009, the assumed rate of increase was 8% for 2010, decreasing 0.5% per year to 5% in 2016 and thereafter. A one percentage point change in the health care cost trend rate assumption would have no significant effect on either the benefit liability or the net periodic cost, due to limits on LyondellBasell AF's maximum contribution level under the medical plan.

The net periodic cost of pension benefits included in expense also is affected by the expected long-term rate of return on plan assets assumption. Investment returns that are recognized currently in net income represent the expected long-term rate of return on plan assets applied to a market-related value of plan assets which, for LyondellBasell AF, is defined as the market value of assets. The expected rate of return on plan assets is a longer term rate, and is expected to change less frequently than the current assumed discount rate, reflecting long-term market expectations, rather than current fluctuations in market conditions.

LyondellBasell AF's weighted average expected long-term rate of return on U.S. and non-U.S. plan assets of 8.0% and 5.78%, respectively, is based on the average level of earnings that its independent pension investment advisor had advised could be expected to be earned over time. The expectation is based on an asset allocation that varies by region. The asset allocations are summarized in Note 23 to the Consolidated Financial Statements. The actual returns in 2009 for U.S. and non-U.S. plan assets were 23% and 6%, respectively.

The actual rate of return on plan assets may differ from the expected rate due to the volatility normally experienced in capital markets. Management's goal is to manage the investments over the long term to achieve optimal returns with an acceptable level of risk and volatility.

Net periodic pension cost recognized each year includes the expected asset earnings, rather than the actual earnings or loss. This unrecognized amount, to the extent it exceeds 10% of the projected benefit obligation for the respective plan, is recognized as additional net periodic benefit cost over the average remaining service period of the participants in each plan.

LyondellBasell AF temporarily suspended its matching contributions under the Company's defined contribution plans (Employee Savings Plans) beginning in March 2009 as a result of the bankruptcy.

Additional information on the key assumptions underlying these benefit costs appears in Note 23 to the Consolidated Financial Statements.

Liabilities for Environmental Remediation Costs—Anticipated expenditures related to investigation and remediation of contaminated sites, which include current and former plant sites and other remediation sites, are accrued when it is probable a liability has been incurred and the amount of the liability can be reasonably estimated. Only ongoing operating and monitoring costs, the timing of which can be determined with reasonable certainty, are discounted to present value. Future legal costs associated with such matters, which generally are not estimable, are not included in these liabilities.

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 CERCLA 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). The Debtors are seeking a determination from the U.S. Bankruptcy Court that any claims or fines asserted against a Debtor with respect to such sites would be pre-petition claims, the collection of which is stayed by the applicable provisions of the U.S. Bankruptcy Code and that will ultimately be discharged as a general unsecured claim under the Debtors' plan of reorganization.

Accordingly, in 2009, environmental remediation liabilities related to third-party sites were reclassified from "Other liabilities" to "Liabilities subject to compromise." In 2009, in accordance with the bankruptcy claims process, the basis for certain accrued liabilities was adjusted to reflect the Debtor's estimated claims to be allowed, including executory contracts and environmental liabilities that are classified as "Reorganization items." As a result the total amount of the accrued liability included in "Liabilities subject to compromise" reflects the current expected amount of the allowed claims.

As of December 31, 2009, 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 \$89 million. The liabilities for individual sites range from less than \$1 million to \$20 million, and 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, could require LyondellBasell AF to reassess its potential exposure related to environmental matters. See Note 25 to the Consolidated Financial Statements for further discussion of environmental remediation matters.

Accruals for Taxes Based on Income—Uncertainties exist with respect to interpretation of complex U.S. federal and non-U.S. tax regulations. Management expects that LyondellBasell AF's interpretations will prevail. Also, LyondellBasell AF has recognized deferred tax benefits relating to its future utilization of past operating losses. LyondellBasell AF believes it is more likely than not that the amounts of deferred tax assets in excess of the related valuation reserves will be realized. Further details on LyondellBasell AF's income taxes appear in Note 24 to the Consolidated Financial Statements.

Accounting and Reporting Changes

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

Quantitative and Qualitative Disclosures About Market Risk

See Note 22 to the Consolidated Financial Statements for discussion of LyondellBasell AF's management of commodity price risk, foreign currency exposure and interest rate risk through its use of derivative instruments and hedging activities.

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' is limited in its ability to further engage in derivative transactions. LyondellBasell AF is not participating in interest rate transactions at this time due to a lack of willing counterparties and its foreign currency transactions are restricted to a few currencies and primarily to spot or near spot transactions. LyondellBasell AF continues to enter into commodity derivative contracts in the ordinary course of business on a limited basis, and only through exchange traded futures contracts, which are supported by cash deposits.

Commodity Price Risk

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

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

LyondellBasell AF uses value at risk (“VAR”), stress testing and scenario analysis for risk measurement and control purposes. VAR estimates the maximum potential loss in fair market values, given a certain move in prices over a certain period of time, using specified confidence levels. Using sensitivity analysis and hypothetical unfavorable changes in market prices ranging from 13% to 15% from those in effect at December 31, 2009, the effect would be to reduce net income by approximately \$1 million. The quantitative information about market risk is necessarily limited because it does not take into account the effects of the underlying operating transactions.

Foreign Exchange Risk

LyondellBasell AF manufactures and markets its products in a number of countries throughout the world and, as a result, is exposed to changes in foreign currency exchange rates. Costs in some countries are incurred, in part, in currencies other than the applicable functional currency. Since January 6, 2009 when certain subsidiaries of LyondellBasell AF filed voluntary petitions for reorganization under chapter 11 of the U.S. Bankruptcy Code, LyondellBasell AF and its subsidiaries have not been able to enter into new foreign currency forward contracts to reduce the effects of their net currency exchange exposures. All foreign currency forward contracts outstanding at the time of filing have since expired and been settled. Current foreign currency transactions of LyondellBasell AF foreign currency transactions are restricted to a few currencies and primarily to spot or near spot transactions.

Interest Rate Risk

LyondellBasell AF’s is exposed to interest rate risk with respect to variable rate debt. Using sensitivity analysis and a hypothetical 1% increase in interest rates from those in effect at year end, the increase in annual interest expense on the variable-rate debt of \$6.3 billion, not classified as “Liabilities subject to compromise,” would reduce net income by approximately \$62 million.

During 2008, LyondellBasell AF entered into interest rate swap agreements, maturing in 2013, 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 convert a portion of LyondellBasell AF’s variable rate, long-term debt to fixed rate debt for the period of the hedge. The variable portion of the interest rate would have converted to a fixed rate ranging from 3.6% to 4.6%.

In January 2009, LyondellBasell AF received notice of termination for these interest rate swap agreements after certain of its subsidiaries filed voluntary petitions for protection under chapter 11 of the U.S. Bankruptcy Code. At December 31, 2009 and 2008, the fair value of these interest rate swap agreements resulted in payables of \$201 million and \$196 million, respectively, which were classified as “Liabilities subject to compromise” and “Accrued liabilities,” respectively.

LyondellBasell AF entered into a cross-currency interest rate swap for a principal amount of \$365 million 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. This swap was designated as a cash-flow hedge. Accordingly, in 2008, a \$22 million loss was reclassified from AOCI to “Other income, net” in the Consolidated Statements of Operations related to the changes in fair value.