

LyondellBasell Industries N.V.

Form 10-Q

August 15, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2011**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number: 001-34726**

**LYONDELLBASELL INDUSTRIES N.V.**

*(Exact name of registrant as specified in its charter)*

**The Netherlands**

*(State or other jurisdiction of incorporation or organization)*

**98-0646235**

*(I.R.S. Employer Identification No.)*

**Weena 737**

**3013 AM Rotterdam**

**The Netherlands**

*(Address of principal executive offices)*

**31 10 275 5500**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

*(Do not check if a smaller reporting company)*

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

Edgar Filing: LyondellBasell Industries N.V. - Form 10-Q

The registrant had 571,581,047 ordinary shares, 0.04 par value, outstanding at August 10, 2011.

---

**LYONDELLBASELL INDUSTRIES N.V.  
TABLE OF CONTENTS**

	<b>Page</b>
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements</u>	1
<u>Consolidated Statements of Income</u>	1
<u>Consolidated Balance Sheets</u>	2
<u>Consolidated Statements of Cash Flows</u>	4
<u>Consolidated Statement of Stockholders' Equity</u>	5
<u>Notes to the Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	45
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	64
<u>Item 4. Controls and Procedures</u>	64
<u>Part II Other Information</u>	65
<u>Item 1. Legal Proceedings</u>	65
<u>Item 1A. Risk Factors</u>	66
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	66
<u>Item 6. Exhibits</u>	67
<u>Signature</u>	68
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

---

**Table of Contents**

**PART I. FINANCIAL INFORMATION**  
**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**LYONDELLBASELL INDUSTRIES N.V.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Three</b>	<b>Successor</b>	<b>Predecessor</b>		
	<b>months</b>	<b>Six</b>	<b>May 1</b>	<b>April 1</b>	<b>January</b>
	<b>ended</b>	<b>Months</b>	<b>through</b>	<b>through</b>	<b>1</b>
	<b>June</b>	<b>Ended</b>	<b>June 30,</b>	<b>April</b>	<b>through</b>
	<b>30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>30,</b>	<b>April 30,</b>
<b>Millions of dollars, except earnings per share</b>					
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
<b>Sales and other operating revenues:</b>					
Trade	\$ 13,733	\$ 25,693	\$ 6,655	\$ 3,654	\$ 13,260
Related parties	309	601	117	58	207
	14,042	26,294	6,772	3,712	13,467
<b>Operating costs and expenses:</b>					
Cost of sales	12,474	23,417	6,198	3,284	12,414
Selling, general and administrative expenses	247	458	129	91	308
Research and development expenses	56	89	23	14	55
	12,777	23,964	6,350	3,389	12,777
Operating income	1,265	2,330	422	323	690
Interest expense	(177)	(340)	(132)	(302)	(713)
Interest income	13	21	12	3	5
Other income (expense), net	45	2	54	(65)	(265)
Income (loss) before equity investments, reorganization items and income taxes	1,146	2,013	356	(41)	(283)
Income from equity investments	73	131	27	29	84
Reorganization items	(28)	(30)	(8)	7,181	7,388
Income before income taxes	1,191	2,114	375	7,169	7,189
Provision for (benefit from) income taxes	388	651	28	(1,327)	(1,315)
<b>Net income</b>	<b>803</b>	<b>1,463</b>	<b>347</b>	<b>8,496</b>	<b>8,504</b>
Net (income) loss attributable to non-controlling interests	1	4	(5)	58	60
Net income attributable to the Company	\$ 804	\$ 1,467	\$ 342	\$ 8,554	\$ 8,564

**Earnings per share:**

**Net income:**

Basic	\$ 1.41	\$ 2.58	\$ 0.60
Diluted	\$ 1.38	\$ 2.56	\$ 0.60

See Notes to the Consolidated Financial Statements.

1

---

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.  
CONSOLIDATED BALANCE SHEETS**

<b>Millions, except shares and par value data</b>	<b>June 30,</b>	<b>December</b>
	<b>2011</b>	<b>31,</b>
		<b>2010</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 4,687	\$ 4,222
Restricted cash	250	11
Accounts receivable:		
Trade, net	4,605	3,482
Related parties	296	265
Inventories	5,577	4,824
Prepaid expenses and other current assets	1,098	975
Total current assets	16,513	13,779
Property, plant and equipment, net	7,569	7,190
Investments and long-term receivables:		
Investment in PO joint ventures	436	437
Equity investments	1,654	1,587
Related party receivables	19	14
Other investments and long-term receivables	63	67
Goodwill	621	595
Intangible assets, net	1,310	1,360
Other assets	290	273
Total assets	\$ 28,475	\$ 25,302

See Notes to the Consolidated Financial Statements.

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.  
CONSOLIDATED BALANCE SHEETS**

<b>Millions, except shares and par value data</b>	<b>June 30,</b>	<b>December</b>
	<b>2011</b>	<b>31,</b>
		<b>2010</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 2	\$ 4
Short-term debt	50	42
Accounts payable:		
Trade	2,988	1,968
Related parties	1,011	793
Accrued liabilities	1,613	1,705
Deferred income taxes	315	319
Total current liabilities	5,979	4,831
Long-term debt	5,813	6,036
Other liabilities	2,110	2,183
Deferred income taxes	947	656
Commitments and contingencies		
Stockholders' equity:		
Ordinary shares, 0.04 par value, 1,275 million shares authorized, 568,814,697 and 565,676,222 shares issued, respectively	30	30
Additional paid-in capital	9,982	9,837
Retained earnings	2,997	1,587
Accumulated other comprehensive income	586	81
Treasury stock, at cost, 1,323,677 and 1,122,651 ordinary shares, respectively	(16)	
Total Company share of stockholders' equity	13,579	11,535
Non-controlling interests	47	61
Total equity	13,626	11,596
Total liabilities and equity	\$ 28,475	\$ 25,302

See Notes to the Consolidated Financial Statements.



**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Successor</b>	<b>Predecessor</b>
	<b>Six</b>	
	<b>Months</b>	<b>May 1</b>
	<b>Ended</b>	<b>through</b>
	<b>June</b>	<b>January 1</b>
	<b>30,</b>	<b>through</b>
	<b>June 30,</b>	<b>April 30,</b>
	<b>2011</b>	<b>2010</b>
	<b>2010</b>	<b>2010</b>
<b>Millions of dollars</b>		
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,463	\$ 347
Adjustments to reconcile net income to net cash provided by (used in) operating activities		\$ 8,504
Depreciation and amortization	439	129
Asset impairments	18	9
Amortization of debt-related costs	20	5
Inventory valuation adjustment		333
Equity investments -		
Equity income	(131)	(27)
Distribution of earnings	107	28
Deferred income taxes	316	(3)
Reorganization items and fresh start accounting adjustments, net	30	8
Reorganization-related payments, net	(10)	(275)
(Gain) loss on sale of assets	(48)	4
Unrealized foreign currency exchange loss (gain)	(1)	14
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(1,002)	139
Inventories	(619)	56
Accounts payable	1,140	226
Prepaid expenses and other current assets	(96)	(7)
Other, net	(379)	132
Net cash provided by (used in) operating activities	1,247	1,105
		(925)
<b>Cash flows from investing activities:</b>		
Expenditures for property, plant and equipment	(482)	(113)
Proceeds from disposal of assets	70	4
Short-term investments		12
Restricted cash	(239)	(1)
Net cash used in investing activities	(651)	(110)
		(224)
<b>Cash flows from financing activities:</b>		
Issuance of Class B common stock		2,800
Shares issued upon exercise of warrants	37	
Dividends paid	(57)	
Repayments of debtor-in-possession term loan facility		(2,170)

Edgar Filing: LyondellBasell Industries N.V. - Form 10-Q

Net repayments under debtor-in-possession revolving credit facility			(325)
Net borrowings on revolving credit facilities		130	38
Proceeds from short-term debt			8
Repayments of short-term debt			(14)
Issuance of long-term debt			3,242
Repayments of long-term debt	(260)		(9)
Payments of debt issuance costs	(15)	(2)	(253)
Other, net	(4)	5	(2)
Net cash provided by (used in) financing activities	(299)	133	3,315
Effect of exchange rate changes on cash	168	(86)	(13)
<b>Increase in cash and cash equivalents</b>	465	1,042	2,153
Cash and cash equivalents at beginning of period	4,222	2,711	558
Cash and cash equivalents at end of period	\$ 4,687	\$ 3,753	\$ 2,711

See Notes to the Consolidated Financial Statements.

4

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

Millions of dollars	Ordinary Shares		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)		Total Stockholders Equity (Deficit)	Non-Controlling Interests	Comprehensive Income
	Issued	Treasury							
Balance, January 1, 2011	\$ 30	\$	\$ 9,837	\$ 1,587	\$ 81	\$ 11,535	\$ 61		
Warrants exercised			125			125			
Shares purchased		(16)				(16)			
Share-based compensation			20			20			
Net income (loss)				1,467		1,467	(4)	\$	1,463
Cash dividends (\$0.10 per share)				(57)		(57)			
Distributions to non- controlling interests							(21)		
Contributions from non- controlling interests								11	
Unrealized gain on held-for-sale securities held by equity investees						2	2		2
Changes in unrecognized employee benefits gains and losses, net of tax of less than \$1						3	3		3
Foreign currency translations, net of tax of less than \$1						500	500		500
Comprehensive income								\$	1,968
Balance, June 30, 2011	\$ 30	\$ (16)	\$ 9,982	\$ 2,997	\$ 586	\$ 13,579	\$ 47		

See Notes to the Consolidated Financial Statements.

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
TABLE OF CONTENTS**

	<b>Page</b>
<u>1. Basis of Presentation</u>	7
<u>2. Accounting and Reporting Changes</u>	7
<u>3. Emergence from Chapter 11 Proceedings</u>	9
<u>4. Restricted Cash</u>	9
<u>5. Accounts Receivable</u>	10
<u>6. Inventories</u>	10
<u>7. Property, Plant and Equipment, Goodwill, Intangibles and Other Assets</u>	10
<u>8. Investment in PO Joint Ventures</u>	11
<u>9. Equity Investments</u>	12
<u>10. Debt</u>	14
<u>11. Financial Instruments and Derivatives</u>	16
<u>12. Pension and Other Post-retirement Benefits</u>	23
<u>13. Income Taxes</u>	24
<u>14. Commitments and Contingencies</u>	25
<u>15. Stockholders' Equity and Non-Controlling Interests</u>	28
<u>16. Per Share Data</u>	29
<u>17. Segment and Related Information</u>	31
<u>18. Supplemental Guarantor Information</u>	34

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****1. Basis of Presentation**

LyondellBasell Industries N.V. is a limited liability company (*Naamloze Vennootschap*) incorporated under Dutch law by deed of incorporation dated October 15, 2009. LyondellBasell Industries N.V. was formed to serve as the parent holding company for certain subsidiaries of LyondellBasell Industries AF S.C.A. (together with its subsidiaries, LyondellBasell AF, the Predecessor Company or the Predecessor) after completion of proceedings under chapter 11 (chapter 11) of title 11 of the United States Bankruptcy Code (the U.S. Bankruptcy Code). LyondellBasell Industries AF S.C.A. and 93 of its subsidiaries were debtors (the Debtors) in jointly administered bankruptcy cases (the Bankruptcy Cases) in the United States Bankruptcy Court in the Southern District of New York (the Bankruptcy Court). As of April 30, 2010 (the Emergence Date), LyondellBasell Industries AF S.C.A.'s equity interests in its indirect subsidiaries terminated and LyondellBasell Industries N.V. now owns and operates, directly and indirectly, substantially the same business as LyondellBasell Industries AF S.C.A. owned and operated prior to emergence from the Bankruptcy Cases, which business includes subsidiaries of LyondellBasell Industries AF S.C.A. that were not involved in the Bankruptcy Cases. LyondellBasell Industries AF S.C.A. is no longer part of the LyondellBasell group. Effective May 1, 2010, we adopted fresh-start accounting pursuant to Accounting Standards Codification (ASC) 852, *Reorganizations*. Accordingly, the basis of the assets and liabilities in LyondellBasell AF's financial statements for periods prior to May 1, 2010 will not be comparable to the basis of the assets and liabilities in the financial statements prepared for LyondellBasell N.V. after emergence from bankruptcy.

LyondellBasell Industries N.V., together with its consolidated subsidiaries (collectively LyondellBasell N.V., the Successor Company or the Successor), is a worldwide manufacturer of chemicals and polymers, a refiner of crude oil, a significant producer of gasoline blending components and a developer and licensor of technologies for production of polymers and other chemicals. When we use the terms LyondellBasell N.V., the Successor Company, the Successor, we, us, our or similar words, unless the context otherwise requires, we are referring to LyondellBasell N.V. after April 30, 2010. References herein to the Company for periods through April 30, 2010 are to the Predecessor Company, LyondellBasell AF, and for periods after the Emergence Date, to the Successor Company, LyondellBasell N.V.

The accompanying consolidated financial statements are unaudited and have been prepared from the books and records of LyondellBasell N.V. after April 30, 2010 and LyondellBasell AF for periods up to and including that date in accordance with the instructions to Form 10-Q and Rule 10-1 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. These consolidated financial statements should be read in conjunction with the LyondellBasell N.V. consolidated financial statements and notes thereto included in the LyondellBasell Industries N.V. Current Report on Form 8-K/A filed with the SEC on August 12, 2011.

**2. Accounting and Reporting Changes**

*Comprehensive Income* In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) related to ASC 220, *Comprehensive Income: Presentation of Comprehensive Income*. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Under the ASC 220, an entity can elect to present either 1) one continuous statement of comprehensive income or 2) in two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). The ASU does

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

not change the items that must be reported in OCI. The statement(s) would need to be presented with equal prominence as the other primary financial statements. The ASU is effective for interim and annual periods beginning on or after December 15, 2011. Early adoption is permitted but full retrospective application is required. The adoption of this amendment will have an affect on the presentation of our Consolidated Financial Statements by inclusion of either Consolidated Statements of Other Comprehensive Income or a Consolidated Statements of Comprehensive Income.

*Fair Value Measurement* In May, 2011 the FASB issued new guidance related to ASC 820, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS and changes some fair value measurement principles and disclosure requirements. This guidance aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities and as a result, requires an entity to measure the fair value of its own equity instruments from the perspective of a market participant that holds the equity instruments as assets. This guidance also enhances disclosure requirements for recurring Level 3 fair value measurements to include quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures on the use of a nonfinancial asset measured or disclosed at fair value are required if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The ASU is effective for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. The adoption of this amendment is not expected to have a material effect on the presentation of our consolidated financial statements.

In January 2010, the FASB issued additional guidance on improving disclosures regarding fair value measurements. The guidance requires the disclosure of the amounts of, and the rationale for, significant transfers between Level 1 and Level 2 of the fair value hierarchy, as well as the rationale for transfers in or out of Level 3. In 2010, we adopted all of the amendments regarding fair value measurements except for a requirement to disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis. Our implementation in January 2011 of the requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements did not have a material impact on the presentation of our consolidated financial statements.

*Business Combinations* In December 2010, the FASB issued guidance related to ASC Topic 805, *Business Combinations*, to clarify that if a public entity presents comparative financial statements, the entity should disclose pro-forma revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. Adoption of this amendment in January 2011 did not have a material effect on our consolidated financial statements.

*Goodwill* In December 2010, the FASB issued guidance related to ASC Topic 350, *Intangibles Goodwill and Other*, to require a company with reporting units having a carrying amount of zero or less to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This guidance is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2010. Adoption of this amendment in January 2011 did not have a material effect on our consolidated financial statements.

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Revenue Recognition* In October 2009, the FASB ratified the consensus reached by its emerging issues task force to require companies to allocate revenue in multiple-element arrangements based on the estimated selling price of an element if vendor-specific or other third-party evidence of value is not available. The adoption of these changes, in January 2011, did not have a material effect on our consolidated financial statements.

**3. Emergence from Chapter 11 Proceedings**

On April 23, 2010, the U.S. Bankruptcy Court confirmed LyondellBasell AF's Third Amended and Restated Plan of Reorganization and the Debtors emerged from chapter 11 protection on April 30, 2010. As of June 30, 2011, approximately \$106 million of priority and administrative claims are accrued but have yet to be paid.

The Company's charges (credits) for reorganization items were as follows:

	Successor		Predecessor		
	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011	May 1 through June 30, 2010	April 1 through April 30, 2010	January 1 through April 30, 2010
<b>Millions of dollars</b>					
Change in net assets resulting from the application of fresh-start accounting	\$	\$	\$	\$ 6,278	\$ 6,278
Gain on discharge of liabilities subject to compromise				(13,617)	(13,617)
Asset write-offs and rejected contracts				(3)	25
Estimated claims	25	24		59	(262)
Professional fees	1	5	4	91	172
Employee severance costs				8	
Plant closures costs				3	12
Other	2	1	4		4
Total	\$ 28	\$ 30	\$ 8	\$ (7,181)	\$ (7,388)

Estimated claims in the above table include adjustments made to reflect the Debtors' estimated claims to be allowed.

**4. Restricted Cash**

Restricted cash primarily represents amounts deposited with financial institutions to collateralize letters of credit. As of June 30, 2011, letters of credit totaling \$221 million were cash collateralized. Such cash is included in the \$250 million reflected as Restricted cash on the Consolidated Balance Sheet as of June 30, 2011.

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Accounts Receivable**

Our allowance for doubtful accounts receivable, which is reflected in the Consolidated Balance Sheets as a reduction of accounts receivable, totaled \$14 million and \$12 million at June 30, 2011 and December 31, 2010, respectively.

**6. Inventories**

Inventories consisted of the following components:

<b>Millions of dollars</b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Finished goods	\$ 3,547	\$ 3,127
Work-in-process	273	230
Raw materials and supplies	1,757	1,467
Total inventories	\$ 5,577	\$ 4,824

The two months ended June 30, 2010 include a \$333 million non-cash charge to adjust the value of inventory at June 30, 2010 to market value, which was lower than the April 30, 2010 value applied during fresh-start accounting.

**7. Property, Plant and Equipment, Goodwill, Intangibles and Other Assets**

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

<b>Millions of dollars</b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Land	\$ 301	\$ 286
Manufacturing facilities and equipment	7,292	6,752
Construction in progress	750	569
Total property, plant and equipment	8,343	7,607
Less accumulated depreciation	(774)	(417)
Property, plant and equipment, net	\$ 7,569	\$ 7,190

In the first six months of 2011, we recognized \$13 million of impairment charges related to the capital expenditures at the Berre refinery. Capital spending required for the operation of the Berre refinery will continue to be impaired until such time as the discounted cash flow projections for the Berre refinery are sufficient to recover the asset's carrying amount.

In July 2010, we ceased production and permanently shut down our polypropylene plant at Terni, Italy. We recognized charges of \$23 million, in cost of sales, related to plant and other closure costs in the first quarter of 2010.



**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Depreciation and amortization expense is summarized as follows:

	Three	Successor	Predecessor		
	Months Ended June 30, 2011	Six Months Ended June 30, 2011	May 1 through June 30, 2010	April 1 through April 30, 2010	January 1 through April 30, 2010
<b>Millions of dollars</b>					
Property, plant and equipment	\$ 184	\$ 351	\$ 94	\$ 125	\$ 499
Investment in PO joint ventures	8	15	9	4	19
Emission allowances	18	36			
Various contracts	13	35			
Technology, patent and license costs			5	6	25
Software costs	1	2		3	12
Other			21	3	10
Total depreciation and amortization	\$ 224	\$ 439	\$ 129	\$ 141	\$ 565

*Asset Retirement Obligations* The liabilities recognized for all asset retirement obligations were \$148 million and \$132 million at June 30, 2011 and December 31, 2010, respectively.

*Goodwill* Goodwill increased from \$595 million at December 31, 2010 to \$621 million at June 30, 2011. The \$26 million change in goodwill is a result of foreign exchange translation.

### **8. Investment in PO Joint Ventures**

We, together with Bayer AG and Bayer Corporation (collectively Bayer), share ownership in a U.S. propylene oxide (PO) manufacturing joint venture (the U.S. PO Joint Venture) and a separate joint venture for certain related PO technology. Bayer's ownership interest represents ownership of annual in-kind PO production of the U.S. PO Joint Venture of 1.5 billion pounds in 2010. We take in-kind the remaining PO production and all co-product (styrene monomer (SM) or styrene) and tertiary butyl alcohol (TBA) production from the U.S. PO Joint Venture. In addition, we and Bayer each have a 50% interest in a separate manufacturing joint venture (the European PO Joint Venture), which includes a world-scale PO/SM plant at Maasvlakte near Rotterdam, The Netherlands. We and Bayer each are entitled to 50% of the PO and SM production at the European PO Joint Venture.

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Changes in our investment in the U.S. and European PO joint ventures for 2011 and 2010 are summarized as follows:

<b>Millions of dollars</b>		<b>U.S. PO Joint Venture</b>	<b>European PO Joint Venture</b>	<b>Total PO Joint Ventures</b>
<b>Successor</b>				
Investments in PO joint ventures	January 1, 2011	\$ 291	\$ 146	\$ 437
Cash contributions			2	2
Depreciation and amortization		(11)	(4)	(15)
Effect of exchange rate changes			12	12
Investments in PO joint ventures	June 30, 2011	\$ 280	\$ 156	\$ 436
Investments in PO joint ventures	May 1, 2010	\$ 303	\$ 149	\$ 452
Cash contributions			1	1
Depreciation and amortization		(6)	(3)	(9)
Effect of exchange rate changes			(10)	(10)
Investments in PO joint ventures	June 30, 2010	\$ 297	\$ 137	\$ 434
<b>Predecessor</b>				
Investments in PO joint ventures	January 1, 2010	\$ 533	\$ 389	\$ 922
Return of investment			(5)	(5)
Depreciation and amortization		(14)	(5)	(19)
Effect of exchange rate changes			(31)	(31)
Investments in PO joint ventures	April 30, 2010	\$ 519	\$ 348	\$ 867

**9. Equity Investments**

The changes in equity investments were as follows:

<b>Millions of dollars</b>	<b>Successor</b>		<b>Predecessor</b>
	<b>Six months ended June 30, 2011</b>	<b>May 1 through June 30, 2010</b>	<b>January 1 through April 30, 2010</b>
Beginning balance	\$ 1,587	\$ 1,524	\$ 1,085
Income from equity investments	131	27	84
Dividends received	(114)	(28)	(18)

Edgar Filing: LyondellBasell Industries N.V. - Form 10-Q

Contributions to joint venture			7	20
Currency exchange effects	50		(23)	(8)
Other				10
Ending balance	\$ 1,654	\$	1,507	\$ 1,173

12

---

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

Millions of dollars	Successor				Predecessor	
	Three months ended June 30, 2011		May 1 through June 30, 2010		April 1 through April 30, 2010	
	100%	Company Share	100%	Company Share	100%	Company Share
Revenues	\$ 3,113	\$ 894	\$ 1,382	\$ 553	\$ 789	\$ 245
Cost of sales	(2,659)	(767)	(1,222)	(485)	(664)	(216)
Gross profit	454	127	160	68	125	29
Net operating expense	(59)	(17)	(63)	(22)	(19)	(8)
Operating income	395	110	97	46	106	21
Interest income	6	2	2		(5)	(2)
Interest expense	(63)	(18)	(21)	(6)	(6)	(1)
Foreign currency translation	17	5	42	6	61	14
Income from equity investments	(41)	(8)	(59)	(17)	2	2
Income before income taxes	314	91	61	29	158	34
(Provision for) benefit from income taxes	(69)	(18)	1	(2)	(16)	(5)
Net income	\$ 245	\$ 73	\$ 62	\$ 27	\$ 142	\$ 29

Millions of dollars	Successor				Predecessor	
	Six Months Ended June 30, 2011		May 1 through June 30, 2010		January 1 through April 30, 2010	
	100%	Company Share	100%	Company Share	100%	Company Share
Revenues	\$ 6,700	\$ 2,133	\$ 1,382	\$ 553	\$ 3,127	\$ 989
Cost of sales	(5,829)	(1,876)	(1,222)	(485)	(2,699)	(869)
Gross profit	871	257	160	68	428	120
Net operating expenses	(157)	(49)	(63)	(22)	(82)	(29)
Operating income	714	208	97	46	346	91
Interest income	6	2	2		2	1
Interest expense	(121)	(34)	(21)	(6)	(43)	(13)
Foreign currency translation	(22)	(5)	42	6	83	24
Income from equity investments	(31)	(5)	(59)	(17)	3	2

Edgar Filing: LyondellBasell Industries N.V. - Form 10-Q

Income before income taxes	546	166	61	29	391	105
(Provision for) benefit from income taxes	(122)	(35)	1	(2)	(67)	(21)
Net income	\$ 424	\$ 131	\$ 62	\$ 27	\$ 324	\$ 84

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A joint venture of ours is in default under its financing arrangement due to a delay in the start-up of its assets. The parties are currently negotiating in good faith to resolve the default and at present there is no evidence that such negotiations will not be concluded successfully or that the resolution of this matter will have a material adverse impact on our operations or liquidity.

**10. Debt**

Long-term loans, notes and other long-term debt consisted of the following:

<b>Millions of dollars</b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Bank credit facilities:		
Senior Term Loan Facility due 2016	\$ 5	\$ 5
Senior Secured Notes due 2017, \$2,250 million, 8.0%	1,822	2,025
Senior Secured Notes due 2017, 375 million, 8.0%	440	452
Senior Secured Notes due 2018, \$3,240 million, 11.0%	3,240	3,240
Guaranteed Notes, due 2027	300	300
Other	8	18
Total	5,815	6,040
Less current maturities	(2)	(4)
Long-term debt	\$ 5,813	\$ 6,036

Short-term loans, notes and other short-term debt consisted of the following:

<b>Millions of dollars</b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
\$2,000 million Senior Secured Asset-Based Revolving Credit Agreement	\$	\$
Financial payables to equity investees	10	11
Other	40	31
Total short-term debt	\$ 50	\$ 42

*Senior Secured 8% Notes* In December 2010, we redeemed \$225 million of the dollar denominated and 37.5 million (\$50 million) of the Euro denominated Senior Secured 8% Notes at a redemption price of 103% of par, paying premiums totaling \$8 million. In May 2011, we redeemed an additional \$203 million of Senior Secured 8% dollar Notes and 34 million (\$50 million) of Senior Secured 8% Euro notes due 2017 at a redemption price of 103% of par, paying premiums totaling \$7 million.

The Senior Secured 8% Notes were issued by our wholly owned subsidiary, Lyondell Chemical Company ( Lyondell Chemical ). Lyondell Chemical may redeem the notes (i) prior to maturity at specified redemption premium percentages according to the date the notes are redeemed or (ii) from time to time at a redemption price of 100% of such principal amount plus an applicable premium as calculated pursuant to a formula.

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In addition, Lyondell Chemical has the option to redeem up to 10% of the outstanding Senior Secured 8% Notes annually prior to May 1, 2013 at a redemption price equal to 103% of such notes' principal amount. Also prior to May 1, 2013, Lyondell Chemical has the option to redeem up to 35% of the original aggregate principal amount of the Senior Secured 8% Notes at a redemption price of 108% of such principal amount, with the net proceeds of one or more equity offerings, provided that (i) at least 50% of the original aggregate principal amount remains outstanding immediately after such redemption and (ii) the redemption occurs within 90 days of the closing of the equity offering. The value of this embedded derivative is nominal.

*Senior Secured 11% Notes* The Senior Secured 11% Notes also were issued by Lyondell Chemical. Lyondell Chemical may redeem the notes (i) at par on or after May 1, 2013 and (ii) from time to time at a redemption price of 100% of such principal amount plus an applicable premium as calculated pursuant to a formula.

In addition, Lyondell Chemical has the option to redeem up to 35% of the original aggregate principal amount of the Senior Secured 11% Notes at a redemption price of 111% of such principal amount, with the net proceeds of one or more equity offerings, provided that (i) at least 50% of the original aggregate principal amount remains outstanding immediately after such redemption and (ii) the redemption occurs within 90 days of the closing of the equity offering. The value of this embedded derivative is nominal.

*Registration Rights Agreements* In connection with the issuance of the Senior Secured 8% Notes and the Senior Secured 11% Notes (collectively, the Senior Secured Notes), we entered into certain registration rights agreements. The agreements require us to (i) exchange the Senior Secured 8% Notes for notes with substantially identical terms, except that the new notes will be registered with the SEC under the Securities Act of 1933, as amended, and will therefore be free of any transfer restrictions and (ii) register for resale the Senior Secured 11% Notes held by the parties to the agreement related to those notes. The registration rights agreements require registration statements for the exchange or resale, as applicable, to be effective with the SEC by May 3, 2011, which has not occurred. As a result, beginning May 4, 2011, we are subject to penalties in the form of increased interest rates. The interest penalties are 0.25% per annum for the first 90 days that the registration statements are not effective, increasing by an additional 0.25% per annum for each additional 90 days, up to a maximum of 1.00% per annum. We do not expect the amount of penalties that we will ultimately pay to be material.

*Senior Term Loan Facility* In March 2011, we amended and restated our Senior Secured Term Loan Agreement to, among other things, change the administrative agent and to modify the term of the agreement and certain restrictive covenants. This amended and restated agreement matures in April 2014.

*U.S. ABL Facility* On June 2, 2011, we amended our U.S. ABL Facility to, among other things, (i) increase the size of the facility to \$2 billion; (ii) extend the maturity date to June 2016; (iii) reduce the applicable margin and commitment fee; and (iv) amend certain covenants and conditions in order to provide additional flexibility. We paid fees of \$15 million in connection with this amendment.

At June 30, 2011 and December 31, 2010, there were no borrowings outstanding under the U.S. ABL facility and outstanding letters of credit totaled \$263 million and \$370 million, respectively. Pursuant to the U.S. ABL facility, Lyondell Chemical could, subject to a borrowing base, borrow up to \$1,737 million at June 30, 2011. Advances under this facility are available to Lyondell Chemical and certain of its wholly owned subsidiaries, Equistar Chemicals LP (Equistar), Houston Refining LP, and LyondellBasell Acetyls LLC.

*Other* In the six months ended June 30, 2011 amortization of debt premiums and debt issuance costs resulted in amortization expense of \$20 million that was included in interest expense in the Consolidated Statements of Income. In the two months ended June 30, 2010, amortization expense was \$5 million.

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At June 30, 2011 and 2010, our weighted average interest rates on outstanding short-term debt were 3.8% and 3.7%, respectively.

**11. Financial Instruments and Derivatives**

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

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

*Commodity Prices* We are exposed to commodity price volatility related to anticipated purchases of natural gas, crude oil and other raw materials and sales of our products. We selectively use commodity swap, option, and futures contracts with various terms to manage the volatility related to these risks. Such contracts are generally limited to durations of one year or less. Cash-flow hedge accounting may be elected for these derivative transactions. In cases, when the duration of a derivative is short, hedge accounting generally would not be elected. When hedge accounting is not elected, the changes in fair value of these instruments will be recorded in earnings. When hedge accounting is elected, gains and losses on these instruments will be deferred in accumulated other comprehensive income ( AOCI ), to the extent that the hedge remains effective, until the underlying transaction is recognized in earnings.

We have entered into futures contracts with respect to sales of gasoline and heating oil. These futures transactions were not designated as hedges, and the changes in the fair value of the futures contracts were recognized in earnings. In the six months ended June 30, 2011, we settled futures positions for gasoline and heating oil of 280 million gallons and 293 million gallons, respectively, resulting in net gains of \$1 million and \$4 million, respectively. We settled futures positions for gasoline of 69 million gallons in the two months ended June 30, 2010, resulting in a net loss of \$4 million. We settled futures positions for heating oil of 59 million gallons in the two months ended June 30, 2010, resulting in a net loss of less than \$1 million. At June 30, 2011, futures contracts for 27 million gallons of gasoline and heating oil in the notional amount of \$79 million, maturing in August 2011, were outstanding. The fair values, based on quoted market prices, resulted in a net receivable of \$4 million at June 30, 2011 and a net payable of \$1 million at December 31, 2010.

We also entered into futures contracts during the six months ended June 30, 2011 with respect to purchases of butane and sales of gasoline. These futures transactions were not designated as hedges. At June 30, 2011, futures contracts for 97 million gallons of butane and 100 million gallons of gasoline in the notional amounts of \$10 million and \$11 million, respectively, maturing in October, November and December 2011, were outstanding. The fair values, based on quoted market prices, resulted in a net receivable of \$1 million at June 30, 2011.

In addition, we have entered into futures positions for crude oil. These futures transactions were not designated as hedges. In the six months ended June 30, 2011, we settled futures positions for crude oil of less than 1 million barrels resulting in a net loss of \$1 million. We settled futures positions for crude oil of 2 million barrels during the two months ended June 30, 2010, resulting in net gains of \$1 million. At June 30, 2011, futures contracts for 1 million barrels of crude oil in the notional amount of \$88 million, maturing in August and September 2011, were outstanding. The fair values, based on quoted market prices, resulted in net payables of \$2 million at June 30, 2011.



**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We also entered into futures contracts during the two months ended June 30, 2010 with respect to purchases of crude oil and sales of gasoline. These futures transactions were not designated as hedges. We settled futures positions for gasoline of 1 million barrels in the two months ended June 30, 2010, resulting in a net gain of \$5 million. We settled futures positions for crude oil of 1 million barrels in the two months ended June 30, 2010, resulting in a net loss of \$7 million.

*Foreign Currency Rates* We have significant operations in several countries of which functional currencies are primarily the U.S. dollar for U.S. operations and the Euro for operations in Europe. We enter into transactions denominated in other than our functional currency and the functional currencies of our subsidiaries and are, therefore, exposed to foreign currency risk on receivables and payables. We maintain risk management control systems intended to monitor foreign currency risk attributable to both the outstanding foreign currency balances and future commitments. The risk management control systems involve the centralization of foreign currency exposure management, the offsetting of exposures and the estimating of expected impacts of changes in foreign currency rates on our earnings. We enter into foreign currency spot, forward and swap contracts to reduce the effects of our net currency exchange exposures. At June 30, 2011, foreign currency spot, forward and swap contracts in the notional amount of \$165 million, maturing in July 2011, were outstanding. The fair values, based on quoted market exchange rates, resulted in a net receivable of \$8 million at June 30, 2011 and a net payable of \$1 million at December 31, 2010. For forward and swap contracts that economically hedge recognized monetary assets and liabilities in foreign currencies, no hedge accounting is applied. Changes in the fair value of foreign currency forward and swap contracts are reported in the Consolidated Statements of Income and offset the currency exchange results recognized on the assets and liabilities.

*Foreign Currency Gain (Loss)* Other income, net, in the Consolidated Statements of Income reflected a loss of \$4 million and a gain of \$6 million for the three and six months ended June 30, 2011; a gain of \$40 million in the two months ended June 30, 2010; and losses of \$54 million and \$258 million in the one and four months ended April 30, 2010, respectively.

*Interest Rates* Pursuant to the provisions of the Plan of Reorganization, the \$201 million liability associated with interest rate swaps designated as cash flow hedges in the notional amount of \$2,350 million were discharged on April 30, 2010. The Company discontinued accounting for the interest rate swap as a hedge and, in April 2010, \$153 million of unamortized loss was released from accumulated other comprehensive income and recognized in earnings.

*Warrants* As of June 30, 2011, we have warrants outstanding to purchase 8,169,148 ordinary shares at an exercise price of \$15.90 per ordinary share. As of December 31, 2010 we had 11,508,104 warrants outstanding. The warrants have anti-dilution protection for in-kind stock dividends, stock splits, stock combinations and similar transactions and may be exercised at any time during the period from April 30, 2010 to the close of business on April 30, 2017. Upon an affiliate change of control, the holders of the warrants may put the warrants to LyondellBasell N.V., which would require cash settlement at a price equal to, as applicable, the in-the-money value of the warrants or the Black-Scholes-Merton value of the warrants. The warrants are classified as a liability and are recorded at fair value at the end of each reporting period.

During the second quarter of 2011 the Company's warrants were thinly traded and as such the Company concluded that the market price alone could not be relied upon to substantiate fair value. Therefore, we also used the Black-Scholes-Merton option pricing model, incorporating management adjusted observable inputs to determine the estimated fair value of each warrant. The market price as quoted at June 30, 2011 and the price calculated using the Black-Scholes-Merton model were not materially different. As a result, we concluded that the use of the quoted market price to determine the fair value is an appropriate measure, but we have now classified them as level 2 in the

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

valuation hierarchy. The fair values of the warrants were determined to be \$196 million and \$215 million at June 30, 2011 and December 31, 2010, respectively.

The following table summarizes derivative financial instruments outstanding as of June 30, 2011 and December 31, 2010 that are measured at fair value on a recurring basis and the bases used to determine their fair value in the consolidated balance sheets.

Millions of dollars	Notional Amount	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2011:</b>					
<b>Assets at fair value:</b>					
Derivatives:					
Commodities	\$ 100	\$ 5	\$	\$ 5	\$
Foreign currency	165	8		8	
	\$ 265	\$ 13	\$	\$ 13	\$
<b>Liabilities at fair value:</b>					
Derivatives:					
Commodities	\$ 88	\$ 2	\$	\$ 2	\$
Warrants	130	196		196	
	\$ 218	\$ 198	\$	\$ 198	\$
<b>December 31, 2010:</b>					
<b>Liabilities at fair value:</b>					
Derivatives:					
Gasoline and heating oil	\$ 70	\$ 1	\$	\$ 1	\$
Warrants	183	215	215		
Foreign currency	93	1		1	
	\$ 346	\$ 217	\$ 215	\$ 2	\$

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

There were no financial instruments measured on a recurring basis using Level 3 inputs during the six months ended June 30, 2011, the two months ended June 30, 2010 and the four months ended April 30, 2010.

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table provides the fair value of derivative instruments and their balance sheet classifications:

<b>Millions of dollars</b>	<b>Balance Sheet Classification</b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Fair Value of Derivative Instruments Asset</b>			
<b>Derivatives</b>			
Not designated as hedges:			
	Prepaid expenses and other current assets	\$ 5	\$
Commodities	Prepaid expenses and other current assets	8	
Foreign currency			
		\$ 13	\$
<b>Fair Value of Derivative Instruments Liability</b>			
<b>Derivatives</b>			
Not designated as hedges:			
Warrants	Accrued liabilities	\$ 196	\$ 215
Foreign currency	Accrued liabilities		1
Commodities	Accrued liabilities	2	1
		\$ 198	\$ 217

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the pretax effect of derivative instruments charged directly to income:

Successor	Effect of Financial Instruments Three months ended June 30, 2011				Income Statement Classification
	Gain (Loss) Recognized in AOCI	Gain (Loss) Reclassified from AOCI to Income	Additional Gain (Loss) Recognized in Income		
<b>Millions of dollars</b>					
Derivatives not designated as hedges:					
Warrants	\$	\$	\$	6	Other income (expense), net
Commodities				3	Cost of sales
Foreign currency				1	Other income (expense), net
	\$	\$	\$	10	

Successor	May 1 through June 30, 2010				Income Statement Classification
	Gain (Loss) Recognized in AOCI	Gain (Loss) Reclassified from AOCI to Income	Additional Gain (Loss) Recognized in Income		
<b>Millions of dollars</b>					
Derivatives not designated as hedges:					
Warrants	\$	\$	\$	17	Other income (expense), net
Commodities				(5)	Cost of sales
	\$	\$	\$	12	

Successor	April 1 through April 30, 2010				Income Statement Classification
	Gain (Loss) Recognized in AOCI	Gain (Loss) Reclassified from AOCI to Income	Additional Gain (Loss) Recognized in Income		
<b>Millions of dollars</b>					
Derivatives not designated as hedges:					
Warrants	\$	\$	\$	17	Other income (expense), net
Commodities				(5)	Cost of sales
	\$	\$	\$	12	

<b>Predecessor</b>	<b>Recognized in AOCI</b>	<b>from AOCI to Income</b>	<b>Recognized in Income</b>	<b>Income Statement Classification</b>
<b>Millions of dollars</b>				
Derivatives designated as cash-flow hedges:				
Interest rate	\$	\$ (4)	\$	Interest expense
Derivatives not designated as hedges:				
Commodities			1	Cost of sales
Foreign currency			3	Other income (expense), net
			4	
	\$	\$ (4)	\$ 4	

Table of Contents

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

<b>Successor</b>	<b>Effect of Financial Instruments Six Months Ended June 30, 2011</b>				<b>Income Statement Classification</b>
	<b>Gain (Loss)</b>	<b>Gain (Loss)</b>	<b>Reclassified from AOCI to Income</b>	<b>Additional Gain (Loss)</b>	
<b>Millions of dollars</b>	<b>Recognized in AOCI</b>	<b>Recognized in AOCI</b>	<b>Recognized in Income</b>	<b>Recognized in Income</b>	
Derivatives not designated as hedges:					
Warrants	\$	\$		\$ (53)	Other income (expense), net
Commodities				9	Cost of sales
Foreign currency				(1)	Other income (expense), net
	\$	\$		\$ (45)	

<b>Successor</b>	<b>May 1 through June 30, 2010</b>				<b>Income Statement Classification</b>
	<b>Gain (Loss)</b>	<b>Gain (Loss)</b>	<b>Reclassified from AOCI to Income</b>	<b>Additional Gain (Loss)</b>	
<b>Millions of dollars</b>	<b>Recognized in AOCI</b>	<b>Recognized in AOCI</b>	<b>Recognized in Income</b>	<b>Recognized in Income</b>	
Derivatives not designated as hedges:					
Warrants				17	Other income (expense), net
Commodities				(5)	Cost of sales
	\$	\$		\$ 12	

<b>Predecessor</b>	<b>January 1 through April 30, 2010</b>				<b>Income Statement Classification</b>
	<b>Gain (Loss)</b>	<b>Gain (Loss)</b>	<b>Reclassified from AOCI to Income</b>	<b>Additional Gain (Loss)</b>	
<b>Millions of dollars</b>	<b>Recognized in AOCI</b>	<b>Recognized in AOCI</b>	<b>Recognized in Income</b>	<b>Recognized in Income</b>	

	<b>in</b>				
	<b>AOCI</b>				
Derivatives designated as cash-flow hedges:					
Interest rate	\$	\$	(17)	\$	Interest expense
Derivatives not designated as hedges:					
Commodities				6	Cost of sales
Foreign currency				8	Other income (expense), net
				14	
	\$	\$	(17)	\$	14
	21				

---

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

<b>Millions of dollars</b>	<b>June 30, 2011</b>		<b>December 31, 2010</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Short and long-term debt, including current maturities	\$ 5,862	\$ 6,515	\$ 6,079	\$ 6,819

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

<b>Millions of dollars</b>	<b>Carrying Value</b>	<b>Fair Value June 30, 2011</b>	<b>Fair Value Measurement</b>		
			<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Short term and long-term debt, including current maturities	\$ 5,862	\$ 6,515	\$	\$ 6,471	\$ 44

The following table is a reconciliation of the beginning and ending balances of Level 1 and Level 2 inputs for financial instruments measured at fair value on a recurring basis:

<b>Millions of dollars</b>	<b>Fair Value Measurement Using Quoted prices in active markets for identical assets (Level 1)</b>	<b>Fair Value Measurement Using Significant Other Observable Inputs (Level 2)</b>
	Balance at January 1, 2011	\$ 215
Purchases, sales, issuances, and settlements	(49)	(23)
Transfers in and/or out of Levels 1 and 2	(225)	225
Total gains or losses (realized/unrealized)	59	(6)
Balance at June 30, 2011	\$	\$ 196

For liabilities classified as Level 1, the fair value is measured using quoted prices in active markets. The total fair value is either the price of the most recent trade at the time of the market close or the official close price, as defined by the exchange on which the asset is most actively traded on the last trading day of the period, multiplied by the number



of units held without consideration of transaction costs. For liabilities classified as Level 2, fair value is based on the price a market participant would pay for the security, adjusted for the terms specific to that asset and

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

liability. Broker quotes were obtained from well established and recognized vendors of market data for debt valuations. The inputs for liabilities classified as Level 3 reflect our assessment of the assumptions that a market participant would use in determining the price of the asset or liability, including our liquidity risk at June 30, 2011. The fair values of Level 3 instruments are determined using pricing data similar to that used in Level 2 financial instruments described above, and reflect adjustments for less liquid markets or longer contractual terms. For these Level 3 financial instruments, pricing data obtained from third party pricing sources is adjusted for the liquidity of the underlying over the contractual terms to develop an estimated price that market participants would use. Our valuation of these instruments considers specific contractual terms, present value concepts and other internal assumptions related to (i) contract maturities that extend beyond the periods in which quoted market prices are available; (ii) the uniqueness of the contract terms; and (iii) our creditworthiness or that of our counterparties (adjusted for collateral related to our asset positions). Based on our calculations, we expect that a significant portion of other debts will react in a generally proportionate manner to changes in the benchmark interest rate. Accordingly, these financial instruments are fair valued at par and are classified as Level 3.

**12. Pension and Other Post-retirement Benefits**

Net periodic pension benefits included the following cost components:

	U.S. Plans				
	Successor		Predecessor		
	Three months  ended June 30, 2011	Six months ended June 30, 2011	May 1 through June 30, 2010	April 1 through April 30, 2010	January 1 through April 30, 2010
<b>Millions of dollars</b>					
Service cost	\$ 9	\$ 20	\$ 7	\$ 4	\$ 15
Interest cost	22	45	16	8	31
Expected return on plan assets	(26)	(52)	(15)	(7)	(31)
Amortization					3
Net periodic benefit costs	\$ 5	\$ 13	\$ 8	\$ 5	\$ 18

	Non-U.S. Plans				
	Successor		Predecessor		
	Three months  ended June 30, 2011	Six months ended June 30, 2011	May 1 through June 30, 2010	April 1 through April 30, 2010	January 1 through April 30, 2010
<b>Millions of dollars</b>					
Service cost	\$ 12	\$ 21	\$ 4	\$ 4	\$ 9
Interest cost	17	29	9	4	17
Expected return on plan assets	(16)	(23)	(5)	(3)	(10)

Edgar Filing: LyondellBasell Industries N.V. - Form 10-Q

Settlement and curtailment loss	4	6				
Amortization	2	2		1		1
Net periodic benefit costs	\$ 19	\$ 35	\$ 8	\$ 2	\$	17

23

---

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Net periodic other post-retirement benefits included the following cost components:

	U.S. Plans				
	Three months ended June 30, 2011	Successor Six months ended June 30, 2011	Successor May 1 through June 30, 2010	Predecessor April 1 through April 30, 2010	Predecessor January 1 through April 30, 2010
<b>Millions of dollars</b>					
Service cost	\$ 1	\$ 5	\$ 1	\$ 1	\$ 2
Interest cost	4	8	3	1	5
Amortization				(1)	(3)
Net periodic benefit costs	\$ 5	\$ 13	\$ 4	\$ 1	\$ 4

	Non-U.S. Plans				
	Three months ended June 30, 2011	Successor Six months ended June 30, 2011	Successor May 1 through June 30, 2010	Predecessor April 1 through April 30, 2010	Predecessor January 1 through April 30, 2010
<b>Millions of dollars</b>					
Service cost	\$ 3	\$ 5	\$	\$	\$
Interest cost				1	1
Net periodic benefit costs	\$ 3	\$ 5	\$	\$ 1	\$ 1

The Company contributed \$178 million to its pension plans during the six months ended June 30, 2011, which consisted of \$176 million and \$2 million to its U.S. and non-U.S. pension plans, respectively.

Employees in the U.S. are eligible to participate in defined contribution plans ( Employee Savings Plans ) by contributing a portion of their compensation. We match a part of the employees' contribution.

**13. Income Taxes**

Our effective income tax rate for the first six months of 2011 was 30.8% resulting in tax expense of \$651 million on pretax income of \$2,114 million. The 2011 effective income tax rate was lower than the U.S. statutory 35% rate primarily due to the effect of pretax income in countries with lower statutory tax rates and tax deductible foreign currency losses which were partially offset by the non-deductible expenses related to stock warrants. In the two month Successor period ended June 30, 2010, we recorded a tax provision of \$28 million, representing an effective tax rate of 7.5% on pre-tax income of \$375 million. In the four months ended April 30, 2010, the Predecessor recorded a tax benefit of \$1,315 million, representing an effective tax rate of (18.3)% on pre-tax income of \$7,189 million. The provision for the 2010 Successor period differs from the U.S. statutory rate of 35% primarily due to the fact that in

several countries the Company generated either income with no tax expense or losses where we recorded no tax expense or benefit due to valuation allowances on our deferred tax assets in those countries.

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. Commitments and Contingencies**

*Commitments* We have various purchase commitments for materials, supplies and services resulting from the ordinary course of business. These commitments, which are at prevailing market prices, are generally for quantities required for the operation of our businesses and are designed to assure sources of supply not expected to be in excess of normal requirements. Our capital expenditure commitments at June 30, 2011 were in the normal course of business.

*Financial Assurance Instruments* We have obtained letters of credit, performance and surety bonds and have issued financial and performance guarantees to support trade payables, potential liabilities and other obligations. Considering the frequency of claims made against the financial instruments we use to support our obligations, and the magnitude of those financial instruments in light of our current financial position, management does not expect that any claims against or draws on these instruments would have a material adverse effect on our consolidated financial statements. We have not experienced any unmanageable difficulty in obtaining the required financial assurance instruments for our current operations.

*Environmental Remediation* Our accrued liability for future environmental remediation costs at current and former plant sites and other remediation sites totaled \$129 million and \$107 million as of June 30, 2011 and December 31, 2010, respectively. At June 30, 2011, the accrued liabilities for individual sites range from less than \$1 million to \$39 million. The remediation expenditures are expected to occur over a number of years, and not to be concentrated in any single year. In our opinion, it is reasonably possible that losses in excess of the liabilities recorded may have been incurred. However, we cannot estimate any amount or range of such possible additional losses. New information about sites, new technology or future developments such as involvement in investigations by regulatory agencies, could require us to reassess our potential exposure related to environmental matters.

The following table summarizes the activity in the Company's accrued environmental liability included in Accrued liabilities and Other liabilities :

	<b>Successor</b>		<b>Predecessor</b>
	<b>May 1</b>		
	<b>Six</b>	<b>through</b>	<b>January 1</b>
	<b>Months</b>	<b>June</b>	<b>through</b>
	<b>Ended</b>	<b>June</b>	<b>April 30,</b>
	<b>June</b>	<b>30,</b>	<b>2010</b>
	<b>30,</b>	<b>2010</b>	
<b>Millions of dollars</b>	<b>2011</b>	<b>2010</b>	
Balance at beginning of period	\$ 107	\$ 93	\$ 89
Additional provisions	20		11
Amounts paid	(4)	(1)	(2)
Foreign exchange effects	6	(4)	(5)
Balance at end of period	\$ 129	\$ 88	\$ 93

*Litigation and Other Matters***BASF Lawsuit**

On April 12, 2005, BASF Corporation ( BASF ) filed a lawsuit against Lyondell Chemical in the Superior Court of New Jersey, Morris County, asserting various claims relating to alleged breaches of a propylene oxide toll manufacturing contract and seeking damages in excess of \$100 million. Lyondell Chemical denied breaching the contract and argued that at most it owed BASF \$22.5 million, which it has paid. On August 13, 2007, a jury

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

returned a verdict in favor of BASF in the amount of approximately \$170 million (inclusive of the \$22.5 million refund). On October 3, 2007, the judge in the state court case determined that prejudgment interest on the verdict amounted to \$36 million and issued a final judgment. Lyondell Chemical appealed the judgment and has posted an appeal bond, which is collateralized by a \$200 million letter of credit.

On April 21, 2010, oral arguments in the appeal were held before the Appellate Division and, on December 28, 2010, the judgment was reversed and the case was remanded for a new trial, which will be in New Jersey state court. Based on the remaining legal and fact issues to be decided, management has estimated the reasonably possible range of loss, excluding interest, to be between \$0 and \$135 million.

**Access Indemnity Demand**

On December 20, 2010, one of our subsidiaries received demand letters from affiliates of Access Industries, (collectively, Access ) a more than five percent shareholder of the Company. We conducted an initial investigation of the facts underlying the demand letters and engaged in discussions with Access. We requested that Access withdraw its demands with prejudice and, on January 17, 2011, Access declined to withdraw the demands, with or without prejudice.

Specifically, Access affiliates Nell Limited ( Nell ) and BI S.á.r.l. ( BI ) have demanded that LyondellBasell Industries Holdings B.V., a wholly owned subsidiary of the Company ( LBIH ), indemnify them and their shareholders, members, affiliates, officers, directors, employees and other related parties for all losses, including attorney s fees and expenses, arising out of a pending lawsuit styled *Edward S. Weisfelner, as Litigation Trustee of the LB Litigation Trust v. Leonard Blavatnik, et al.*, Adversary Proceeding No. 09-1375 (REG), in the United States Bankruptcy Court, Southern District of New York.

In the *Weisfelner* lawsuit, the plaintiffs seek to recover damages from numerous parties, including Nell, Access and their affiliates. The damages sought from Nell, Access and their affiliates include, among other things, the return of all amounts earned by them related to their acquisition of shares of Lyondell Chemical prior to its acquisition by Basell AF S.C.A. in December 2007, distributions by Basell AF S.C.A. to its shareholders before it acquired Lyondell Chemical, and management and transaction fees and expenses. This trial is currently scheduled for October 2011. Nell and BI have also demanded that LBIH pay \$50 million in management fees for 2009 and 2010 and that LBIH pay other unspecified amounts relating to advice purportedly given in connection with financing and other strategic transactions.

Nell and BI assert that LBIH s responsibility for indemnity and the claimed fees and expenses arise out of a management agreement entered into on December 11, 2007, between Nell and Basell AF S.C.A. They assert that LBIH, as a former subsidiary of Basell AF S.C.A., is jointly and severally liable for Basell AF S.C.A. s obligations under the agreement, notwithstanding that LBIH was not a signatory to the agreement and the liabilities of Basell AF S.C.A., which was a signatory, were discharged in the LyondellBasell bankruptcy proceedings.

On June 26, 2009, Nell filed a proof of claim in Bankruptcy Court against LyondellBasell AF (successor to Basell AF S.C.A.) seeking no less than \$723 thousand for amounts allegedly owed under the 2007 management agreement. On April 27, 2011, Lyondell Chemical filed an objection to Nell s claim and, together with LyondellBasell N.V. (successor to LyondellBasell AF) and LBIH, brought a declaratory judgment action in the Bankruptcy Court for a determination that Nell and BI s demands are not valid. By a Joint Stipulated Order dated June 13, 2011, the declaratory judgment action is stayed pending the outcome of the *Weisfelner* lawsuit.

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**

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

We do not believe that the management agreement is in effect or that the Company, LBIH, or any other Company-affiliated entity owes any obligations under the management agreement. We intend to defend vigorously any proceedings, claims or demands that may be asserted.

We cannot at this time estimate the reasonably possible loss or range of loss that Nell, Access, or their affiliates may incur as a result of the lawsuit, and therefore we cannot at this time estimate the reasonably possible loss or range of loss that Nell, Access, or their affiliates may seek from LBIH by way of indemnity.

*Indemnification* We are parties to various indemnification arrangements, including arrangements entered into in connection with acquisitions, divestitures and the formation of joint ventures. Pursuant to these arrangements, we provide indemnification to and/or receive indemnification from other parties in connection with liabilities that may arise in connection with the transactions and in connection with activities prior to completion of the transactions. These indemnification arrangements typically include provisions pertaining to third party claims relating to environmental and tax matters and various types of litigation. As of June 30, 2011, we had not accrued any significant amounts for our indemnification obligations, and we are not aware of other circumstances that would likely lead to significant future indemnification obligations. We cannot determine the potential amount of future payments under the indemnification arrangements until events arise that would trigger a liability under the arrangements.

In addition, certain third parties entered into agreements with the Predecessor, LyondellBasell AF, to indemnify LyondellBasell AF for a significant portion of the potential obligations that could arise with respect to costs relating to contamination at various sites in Europe. These indemnity obligations are currently in dispute. We recognized a pretax charge of \$64 million as a change in estimate in the third quarter 2010 related to the dispute, which arose during that period.

As part of our technology licensing contracts, we give indemnifications to our licensees for liabilities arising from possible patent infringement claims with respect to proprietary licensed technology. Such indemnifications have a stated maximum amount and generally cover a period of five to ten years.

*Other* We have identified an agreement related to a former project in Kazakhstan under which a payment was made that raises compliance concerns under the U.S. Foreign Corrupt Practices Act (the "FCPA"). We have engaged outside counsel to investigate these activities, under the oversight of the Audit Committee of the Supervisory Board, and to evaluate internal controls and compliance policies and procedures. We made a voluntary disclosure of these matters to the U.S. Department of Justice and are cooperating fully with that agency. We cannot predict the ultimate outcome of these matters at this time since our investigations are ongoing. In this respect, we may not have conducted business in compliance with the FCPA and may not have had policies and procedures in place adequate to ensure compliance. Therefore, we cannot reasonably estimate a range of liability for any potential penalty resulting from these matters. Violations of these laws could result in criminal and civil liabilities and other forms of relief that could be material to us.

Certain of our non-U.S. subsidiaries conduct or have conducted business in countries subject to U.S. economic sanctions, including Iran. U.S. and European laws and regulations prohibit certain persons from engaging in business activities, in whole or in part, with sanctioned countries, organizations and individuals. We have made voluntary disclosure of these matters to the U.S. Treasury Department and intend to cooperate fully with that agency. The ultimate outcome of this matter cannot be predicted at this time because our investigations are ongoing. Therefore, we cannot reasonably estimate a range of liability for any potential penalty resulting from these matters. In addition, we have made the decision to cease all business with the government, entities and individuals in Iran, Syria and Sudan. We have notified our counterparties in these countries of our decision and may be subject to legal actions to enforce agreements with the counterparties. These business activities present a potential risk that could subject the Company to civil and criminal penalties as well as private legal proceedings that could be material to us.



**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We cannot predict the ultimate outcome of this matter at this time because our investigations and withdrawal activities are ongoing.

We and our joint ventures are, from time to time, defendants in lawsuits and other commercial disputes, some of which are not covered by insurance. Many of these suits make no specific claim for relief. Although final determination of any liability and resulting financial impact with respect to any such matters cannot be ascertained with any degree of certainty, we do not believe that any ultimate uninsured liability resulting from these matters will, individually or in the aggregate, have a material adverse effect on the financial position, liquidity or results of operations of LyondellBasell N.V.

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

**15. Stockholders Equity and Non-Controlling Interests**

*Dividend distribution* On May 5, 2011, shareholders approved the payment of a dividend of \$0.10 per ordinary share at the Annual General Meeting of Shareholders in Rotterdam, Netherlands. The dividend, totaling \$57 million, was paid May 26, 2011 to shareholders of record on May 5, 2011. On August 3, 2011, the Management Board of the Company recommended the payment of a dividend of \$0.20 per share. The Supervisory Board has authorized and directed the Management Board to take action necessary to pay the dividend. Subject to the Management Board's adoption of a resolution declaring the dividend, it is expected that the dividend will be paid on September 7, 2011 to shareholders of record as of August 17, 2011.

We are subject to restrictive covenants that limit our ability to pay cumulative dividends to the sum of a) the greater of (i) \$50 million per year and (ii) in general, 50 percent of net income for the period from March 31, 2012 until the end of the most recently completed fiscal quarter for which financial statements are available, plus b) dividends not to exceed the greater of (i) \$350 million and (ii) 1.75% of consolidated tangible assets at the time the dividend is paid.

*Ordinary shares* The changes in the outstanding amounts of ordinary shares issued and treasury shares were as follows:

**Ordinary shares issued:**

Balance at January 1, 2011	565,676,222
Share-based compensation	209,557
Warrants exercised	2,928,918
Balance at June 30, 2011	568,814,697

**Ordinary shares held as treasury shares:**

Balance at January 1, 2011	1,122,651
Warrants exercised	410,039
Share-based compensation	(209,013)
Balance at June 30, 2011	1,323,677

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Non-controlling Interests* Losses attributable to non-controlling interests consisted of the following components:

	<b>Successor</b>		<b>Predecessor</b>
	<b>Six months ended June 30, 2011</b>	<b>May 1 through June 30, 2010</b>	<b>January 1 through April 30, 2010</b>
<b>Millions of dollars</b>			
Non-controlling interests comprehensive income (loss):			
Net income (loss) attributable to non-controlling interests	\$ 7	\$ 9	\$ (53)
Fixed operating fees paid to Lyondell Chemical by the PO/SM II partners	(11)	(4)	(7)
Comprehensive loss attributable to non-controlling interests	\$ (4)	\$ 5	\$ (60)

**16. Per Share Data**

Basic earnings per share for the periods subsequent to April 30, 2010 are based upon the weighted average number of shares of common stock outstanding during the periods. Diluted earnings per share includes the effect of certain stock options. The Company has unvested restricted stock and restricted stock units that are considered participating securities for earnings per share. The outstanding warrants were anti-dilutive for the six months ended June 30, 2011.

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Earnings per share data and dividends declared per share of common stock were as follows:

<b>Millions of dollars</b>	<b>Three Months Ended June 30, 2011</b>	<b>Six Months Ended June 30, 2011</b>	<b>May 1 through June 30, 2010</b>
<b>Basic:</b>			
Net income	\$ 803	\$ 1,463	\$ 347
Less: net loss attributable to non-controlling interests	1	4	(5)
Net income attributable to LyondellBasell N.V.	804	1,467	342
Net income attributable to participating securities	(5)	(9)	(2)
Net income attributable to common stockholders	\$ 799	\$ 1,458	\$ 340
<b>Diluted:</b>			
Net income	\$ 803	\$ 1,463	\$ 347
Less: net loss attributable to non-controlling interests	1	4	(5)
Net income attributable to LyondellBasell N.V.	804	1,467	342
Net income attributable to participating securities	(5)	(9)	(2)
Effect of dilutive securities warrants	(6)		
Net income attributable to common stockholders	\$ 793	\$ 1,458	\$ 340
<b>Millions of shares</b>			
Basic weighted average common stock outstanding	566	566	564
<b>Effect of dilutive securities:</b>			
Warrants	6		
Stock options	3	3	
Dilutive potential shares	575	569	564
<b>Earnings per share:</b>			
Basic	\$ 1.41	\$ 2.58	\$ 0.60
Diluted	\$ 1.38	\$ 2.56	\$ 0.60
Anti-dilutive stock options, restricted stock, restricted stock units and warrants in millions		8.2	8.4
Dividends declared per share of common stock	\$ 0.10	\$ 0.10	\$



**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**

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

**17. Segment and Related Information**

We operate in five segments:

Olefins and Polyolefins Americas, primarily manufacturing and marketing of olefins, including ethylene and its co-products, primarily propylene, butadiene, and aromatics, which include benzene and toluene, as well as ethanol; and polyolefins, including polyethylene, comprising high density polyethylene ( HDPE ), low density polyethylene ( LDPE ) and linear low density polyethylene ( LLDPE ), and polypropylene; and *Catalloy* process resins;

Olefins and Polyolefins Europe, Asia, International ( O&P EAI ), primarily manufacturing and marketing of olefins, including ethylene and its co-products, primarily propylene and butadiene; polyolefins, including polyethylene, comprising HDPE, LDPE, and polypropylene; polypropylene-based compounds, materials and alloys ( PP Compounds ), *Catalloy* process resins and polybutene-1 polymers;

Intermediates and Derivatives ( I&D ), primarily manufacturing and marketing of propylene oxide ( PO ); PO co-products, including styrene and the TBA intermediates tertiary butyl alcohol ( TBA ), isobutylene and tertiary butyl hydroperoxide; PO derivatives, including propylene glycol, propylene glycol ethers and butanediol; ethylene derivatives, including ethylene glycol, ethylene oxide ( EO ), and other EO derivatives; acetyls, including vinyl acetate monomer, acetic acid and methanol and fragrance and flavor chemicals;

Refining and Oxyfuels, primarily manufacturing and marketing of refined petroleum products, including gasoline, ultra-low sulfur diesel, jet fuel, lubricants ( lube oils ), alkylate, and oxygenated fuels, or oxyfuels, such as methyl tertiary butyl ether ( MTBE ) and ethyl tertiary butyl ether ( ETBE ); and

Technology, primarily licensing of polyolefin process technologies and supply of polyolefin catalysts and advanced catalysts.

**Table of Contents****LYONDELLBASELL INDUSTRIES N.V.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Summarized financial information concerning reportable segments is shown in the following table for the periods presented:

Millions of dollars Three Months Ended	Successor						Total
	Olefins and Polyolefins	Olefins and Polyolefins -Europe, Asia &	Intermediates & Derivatives	Refining and Oxyfuels	Technology	Other	
<b>June 30, 2011</b>	-Americas	International					
Sales and other operating revenues:							
Customers	\$ 2,825	\$ 4,116	\$ 1,769	\$ 5,223	\$ 103	\$ 6	\$ 14,042
Intersegment	1,185	148	8	610	23	(1,974)	
	4,010	4,264	1,777	5,833	126	(1,968)	14,042
Operating income (loss)	509	207	235	296	23	(5)	1,265
Income from equity investments	8	61	4				73

Millions of dollars Six Months Ended	Successor						Total
	Olefins and Polyolefins	Olefins and Polyolefins -Europe, Asia &	Intermediates & Derivatives	Refining and Oxyfuels	Technology	Other	
<b>June 30, 2011</b>	-Americas	International					
Sales and other operating revenues:							
Customers	\$ 5,260	\$ 7,969	\$ 3,440	\$ 9,395	\$ 212	\$ 18	\$ 26,294
Intersegment	2,322	239	29	1,158	53	(3,801)	
	7,582	8,208	3,469	10,553	265	(3,783)	26,294
Operating income (loss)	930	386	469	460	89	(4)	2,330
Income from equity investments	11	112	8				131

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Millions of dollars May 1 through	Successor						
	Olefins and Polyolefins	Olefins and Polyolefins -Europe, Asia & International	Intermediates & Derivatives	Refining and Oxyfuels	Technology	Other	Total
<b>June 30, 2010</b>	-Americas	International	Derivatives	Oxyfuels	Technology	Other	Total
Sales and other operating revenues:							
Customers	\$ 1,500	\$ 2,098	\$ 940	\$ 2,178	\$ 52	\$ 4	\$ 6,772
Intersegment	504	42		225	23	(794)	
	2,004	2,140	940	2,403	75	(790)	6,772
Operating income	149	114	109	14	23	13	422
Income (loss) from equity investments	3	25	(1)				27

Millions of dollars April 1 through	Predecessor						
	Olefins and Polyolefins	Olefins and Polyolefins -Europe, Asia & International	Intermediates & Derivatives	Refining and Oxyfuels	Technology	Other	Total
<b>April 30, 2010</b>	-Americas	International	Derivatives	Oxyfuels	Technology	Other	Total
Sales and other operating revenues:							
Customers	\$ 885	\$ 1,059	\$ 504	\$ 1,232	\$ 22	\$ 10	\$ 3,712
Intersegment	278	7		101	13	(399)	
	1,163	1,066	504	1,333	35	(389)	3,712
Segment operating income	175	44	34	29	8	18	308
Current cost adjustment							15
Operating income							323
Income from equity investments	1	28					29

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Millions of dollars January 1 through	Predecessor						Total
	Olefins and Polyolefins	Olefins and Polyolefins -Europe, Asia & International	Intermediates & Derivatives	Refining and Oxyfuels	Technology	Other	
<b>April 30, 2010</b>							
Sales and other operating revenues:							
Customers	\$ 3,220	\$ 4,018	\$ 1,820	\$ 4,293	\$ 104	\$ 12	\$ 13,467
Intersegment	963	87		455	41	(1,546)	
	4,183	4,105	1,820	4,748	145	(1,534)	13,467
Segment operating income (loss)	320	115	157	(99)	39	(41)	491
Current cost adjustment							199
Operating income							690
Income (loss) from equity investments	5	80	(1)				84
Sales and other operating revenues and operating income (loss) in the Other column above include elimination of intersegment transactions.							

**18. Supplemental Guarantor Information**

LyondellBasell N.V. has jointly and severally, and fully and unconditionally guaranteed the Senior Secured Notes issued by Lyondell Chemical. Subject to certain exceptions, each of our existing and future wholly owned U.S. restricted subsidiaries (other than Lyondell Chemical, as issuer), other than any such subsidiary that is a subsidiary of a non-U.S. subsidiary (the Subsidiary Guarantors and, together with LyondellBasell N.V., the Guarantors) has also guaranteed the Senior Secured Notes. Each Subsidiary Guarantor is 100% owned by LyondellBasell N.V.

There are no significant restrictions that would impede the Guarantors from obtaining funds by dividend or loan from their subsidiaries. Subsidiaries are generally prohibited from entering into arrangements that would limit their ability to make dividends to or enter into loans with the Guarantors.

As a result of these guarantee arrangements, we are required to present the following condensed consolidating financial information. In this note, LCC refers to Lyondell Chemical Company without its subsidiaries.



**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**BALANCE SHEET**  
**As of June 30, 2011**

Millions of dollars	LyondellBasell		Successor			Consolidated
	N.V.	LCC	Guarantors	Non-Guarantors	Eliminations	N.V.
Cash and cash equivalents	\$	\$ 17	\$ 2,149	\$ 2,521	\$	\$ 4,687
Restricted cash			197	53		250
Accounts receivable		352	1,592	2,957		4,901
Accounts receivable affiliates	657	2,907	3,078	1,378	(8,020)	
Inventories		600	2,592	2,385		5,577
Notes receivable affiliates	91	3	440	42	(576)	
Other current assets	2	309	160	677	(50)	1,098
Property, plant and equipment, net		375	2,945	4,249		7,569
Investments in subsidiaries	14,105	12,197	5,170		(31,472)	
Other investments and long-term receivables				2,235	(63)	2,172
Notes receivable affiliates				500	(500)	
Other assets, net		756	1,135	732	(402)	2,221
<b>Total assets</b>	<b>\$ 14,855</b>	<b>\$ 17,516</b>	<b>\$ 19,458</b>	<b>\$ 17,729</b>	<b>\$ (41,083)</b>	<b>\$ 28,475</b>
Current maturities of long-term debt	\$	\$	\$	\$ 2	\$	\$ 2
Short-term debt			11	39		50
Notes payable affiliates	13	490	8	84	(595)	
Accounts payable		233	1,292	2,474		3,999
Accounts payable affiliates	531	4,661	1,764	1,045	(8,001)	
Other current liabilities	197	368	596	819	(52)	1,928
Long-term debt		5,507	3	303		5,813
Notes payable affiliates	535	3,758	9,956		(14,249)	
Other liabilities		265	700	1,145		2,110
Deferred income taxes			800	548	(401)	947
Company share of stockholders equity	13,579	2,234	4,328	11,223	(17,785)	13,579
Non-controlling interests				47		47
<b>Total liabilities and stockholders equity</b>	<b>\$ 14,855</b>	<b>\$ 17,516</b>	<b>\$ 19,458</b>	<b>\$ 17,729</b>	<b>\$ (41,083)</b>	<b>\$ 28,475</b>



**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**BALANCE SHEET**  
**As of December 31, 2010**

Millions of dollars	LyondellBasell		Successor			Consolidated
	N.V.	LCC	Guarantors	Non-Guarantors	Eliminations	N.V.
Cash and cash equivalents	\$	\$ 25	\$ 2,086	\$ 2,111	\$	\$ 4,222
Restricted cash				11		11
Accounts receivable		313	1,108	2,326		3,747
Accounts receivable affiliates	636	2,727	2,593	1,444	(7,400)	
Inventories		489	2,560	1,775		4,824
Notes receivable affiliates	98	444	59	110	(711)	
Other current assets		287	133	601	(46)	975
Property, plant and equipment, net		383	2,746	4,061		7,190
Investments in subsidiaries	12,070	10,489	5,122		(27,681)	
Other investments and long-term receivables		2	4	2,174	(75)	2,105
Notes receivable affiliates				500	(500)	
Other assets, net	13	1,054	1,170	688	(697)	2,228
<b>Total assets</b>	<b>\$ 12,817</b>	<b>\$ 16,213</b>	<b>\$ 17,581</b>	<b>\$ 15,801</b>	<b>\$ (37,110)</b>	<b>\$ 25,302</b>
Current maturities of long-term debt	\$	\$	\$	\$ 4	\$	\$ 4
Short-term debt			12	30		42
Notes payable affiliates	1	74	498	178	(751)	
Accounts payable		160	741	1,860		2,761
Accounts payable affiliates	530	4,363	1,504	950	(7,347)	
Other current liabilities	216	418	674	764	(48)	2,024
Long-term debt		5,722	3	311		6,036
Notes payable affiliates	535	3,672	9,124	1	(13,332)	
Other liabilities		413	699	1,071		2,183
Deferred income taxes			832	522	(698)	656
Company share of stockholders equity	11,535	1,391	3,494	10,049	(14,934)	11,535
Non-controlling interests				61		61
<b>Total liabilities and stockholders equity</b>	<b>\$ 12,817</b>	<b>\$ 16,213</b>	<b>\$ 17,581</b>	<b>\$ 15,801</b>	<b>\$ (37,110)</b>	<b>\$ 25,302</b>



**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**Three months ended June 30, 2011**

Millions of dollars	Successor					Consolidated LyondellBasell N.V.
	LyondellBasell N.V.	LCC	Guarantors	Non- Guarantors	Eliminations	
Sales and other operating revenues	\$	\$ 1,230	\$ 7,691	\$ 6,326	\$ (1,205)	\$ 14,042
Cost of sales	2	1,135	6,766	5,776	(1,205)	12,474
Selling, general and administrative expenses	2	85	11	149		247
Research and development expenses		16	7	33		56
Operating income (loss)	(4)	(6)	907	368		1,265
Interest income (expense), net	7	(178)	4	(1)	4	(164)
Other income (expense), net	12	(7)	37	7	(4)	45
Income (loss) from equity investments	829	592	(112)	73	(1,309)	73
Reorganization items		(19)	(8)	(1)		(28)
(Provision for) benefit from income taxes	(40)	84	(354)	(78)		(388)
Net income	804	466	474	368	(1,309)	803
Less: net loss attributable to non-controlling interests				1		1
Net income attributable to the Company	\$ 804	\$ 466	\$ 474	\$ 369	\$ (1,309)	\$ 804

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**Six Months Ended June 30, 2011**

Millions of dollars	Successor					Consolidated LyondellBasell N.V.
	LyondellBasell N.V.	LCC	Guarantors	Non- Guarantors	Eliminations	
Sales and other operating revenues	\$	\$ 2,438	\$ 13,770	\$ 12,298	\$ (2,212)	\$ 26,294
Cost of sales	2	2,249	12,085	11,293	(2,212)	23,417
Selling, general and administrative expenses	5	162	29	262		458
Research and development expenses		16	14	59		89
Operating income (loss)	(7)	11	1,642	684		2,330
Interest income (expense), net	15	(344)	8	(2)	4	(319)
Other income (expense), net	(42)	(23)	31	40	(4)	2
Income (loss) from equity investments	1,517	1,070	(192)	131	(2,395)	131
Reorganization items (Provision for) benefit from income taxes	(16)	141	(618)	(158)		(651)
Net income	1,467	835	863	693	(2,395)	1,463
Less: net loss attributable to non-controlling interests				4		4
Net income attributable to the Company	\$ 1,467	\$ 835	\$ 863	\$ 697	\$ (2,395)	\$ 1,467

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**May 1 through June 30, 2010**

Millions of dollars	Predecessor					Consolidated LyondellBasell AF
	LyondellBasell AF	LCC	Guarantors	Non- Guarantors	Eliminations	
Sales and other operating revenues	\$	\$ 687	\$ 3,420	\$ 3,388	\$ (723)	\$ 6,772
Cost of sales	7	704	3,161	3,049	(723)	6,198
Selling, general and administrative expenses	(2)	24	40	67		129
Research and development expenses		3	4	16		23
Operating income (loss)	(5)	(44)	215	256		422
Interest income (expense), net	9	(121)	(3)	(5)		(120)
Other income (expense), net	16	(9)		47		54
Income (loss) from equity investments	325	161	(94)	28	(393)	27
Reorganization items		(5)		(3)		(8)
(Provision for) benefit from income taxes		52	(75)	(5)		(28)
Net income (loss)	345	34	43	318	(393)	347
Less: net income attributable to non-controlling interests	(3)			(2)		(5)
Net income attributable to the Company	\$ 342	\$ 34	\$ 43	\$ 316	\$ (393)	\$ 342

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**April 1 through April 30, 2010**

Millions of dollars	Predecessor					Consolidated LyondellBasell AF
	LyondellBasell AF	LCC	Guarantors	Non- Guarantors	Eliminations	
Sales and other operating revenues	\$	\$ 387	\$ 2,001	\$ 1,671	\$ (347)	\$ 3,712
Cost of sales	(25)	373	1,760	1,523	(347)	3,284
Selling, general and administrative expenses	2	30	26	33		91
Research and development expenses		(1)	4	11		14
Operating income (loss)	23	(15)	211	104		323
Interest income (expense), net	8	(276)	1	(32)		(299)
Other expense, net	(7)	(7)		(91)	40	(65)
Income (loss) from equity investments	7,488	5,101	2,702	165	(15,427)	29
Reorganization items	1,042	2,827	3,019	293		7,181
(Provision for) benefit from income taxes		(192)	1,504	15		1,327
Net income (loss)	8,554	7,438	7,437	454	(15,387)	8,496
Less: net loss attributable to non-controlling interests				58		58
Net income attributable to the Company	\$ 8,554	\$ 7,438	\$ 7,437	\$ 512	\$ (15,387)	\$ 8,554



**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**For the four months ended April 30, 2010**

Millions of dollars	Predecessor					Consolidated LyondellBasell AF
	LyondellBasell AF	LCC	Guarantors	Non- Guarantors	Eliminations	
Sales and other operating revenues	\$	\$ 1,355	\$ 7,102	\$ 6,238	\$ (1,228)	\$ 13,467
Cost of sales	(25)	1,327	6,605	5,735	(1,228)	12,414
Selling, general and administrative expenses	9	42	95	162		308
Research and development expenses		3	12	40		55
Operating income (loss)	16	(17)	390	301		690
Interest income (expense), net	22	(618)	2	(114)		(708)
Other income (expense), net	(44)	18	4	(243)		(265)
Income from equity investments	7,452	5,367	2,532	93	(15,360)	84
Reorganization items	1,118	2,673	3,029	568		7,388
(Provision for) benefit from income taxes		(34)	1,432	(83)		1,315
Net income	8,564	7,389	7,389	522	(15,360)	8,504
Less: net loss attributable to non-controlling interests				60		60
Net income attributable to the Company	\$ 8,564	\$ 7,389	\$ 7,389	\$ 582	\$ (15,360)	\$ 8,564

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CASH FLOWS**  
**Six Months Ended June 30, 2011**

Millions of dollars	LyondellBasell		Successor			Consolidated LyondellBasell N.V.
	N.V.	LCC	Guarantors	Non- Guarantors	Eliminations	
Net cash provided by (used in) operating activities	\$ 18	\$ (481)	\$ 1,367	\$ 343	\$	\$ 1,247
Expenditures for property, plant and equipment		(13)	(353)	(116)		(482)
Proceeds from disposal of assets		5	58	7		70
Restricted cash			(197)	(42)		(239)
Loans to affiliates		(181)	(812)		993	
Net cash provided by (used in) investing activities		(189)	(1,304)	(151)	993	(651)
Shares issued upon exercise of warrants	37					37
Dividends paid	(57)					(57)
Repayments of long-term debt		(260)				(260)
Proceeds from notes payable to affiliates		941		52	(993)	
Payments of debt issuance costs		(15)				(15)
Other, net	2	(4)		(2)		(4)
Net cash provided by (used in) financing activities	(18)	662		50	(993)	(299)
Effect of exchange rate changes on cash				168		168
Increase (decrease) in cash and cash equivalents		(8)	63	410		465
Cash and cash equivalents at beginning of period		25	2,086	2,111		4,222
Cash and cash equivalents at end of period	\$	\$ 17	\$ 2,149	\$ 2,521	\$	\$ 4,687



**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CASH FLOWS**  
**May 1 through June 30, 2010**

Millions of dollars	LyondellBasell		Successor			Consolidated LyondellBasell N.V.
	N.V.	LCC	Guarantors	Non- Guarantors	Eliminations	
Net cash provided by (used in) operating activities	\$	\$ (285)	\$ 864	\$ 526	\$	\$ 1,105
Expenditures for property, plant and equipment		(1)	(71)	(41)		(113)
Proceeds from disposal of assets				4		4
Short-term investments						
Restricted cash				(1)		(1)
Loans to affiliates		(371)	(3)		374	
Net cash used in investing activities		(372)	(74)	(38)	374	(110)
Net repayments on revolving credit facilities				130		130
Payments of debt issuance costs		(2)				(2)
Proceeds from notes payable to affiliates		26	371	(23)	(374)	
Other, net		14	(9)			5
Net cash provided by financing activities		38	362	107	(374)	133
Effect of exchange rate changes on cash				(86)		(86)
Increase (decrease) in cash and cash equivalents		(619)	1,152	509		1,042
Cash and cash equivalents at beginning of period		642	603	1,466		2,711
Cash and cash equivalents at end of period	\$	\$ 23	\$ 1,755	\$ 1,975	\$	\$ 3,753

**Table of Contents**

**LYONDELLBASELL INDUSTRIES N.V.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CASH FLOWS**  
**For the four months ended April 30, 2010**

Millions of dollars	Predecessor					Consolidated LyondellBasell AF
	LyondellBasell AF	LCC	Guarantors	Non- Guarantors	Eliminations	
Net cash provided by (used in) operating activities	\$ (107)	\$ (590)	\$ (182)	\$ (46)	\$	\$ (925)
Expenditures for property, plant and equipment		(3)	(96)	(127)		(226)
Proceeds from disposal of assets			1			1
Short-term investments			10	2		12
Restricted cash				(11)		(11)
Contributions and advances to affiliates	(2,550)				2,550	
Loans to affiliates	(57)	543	375		(861)	
Net cash provided by (used in) investing activities	(2,607)	540	290	(136)	1,689	(224)
Issuance of class B ordinary shares	2,800					2,800
Repayments of debtor-in-possession term loan facility		(2,167)		(3)		(2,170)
Net repayments of debtor-in-possession revolving credit facility		(325)				(325)
Net borrowings on revolving credit facilities				38		38
Proceeds from short-term debt				8		8
Repayments of short-term debt				(14)		(14)
Issuance of long-term debt		3,242				3,242
Repayments of long-term debt				(9)		(9)
Payments of debt issuance costs	(86)	(154)		(13)		(253)
Contributions from owners			364	(1,225)	(2,550)	861

Proceeds from notes payable to affiliates						
Other, net			2	(4)		(2)
Net cash provided by financing activities	2,714	596	366	1,328	(1,689)	3,315
Effect of exchange rate changes on cash				(13)		(13)
Increase in cash and cash equivalents		546	474	1,133		2,153
Cash and cash equivalents at beginning of period		96	129	333		558
Cash and cash equivalents at end of period	\$	\$ 642	\$ 603	\$ 1,466	\$	\$ 2,711

**Table of Contents**

**Item 2.**  
**MANAGEMENT'S**  
**DISCUSSION**  
**AND ANALYSIS**  
**OF FINANCIAL**  
**CONDITION AND**  
**RESULTS OF**  
**OPERATIONS**  
**GENERAL**

This discussion should be read in conjunction with the information contained in our Consolidated Financial Statements, and the notes thereto contained elsewhere in this report. When we use the terms we, us, our or similar words in this discussion, unless the context otherwise requires, we are referring to LyondellBasell Industries N.V. and its consolidated subsidiaries. We also refer to the Company as LyondellBasell N.V., the Successor Company and the Successor.

In addition to comparisons of current operating results with the same period in the prior year, we have included, as additional disclosure, certain trailing quarter comparisons of second quarter 2011 operating results to first quarter 2011 operating results. Our businesses are highly cyclical, in addition to experiencing some less significant seasonal effects. Trailing quarter comparisons may offer important insight into current business direction.

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**

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 cyclicity and volatility seen in the chemicals and refining industries generally. LyondellBasell N.V., the successor holding company, owns and operates, directly and indirectly, substantially the same business owned and operated by LyondellBasell AF prior to the Company's emergence from bankruptcy. For accounting purposes, the operations of LyondellBasell AF are deemed to have ceased on April 30, 2010 and LyondellBasell N.V. is deemed to have begun operations on that date. Effective May 1, 2010, we adopted fresh-start accounting. References in the following discussions to the Company for periods prior to April 30, 2010, the Emergence Date, are to the Predecessor Company and, for periods after the Emergence Date, to the Successor Company.

*Foreign Currency Translations of Non-U.S. Denominated Financial Statements* In countries outside of the United States, we generally generate revenues and incur operating expenses denominated in local currencies. The predominant local currency of our operations outside of the United States is the Euro. The gains and losses that result from the process of translating foreign functional currency financial statements to U.S. dollars are included in Accumulated other comprehensive income (loss) in Stockholders' equity. These translation adjustments may be material in any given period, based on the fluctuations of the Euro relative to the U.S. Dollar. In the quarters ended June 30, 2011 and March 31, 2011, increases in the value of the U.S. dollar relative to the Euro resulted in gains of \$124 million and \$376 million, respectively. Such gains, which are reflected in the \$500 million gain in

To ensure a proper analysis of the quarter over quarter results, the effects of fresh-start accounting on the Successor period are specifically addressed throughout this discussion. The primary impacts of our reorganization pursuant to the Plan of Reorganization and the adoption of fresh-start accounting on our results of operations are as follows:

*Tax Impact of Reorganization* The application of the tax provisions of the Internal Revenue Code to the Plan of Reorganization resulted in the reduction or elimination of the majority of our tax attributes that otherwise would have carried forward into 2011 and later years. As a result, we do not expect to retain any U.S. net operating loss carryforwards, alternative minimum tax credits or capital loss carryforwards. In addition, we expect that most, if not all, of our tax basis in depreciable assets will be eliminated. Accordingly, it is expected that our liability for U.S.

income taxes in future periods will reflect these adjustments and we estimate our cash tax liabilities for the years following 2010 will be significantly higher than in 2009 or 2010. This situation may be somewhat postponed by the temporary bonus depreciation provisions contained in the Job Creation Act of 2010, which allows current year expensing for certain qualified acquisitions. As a result of certain prior year limitations on the deductibility of our interest expense in the U.S. we retained approximately \$2,500 million of interest carryforwards which are available to offset future taxable income, subject to certain limitations.

*Inventory* We adopted the last in, first out ( LIFO ) method of accounting for inventory upon implementation of fresh-start accounting. Prior to the emergence from bankruptcy, LyondellBasell AF used both the first in, first out



**Table of Contents**

( FIFO ) and LIFO methods of accounting to determine inventory cost. For purposes of evaluating segment results, management reviewed operating results for LyondellBasell AF determined using current cost, which approximates results using the LIFO method of accounting for inventory. Subsequent to the Emergence Date, our operating results are reviewed using the LIFO method of accounting for inventory. While determining the impact of the adoption of LIFO on predecessor periods is not practicable, we believe that the current cost method used by the Predecessor for segment reporting is similar to LIFO.

*Depreciation and amortization expense* Depreciation and amortization expense is lower in the Successor period as a result of our revaluation of assets for fresh-start accounting. Depreciation and amortization as reported for all periods presented is as follows:

	<b>Three Months Ended June 30, 2011</b>	<b>Successor Six Months Ended June 30, 2011</b>	<b>May 1 through June 30, 2010</b>	<b>Predecessor April 1 through April 30, 2010</b>	<b>January 1 through April 30, 2010</b>
<b>Millions of dollars</b>					
<b>Cost of sales:</b>					
Depreciation	\$ 179	\$ 339	\$ 93	\$ 116	\$ 464
Amortization	35	79	33	18	75
<b>Research and development expenses:</b>					
Depreciation	4	9	2	3	8
<b>Selling, general and administrative expenses:</b>					
Depreciation	6	12	1	4	18
	\$ 224	\$ 439	\$ 129	\$ 141	\$ 565

*Interest expense* Lower interest expense in the Successor period was largely driven by the discharge or repayment of debt, upon which interest was accruing during the bankruptcy, through the Company's reorganization on April 30, 2010 pursuant to the Plan of Reorganization, partially offset by interest expense on the new debt incurred as part of the emergence from bankruptcy.

	<b>Three Months Ended June 30, 2011</b>	<b>Successor Six Months Ended June 30, 2011</b>	<b>May 1 through June 30, 2010</b>	<b>Predecessor April 1 through April 30, 2010</b>	<b>January 1 through April 30, 2010</b>
<b>Millions of dollars</b>					
Interest expense	\$ 177	\$ 340	\$ 132	\$ 302	\$ 713

**Table of Contents**

Accumulated other comprehensive income on the consolidated statement of stockholders' equity at June 30, 2011, represent increases to comprehensive income for the respective periods.

**Overview of Results of Operations**

Global market conditions in the second quarter and first six months of 2011 improved from those experienced in the same periods in 2010 as general economic activities and demand in the durable goods sector, particularly the automotive markets, were higher. As a result, demand and operating rates were higher in 2011 than in 2010.

Excluding the impacts of fresh-start accounting, operating results in the second quarter and first six months 2011 generally reflected higher product margins compared to the same periods in 2010. The O&P-Americas business segment benefited from higher product margins driven by lower natural gas liquid prices relative to the price of crude oil. Higher operating results in the O&P-EAI and the I&D businesses were primarily a reflection of higher product margins and higher sales volumes due to improvement in the global economy and in the durable goods markets. The Refining and Oxyfuels business segment results reflected the benefit of higher refining margins at the Houston refinery. Revenues associated with licenses granted in prior periods contributed to higher results in the Technology segment.

Results of operations for the Successor and Predecessor periods discussed in these Results of Operations are presented in the table below.

	<b>Successor</b>		<b>Predecessor</b>		
	<b>Three Months Ended June 30, 2011</b>	<b>Six Months Ended June 30, 2011</b>	<b>May 1 through June 30, 2010</b>	<b>April 1 through April 30, 2010</b>	<b>January 1 through April 30, 2010</b>
<b>Millions of dollars</b>					
Sales and other operating revenues	\$ 14,042	\$ 26,294	\$ 6,772	\$ 3,712	\$ 13,467
Cost of sales	12,474	23,417	6,198	3,284	12,414
Selling, general and administrative expenses	247	458	129	91	308
Research and development expenses	56	89	23	14	55
Operating income	1,265	2,330	422	323	690
Interest expense	(177)	(340)	(132)	(302)	(713)
Interest income	13	21	12	3	5
Other income (expense), net	45	2	54	(65)	(265)
Income from equity investments	73	131	27	29	84
Reorganization items	(28)	(30)	(8)	7,181	7,388
Provision for (benefit from) income taxes	388	651	28	(1,327)	(1,315)
Net income	\$ 803	\$ 1,463	\$ 347	\$ 8,496	\$ 8,504

**RESULTS OF OPERATIONS**

**Revenues** Revenues increased by \$3,558 million, or 34%, in the second quarter 2011 compared to the second quarter 2010 and \$6,055 million, or 30%, in the first six months of 2011 compared to the first six months of 2010. Higher average product prices were responsible for revenue increases of 19% and 17%, respectively, in the second quarter and first six months of 2011, while higher sales volumes added the remaining 15% and 13%, respectively, compared to the same periods in 2010. Average product sales prices were higher across most products and sales volumes increased primarily due to higher refining volumes and, to a lesser extent, higher sales volumes for European olefins

and styrene.

**Table of Contents**

**Cost of Sales** The \$2,992 million and \$4,805 million increases in cost of sales for the second quarter and first six months was primarily due to higher raw material costs, which reflect the effects of higher prices for crude oil and other hydrocarbons compared to the second quarter and first six months of 2010. Depreciation and amortization expense was lower by \$46 million and \$247 million, respectively, in the second quarter and first six months of 2011 compared to the combined second quarter and first six months of 2010, primarily due to the \$7,474 million write-down of Property, plant and equipment associated with the April 2010 revaluation of our assets in fresh-start accounting. The 2010 Successor period included a \$333 million non-cash charge to adjust the value of inventory at June 30, 2010 to market value, which was lower than the April 30, 2010 value applied during fresh-start accounting.

**SG&A Expenses** Selling, general and administrative ( SG&A ) expenses in the second quarter and first six months of 2011 were higher by \$27 million and \$21 million, respectively, compared to the second quarter and first six months of 2010. The increases reflect charges associated with activities to reorganize certain functional organizations, partially offset by lower employee-related expenses as a result of a lower headcount.

**R&D Expenses** Research and development ( R&D ) expenses in the second quarter and first six months of 2011 increased \$19 million and \$11 million, respectively, primarily due to \$16 million of charges related to employee severance and asset retirement obligations associated with an R&D facility that is being relocated.

**Operating Income** The increases in operating income in the second quarter and first six months of 2011, compared to the second quarter and first six months of 2010, are primarily due to higher product margins across most of our products, and the effect of higher refining and product sales volumes. Operating results in the second quarter and first six months of 2011 and the Successor period in 2010 benefited from lower depreciation and amortization expense of \$46 million, \$255 million and \$209 million, respectively, primarily due to the \$7,474 million write-down of Property, plant, and equipment associated with the revaluation of our assets in fresh-start accounting in April 2010. Results in the 2010 Successor period included a \$333 million non-cash charge to adjust inventory as described above. Operating results for each of our business segments are reviewed further in the Segment Analysis section below.

**Interest Expense** Interest expense was \$257 million and \$505 million lower in the second quarter and first six months 2011 compared to the same periods in 2010, primarily due to the repayment or discharge of higher cost debt on the Emergence Date in accordance with the Plan of Reorganization, upon which interest had been accruing during the bankruptcy, and the repayment of \$1,486 million of debt since the beginning of the fourth quarter 2010.

**Other Income (Expense), net** Other income, net, in the second quarter and first six months of 2011 included a \$41 million gain on the sale of surplus precious metals and the fair value adjustment of the warrants to purchase our shares, which reflected a \$6 million benefit in the second quarter 2011 and a negative effect of \$59 million in the first six months of 2011. The first six months of 2011 also benefited from \$7 million of foreign exchange gains. Other expense, net, in the second quarter and first six months of 2010 included foreign exchange losses of \$14 million and \$218 million, respectively. The foreign exchange losses for the first six months of 2010 are primarily related to the revaluation of third party debt of certain of our subsidiaries due to a decrease in the foreign exchange rates in effect at June 30, 2010 compared to December 31, 2009. Such debt was denominated in currencies other than the functional currencies of these subsidiaries and was refinanced upon emergence from bankruptcy.

**Reorganization Items** The Company had reorganization items expense totaling \$28 million and \$30 million in the second quarter and first six months of 2011, respectively, and income from reorganization items of \$7,173 million and \$7,380 million in the second quarter and first six months of 2010. Income from reorganization items in the 2010 periods included gains totaling \$13,617 million related to settlement of liabilities subject to compromise, deconsolidation of entities upon emergence, adjustments related to rejected contracts, and a reduction of environmental remediation liabilities. These gains were partially offset by a charge of \$6,278 million related to the changes in net assets resulting from the application of fresh-start accounting and by several one-time emergence costs, including the success and other fees earned by certain professionals upon the Company's emergence from bankruptcy, damages related to the rejection of executory contracts and plant closure costs.

**Table of Contents**

**Income Tax** Our effective income tax rate for the first six months of 2011 was 30.8% resulting in tax expense of \$651 million on pretax income of \$2,114 million. The 2011 effective income tax rate was lower than the U.S. statutory 35% rate primarily due to the effect of pretax income in countries with lower statutory tax rates and tax deductible foreign currency losses which were partially offset by the non-deductible expenses related to stock warrants. In the two months Successor period ended June 30, 2010, we recorded a tax provision of \$28 million, representing an effective tax rate of 7.5% on pre-tax income of \$375 million. In the four months ended April 30, 2010, the Predecessor recorded a tax benefit of \$1,315 million, representing a negative effective tax rate of 18.3% on pretax income of \$7,189 million. The provision for the 2010 Successor period differs from the statutory 35% rate primarily due to the fact that in several countries the Company generated either income with no tax expense or losses where no tax benefit was recorded due to valuation allowances on our deferred tax assets in those countries.

**Net Income** The following table summarizes the major components contributing to net income:

	Successor			Predecessor	
	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011	May 1 through June 30, 2010	April 1 through April 30, 2010	January 1 through April 30, 2010
<b>Millions of dollars</b>					
Operating income	\$ 1,265	\$ 2,330	\$ 422	\$ 323	\$ 690
Interest expense, net	(164)	(319)	(120)	(299)	(708)
Other income (expense), net	45	2	54	(65)	(265)
Income from equity investments	73	131	27	29	84
Reorganization items	(28)	(30)	(8)	7,181	7,388
Provision for (benefit from) income taxes	388	651	28	(1,327)	(1,315)
Net income	\$ 803	\$ 1,463	\$ 347	\$ 8,496	\$ 8,504

**Second Quarter 2011 versus First Quarter 2011** Net income was \$803 million in the second quarter 2011 compared to \$660 million in the first quarter 2011. Net income in the first quarter 2011 reflected a net pretax charge of \$59 million related to the fair value adjustment of our outstanding warrants, partially offset by a \$34 million pretax insurance recovery associated with misappropriation of assets. The second quarter 2011 reflected pretax charges totaling \$102 million, including \$61 million related to corporate restructurings, \$28 million of reorganization items, \$16 million of environmental charges and \$12 million related to the early repayment of debt. These charges were partially offset by pretax benefits totaling \$47 million, including a \$41 million benefit from the sale of surplus precious metals. Apart from these items, net income in the second quarter 2011 reflected improvements in operating results for most of our business segments. These net benefits were partially offset by lower net operating income for the technology business segment and a higher provision for income taxes in the second quarter 2011.

#### Segment Analysis

Our operations are primarily in five reportable segments: O&P Americas; O&P EAI; I&D; Refining and Oxyfuels; and Technology. These operations comprise substantially the same businesses owned and operated by LyondellBasell AF prior to the Company's emergence from bankruptcy. However, for accounting purposes, the operations of LyondellBasell AF are deemed to have ceased on April 30, 2010 and LyondellBasell N.V. is deemed to have begun operations on that date. The results of operations for the Successor are not comparable to the Predecessor due to adjustments made under fresh-start accounting as described in Overview. The impact of these items is addressed in the discussion of each segment's results below.



**Table of Contents**

The following tables reflect selected financial information for our reportable segments. Operating income (loss) for segment reporting is on a LIFO basis for the Successor and on a current cost basis for the Predecessor.

	<b>Three</b>	<b>Successor</b>	<b>Predecessor</b>		
	<b>Months</b>	<b>Six</b>	<b>May 1</b>	<b>April</b>	<b>January</b>
	<b>Ended</b>	<b>Months</b>	<b>through</b>	<b>1</b>	<b>1</b>
	<b>June</b>	<b>Ended</b>	<b>June 30,</b>	<b>through</b>	<b>through</b>
	<b>30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>April</b>	<b>April 30,</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>30,</b>	<b>2010</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
<b>Millions of dollars</b>					
<b>Sales and other operating revenues:</b>					
O&P Americas segment	\$ 4,010	\$ 7,582	\$ 2,004	\$ 1,163	\$ 4,183
O&P EAI segment	4,264	8,208	2,140	1,066	4,105
I&D segment	1,777	3,469	940	504	1,820
Refining and Oxyfuels segment	5,833	10,553	2,403	1,333	4,748
Technology segment	126	265	75	35	145
Other, including intersegment eliminations	(1,968)	(3,783)	(790)	(389)	(1,534)
<b>Total</b>	<b>\$ 14,042</b>	<b>\$ 26,294</b>	<b>\$ 6,772</b>	<b>\$ 3,712</b>	<b>\$ 13,467</b>
<b>Operating income (loss):</b>					
O&P Americas segment	\$ 509	\$ 930	\$ 149	\$ 175	\$ 320
O&P EAI segment	207	386	114	44	115
I&D segment	235	469	109	34	157
Refining and Oxyfuels segment	296	460	14	29	(99)
Technology segment	23	89	23	8	39
Other, including intersegment eliminations	(5)	(4)	13	18	(41)
Current cost adjustment				15	199
<b>Total</b>	<b>\$ 1,265</b>	<b>\$ 2,330</b>	<b>\$ 422</b>	<b>\$ 323</b>	<b>\$ 690</b>
<b>Income (loss) from equity investments:</b>					
O&P Americas segment	\$ 8	\$ 11	\$ 3	\$ 1	\$ 5
O&P EAI segment	61	112	25	28	80
I&D segment	4	8	(1)		(1)
<b>Total</b>	<b>\$ 73</b>	<b>\$ 131</b>	<b>\$ 27</b>	<b>\$ 29</b>	<b>\$ 84</b>

**Olefins and Polyolefins Americas Segment**

**Overview** In the second quarter and first six months of 2011, the U.S. ethylene industry benefited from processing natural gas liquids, which yielded lower cost ethylene compared to that produced from crude oil-based liquids, which is the predominant feedstock used in the rest of the world. Ethylene margins remained strong in 2011 primarily due to advantaged prices for ethane, which was the favored feedstock during the second quarter and first six months of 2011,

and high co-product sales prices. The polyethylene market decreased as a result of general industry conditions and because certain customers delayed purchases in anticipation of lower prices. Increasing prices for propylene throughout the second quarter and most of the first six months of 2011 pressured the polypropylene market. Operating results for both 2011 periods and the Successor period in 2010 also reflected the impacts of fresh-start accounting, including the benefit of lower depreciation and amortization expense related to the write-down of segment assets. The 2010 Successor period also includes the negative impact of a non-cash charge to adjust inventory to market value (see

Results of Operations-Cost of Sales ).

*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:



**Table of Contents**

crude oil-based liquids ( liquids or heavy liquids ), including naphtha, condensates, and gas oils, the prices of which are generally related to crude oil prices; and

natural gas liquids ( NGLs ), principally ethane and propane, the prices of which are generally affected by natural gas prices.

Although the prices of these raw materials are generally related to crude oil and natural gas prices, during specific periods the relationships among these materials and benchmarks may vary significantly.

In the U.S., we have significant capability to shift the ratio of raw materials used in the production of ethylene and its co-products to take advantage of the relative costs of heavy liquids and NGLs.

Production economics for the U.S. industry have favored NGLs during 2011. As a result, we focused on maximizing the use of NGLs at our U.S. plants. During the second quarter of 2011, approximately 80% of our ethylene production was from NGLs. A temporary disruption of NGLs supply from one of our suppliers in the first quarter of 2011 modestly reduced the amount of our ethylene production from NGLs in the first six months of 2011 to approximately 75%. Based on current trends and assuming the price of crude oil remains at a high level, we would expect production economics in the U.S. to continue to favor NGLs for the near and mid-term.

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

**Average Benchmark Price and Percent Change  
Versus Prior Year Period Average**

	Three months ended June 30,			Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Crude oil dollars per barrel	102.34	78.05	31%	98.50	78.46	26%
Natural gas dollars per million BTUs	4.43	4.04	10%	4.31	4.70	(8)%
Weighted average cost of ethylene production cents per pound	33.8	26.7	27%	33.2	30.4	9%
United States cents per pound:						
Ethylene	57.5	45.6	26%	53.4	49.0	9%
Polyethylene (HD)	95.3	84.0	13%	91.5	83.7	9%
Propylene polymer grade	87.3	63.3	38%	79.5	62.4	27%
Polypropylene	113.8	89.8	27%	107.3	88.8	21%

**Table of Contents**

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

	<b>Three</b>	<b>Successor</b>	<b>Predecessor</b>		
	<b>Months</b>	<b>Six</b>	<b>May 1</b>	<b>April</b>	<b>January</b>
	<b>Ended</b>	<b>Months</b>	<b>through</b>	<b>1</b>	<b>1</b>
	<b>June</b>	<b>Ended</b>	<b>June</b>	<b>through</b>	<b>through</b>
	<b>30,</b>	<b>June 30,</b>	<b>30,</b>	<b>April</b>	<b>April 30,</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>30,</b>	<b>2010</b>
				<b>2010</b>	
<b>Millions of dollars</b>					
Sales and other operating revenues	\$ 4,010	\$ 7,582	\$ 2,004	\$ 1,163	\$ 4,183
Operating income	509	930	149	175	320
Income from equity investments	8	11	3	1	5
<b>Production Volumes, in millions of pounds</b>					
Ethylene	1,929	4,018	1,249	749	2,768
Propylene	556	1,325	513	264	1,019
<b>Sales Volumes, in millions of pounds</b>					
Polyethylene	1,377	2,782	885	435	1,765
Polypropylene	611	1,196	449	221	836

**Revenues** O&P Americas revenues increased by \$843 million, or 27%, in the second quarter 2011, compared to the same period in 2010 and by \$1,395 million, or 23%, in the first six months of 2011 compared to same period in 2010. Higher average sales prices for most products in the second quarter and first six months of 2011 were responsible for revenue increases of 31% and 26%, respectively, while lower sales volumes reduced revenues by 4% in each period. An improved supply/demand balance and higher crude-oil based raw material costs have contributed to the higher average sales prices seen to date in 2011.

**Operating Income** Operating results for the O&P Americas segment in the second quarter and first six months of 2011 reflected increases of \$185 million and \$461 million, respectively, compared to the second quarter and first six months of 2010. Operating results for the 2010 Successor period were negatively impacted by a \$171 million non-cash charge to adjust inventory at June 30, 2010 to market value, which was lower than the April 30, 2010 value applied during fresh-start accounting. The second quarter and first six months of 2011 benefited from lower depreciation expense of \$33 million and \$94 million, respectively, compared to the same periods in 2010. This was a result of the application of fresh-start accounting and the revaluation of our assets.

Both the second quarter 2011 and 2010 showed strong operating results for ethylene and polyethylene; however, operating income for the second quarter 2011 was slightly lower than the comparative period. Our second quarter 2010 operating results reflected a benefit from planned and unplanned competitor outages as margins were especially strong during that period. Operating results for the second quarter 2011 included the negative impact of a major turnaround at our Channelview plant and a utility supplier outage at our Morris, Illinois facility. Lower polypropylene operating results in the second quarter 2011 reflected the effects of elevated raw material costs and lower sales volumes as certain customers delayed purchases in anticipation of a decrease in polypropylene prices.

The \$461 million increase in operating results for the first six months of 2011 compared to the first six months of 2010 was primarily the result of higher polyethylene product margins and sales volumes. Polyethylene product margins in 2011, particularly in the first quarter, were higher than those attained in the same periods of 2010 as higher average sales prices driven by strong demand more than offset higher ethylene feedstock costs. Polyethylene sales volumes increased 5% during the first half of 2011 primarily due to sales being limited by planned maintenance at one of our plants during the first half of 2010.

***Second Quarter 2011 versus First Quarter 2011*** The O&P Americas segment had operating income of \$509 million in the second quarter 2011 compared to \$421 million in the first quarter 2011. The increase in operating results for the second quarter 2011 reflects higher product margins for ethylene and the effect of higher

**Table of Contents**

polypropylene sales volumes, which more than offset the effect of lower polyethylene product margins and sales volumes. The higher product margins for ethylene were primarily the result of higher average sales prices. The lower product margins for polyethylene reflect higher average sales prices which could not keep pace with increases in the price of ethylene. Polyethylene volumes were lower reflecting inventory-related buying patterns, general market conditions and the effect of planned and unplanned production outages.

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

**Overview** Ethylene market demand in Europe in the second quarter and first six months of 2011 was comparable to that in the second quarter and first six months of 2010. Ethylene industry margins expanded in 2011 as benchmark average sales prices increased more than the benchmark weighted average cost of ethylene production. Market demand for polyolefins in the second quarter of 2011 reflected the effect of delayed purchases as customers anticipated lower prices. Market demand for polyolefins was reduced in the second quarter of 2011 compared to second quarter 2010 and first quarter 2011. Total demand for the first six months of 2011 reflects a small increase over the same period in 2010.

In the second quarter and first six months of 2011, operating results for the O&P EAI segment reflected strong product margins, particularly for ethylene, butadiene, and polypropylene, and higher sales volumes across most products compared to the second quarter and first six months of 2010. Operating results for the both 2011 periods and the Successor period in 2010 also reflected the impacts of fresh-start accounting, including the benefit of lower depreciation and amortization expense related to the write-down of segment assets. The 2010 Successor period also includes the negative impact of a non-cash charge to adjust inventory to market value (see Results of Operations-Cost of Sales ).

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

**Average Benchmark Price and Percent Change  
Versus Prior Year Period Average**

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Brent crude oil    dollars per barrel	115.95	79.41	46%	110.80	78.61	41%
Western Europe    0.01 per pound						
Weighted average cost of ethylene production	35.4	27.3	30%	35.0	28.0	25%
Ethylene	54.7	43.7	25%	53.4	42.6	25%
Polyethylene (high density)	65.9	53.8	22%	64.0	52.6	22%
Propylene	55.3	45.1	23%	53.1	42.0	26%
Polypropylene (homopolymer)	69.4	60.3	15%	68.0	55.8	22%
Average Exchange Rate    \$US per	1.4394	1.2749	13%	1.4026	1.3273	6%

**Table of Contents**

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 production and sales volumes.

	<b>Three</b>	<b>Successor</b>	<b>Predecessor</b>		
	<b>Months</b>	<b>Six</b>	<b>May 1</b>	<b>April</b>	<b>January</b>
	<b>Ended</b>	<b>Months</b>	<b>through</b>	<b>1</b>	<b>1</b>
	<b>June</b>	<b>Ended</b>	<b>June</b>	<b>through</b>	<b>through</b>
	<b>30,</b>	<b>June 30,</b>	<b>30,</b>	<b>April</b>	<b>April 30,</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>30,</b>	<b>2010</b>
				<b>2010</b>	<b>2010</b>
<b>Millions of dollars</b>					
Sales and other operating revenues	\$ 4,264	\$ 8,208	\$ 2,140	\$ 1,066	\$ 4,105
Operating income	207	386	114	44	115
Income from equity investments	61	112	25	28	80
<b>Production volumes, in millions of pounds</b>					
Ethylene	999	1,996	595	247	1,108
Propylene	631	1,239	388	152	661
<b>Sales volumes, in millions of pounds</b>					
Polyethylene	1,279	2,584	811	419	1,658
Polypropylene	1,631	3,335	1,183	580	2,117

**Revenues** Revenues increased by \$1,058 million and \$1,963 million, respectively, in the second quarter and first six months of 2011 compared to revenues in the second quarter and first six months of 2010 primarily due to higher average product sales prices and to a lesser extent, higher sales volumes, mainly in olefins. The sales price increases reflect the effects of higher raw material costs and demand, which was particularly weak in the first half of 2010. Higher average sales prices were responsible for revenue increases of 32% in the second quarter 2011 and 27% in the first six months of 2011 compared to the overall revenue increases of 33% and 31%, respectively. The remaining increases in both periods were due to higher sales volumes.

**Operating Income** Operating results for the O&P EAI segment increased by \$49 million and \$157 million, respectively, in the second quarter and first six months of 2011 compared to the same periods in 2010. The operating results of our O&P EAI business segment were higher in the second quarter and first six months of 2011 compared to the same periods in 2010, but reflected the impact of charges associated with activities to reorganize certain functional organizations and for increased liabilities at our Wesseling, Germany site. Improved business results were primarily a result of higher product margins for ethylene, butadiene and polypropylene and the effect of higher sales volumes for most products, partially offset by lower product margins for polyethylene. The strength in butadiene margins reflects strong global demand coupled with constrained supply as a result of a global preference for NGL processing. The lower product margins for polyethylene in the first half of 2011 reflect higher monomer prices compared to those experienced in the comparable 2011 period. Operating results for the 2010 Successor period included a \$23 million charge for a plant closure and other costs related to a polypropylene plant in Terni, Italy, and a \$5 million non-cash charge to adjust inventory at June 30, 2010 to market value, which was lower than the April 30, 2010 value applied during the application of fresh-start accounting. Depreciation and amortization expense was \$17 million lower in the first six months of 2011 compared to the same 2010 period primarily due to the write-down of Property, plant and equipment associated with the revaluation of our assets in fresh-start accounting.

**Second Quarter 2011 versus First Quarter 2011** The O&P EAI segment had operating income of \$207 million in the second quarter 2011 compared to \$179 million in the first quarter 2011. The increase in operating results in the second quarter 2011, compared to the first quarter 2011, is primarily attributable to higher olefins margins, partially offset by fixed costs in the second quarter 2011 that reflect higher maintenance spending and a charge for reorganization activities. The higher product margins for olefins reflected the benefit of falling naphtha prices after monthly product

prices had been settled. The combined operating results of polyethylene, polypropylene and polypropylene compounding reflected an improvement of approximately \$10 million. Together, polypropylene and

---

**Table of Contents**

polypropylene compounding results improved primarily due to higher margins for polypropylene as volumes remained relatively unchanged. Polyethylene volumes were relatively unchanged.

**Intermediates and Derivatives Segment**

**Overview** The PO and PO derivatives market remained generally steady during the second quarter and first six months of 2011 despite the effect of rising propylene prices.

The I&D segment results for the second quarter and first six months of 2011 reflected higher product margins for intermediates, acetyls, EO and derivatives and styrene. PO and derivative operating results in the first six months of 2011, compared to the same period in 2010, reflected the effect of higher deicer sales volumes, while results for the second quarter 2011 remained relatively unchanged. Operating results for the second quarter and first six months of 2011 reflected the impacts of fresh-start accounting, including the benefit of lower depreciation and amortization expense related to the write-down of segment assets. The 2010 Successor period also includes the negative impact of a non-cash charge to adjust inventory to market value. See Results of Operations Cost of Sales.

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.

	Three Months Ended June 30, 2011	Successor		Predecessor	
		Six Months Ended June 30, 2011	May 1 through June 30, 2010	April 1 through April 30, 2010	January 1 through April 30, 2010
<b>Millions of dollars</b>					
Sales and other operating revenues	\$ 1,777	\$ 3,469	\$ 940	\$ 504	\$ 1,820
Operating income	235	469	109	34	157
Income (loss) from equity investments	4	8	(1)		(1)
<b>Sales Volumes, in millions of pounds</b>					
PO and derivatives	791	1,629	516	265	1,134
EO and derivatives	277	565	157	93	358
Styrene	817	1,669	511	269	858
Acetyls	417	855	300	139	518
TBA intermediates	459	944	329	141	613

**Revenues** Revenues for the second quarter and first six months of 2011 increased \$333 million and \$709 million compared to the second quarter and first six months of 2010, respectively. The second quarter and first six months of 2010 include revenues of our Flavor and Fragrances business, which was sold in December 2010. These revenues were approximately 3% of total I&D segment revenues in each of the periods in 2010. Higher average sales prices resulted in revenue increases of 19% and 15%, respectively, in the second quarter and first six months of 2011. Higher sales volumes were responsible for revenue increases of 7% and 14% in the second quarter and first six months of 2011, respectively. Average sales prices for most products and were higher in both 2011 periods, and in the first six months of 2011, styrene and to a lesser extent EO and derivatives were the main contributors to volume increases.

**Operating Income** Operating results for the I&D segment reflected an increase of \$92 million in the second quarter 2011 compared to the second quarter 2010 and an increase of \$203 million in the first six months of 2011 compared to the same 2010 period. Significant margin expansion in both 2011 periods resulted in higher product margins for acetyls, EO and derivatives and TBA intermediates, and in the first six months of 2011, higher styrene margins. Operating results for PO and PO derivatives remained relatively steady in the 2011 periods compared to the same periods in 2010. Operating results in the second quarter and first six months of 2011 benefited from lower depreciation and amortization expense of \$8 million and \$43 million, respectively, compared to the combined second

quarter and first six months of 2010 primarily due to the write-down of Property, plant and equipment associated with the revaluation of our assets in fresh-start accounting. Operating results for the 2010 Successor



**Table of Contents**

period were negatively impacted by a \$25 million non-cash charge to adjust inventory at June 30, 2010 to market, which was lower than the value at April 30, 2010 applied during fresh-start accounting.

***Second Quarter 2011 versus First Quarter 2011*** The I&D segment had operating income of \$235 million in the second quarter 2011 compared to \$234 million in the first quarter 2011. Operating results for the second quarter 2011 primarily reflected higher product margins for acetyls and styrene, partially offset by the effect of lower PO and PO derivative sales volumes with the end of the aircraft deicer season. Margins for acetyls and styrene benefited from higher average sales prices. Product margins for PO and PO derivatives remained relatively unchanged.

***Refining and Oxyfuels Segment***

**Overview** Benchmark U.S. heavy crude refining margins were higher in the second quarter and first six months of 2011 as a result of higher discounts for heavy crude oil. European refining margins were challenged by industry overcapacity and the loss of Libyan crude oil supply. Oxyfuels margins in 2011 improved compared to 2010 due to higher gasoline prices relative to the cost of natural gas liquids-based raw material costs.

Segment operating results in the second quarter and first six months of 2011 primarily reflected the effect of higher crude oil refining margins, higher oxyfuels margins, and increased crude runs at the Houston refinery compared to the same periods in 2010. Crude processing rates at the Houston refinery were significantly higher in the second quarter 2011, compared to the second quarter 2010, as the refinery experienced a crude unit shutdown in 2010. Second quarter 2011 crude processing rates at the Berre refinery were lower than the second quarter 2010 as crude margins did not support higher processing rates. Oxyfuels results in the second quarter and first six months of 2011 were higher compared to the same period in 2010. Operating results for the second quarter and first six months of 2011 and the Successor period in 2010 reflect the impacts of fresh-start accounting, including the benefit of lower depreciation and amortization expense related to the write-down of segment assets. In addition, the 2010 Successor period was negatively impacted by a non-cash charge to adjust inventory to market value. See Results of Operations Cost of Sales.

**Table of Contents**

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

	<b>Three</b>	<b>Successor</b>	<b>Predecessor</b>		
	<b>Months</b>	<b>Six</b>	<b>May 1</b>	<b>April</b>	<b>January</b>
	<b>Ended</b>	<b>Months</b>	<b>through</b>	<b>1</b>	<b>1</b>
	<b>June</b>	<b>Ended</b>	<b>June 30,</b>	<b>through</b>	<b>through</b>
	<b>30,</b>	<b>June 30,</b>	<b>2010</b>	<b>April</b>	<b>April 30,</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>30,</b>	<b>2010</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
<b>Millions of dollars</b>					
Sales and other operating revenues	\$ 5,833	\$ 10,553	\$ 2,403	\$ 1,333	\$ 4,748
Operating income (loss)	296	460	14	29	(99)
<b>Sales Volumes, in millions</b>					
Gasoline blending components - MTBE/ETBE (gallons)	206	398	159	77	266
<b>Crude processing rates (thousands of barrels per day)</b>					
Houston Refinery	263	261	152	264	263
Berre Refinery	85	93	106	83	75
<b>Market margins \$ per barrel</b>					
Light crude oil - 2-1-1 *	10.28	8.18	10.98	9.41	7.50
Light crude oil Maya differential	15.50	16.82	8.80	11.01	9.46
Total Maya 2-1-1	25.78	25.00	19.78	20.42	16.96
Urals 4-1-2-1	7.71	7.75	7.53	6.93	6.17
<b>Market margins cents per gallon</b>					
MTBE NWE	92.7	75.4	64.2	87.1	50.2

\* WTI crude oil was used as the Light crude reference for periods prior to 2011. As of January 1, 2011 Light Louisiana Sweet ( LLS ) crude oil is used as the Light crude oil reference. Beginning in early 2011, the WTI crude oil reference has not been an effective indicator of light crude oil pricing given the large location differential compared to other light crude oils.

**Revenues** Revenues for the Refining and Oxyfuels segment increased \$2,097 million and \$3,402 million, respectively, in the second quarter and first six months of 2011 compared to second quarter and first six months of 2010. These increases are primarily due to higher average sales prices and the effect of higher refining sales volumes. Higher average sales prices were responsible for revenue increases of 48% and 40%, respectively, in the second quarter and

first six months of 2011. The remaining increases in revenues of 8% and 7% in the second quarter and first six months of 2011 were related to higher sales volumes.

Houston refinery crude processing rates were higher by 39% and 15%, respectively, in the second quarter and first six months of 2011, compared to the same 2010 periods, primarily due to a crude unit fire in the second quarter 2010.

Crude processing rates for the Berre refinery were 12% lower and 9% higher, respectively, in the second quarter and first six months of 2011, compared to the same 2010 periods, partially due to a local port strike in 2011.

**Table of Contents**

**Operating Income (Loss)** Operating results for the second quarter and first six months of 2011 increased by \$253 million and \$545 million, respectively, compared to the same periods in 2010. The improvement in the underlying operations of the refining and oxyfuels segment primarily reflects higher refining margins at the Houston refinery as indicated by the increase in the Maya 2-1-1 benchmark margin, and higher oxyfuels margins. Margins for oxyfuels products reflect the effect of higher spreads between the prices of gasoline and butane, a key raw material. Operating results in the first six months of 2011 include a \$34 million insurance recovery associated with misappropriation of assets. Operating results for the second quarter and first six months of 2011 also benefited from lower depreciation expense of \$12 million and \$101 million, respectively, compared to the same 2010 periods as a result of the application of fresh-start accounting and the revaluation of our assets. Operating results for the 2010 Successor period were negatively impacted by a \$132 million non-cash charge to adjust inventory at June 30, 2010 to market value, which was lower than the April 30, 2010 value applied during fresh-start accounting.

**Second Quarter 2011 versus First Quarter 2011** The Refining and Oxyfuels segment had operating income of \$296 million in the second quarter 2011 compared to \$164 million in the first quarter 2011. The first quarter 2011 included a \$34 million insurance recovery described above. The improvement in the second quarter 2011 was primarily driven by higher heavy crude oil refining margins, higher oxyfuels margins, and a full quarter of operation of the Houston refinery fluid catalytic cracker unit following the first quarter 2011 turnaround. Higher profits at the Houston refinery are due to higher industry margins, improved process unit operating performance, and commercial improvements in both crude oil acquisition and product sales. Crude processing rates at the Houston refinery were relatively unchanged in the second quarter 2011 compared to the first quarter 2011. Berre refinery crude processing rates were reduced by 14% in the second quarter 2011 in response to market conditions. Realized margins at the Berre refinery were lower in the second quarter 2011 as replacement crude oils for Libyan crudes became more expensive and sale prices for naphtha sold as petrochemical feedstock did not keep pace with the higher cost of raw materials. Oxyfuels product margins were seasonally higher in the second quarter 2011 compared to the first quarter 2011, reflecting the benefit of a higher spread between butane and gasoline and the higher demand for high octane, clean gasoline components.

**Technology Segment**

**Overview** The Technology segment results in 2011 reflected higher research and development costs offset by higher licensing revenue in the first six months of 2011 compared to the comparable 2010 period. The following table sets forth the Technology segment's sales and other operating revenues and operating income.

	<b>Successor</b>		<b>Predecessor</b>		
	<b>Three</b>	<b>Six</b>		<b>April</b>	<b>January</b>
	<b>Months</b>	<b>Months</b>	<b>May 1</b>	<b>1</b>	<b>1</b>
	<b>Ended</b>	<b>Ended</b>	<b>through</b>	<b>through</b>	<b>through</b>
	<b>June</b>	<b>June 30,</b>	<b>June</b>	<b>April</b>	<b>April 30,</b>
	<b>30,</b>	<b>2011</b>	<b>30,</b>	<b>30,</b>	<b>2010</b>
	<b>2011</b>		<b>2010</b>	<b>2010</b>	<b>2010</b>
<b>Millions of dollars</b>					
Sales and other operating revenues	\$ 126	\$ 265	\$ 75	\$ 35	\$ 145
Operating income	23	89	23	8	39

**Revenues** Revenues for the second quarter and first six months of 2011 increased by \$16 million, or 15%, and \$45 million, or 20%, compared to second quarter and first six months of 2010, respectively. The increases were primarily due to the recognition in the 2011 periods of previously deferred process license revenue.

**Operating Income** Operating income decreased by \$8 million in the second quarter of 2011 and increased by \$27 million in the first six months of 2011, compared to the second quarter and first six months of 2010. The decrease in the second quarter 2010 reflected higher R&D expenses, partially offset by the effects of higher revenue related to process licenses from prior years. The increase in the first six months of 2011 reflected the effects of higher revenue from process licenses from prior years, which was partially offset by higher R&D costs. Operating income in the



**Table of Contents**

2010 periods reflected the impact of a slowdown in polyolefin projects that stemmed from the economic crisis in late 2008. The higher R&D costs include charges totaling \$16 million for employee severance and asset retirement obligations related to an R&D facility that is being relocated.

**Second Quarter 2011 versus First Quarter 2011** The Technology segment had operating income of \$23 million in the second quarter 2011 compared to \$66 million in the first quarter 2011. Operating results in the second quarter decreased by \$43 million primarily due to the effects of lower process license revenue, as well as higher R&D costs. The higher R&D costs include charges totaling \$16 million for employee severance and asset retirement obligations related to an R&D facility that is being relocated.

**FINANCIAL CONDITION**

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

	<b>Successor</b>	<b>Predecessor</b>
	<b>Six</b>	
	<b>Months</b>	<b>May 1</b>
	<b>Ended</b>	<b>through</b>
	<b>June</b>	<b>through</b>
	<b>30,</b>	<b>April 30,</b>
	<b>2011</b>	<b>2010</b>
<b>Millions of dollars</b>		
Source (use) of cash:		
Operating activities	\$ 1,247	\$ 1,105
Investing activities	(651)	(110)
Financing activities	(299)	133
		(925)
		(224)
		3,315

**Operating Activities** Cash of \$1,247 million provided in the first six months of 2011 primarily reflected an increase in earnings and higher distributions from our joint ventures, partially offset by an increase in cash used by the main components of working capital and company contributions to our pension plans. The \$180 million of cash provided in the combined first six months of 2010 primarily reflected an increase in earnings offset by payments of reorganization items and certain annual payments related to sales rebates, employee bonuses, property taxes and insurance premiums. The main components of working capital used cash of \$481 million in the first six months of 2011 compared to \$348 million in the first six months of 2010. The increase in these working capital components during the first half of 2011 reflects increases of \$1,002 million and \$619 million, respectively, in accounts receivable and inventory, partially offset by a \$1,140 million increase in accounts payable. The increases in both accounts receivable and accounts payable reflects the effect of increasing prices over the period as well as the effect of a higher currency exchange rate on our European balances. The increase in inventory reflects temporary volume increases in our O&P EAI business segment and to a lesser extent, in our Refining and Oxyfuels business segment. Inventory was also affected by a higher currency exchange rate.

The \$348 million use of cash by the main components of working capital in the first six months of 2010 reflected a \$511 million increase in accounts receivable due to the effects of higher average sales prices and higher sales volumes and a \$312 million increase in inventory, partially offset by a \$475 million increase in accounts payable due to the higher costs and volumes of feedstocks, and more favorable payment terms. Price and volume changes in the first six months of 2010 more than offset the effects of lower exchange rates on the values of our European working capital.

**Investing Activities** Cash of \$651 million used in investing activities in the first six months of 2011 primarily reflects capital expenditures and a \$239 million increase in restricted cash partially offset by \$57 million in proceeds related to the sale of surplus precious metals. The increase in restricted cash is primarily related to the issuance of letters of credit, which are cash collateralized.

**Table of Contents**

Investing activities of \$334 million in the combined 2010 period reflect capital expenditures that were partially offset by \$12 million in proceeds from a money market fund that had suspended rights to redemption in 2008.

The following table summarizes capital expenditures for the periods presented:

	<b>Successor</b>	<b>Predecessor</b>	
	<b>Six Months Ended June 30, 2011</b>	<b>May 1 through June 30, 2010</b>	
		<b>January 1 through April 30, 2010</b>	
<b>Millions of dollars</b>			
<b>Capital expenditures by segment:</b>			
O&P Americas	\$ 204	\$ 50	\$ 52
O&P EAI	79	31	102
I&D	20	5	8
Refining and Oxyfuels	159	22	49
Technology	10	3	12
Other	12	2	3
Total capital expenditures by segment	484	113	226
<b>Less:</b>			
Contributions to PO Joint Ventures	2		
Consolidated capital expenditures of continuing operations	\$ 482	\$ 113	\$ 226

The capital expenditures in the 2010 Predecessor period presented in the table above exclude costs of major periodic maintenance and repair activities, including turnarounds and catalyst recharges of \$71 million.

**Financing Activities** Financing activities used cash of \$299 million in the first six months of 2011 and provided \$3,448 million in the combined 2010 period. In May 2011, we redeemed \$203 million and 34 million (\$50 million) of our 8% Senior Secured Notes due 2017, comprising 10% of the outstanding senior secured dollar notes and senior secured Euro notes at March 31, 2011. We paid \$7 million of premiums in conjunction with the redemption of the notes. Also in May 2011, we paid cash dividends of \$0.10 per share of common stock totaling \$57 million to shareholders of record on May 5, 2011. In June 2011, we paid \$15 million of fees related to the amendment of our U.S. ABL facility. In the first quarter of 2011, we received proceeds of \$37 million upon conversion of outstanding warrants to common stock.

The 2010 Successor period reflects a net increase in borrowings of \$132 million under our European Securitization facility and a \$2 million payment related to a previous factoring facility in France.

As part of the emergence from bankruptcy, we received gross proceeds of \$2,800 million on April 30, 2010 in connection with the issuance of shares in a rights offering and paid \$86 million of fees, including \$70 million of fees to equity backstop providers. On April 30, 2010, we also received net proceeds of \$3,242 million from the issuance of new debt by our subsidiary, Lyondell Chemical, including Senior Secured Notes in the amounts of \$2,250 million and 375 million (\$497 million) and from proceeds of the Senior Term Loan Facility of \$495 million, and paid related fees of \$72 million.

Proceeds from the rights offering and the Senior Notes, along with borrowings under the Senior Term Loan Facility and the amended and restated European Securitization, were used to repay outstanding amounts of \$3,152 million under our DIP financing arrangement and to pay a \$195 million exit fee required under the arrangement. We also paid fees totaling \$92 million in connection with our new U.S. ABL Facility and amended and restated European Securitization facility. Predecessor debt classified as Liabilities subject to compromise immediately prior to the

emergence from bankruptcy was discharged pursuant to the Plan of Reorganization (see Note 3).



**Table of Contents**

Apart from the payments reflected above, during the 2010 Predecessor period we repaid a \$5 million Argentinean loan, made a \$12 million mandatory quarterly amortization payment of a Dutch term loan, \$3 million of which was related to the DIP financing arrangement, and made payments of \$8 million on a previous factoring facility. In addition, we made payments totaling \$13 million related to the extension of the DIP financing. We also had a net increase in borrowings of \$47 million under the European Securitization facility in the 2010 Predecessor period.

**Liquidity and Capital Resources** As of June 30, 2011, we had cash on hand of \$4,687 million. In addition, we had total unused availability under our credit facilities of \$2,382 million at June 30, 2011, which included the following: \$1,737 million under our \$2,000 million U.S. ABL facility, which is subject to a borrowing base, net of outstanding borrowings and outstanding letters of credit provided under the facility. At June 30, 2011, we had \$263 million of outstanding letters of credit and no outstanding borrowings under the facility.

432 million and \$25 million (totaling approximately \$645 million) under our 450 million European receivables securitization facility. Availability under the European receivables securitization facility is subject to a borrowing base, net of outstanding borrowings. There were no outstanding borrowings under this facility at June 30, 2011.

In addition to the letters of credit issued under the U.S. ABL facility, we also have outstanding letters of credit totaling \$221 million, which are collateralized by cash. Such cash is included in the \$250 million of Restricted cash reflected on the Consolidated Balance Sheets as of June 30, 2011.

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

At June 30, 2011, we had total debt, including current maturities, of \$5,865 million.

In June 2011, we obtained an amendment to our U.S. ABL facility to, among other things: (i) increase the facility to \$2 billion; (ii) extend the maturity date to June 2016; (iii) reduce the applicable margin and commitment fee and (iv) amend certain covenants and conditions to provide additional flexibility

In March 2011, we amended and restated our Senior Secured Term Loan Agreement to, among other things, modify the term of the agreement and certain restrictive covenants. This amended and restated agreement matures in April 2014.

In May 2011, we announced our intention to seek a buyer for our Berre refinery in France.

We are party to certain registration rights agreements relating to our Senior Secured 8% Notes and our Senior Secured 11% Notes, which obligate us to conduct an exchange offer for the 8% notes and register the resale of the 11% notes held by affiliates with the SEC. The registration rights agreements require the registration statements for the exchange or resale, as applicable, to be effective with the SEC by May 3, 2011, which has not occurred. As a result, beginning May 4, 2011, we are subject to penalties in the form of increased interest rates as required by the registration rights agreement. The interest penalties are 0.25% per annum for applicable notes for the first 90 days that the registration statements are not effective, increasing by an additional 0.25% per annum for each additional 90 days, up to a maximum of 1.00% per annum. We do not expect the amount of penalties that we will ultimately pay to be material. On August 3, 2011, the Management Board of the Company recommended to the Supervisory Board that the Company pay a dividend of \$0.20 per share. The Supervisory Board has authorized and directed the Management Board to take actions necessary to pay the dividend. Subject to the Management Board's adoption of a resolution

**Table of Contents**

declaring the dividend, it is expected that the dividend will be paid on September 7, 2011 to shareholders of record as of August 17, 2011. Management intends to declare interim dividends to the extent the Company's cash flows and results of operations support such dividend payments in the future.

**ACCOUNTING AND REPORTING CHANGES**

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

**Table of Contents**

**CAUTIONARY STATEMENT FOR THE PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify our forward-looking statements by the words anticipate, estimate, believe, continue, could, intend, may, plan, potential, predict, should, will, projection, forecast, goal, guidance, outlook, effort, target and similar expressions.

We based the forward-looking statements on our current expectations, estimates and projections about ourselves and the industries in which we operate in general. We caution you these statements are not guarantees of future performance as they involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors, including the following:

if we are unable to comply with the terms of our credit facilities and other financing arrangements, those obligations could be accelerated, which we may not be able to repay;

we may be unable to incur additional indebtedness or obtain financing on terms that we deem acceptable, including for refinancing of our current obligations; higher interest rates and costs of financing would increase our expenses;

our ability to implement business strategies may be negatively affected or restricted by, among other things, governmental regulations or policies;

the cost of raw materials represent a substantial portion of our operating expenses, and energy costs generally follow price trends of crude oil and natural gas; price volatility can significantly affect our results of operations and we may be unable to pass raw material and energy cost increases on to our customers;

industry production capacities and operating rates may lead to periods of oversupply and low profitability;

uncertainties associated with worldwide economies create increased counterparty risks, which could reduce liquidity or cause financial losses resulting from counterparty exposure;

the negative outcome of any legal, tax and environmental proceedings may increase our costs;

we may be required to reduce production or idle certain facilities because of the cyclical and volatile nature of the supply-demand balance in the chemical and refining industries, which would negatively affect our operating results;

we may face operating interruptions due to events beyond our control at any of our facilities, which would negatively impact our operating results, and because the Houston refinery is our only North American refining operation, we would not have the ability to increase production elsewhere to mitigate the impact of any outage at that facility;

regulations may negatively impact our business by, among other things, restricting our operations, increasing costs of operations or requiring significant capital expenditures;

we face significant competition due to the commodity nature of many of our products and may not be able to protect our market position or otherwise pass on cost increases to our customers;

we rely on continuing technological innovation, and an inability to protect our technology, or others' technological developments could negatively impact our competitive position; and

we are subject to the risks of doing business at a global level, including fluctuations in exchange rates, wars, terrorist activities, political and economic instability and disruptions and changes in governmental policies, which could cause increased expenses, decreased demand or prices for our products and/or disruptions in operations, all of which could reduce our operating results.

**Table of Contents**

**Item 3.**

**QUANTITATIVE  
AND  
QUALITATIVE  
DISCLOSURES  
ABOUT  
MARKET RISK**

Our exposure to market and regulatory risks is described in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2010. Our exposure to such risks has not changed materially in the six months ended June 30, 2011.

**Item 4.**

**CONTROLS  
AND  
PROCEDURES**

Our management, with the participation of our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer) has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were not effective as of June 30, 2011, the end of the period covered by this Quarterly Report on Form 10-Q. The ineffectiveness was caused by the material weakness disclosed in Item 9A. of our Form 10-K for the year ended December 31, 2010 and Item 8.01 of our Current Report on Form 8-K/A filed on August 12, 2011.

Nevertheless, based on a number of factors, including the performance of additional procedures by management designed to ensure the correctness of our tax provision and reliability of our financial reporting, we believe that the consolidated financial statements in this quarterly report fairly present, in all material respects, our financial position, results of operations, and cash flows as of the dates, and for the periods, presented, in conformity with U.S. GAAP. In the six months ended June 30, 2011 and through the date of this quarterly report, the Company continues to implement measures to improve its internal controls in order to remediate the material weakness previously disclosed. Specifically, the Company implemented improved reporting processes designed to provide clarity of presentation and supporting documentation of its tax provision and is hiring additional personnel and retained outside resources to assist in the review and analysis of tax provision information. The Company believes these changes have materially affected its internal control over financial reporting by enhancing controls related to the material weakness previously identified. However, the material weakness will not be remediated until the enhanced procedures have been operating for a reasonable period of time.

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

*Bankruptcy Proceedings*

On January 6, 2009, certain of LyondellBasell AF S.C.A.'s indirect U.S. subsidiaries, including Lyondell Chemical, and its German indirect subsidiary, Basell Germany Holdings GmbH, voluntarily filed for protection under Chapter 11 in the Bankruptcy Court. In April and May of 2009, LyondellBasell AF and certain other subsidiaries filed voluntary petitions for relief under Chapter 11 in the Bankruptcy Court. The Bankruptcy Cases were filed in response to a sudden loss of liquidity in the last quarter of 2008. The debtors operated their businesses and managed their properties as debtors in possession during the Bankruptcy Cases. In general, this means that the Debtors operated in the ordinary course without Bankruptcy Court intervention. Bankruptcy Court approval was required, however, where the debtors sought authorization to engage in certain transactions not in the ordinary course of business.

We emerged from bankruptcy on April 30, 2010. As of that date, all assets of the debtor entities vested in the reorganized debtor entities free and clear of all claims, liens, encumbrances, charges, and other interests, except as provided in the Plan of Reorganization or the confirmation order entered on April 23, 2010 (the Confirmation Order). Except as otherwise expressly provided in the Plan of Reorganization or in the Confirmation Order, on April 30, 2010, each holder of a claim or equity interest is deemed to have forever waived, released, and discharged the debtor entities and the reorganized debtor entities, to the fullest extent permitted by law, of and from any and all claims, equity interests, rights, and liabilities that arose prior to the confirmation date.

*Environmental Matters*

From time to time we and our joint ventures receive notices or inquiries from federal, state or local governmental entities regarding alleged violations of environmental laws and regulations pertaining to, among other things, the disposal, emission and storage of chemical and petroleum substances, including hazardous wastes. Item 103 of the SEC's Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings and the proceedings involve potential monetary sanctions that we reasonably believe could exceed \$100,000. There are no such matters pending as of June 30, 2011.

As part of the government settlement in the chapter 11 proceedings, the U.S., on behalf of EPA, was allowed a general unsecured claim of \$499,000 against Millennium Specialty Chemicals Inc. and \$480,000 against Houston Refining LP. In the case of the Houston refinery, the allegations arise from a 2007 EPA Clean Air Act inspection. In the case of Millennium Specialty Chemicals Inc., EPA conducted an inspection in 2008 at the Colonels Island, Georgia facility and questions were raised concerning handling of contaminated wastewater. The allowed claims settled the penalty amounts for alleged noncompliance based upon pre-petition activities; we are not aware of any active proceedings pending with respect to any post petition monetary sanctions.

*Litigation and Other Matters*

Information regarding our litigation and other legal proceedings can be found under the Litigation and Other Matters section of Note 14, *Commitments and Contingencies*, to the Condensed Consolidated Financial Statements.

**Table of Contents**

**Item 1A.**

**RISK  
FACTORS**

There have been no material changes from the risk factors disclosed in Item 1A of our Form 10-K filed with the Securities and Exchange Commission on March 18, 2011.

**Item 2.**

**UNREGISTERED  
SALES OF  
EQUITY  
SECURITIES  
AND USE OF  
PROCEEDS**

During the quarter ended June 30, 2011, we issued 601,592 shares upon exercise of warrants. The warrants originally were issued on April 30, 2010, the date of our emergence from bankruptcy proceedings, with an exercise price of \$15.90 per share. We received no proceeds from the exercises of the warrants, as they were exercised pursuant to a cashless exercise procedure pursuant to which we withhold shares that would otherwise be issued in payment of the exercise price.

The issuance of the warrants and the shares issued upon exercise of the warrants were exempt from the registration requirements of Section 5 of the Securities Act and any other applicable laws pursuant to Section 1145 of the Bankruptcy Code, which generally exempts distributions of securities in connection with plans of reorganization. None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering.

**Table of Contents**

**Item 6.  
EXHIBITS**

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32 Certifications pursuant to 18 U.S.C. Section 1350.

67

---



**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LYONDELLBASELL INDUSTRIES  
N.V.**

Date: August 12, 2011

/s/ Wendy M. Johnson  
Wendy M. Johnson  
Chief Accounting Officer and Controller  
*(Chief Accounting and Duly Authorized  
Officer)*  
68