



# **LANXESS – Operational success in a challenging environment**

**Cheuvreux German Corporate Conference 2009  
20 / 21 January 2009**

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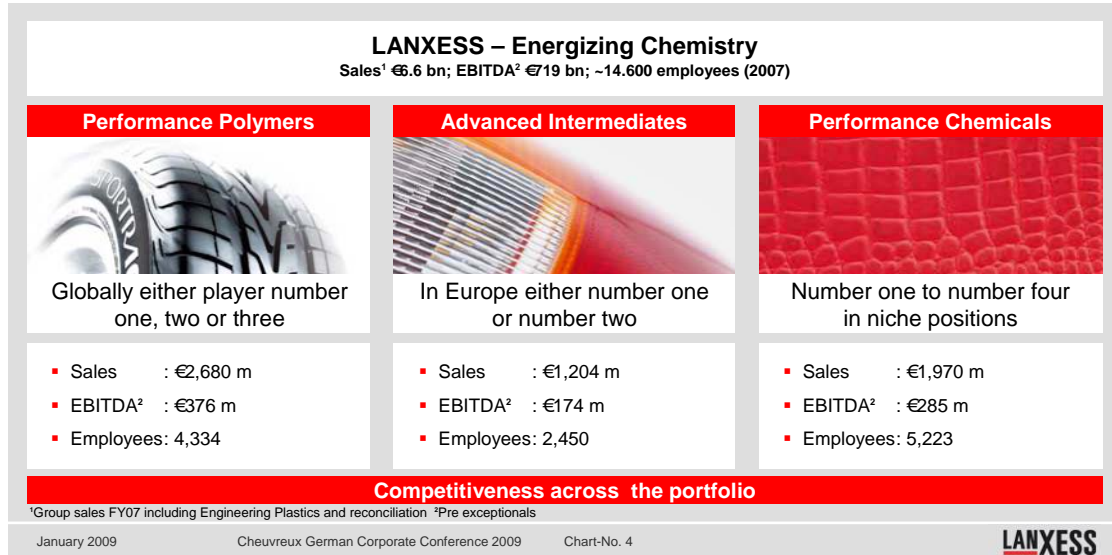
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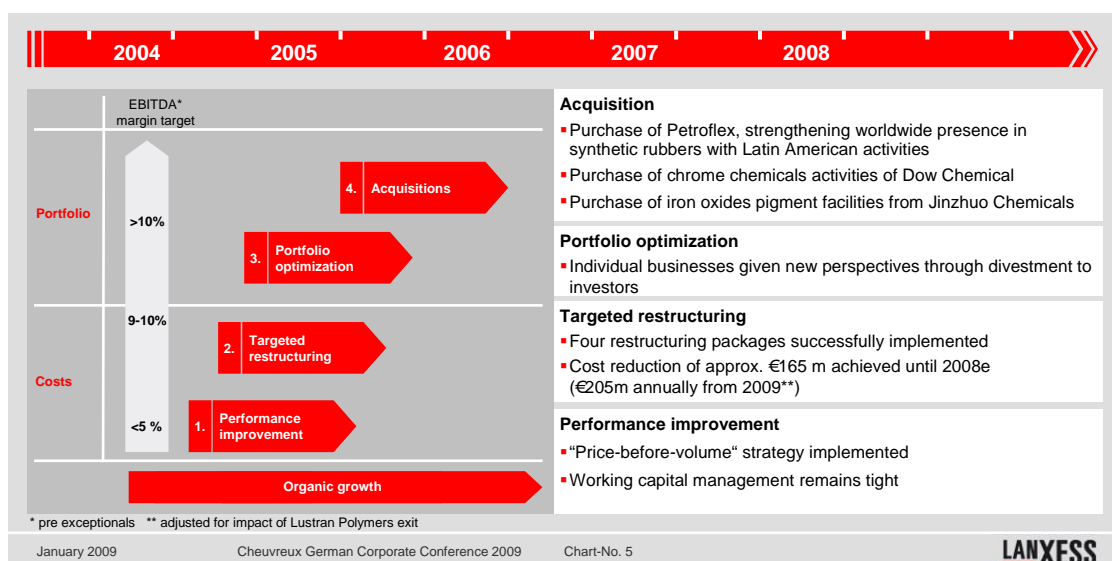
## Agenda

- 1. Strategy and track record**
- 2. Financial overview**
- 3. Outlook and guidance 2008**
- 4. Taking action**

## LANXESS consists of three powerful segments



## Consistent delivery as four-phase strategy is implemented



## Restructuring effects of four initiated programs last into 2009

Phase I+II+III+IV (€ m)	2005	2006	2007	2008e	2009e
P&L Expenses	-166	-31	-41	-35	-5
Cash outs	-10	-89	-70	-120	-5
Headcount reduction	~540	~650	~280	~40	0
<b>Cost reduction vs. prior year</b>	<b>10</b>	<b>55</b>	<b>50</b>	<b>50</b>	<b>40</b>
Cost reduction cumulative	10	65	115	165	205
<b>EBITDA improvement vs. prior year</b>	<b>10</b>	<b>50</b>	<b>35</b>	<b>35</b>	<b>25</b>
EBITDA improvement cumulative	10	60	95	130	155

**Restructuring implementation continues according to plan**

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## Portfolio management has continuously strengthened the company



	Leadership Position	Cyclicality	Profitability Expectation	Business Driver
Fibers	Weak	High	Low	Market shifting to Asia
Paper	Moderate	Moderate	Medium	High industry consolidation
Textile Processing Chem.	Weak	Moderate	Medium	Market shifting to Asia
Lustran Polymers	Good	High	Low	Overcapacities, Commoditization
<b>CISA</b>	Good	Low	High	Upstream Integration
<b>Petroflex</b>	Good	Low	High	Global mobility trends

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## In the past four years LANXESS delivered on its strategy

		Spin-off 2005	January 2009
<b>Financials</b>	<ul style="list-style-type: none"> <li>EBITDA<sup>1</sup></li> <li>Profitability<sup>2</sup></li> <li>Net fin. debt<sup>3</sup> / EBITDA<sup>1</sup></li> </ul>	market expectation: ~€450 m ~6.6% ~2.5x	€710 m - €730 m for FY2008 11.3% <1.5x
<b>Legacy</b>	<ul style="list-style-type: none"> <li>Portfolio</li> </ul>	still incl. LUP, FIB, PAP, TPC	all divested
<b>Operations</b>	<ul style="list-style-type: none"> <li>Headcount<sup>3</sup></li> <li>Restructuring</li> <li>Cyclicality</li> </ul>	19,659 restructuring questionable high	14,983 Phase 1-4 implemented / ongoing lower
<b>Capital Market</b>	<ul style="list-style-type: none"> <li>EV / EBITDA<sup>1</sup> Multiple</li> <li>Liquidity</li> <li>Dividend policy</li> <li>Rating</li> </ul>	~5x short term no policy S&P: weak BBB-	<3x sound and long term dividend policy in place S&P: BBB, Moody's: Baa2
<b>15 quarters of delivery</b>			
<small><sup>1</sup> EBITDA pre exceptionals; <sup>2</sup> EBITDA pre exceptional margin, for 9M 2008 LTM; <sup>3</sup> value in first column as per Dec 31, 2004, second column is Sept. 30, 2008</small>			
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## Sustainable improvement trend of financials, based on strong operations

In € m	2004	2005	2006	2007	2008e	
EBITDA*	447	581	675	719	710-730	
EBITDA* margin	6.6%	8.1%	9.7%	10.9%	peer level	
Net financial debt	1,135	680	511	460	841***	
Net fin. debt / EBITDA*	2.5x	1.2x	0.8x	0.6x	<1.5x	
Underlying EPS**	0.65	1.19	2.69	3.36		
						
<small>* Pre exceptionals; **EPS pre exceptionals, based on actual taxrate ***as per Sep 30 2008</small>						
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## 9M 2008 financial overview: EBITDA margin expansion despite raw material pressure and unfavourable currency effects

(€m)	9M 2007	9M 2008	Δ in %	
Sales	5,143	5,114	-0.6%	<ul style="list-style-type: none"> <li>▪ Sales remained almost stable as price increases offset negative currency effects. Consolidation of Petroflex mitigates sales effect due to absence of LUP</li> <li>▪ EBITDA pre exceptionals rose by around 5% mainly due to strong pricing in all segments and Petroflex' contribution</li> <li>▪ EBITDA margin, even though burdened by a weak U.S. dollar, improved nicely</li> <li>▪ Working capital mirrors acquisition and seasonal movement</li> </ul>
EBITDA pre except. margin	605 11.8%	634 12.4%	4.8%	
Net Income	107	212	98.1%	
Capex	170	180	5.9%	
(€m)	30.06.2008	30.09.2008	Δ in %	
Net Financial Debt	887	841	-5.2%	
Net Working Capital	1,511	1,579	4.5%	
Employees	15,072	14,983	-0.6%	

**Operationally successful and resilient first 9M 2008**

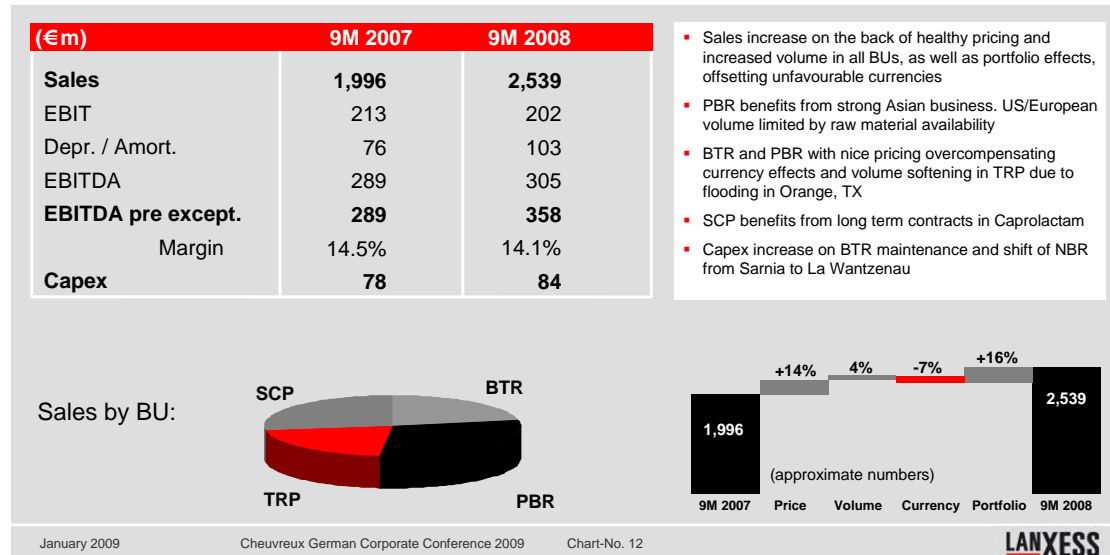
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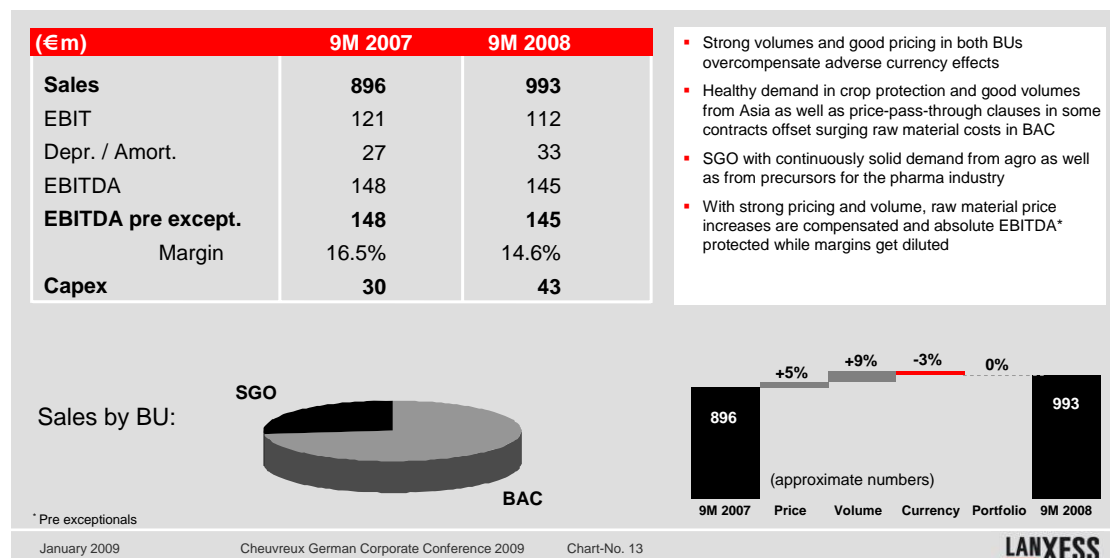
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## Performance Polymers: a powerful business



## Advanced Intermediates: solid price and volume increases compensate currency and raw material effects

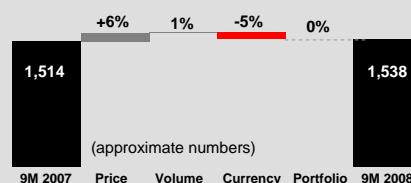
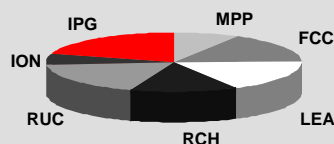


## Performance Chemicals: sound operational performance offsets raw material and currency effects

(€m)	9M 2007	9M 2008
<b>Sales</b>	<b>1,514</b>	<b>1,538</b>
EBIT	169	162
Depr. / Amort.	65	57
EBITDA	234	219
<b>EBITDA pre except.</b>	<b>238</b>	<b>225</b>
Margin	15.7%	14.6%
<b>Capex</b>	<b>37</b>	<b>46</b>

- Sales increase on the back of healthy pricing, thus offsetting currency effects
- Good pricing, especially in LEA (chrome ore) and RUC
- EBITDA\* almost reached previous year's level despite slightly lower returns in IPG (exposure to construction industry) and MPP (wood protection)
- IPG price increases offset raw material price hikes. Strong volumes from construction in BRIC region mitigate market weakness in US and parts of Europe
- Raw Material price increases and the weak USD weigh on segment margin

Sales by BU:



\* Pre exceptionals

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Chart-No. 14

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## Lower net debt compared to Q2 2008

(€m)	Jun 30, 2008	Sept 30, 2008	(€m)	Jun 30, 2008	Sept 30, 2008
<b>Non-current Assets</b>	<b>2,092</b>	<b>2,150</b>	<b>Stockholders' Equity</b>	<b>1,626</b>	<b>1,645</b>
Intangible assets	143	130	thereof minority interest	78	78
Property, plant & equipment	1,590	1,605	<b>Non-current Liabilities</b>	<b>1,858</b>	<b>1,801</b>
Equity investments	46	47	Pension & post empl. provisions	477	489
Other investments	2	2	Other provisions	332	317
Financial assets	64	78	Financial liabilities	826	829
Deferred taxes	93	132	Tax liabilities	63	67
Other non-current assets	154	156	Other liabilities	90	44
<b>Current Assets</b>	<b>2,758</b>	<b>2,825</b>	Deferred taxes	70	55
Inventories	1,047	1,129	<b>Current Liabilities</b>	<b>1,366</b>	<b>1,529</b>
Trade accounts receivable	1,080	1,051	Other provisions	340	391
Financial assets	264	232	Financial liabilities	251	313
Other current assets	184	169	Trade accounts payable	616	601
Liquid assets	183	244	Tax liabilities	39	54
			Other liabilities	120	170
<b>Total Assets</b>	<b>4,850</b>	<b>4,975</b>	<b>Total Equity &amp; Liabilities</b>	<b>4,850</b>	<b>4,975</b>

Strong backbone in turbulent markets

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## Financing and liquidity situation is very comfortable No need to re-finance in current turbulent markets

<b>Eurobond</b>	<ul style="list-style-type: none"> <li>▪ Volume : €500 m</li> <li>▪ Maturity : June 2012</li> <li>▪ Covenant: No financial covenant; Change of Control clause</li> <li>▪ Coupon : 4.125%</li> </ul>
<b>Revolving credit facility</b>	<ul style="list-style-type: none"> <li>▪ Volume : €1.4 bn, undrawn</li> <li>▪ Maturity : November 2014</li> <li>▪ Covenant: Net financial debt* / EBITDApre &lt; 3.5x Change of Control</li> <li>▪ Syndicate: 17 international banks</li> </ul>
<b>Other financing and liquidity sources</b>	<ul style="list-style-type: none"> <li>▪ Cash position as of September 30, 2008 (€244 m)</li> <li>▪ €250m 3-year term loan for Petroflex acquisition, fully drawn as of 13 Nov 2008</li> <li>▪ Over €500 m short-term committed bilateral credit facilities</li> </ul>

\* Excluding pensions

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## Cash flow indicates persisting operational stability

(€m)	9M 2007	9M 2008
<b>Profit before Tax</b>	<b>196</b>	<b>299</b>
Depreciation & amortization	236	203
Gain from sale of assets	0	-13
Result from investment in associate	-16	-17
Financial (gains) losses	7	56
Cash tax payments	-78	-78
Changes in other assets and liabilities	153	106
<b>Operating Cash Flow before changes in WC</b>	<b>498</b>	<b>556</b>
Changes in Working Capital	-158	-236
<b>Operating Cash Flow</b>	<b>340</b>	<b>320</b>
<b>Investing Cash Flow</b>	<b>-242</b>	<b>-356</b>
thereof Capex	-170	-180
<b>Financing Cash Flow</b>	<b>-115</b>	<b>91</b>

- Solid business delivers an improved profit before tax
- Operating cash flow for 9M 2008 contains -€35 m restructuring cash out
- Working capital increase due to higher raw material costs and preparation for maintenance turnarounds
- Investing cash flow contains payment for acquisition of Petroflex

Underlying cash flow strength remains

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Chart-No. 18

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## Macroeconomic environment has become even more challenging

### LANXESS is exposed to a rapidly changing market environment

- LANXESS already expected further decline of U.S. and European economies for the remainder of the year 2008
  - EBITDA pre exceptionals will be influenced by the valuation of inventories at the end of the year
- 
- Starting in Q4 2008, demand declined substantially
  - Raw material prices collapsed and pattern is expected to continue into 2009
  - Q1 2009 is expected to start on a very low level of demand
  - After Chinese New Year, pick-up of demand in the industry expected from Asia in March, however true momentum not seen to return before H2 2009



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## LANXESS maintains its guidance 2008 despite a very weak Q4 2008

**Strong market positions of well prepared businesses provide confidence**

**EBITDA\* FY 2008: €10 - 730 m**

**Further financial information:**

- Exceptional P&L expense FY 2008 expected around €70-90 m
- Exceptional cash outs FY 2008 expected around €90-100 m
- Tax rate ~30% for FY 2008
- Capex FY 2008: €330-350 m

**Inventory valuation will influence the final EBITDA\* figure**

\* Pre exceptionals



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Chart-No. 21

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## Cost measures taken in Q3 2008: operationally managing slowing demand

### Various actions have been agreed and are realized

- New combined regional structure for the U.S. and Canadian organizations
- Mothballing of an EPDM (BU TRP) production line in Orange, Texas
- Consolidation of worldwide NBR production at one very competitive site in La Wantzenau, France
  - Shifting of Canadian (Sarnia) and Brazilian (Petroflex) production
  - Result: one very competitive NBR production site worldwide with capacities to produce up to 100kt
- Acceleration of already announced and planned restructuring measures on our site in Sarnia, Canada, resulting in a reduction of workforce by 330 employees (of which 200 are already accomplished)
- Restructuring of our Belgian affiliate LANXESS Rubber NV in Zwijndrecht with a workforce reduction from 500 to around 370

### Sense of urgency has always been our strength

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Chart-No. 22

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## Cost measures taken in Q4 2008: LANXESS actively addresses the challenges it faces

### Realignment of BU Functional Chemicals (FCC) and additional production cuts & efficiency measures

- FCC develops and produces
  - polymer additives, phosphorus-, specialty chemicals, colorants
  - at sites in Leverkusen, Dormagen and Krefeld-Uerdingen in Germany and in Lerma, Mexico
- FCC currently employs ~650 employees worldwide, thereof 450 in Germany
- Ongoing implementation of measures to improve competitiveness:
  - Focus on three areas of business instead of four
  - Up to 120 functions worldwide will be affected
- Additionally:
  - temporary production cutbacks and shutdowns in 23 of 45 German plants reaching into January 2009
  - streamlining of Petroflex production operations and contracted services in first quarter 2009. Measures affect ~50 employees and ~350 external service providers



### Sense of urgency has always been our strength

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Chart-No. 23

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## Various other measures along the value chain are employed

<b>Supply management</b>	<ul style="list-style-type: none"> <li>▪ Strategic supplier risk monitoring (D&amp;B, S&amp;P)</li> <li>▪ Supplier risk management, daily contact with main suppliers</li> <li>▪ Transition to more flexible supplier contracts</li> <li>▪ Further broaden supplier network to flexibly react on FX opportunities</li> <li>▪ Leverage LANXESS global supply organization (arbitrage)</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>▪ Daily / weekly trading updates from major businesses</li> <li>▪ Monitoring of plant efficiency</li> <li>▪ Exchange with workers' representatives to be able to adequately react on demand weakness</li> <li>▪ Tight Working Capital management</li> </ul>
<b>Customer management</b>	<ul style="list-style-type: none"> <li>▪ Close credit risk monitoring of top 250 customers</li> <li>▪ Marketing force in extended contact with customers to early react on changes in projected order pattern</li> </ul>

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Chart-No. 24

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## Additionally, cash preserving measures are being taken

<b>Investments are being postponed</b>	
<b>Butyl Investment in Singapore</b>	<ul style="list-style-type: none"> <li>▪ Groundbreaking delayed to fall 2009</li> <li>▪ Planned start-up postponed from 2011 to 2012</li> <li>▪ Relief of capex-burden in 2009</li> </ul>
<b>Other capex projects</b>	<ul style="list-style-type: none"> <li>▪ All capex projects being re-evaluated</li> <li>▪ Where technically possible, investments will be stopped / delayed</li> </ul>
<b>Moving of headquarter</b>	<ul style="list-style-type: none"> <li>▪ Planned move of headquarter from Leverkusen to Cologne</li> </ul>
<b>Financial flexibility for a tough year 2009 is ensured</b>	

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Chart-No. 25

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## LANXESS is well prepared to actively manage challenges

### Current and historic measures demonstrate sense of urgency and capability to act

- Extensive restructuring measures implemented in 2005-2009
- Most current measures ensure
  - further improvement of cost base
  - active capacity management
  - financial flexibility and strength

**LANXESS expects demand to be very weak in Q1 2009 and is preparing for a difficult year on the whole**



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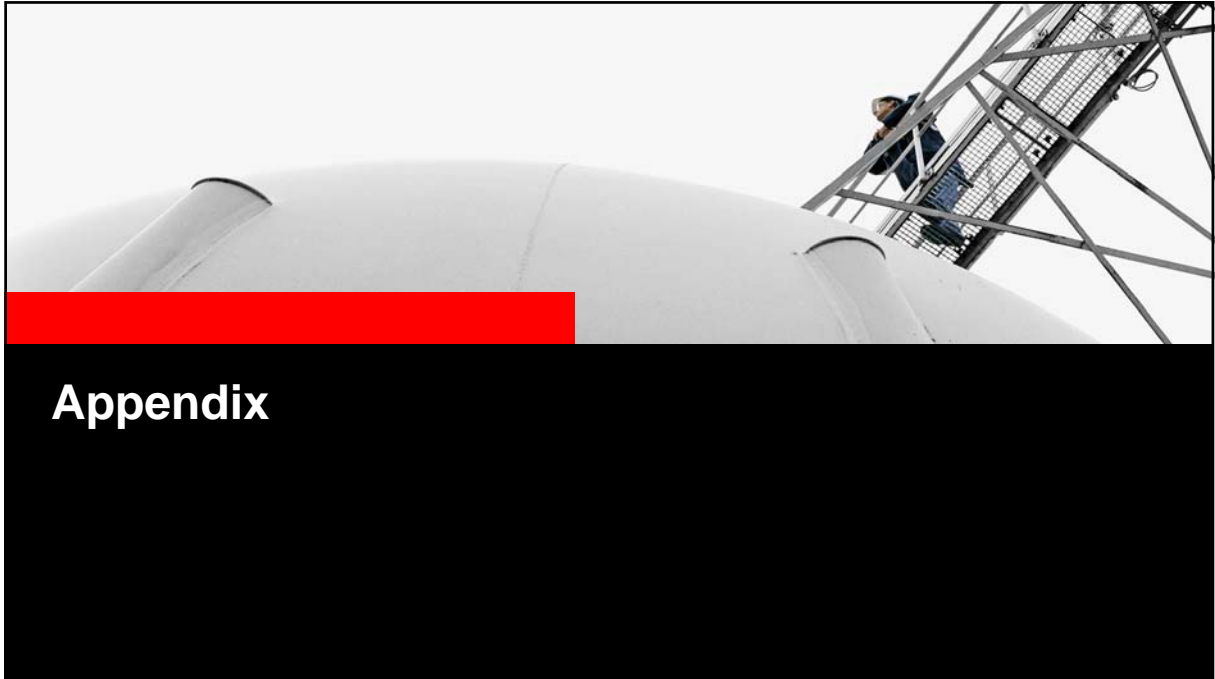
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Chart-No. 26

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Energizing Chemistry

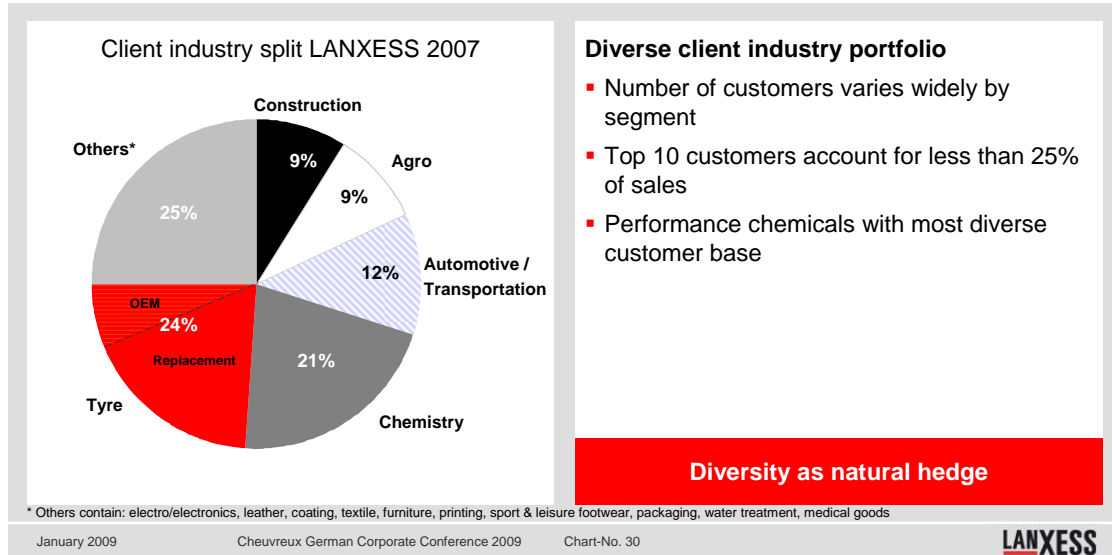


# Appendix

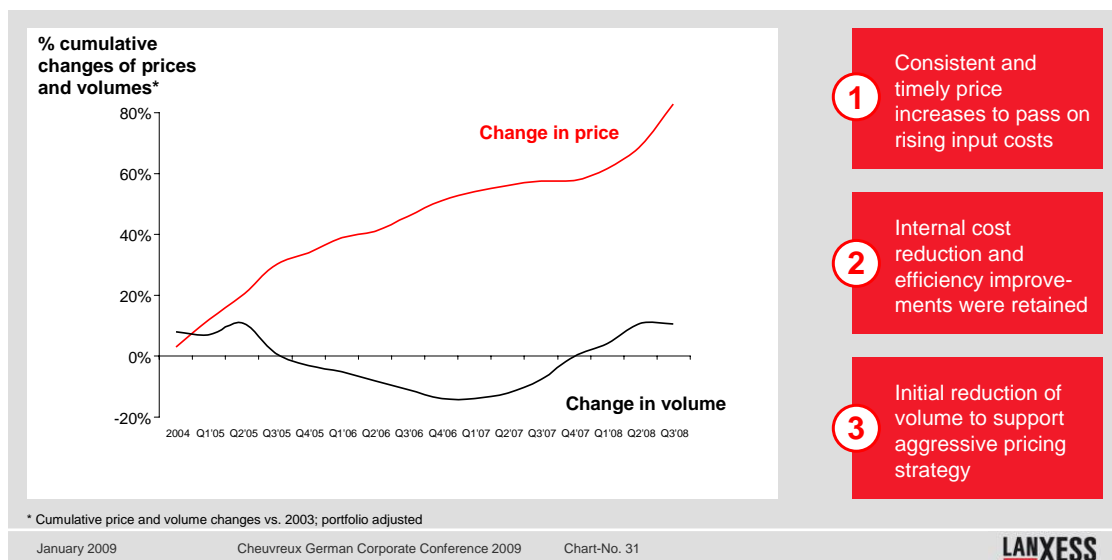
## LANXESS' largest businesses operating on a global scale

BTR	PBR	SCP	BAC
			
<p>Largest player after ExxonMobil in oligopolistic market</p>	<p>Number one on the merchant market</p>	<p>World scale backward integration into Caprolactam</p>	<p>Leading market positions in all business lines</p>
<p>LANXESS setting the scene where it operates</p>			

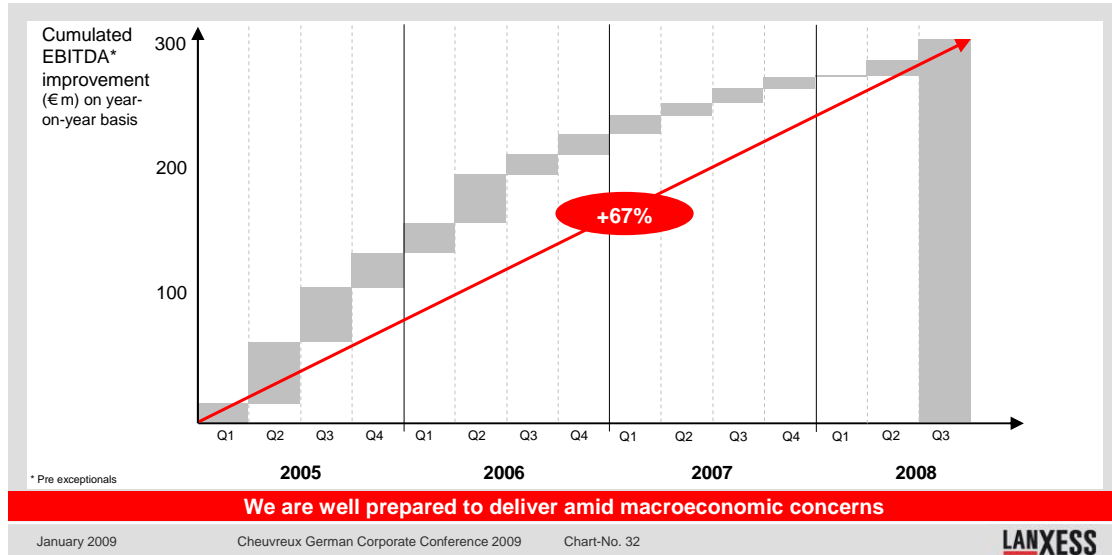
## Well diversified portfolio serving different client industries



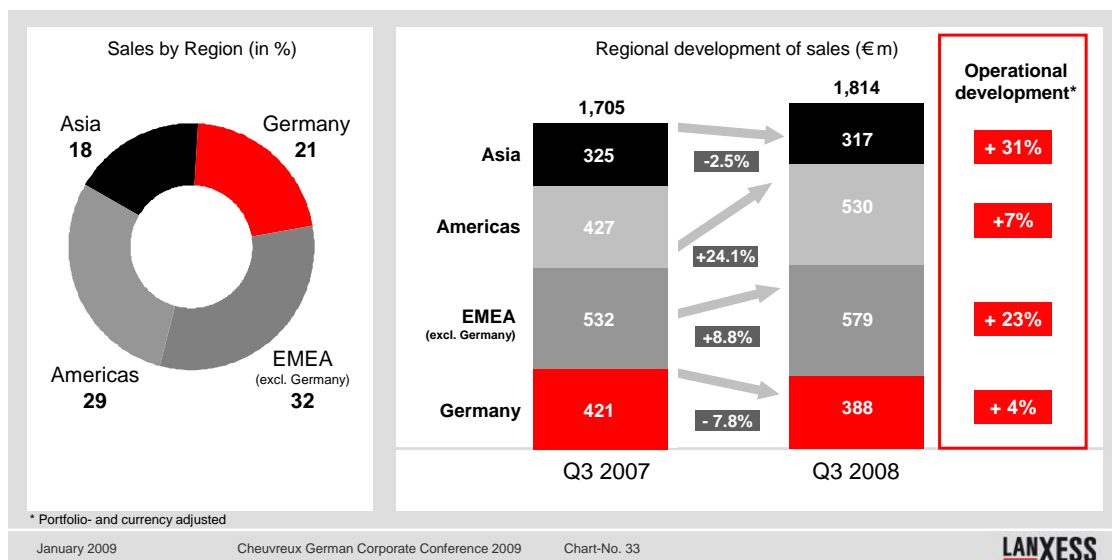
## LANXESS' approach delivers success in both price and volume



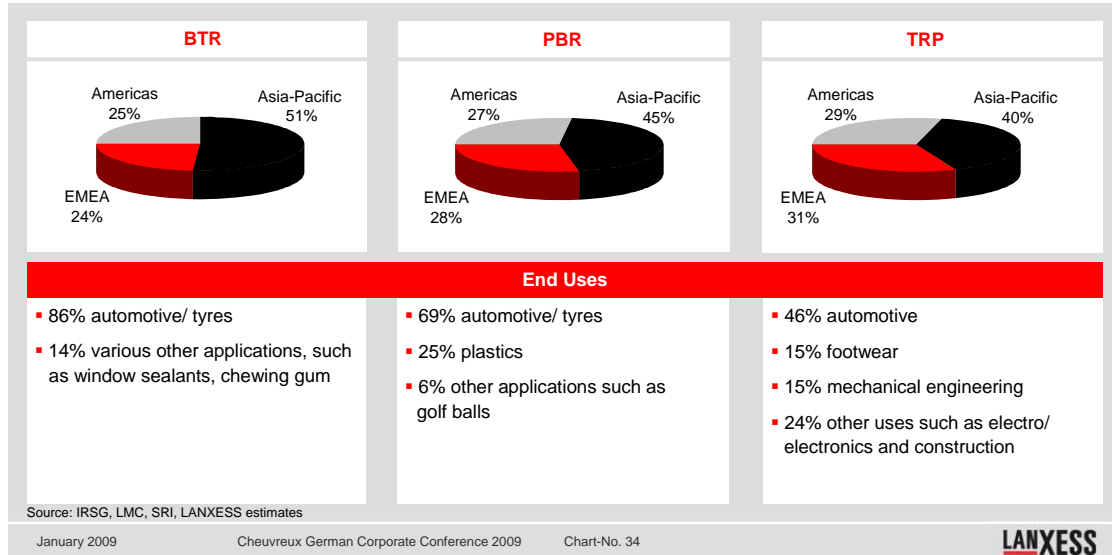
## Proof of our strong portfolio with fifteen quarters of EBITDA improvement in a row



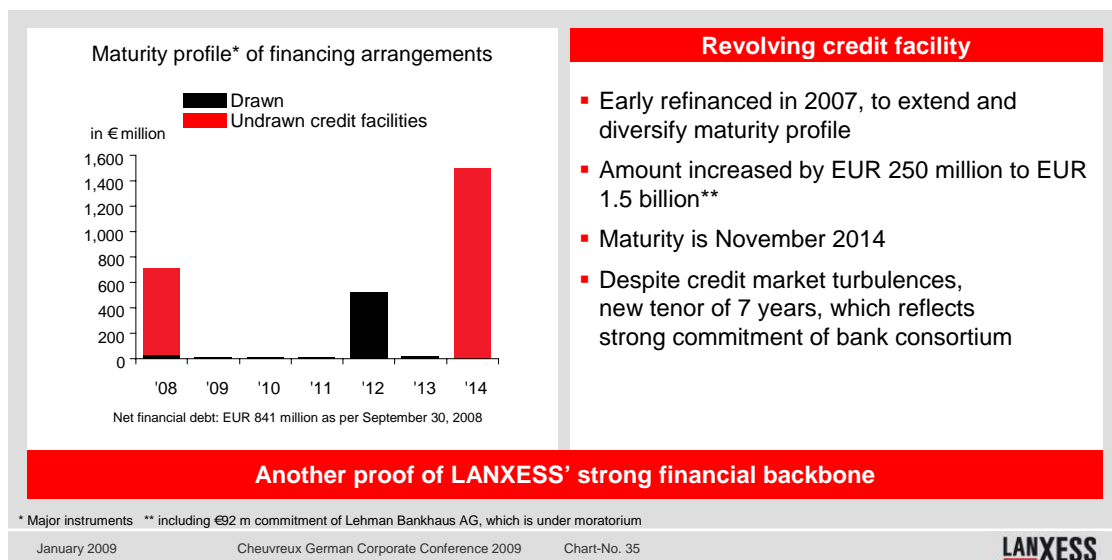
## LANXESS again achieves operational growth in all regions



## Asian growth dynamics are a major driver for LANXESS Example: Asian rubber demand



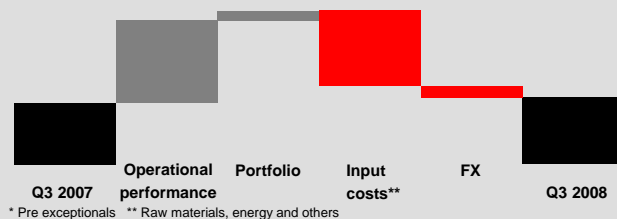
## Financing secured with very attractive conditions and long maturities



## Strong results driven by price increases offset negative input costs and currency effects

Sales variances (€ m)	Price	Volume	Currency	Portfolio
Performance Polymers	+24%	-5%	-6%	+27%
Advanced Intermediates	+7%	+11%	-2%	0%
Performance Chemicals	+11%	-1%	-5%	0%
Others / Recon./ LUP	0%	-1%	0%	-94%
<b>LANXESS</b>	<b>+14%</b>	<b>0%</b>	<b>-4%</b>	<b>-3%</b>

### EBITDA\* performance bridge (€ m)



\* Pre exceptionals \*\* Raw materials, energy and others

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Chart-No. 36

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Sales
Price increases in all segments
Operational growth of 14% achieved
Petroflex almost offset negative LUP effect

EBITDA*
Early implementation of price increases overcompensated the record rise in input costs
EBITDA* increased by €16 m operational performance in conjunction with improved portfolio

## Q3 2008 financial overview: EBITDA increase based on full input cost pass through and improved business portfolio

(€ m)	Q3 2007	Q3 2008	Δ in %
Sales	1,705	1,814	6.4%
EBITDA pre except. margin	175 10.3%	191 10.5%	9.1%
Net Income	75	56	-25.3%
Capex	59	75	27.1%

- Sales rose as price increases offset negative currency effects. Consolidation of Petroflex mitigates absence of LUP
- EBITDA pre exceptionals rose by around 9% mainly due to strong pricing in all segments and Petroflex' contribution

(€ m)	30.06.2008	30.09.2008	Δ in %
Net Financial Debt	887	841	-5.2%
Net Working Capital	1,511	1,579	4.5%
Employees	15,072	14,983	-0.6%

- Net income contains sale of affiliate ARG in '07, higher interest and lower equity result (Currenta)
- Healthy cash flow generation reduced net debt
- Headcount further reduced since consolidation of Petroflex

**On track despite increasing macroeconomic headwind**

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Chart-No. 37

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## Strong P&L reflecting well managed businesses in a tougher environment

(€m)	Q3 2007	Q3 2008	Δ in %	
<b>Sales</b>	<b>1,705</b>	<b>1,814</b>	<b>6.4%</b>	<ul style="list-style-type: none"> <li>Necessary price increases (+14%) more than offset unfavourable currency effects (-4%) and portfolio changes (-3%)</li> <li>Deviations in functional expense lines mirror mainly consolidation of Petroflex and risen input costs</li> <li>Net income contains sale of affiliate ARG in '07, higher interest and lower equity result (Currenta)</li> <li>EBITDA*: major price increases and contribution of Petroflex overcompensate raw material and currency effects</li> </ul>
Cost of sales	-1,335	-1,410	5.6%	
SG&A	-241	-249	3.3%	
R&D	-24	-25	4.2%	
Other op. income / expense	-1	-23	>100%	
thereof exceptionals	-8	-12	50.0%	
<b>EBIT</b>	<b>104</b>	<b>107</b>	<b>2.9%</b>	
<b>Net Income</b>	<b>75</b>	<b>56</b>	<b>-25.3%</b>	
<b>EPS</b>	<b>0.89</b>	<b>0.67</b>	<b>-24.7%</b>	
EBITDA	174	182	4.6%	
thereof exceptionals	-1	-9	>100%	
<b>EBITDA pre exceptionals</b>	<b>175</b>	<b>191</b>	<b>9.1%</b>	

\* Pre exceptionals

**Tough quarter was managed successfully**

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## Acquisition of Petroflex - a compelling strategic rationale

<b>Overview of acquisition target</b>	<ul style="list-style-type: none"> <li>Petroflex is a major player in synthetic rubber in Latin America</li> <li>2006 sales of ~€500 million with 1,300 employees (incl. contractors)</li> <li>Solution (PBR, SSBR) and emulsion (NBR, ESBR) rubber</li> <li>Three manufacturing sites in Brazil with total capacity of ~400 kt</li> </ul>
<b>Strategic rationale</b>	<ul style="list-style-type: none"> <li>Strengthens LANXESS' position in the synthetic rubber market globally</li> <li>Reflects the strongly growing Latin American market for synthetic rubber</li> <li>Potential for synergies after integration</li> </ul>
<b>Shareholder value creation</b>	<ul style="list-style-type: none"> <li>EPS accretive in first year</li> <li>Investment in profitable growth markets, where the products are expected to grow above GDP</li> </ul>

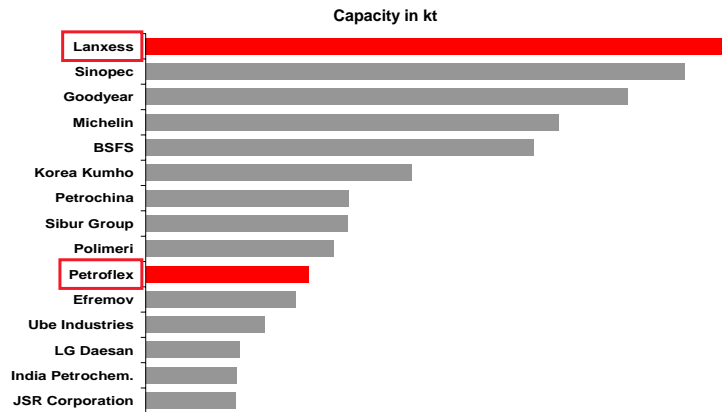
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## LANXESS and Petroflex team up for a real global BR / SSBR supplier

### LANXESS solution rubber

### Top 15 BR / SSBR producers 2007

- With its production sites in Germany (Dormagen), France (Port Jerome) and the US (Orange) PBR serves all the technology oriented markets in Europe und North America
- LATAM is benefiting from relocation of high performance tire production from North America



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Chart-No. 40

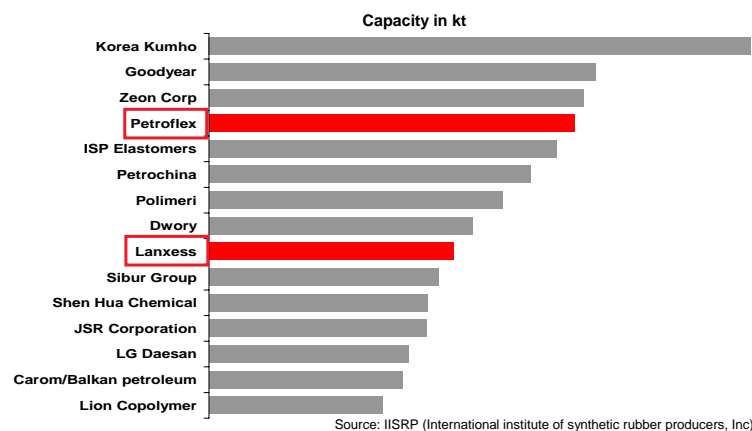
LANXESS

## LANXESS will benefit from Petroflex' additional emulsion rubber assets

### LANXESS emulsion rubber

### Top 15 NBR / ESRB producers 2007

- The NBR production in France (La Wantzenau) has the highest capacity globally and serves the markets in Europe and Asia
- The production in Sarnia (Canada) and Triunfo (Brazil) are now being concentrated in La Wantzenau
- As a general rule emulsion rubbers can be produced in the same lines
- Many of the market players combine NBR and ESRB in their portfolio



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Chart-No. 41

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## Is LANXESS a swing producer?

**Tyre manufacturers produce insufficient synthetic rubber for their captive use**

Rubber producing capabilities of selected tyre manufacturers:

Importance in LANXESS portfolio		Michelin	Goodyear	Bridgestone	Continental	Pirelli	Hankook
major	<b>BTR</b>	none	none	none	none	none	none
major	<b>PBR<sup>1</sup></b>	little <sup>2</sup>	none	capable	none	none	none
minor	<b>S-SBR</b>	capable	capable	capable	none	none	none
major	<b>E-SBR</b>	little	capable	capable	none	none	none
major	<b>NBR</b>	none	none	none	none	none	none

<sup>1</sup> Nd-PBR <sup>2</sup> Know how present, licensing to others

**LANXESS is not a swing producer**

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Chart-No. 42

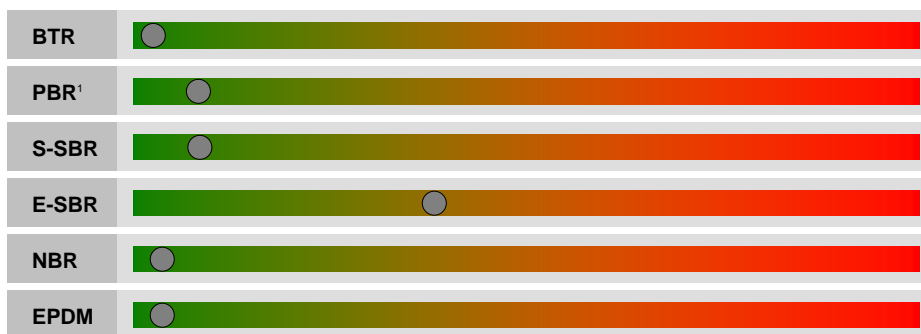
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## Does natural rubber cannibalize synthetic rubber?

**Risk of substitution**

Low substitution risk ←

→ High substitution risk



<sup>1</sup> Nd-PBR

**Overall, very limited substitution possibility**

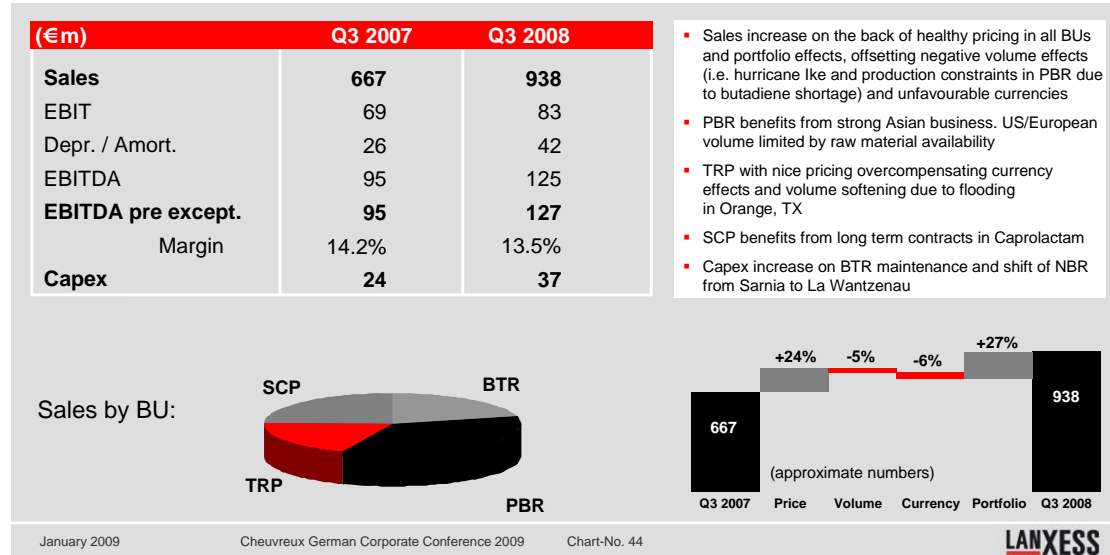
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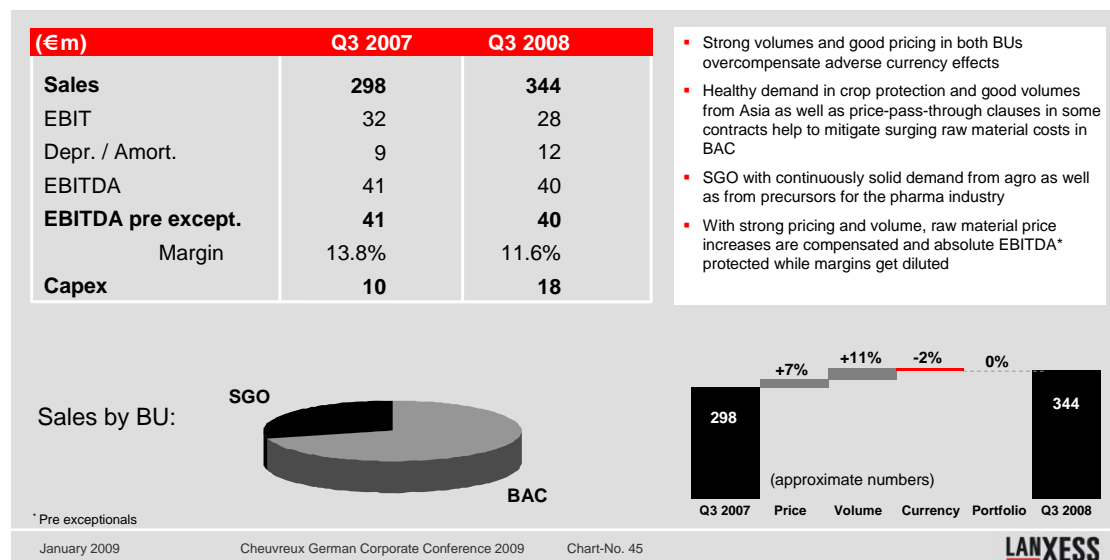
Chart-No. 43

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## Performance Polymers: a powerful business



## Advanced Intermediates: solid price and volume increases compensate currency and raw material effects

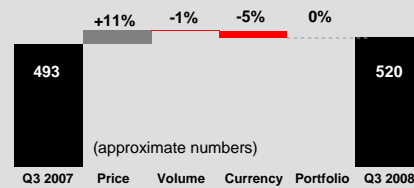
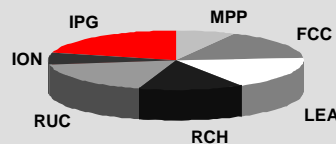


## Performance Chemicals: sound operational performance offsets raw material and currency effects

(€m)	Q3 2007	Q3 2008
Sales	493	520
EBIT	41	45
Depr. / Amort.	22	18
EBITDA	63	63
<b>EBITDA pre except.</b>	<b>67</b>	<b>65</b>
Margin	13.6%	12.5%
Capex	22	18

- Sales increase on the back of healthy pricing, thus offsetting currency effects
- Good pricing, especially in LEA (chrome ore) and RUC
- EBITDA\* almost reached previous year's level despite slightly lower returns in IPG (exposure to construction industry) and MPP (wood protection)
- IPG price increases offset raw material price hikes. Strong volumes from construction in BRIC region mitigate market weakness in US and parts of Europe
- Raw Material price increases and the weak USD weigh on segment margin

Sales by BU:



\* Pre exceptionals

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Chart-No. 46

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## LANXESS confirms targets in a more demanding economic environment

EBITDA\* targeted between  
€10 m and €30 m

2008

EBITDA\* margin:  
Peer group profitability

2008

No business < 5% EBITDA\*  
margin

2008

Investment grade rating



\* EBITDA figures pre exceptionals

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Chart-No. 47

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## Exceptional items incurred in Q3 2007 and Q3 2008

(€m)	Q3 2007		Q3 2008	
	Exceptional	thereof D&A	Exceptional	thereof D&A
Performance Polymers	0	0	5	3
Advanced Intermediates	0	0	0	0
Performance Chemicals	4	0	2	0
Reconciliation	4	7	5	0
<b>Total</b>	<b>8</b>	<b>7</b>	<b>12</b>	<b>3</b>

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Chart-No. 48

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## Exceptional items incurred in 9M 2007 and 9M 2008

(€m)	9M 2007		9M 2008	
	Exceptional	thereof D&A	Exceptional	thereof D&A
Performance Polymers	0	0	59	6
Advanced Intermediates	0	0	0	0
Performance Chemicals	4	0	7	1
Reconciliation	207	52	3	-1
<b>Total</b>	<b>211</b>	<b>52</b>	<b>69</b>	<b>6</b>

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Chart-No. 49

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## Abbreviations

### Performance Polymers

BTR	Butyl Rubber
PBR	Performance Butadiene Rubbers
TRP	Technical Rubber Products
SCP	Semi-Crystalline Products

### Advanced Intermediates

BAC	Basic Chemicals
SGO	Saltigo

### Performance Chemicals

MPP	Material Protection Products
IPG	Inorganic Pigments
FCC	Functional Chemicals
LEA	Leather
RCH	Rhein Chemie
RUC	Rubber Chemicals
ION	Ion Exchange Resins

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Chart-No. 50

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Chart-No. 51

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