



# **LANXESS – WestLB Deutschland Konferenz 2009**

**Improved demand and effective self-help measures**

**Matthias Zachert, Chief Financial Officer**

Frankfurt, November 18, 2009

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Chart 2

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## Agenda

- Strategy Update
- Business and financial review Q3 2009
- Outlook/Guidance

Chart 3

**LANXESS**

# LANXESS – A leading specialty chemicals company based on three powerful segments

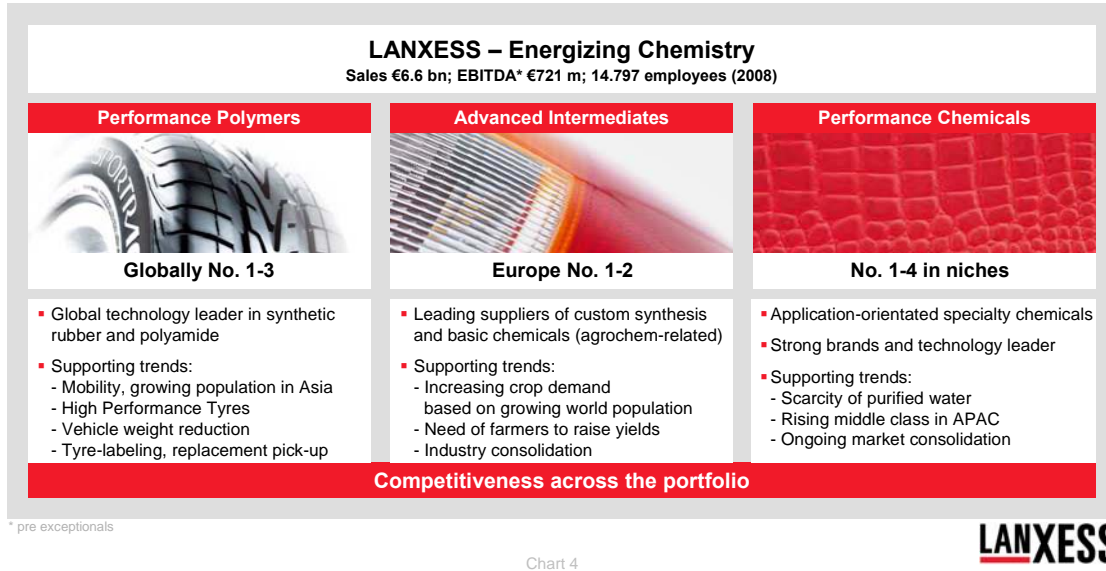


Chart 4

# Consistent delivery as four-phase strategy is implemented

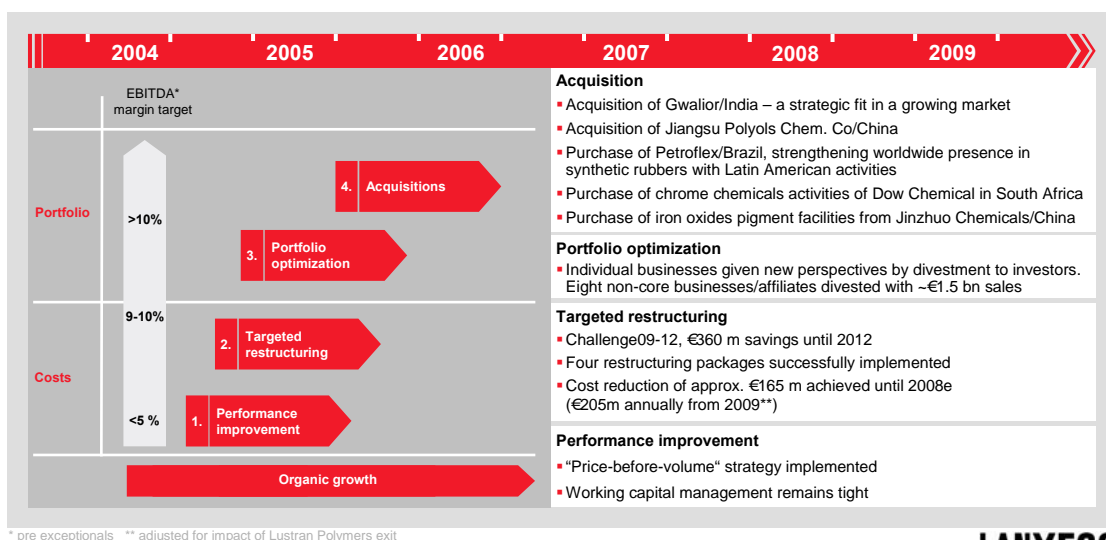


Chart 5

## Portfolio management has continuously strengthened the company - €1.5 bn of sales divested

	Leadership Position	Cyclicality	Profitability Expectation	Business Driver
<b>Fibers</b>	Weak	High	Low	Market shifting to Asia
<b>Paper</b>	Moderate	Moderate	Medium	High industry consolidation
<b>Textile Processing Chem.</b>	Weak	Moderate	Medium	Market shifting to Asia
<b>Lustran Polymers</b>	Good	High	Low	Overcapacities, Commoditization
<b>CISA</b>	Good	Low	High	Upstream Integration
<b>Petroflex</b>	Good	Low	High	Global mobility trends
<b>Jinzhuo Chemicals (IPG)</b>	Good	Moderate	High	Expansion of Asian exposure
<b>Gwalior Chemicals (BAC)</b>	Good	Low	High	Strengthening global position
<b>Jiangsu Polyols (BAC)</b>	Good	Low	High	Expansion of Asian exposure

Chart 6

**LANXESS**

## LANXESS – Improvement trend of financials, based on strategy implementation

In €m	2004	2005	2006	2007	2008
EBITDA <sup>*</sup>	447	581	675	719	721
Net financial debt	1,135	680	511	460	864
Net fin. debt / EBITDA <sup>*</sup>	2.5x	1.2x	0.8x	0.6x	1.2x
Gearing	101%	54%	36%	30%	61%
Underlying EPS <sup>**</sup>	0.65	1.19	2.69	3.36	3.30
ROCE	5.4%	12.9%	15.9%	17.7%	15.0%

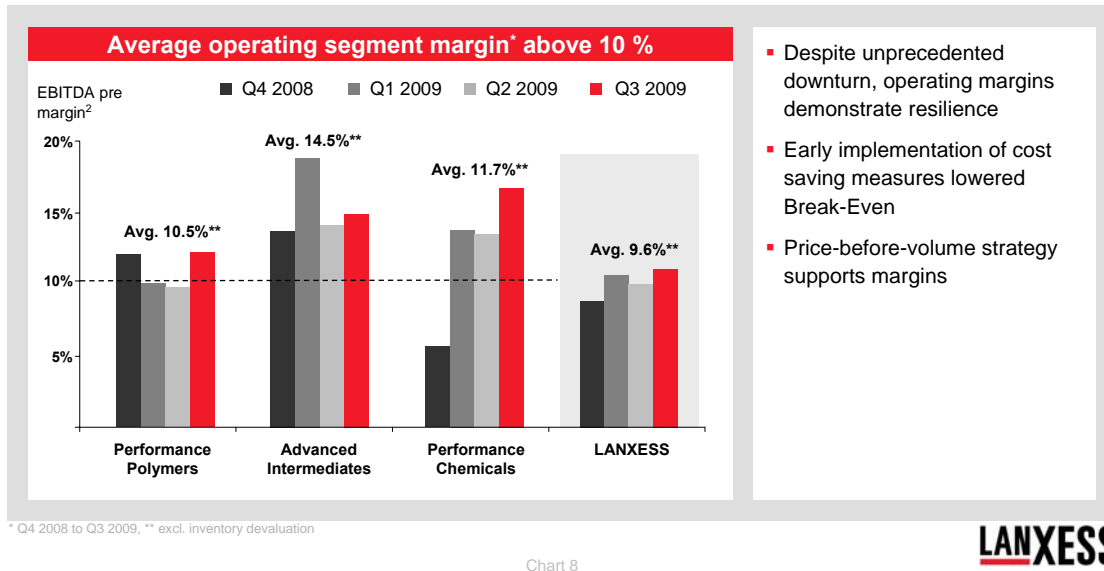
**Financial metrics continuously improved**

<sup>\*</sup> pre exceptionals <sup>\*\*</sup> EPS pre exceptionals, based on actual tax rate

Chart 7

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## Resilience shown in recession scenario



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Chart 9

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## Q3 2009 financial overview: sequential earnings improvement

[€ m]	Q3 2008	Q2 2009	Q3 2009	yoy in %	
Sales	1,814	1,238	1,373	-24.3%	<ul style="list-style-type: none"> <li>Sales increased 11% vs. Q2 driven by Asian momentum (China), but remain 24% below previous year</li> <li>EBITDA sequentially improved, flexible asset and cost management deliver margin around 2008 level</li> <li>Capex under strict control</li> <li>Net debt slightly up due to acquisitions</li> <li>Working capital stable</li> </ul>
EBITDA pre except. margin	192 10.6%	112 9.0%	143 10.4%	-25.5%	
Net Income	56	17	23	-58.9%	
Capex*	69	57	52	-24.6%	
[€ m]	31.12.2008	30.06.2009	30.09.2009	% vs. FY	
Net Financial Debt	864	719	779	-9.8%	
Net Working Capital	1,289	1,109	1,134	-12.0%	
Employees	14,797	14,335	14,604	-1.3%	

**Continuous tight management of businesses delivers improved metrics**

\* Net of projects financed by customers and finance lease

Chart 10

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## Asian business substantially expanding in 2009

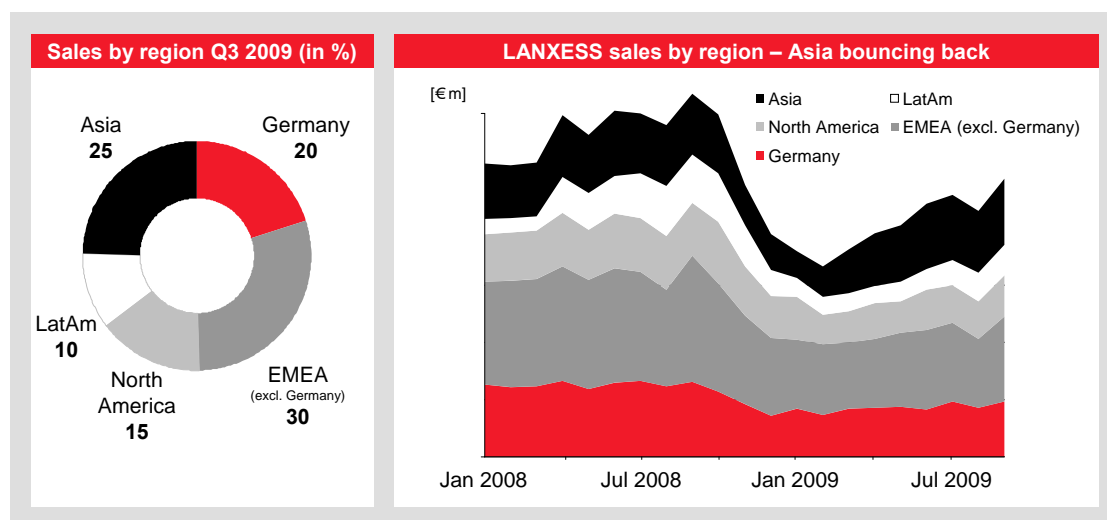


Chart 11

**LANXESS**

## Performance Polymers: volume and price increase in tandem highlights strength of businesses

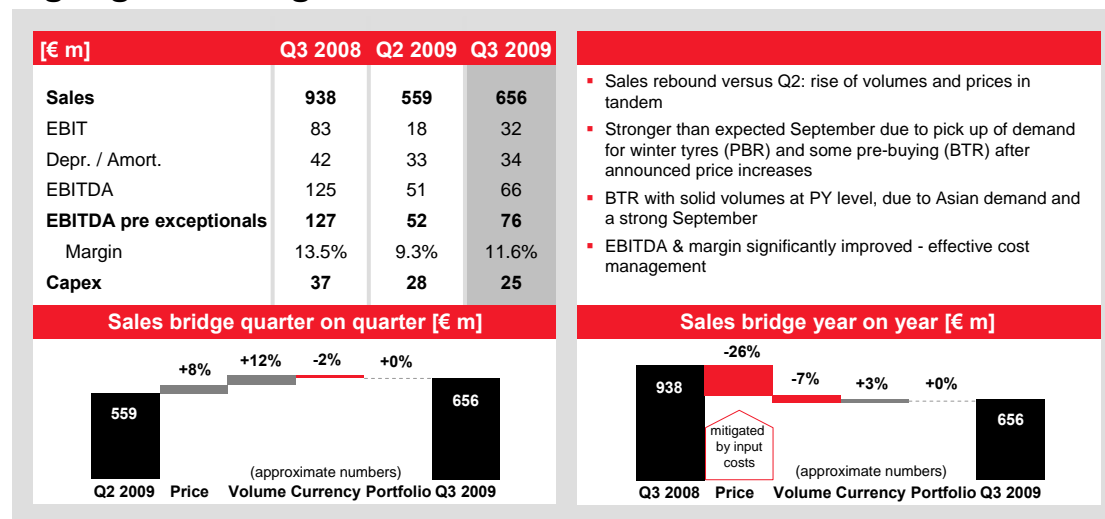
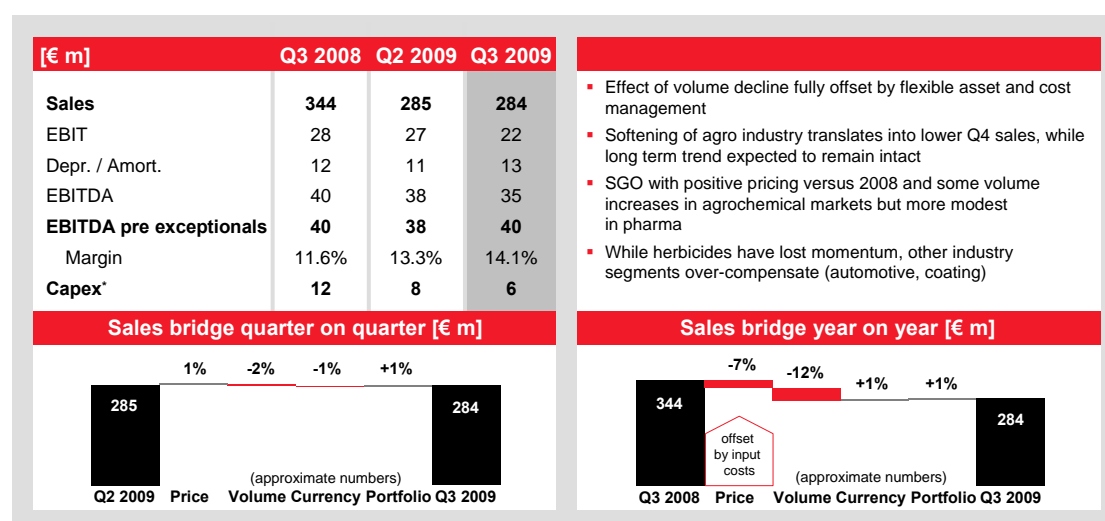


Chart 12

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## Advanced Intermediates: stable performance



\* Net of projects financed by customers

Chart 13

**LANXESS**

## Performance Chemicals: earnings above previous year

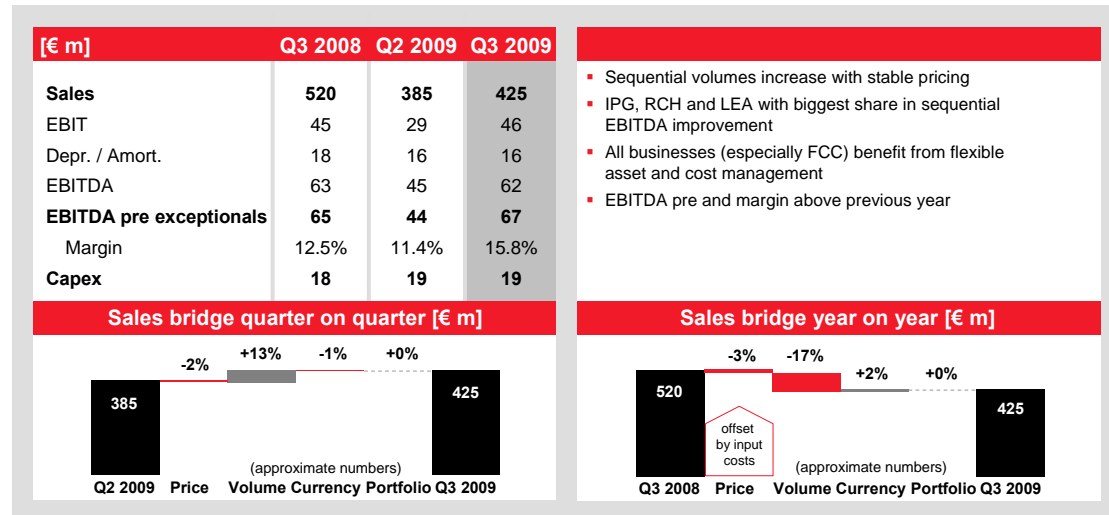
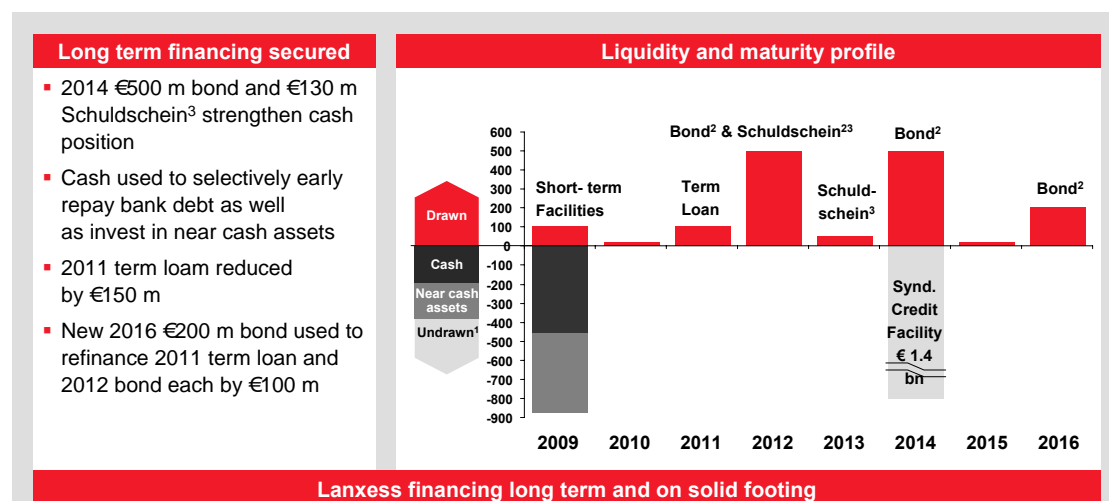


Chart 14

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## New bond further improved maturity profile



1 Committed credit lines,  
2 Major instrument  
3 English: promissory note

Chart 15

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## Agenda

- Strategy Update
- Business and financial review Q3 2009
- Outlook/Guidance

Chart 16

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## Macro view: signs of economic improvement with risk of setbacks

### View on LANXESS group level

- Global markets have stabilized, growth momentum mainly in Asia (especially China)
- Other regions are expected to continue slow recovery over a longer period of time
- Customers will manage inventories tightly in Q4
- Some pre-buying in Q3 potentially burdening Q4
- Seasonal earnings pattern affects Q4
- Flexible asset and cost management effective to mitigate lower utilization

**Risk of setback remains**



Chart 17

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## FY guidance reflects better Q3 performance and LANXESS self-help measures

### Guidance for FY 2009

Based on previously mentioned assumptions, LANXESS expects FY EBITDApre of €400 m - €420 m

### Additional financial expectations for 2009

- Capex\*: ~€300 m
- D&A: ~€270 – €280 m
- Tax rate: sustainable at ~25%
- Working Capital: moderate cash inflow for FY 2009
- Exceptionals: ~€40 m for FY 2009
- FX: FY avg. U.S. dollar at 1.35-1.40 USD / EUR
- Hedging: ~50% at 1.30-1.40 USD / EUR



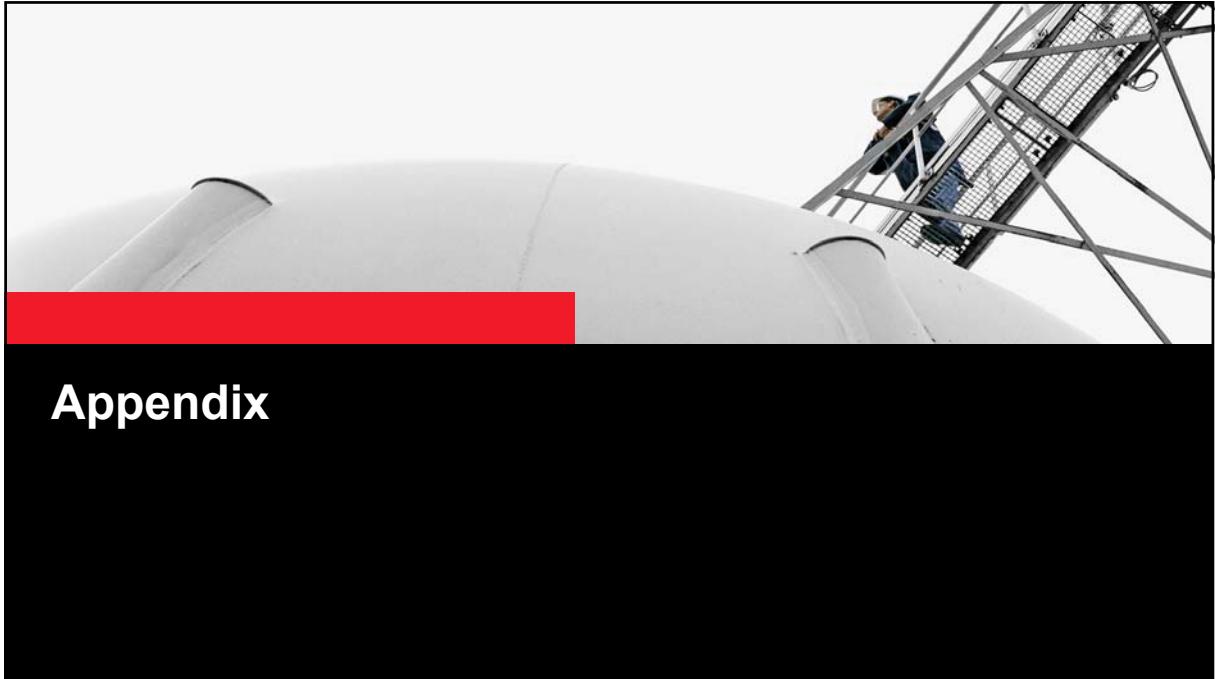
\* Without projects financed by customers

Chart 18

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# LANXESS

Energizing Chemistry



# Appendix

## Portfolio management allows for regrouping of LANXESS businesses along chemical segmentation

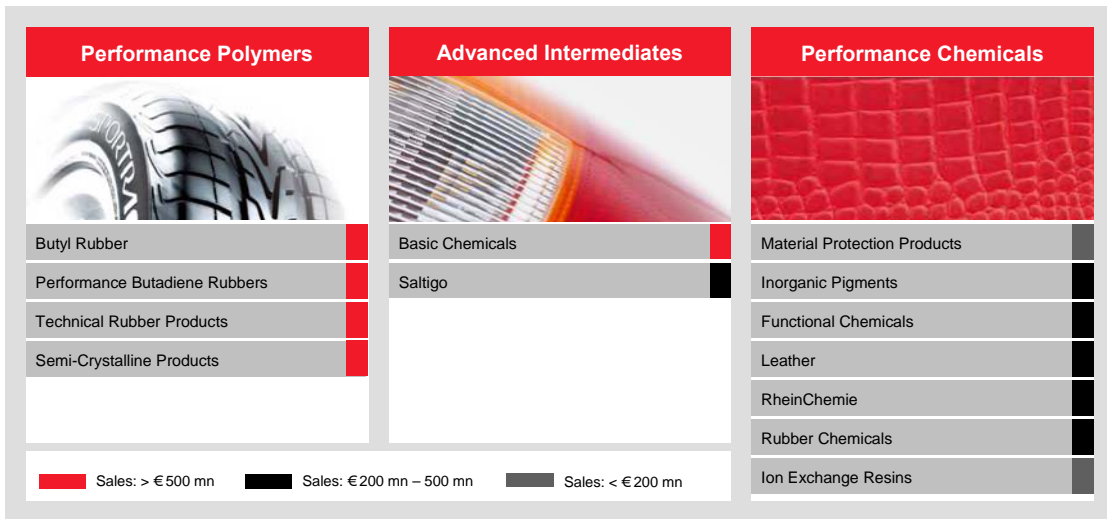


Chart 21

## LANXESS has a broad customer portfolio with varying demand patterns

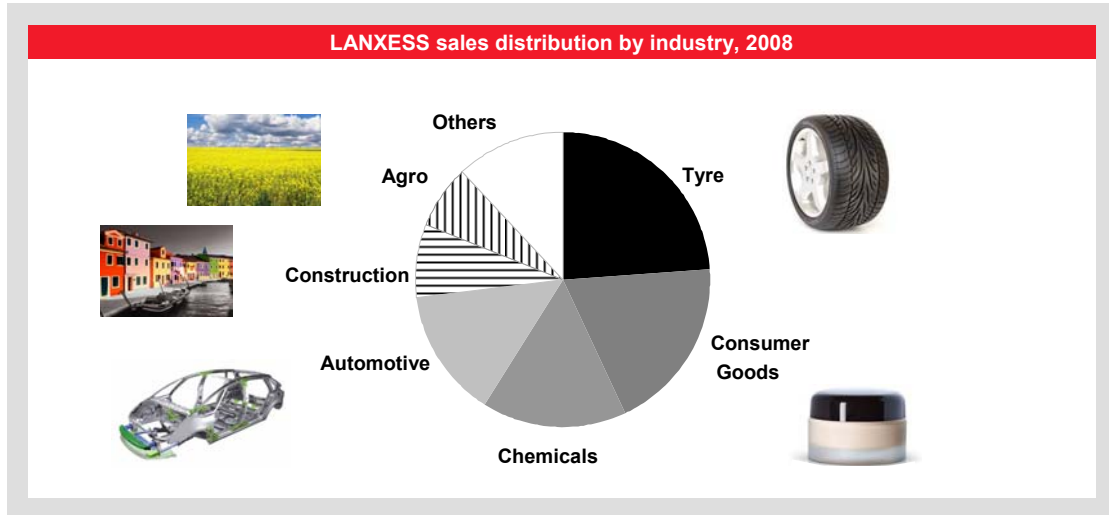


Chart 22

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## Solid financing and good working capital management

[€ m]	Dec 31, 2008	Sep 30, 2009	Dec 31, 2008	Sep 30, 2009
<b>Non-current Assets</b>	<b>2,169</b>	<b>2,357</b>	<b>Stockholders' Equity</b>	<b>1,339</b>
Intangible assets	145	192	thereof minority interest	16
Property, plant & equipment	1,646	1,763	<b>Non-current Liabilities</b>	<b>1,953</b>
Equity investments	42	29	Pension & post empl. provis.	498
Other investments	2	1	Other provisions	261
Other financial assets	72	87	Other financial liabilities	986
Deferred taxes	154	164	Tax liabilities	91
Other non-current assets	108	121	Other liabilities	76
<b>Current Assets</b>	<b>2,423</b>	<b>2,765</b>	Deferred taxes	41
Inventories	1,048	819	<b>Current Liabilities</b>	<b>1,300</b>
Trade accounts receivable	725	750	Other provisions	395
Other financial assets	155	143	Other financial liabilities	168
Other current assets	246	180	Trade accounts payable	484
Near cash assets	0	417	Tax liabilities	12
Cash and cash equivalents	249	456	Other liabilities	241
<b>Total Assets</b>	<b>4,592</b>	<b>5,122</b>	<b>Total Equity &amp; Liabilities</b>	<b>4,592</b>

**Cash position invested in highly rated and liquid money market funds**

- Increase in pension provisions due to regionally lower discount rates
- Investment in INEOS ABS deconsolidated

Chart 23

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## Price before volume intact – input cost pass-through with slight time lag

Q3 qoq sales variances	Price	Volume	Currency	Portf.	Total
Performance Polymers	8%	12%	-2%	0%	18%
Advanced Intermediates	1%	-2%	0%	1%	0%
Performance Chemicals	-2%	13%	-1%	0%	10%
<b>LANXESS</b>	<b>4%</b>	<b>9%</b>	<b>-2%</b>	<b>0%</b>	<b>11%</b>

Q3 yoy sales variances	Price	Volume	Currency	Portf.	Total
Performance Polymers	-26%	-7%	3%	0%	-30%
Advanced Intermediates	-7%	-12%	1%	1%	-17%
Performance Chemicals	-3%	-17%	2%	0%	-18%
<b>LANXESS</b>	<b>-16%</b>	<b>-11%</b>	<b>3%</b>	<b>0%</b>	<b>-24%</b>

- Sequentially, strong volume increase and good pricing momentum are only slightly mitigated by negative currency effects, year on year prices and volumes remain lower
- As raw material prices rise, pricing is adjusted upwards in Q3 vs. Q2 after raw material deflation in Q1
- Performance Polymers proves premium character of businesses: simultaneous improvement in prices and volumes

Chart 24

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## Cost structure fully aligned to current demand level

[€ m]	Q3 2008	Q3 2009	yoy in %
<b>Sales</b>	<b>1,814 (100%)</b>	<b>1,373 (100%)</b>	<b>-24%</b>
Cost of sales	-1,409 (78%)	-1,050 (76%)	-25%
Selling	-180 (10%)	-135 (10%)	-25%
G&A	-69 (4%)	-57 (4%)	-17%
R&D	-25 (1%)	-26 (2%)	+4%
<b>EBIT</b>	<b>108 (6%)</b>	<b>64 (5%)</b>	<b>-41%</b>
<b>Net Income</b>	<b>56 (3%)</b>	<b>23 (2%)</b>	<b>-59%</b>
<b>EPS</b>	<b>0.67 (0%)</b>	<b>0.28 (0%)</b>	<b>-58%</b>
EBITDA	183 (10%)	130 (9%)	-29%
thereof exceptionals	-9 (0%)	-13 (1%)	+44%
<b>EBITDA pre exceptionals</b>	<b>192 (11%)</b>	<b>143 (10%)</b>	<b>-26%</b>

**Continued sequential improvement**

- Sales decline yoy on lower prices (-16%) due to easing input costs and volume impact (-11%), slightly offset by currency effects (+3%)
- Cost of sales, selling and G&A expenses clearly show effects of flexible asset and cost management with accelerated implementation of restructuring and Challenge programs
- Sequential EBITDA\* improvement against typical seasonal pattern

2008 data adjusted for change in pension accounting  
\* Pre exceptionals

Chart 25

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## 9M 2009 financial overview: Successful through the economic downturn

[€ m]	9M 2008	9M 2009	yoy in %
<b>Sales</b>	<b>5,114</b>	<b>3,665</b>	<b>-28.3%</b>
<b>EBITDA pre except. margin</b>	<b>635</b> 12.4%	<b>321</b> 8.8%	<b>-49.4%</b>
<b>Net Income</b>	<b>215</b>	<b>26</b>	<b>-87.9%</b>
<b>Capex*</b>	<b>169</b>	<b>161</b>	<b>-4.7%</b>

[€ m]	31.12.2008	30.09.2009	yoy in %
<b>Net Financial Debt</b>	<b>864</b>	<b>779</b>	<b>-9.8%</b>
<b>Net Working Capital</b>	<b>1,289</b>	<b>1,134</b>	<b>-12.0%</b>
<b>Employees</b>	<b>14,797</b>	<b>14,604</b>	<b>-1.3%</b>

- Currency and portfolio effects mitigate negative impact from lower volumes and raw material driven selling price declines, leading to sales decrease of 28%
- Solid EBITDA and margin prove resilience of businesses and tight cost management
- Net income positive despite very low level of underlying demand
- Net debt still below level of FY 2008 despite acquisitions
- Incl. acquisitions, headcount reduced by ~200 versus FY 08

**Financial metrics robust in recessionary environment**

\* Net of projects financed by customers and finance lease

Chart 26

**LANXESS**

## Cost base tightly managed

[€ m]	9M 2008	9M 2009	yoy in %
<b>Sales</b>	<b>5,114</b>	<b>3,665</b>	<b>-28%</b>
Cost of sales	-3,910	-2,884	-26%
SG&A	-704	-557	-21%
R&D	-75	-75	0%
Other op. income/expense	-56	-43	-23%
thereof exceptionals	+69	+24	-65%
<b>EBIT</b>	<b>369</b>	<b>106</b>	<b>-71%</b>
<b>Net Income</b>	<b>215</b>	<b>26</b>	<b>-88%</b>
<b>EPS</b>	<b>2.58</b>	<b>0.31</b>	<b>-88%</b>
<b>EBITDA</b>	<b>572</b>	<b>300</b>	<b>-48%</b>
thereof exceptionals	-63	-21	-67%
<b>EBITDA pre exceptionals</b>	<b>635</b>	<b>321</b>	<b>-49%</b>

- Positive currency (+3%) and portfolio (+1%) effects only mitigate severe decline in price (-10%) and volume (-22%)
- Costs of sales contain ~ €45 m inventory devaluation
- R&D kept at high PY level, deviations in other expense line items reflect cost saving efforts and lower business activity
- EBITDA lower than in 2008, but resilient in light of world-wide recession, inventory devaluation and destocking effects

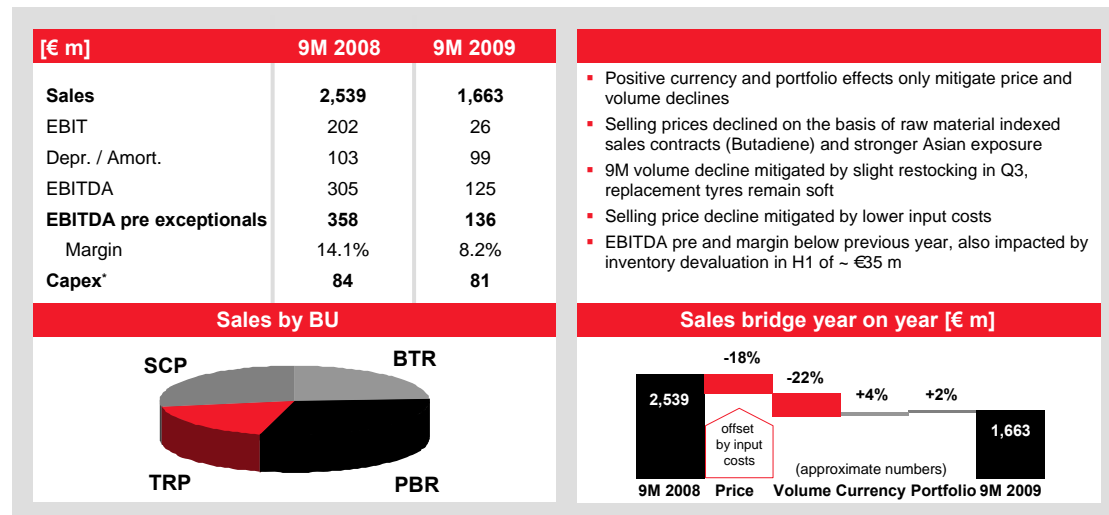
**Resilient through the recession**

2008 data adjusted for change in pension accounting

Chart 27

**LANXESS**

## Performance Polymers: year on year comparison starts to ease

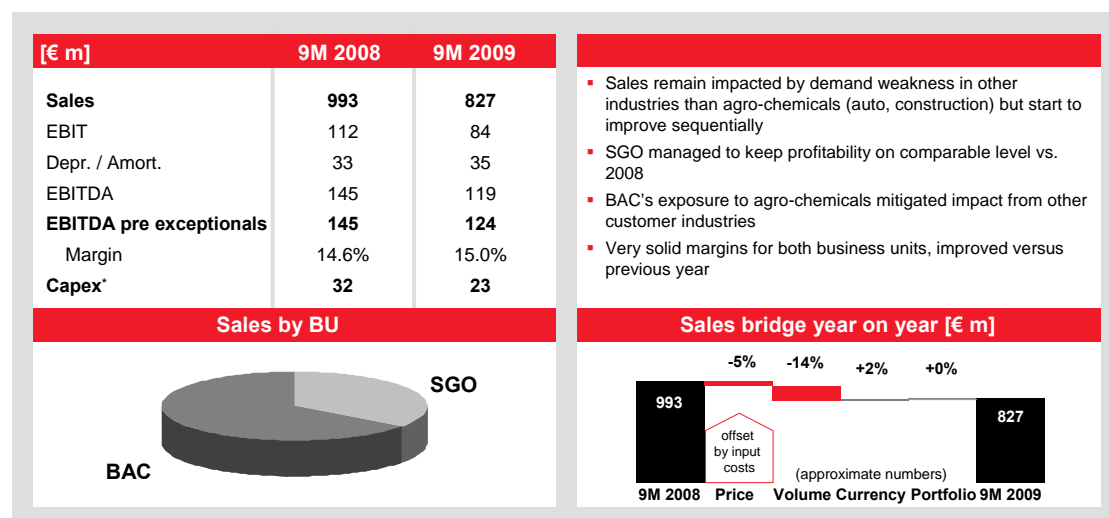


\* Net of finance lease

Chart 28

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## Advanced Intermediates: nine months of evidence of resilience under difficult economic circumstances



\* Net of projects financed by customers

Chart 29

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## Performance Chemicals: Diversified portfolio provides stability across the cycle

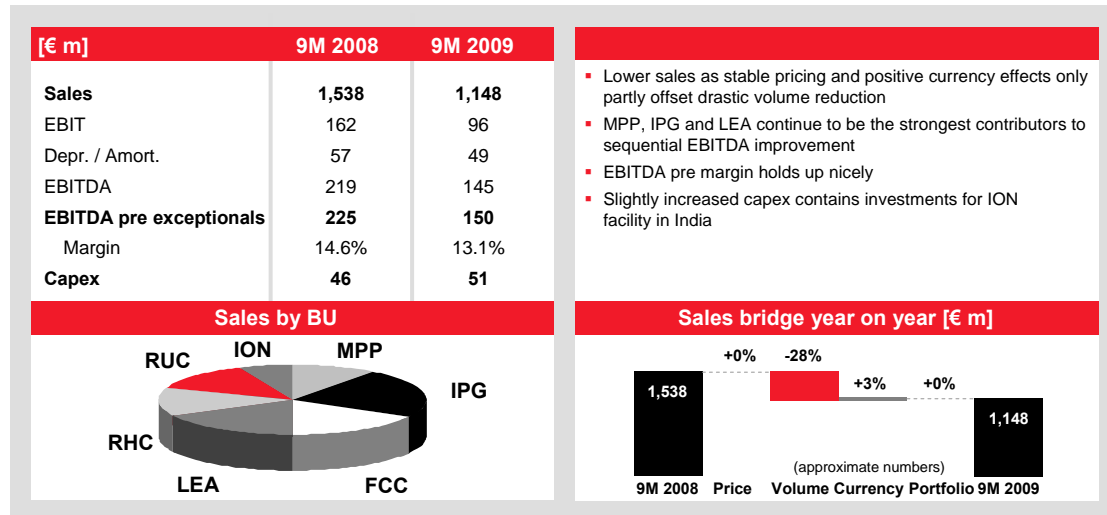


Chart 30

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## Strong operating cash flow above 2008

[€ m]	9M 2008	9M 2009
<b>Profit before Tax*</b>	<b>303</b>	<b>33</b>
Depreciation & amortization	203	194
Gain from sale of assets	-13	-18
Result from equity investments*	-18	-12
Financial (gains) losses	56	49
Cash tax payments / refunds	-78	53
Changes in other assets and liabilities*	92	-54
<b>Operating Cash Flow before changes in WC</b>	<b>545</b>	<b>245</b>
Changes in Working Capital	-236	187
<b>Operating Cash Flow</b>	<b>309</b>	<b>432</b>
<b>Investing Cash Flow</b>	<b>-345</b>	<b>-651</b>
thereof Capex**	-169	-161
<b>Financing Cash Flow</b>	<b>91</b>	<b>415</b>

- Healthy cash inflow driven by working capital management
- Cash tax refunds due to collection of pre-paid taxes
- Other assets and liabilities reflect restructuring cash-out in 2009 (expenses in 2008) and higher payments for personnel commitments
- Investing cash flow 2009 incl. investment in near cash assets
- Financing cash flow 2009 reflects €500 m 2014 bond

**Professional working capital management delivers strong operating cash flow**

\* 2008 restated, change in pension accounting

\*\* 2008 restated, net of projects financed by customers and finance lease

Chart 31

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## Strong operating cash flow

[€ m]	Q3 2008	Q3 2009	
<b>Profit before Tax</b>	<b>79</b>	<b>32</b>	
Depreciation & amortization	75	66	
Gain from sale of assets	-1	0	
Result from equity investments	-3	-7	
Financial (gains) losses	8	22	
Cash tax payments / refunds	-32	7	
Changes in other assets and liabilities	115	45	
<b>Operating Cash Flow before changes in WC</b>	<b>241</b>	<b>165</b>	
Changes in Working Capital	-59	-12	
<b>Operating Cash Flow</b>	<b>182</b>	<b>153</b>	
<b>Investing Cash Flow</b>	<b>-103</b>	<b>-629</b>	
thereof Capex	-69	-52	
<b>Financing Cash Flow</b>	<b>-18</b>	<b>-23</b>	

- Operating cash flow only slightly below previous year despite lower profit before tax
- Changes in other assets and liabilities due to higher restructuring expenses in 2008
- Inflationary raw material prices lead to slight cash outflow from working capital
- Increase in financial losses due to financing of new bonds
- `09 investing cash flow contains investment in near cash assets

**Cash flow tightly managed despite inflationary raw material pricing**

Chart 32

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## Exceptional items incurred in Q3 2008 and Q3 2009

[€ m]	Q3 2008		Q3 2009	
	Exceptional	thereof D&A	Exceptional	thereof D&A
Performance Polymers	5	3	10	0
Advanced Intermediates	0	0	5	0
Performance Chemicals	2	0	5	0
Reconciliation	5	0	-7	0
<b>Total</b>	<b>12</b>	<b>3</b>	<b>13</b>	<b>0</b>

Chart 33

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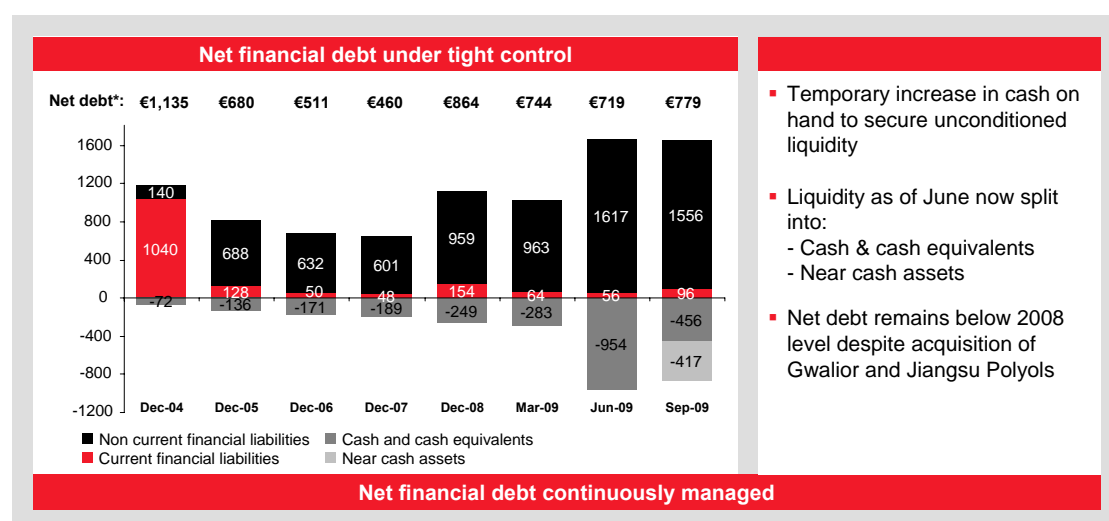
## Exceptional items incurred in 9M 2008 and 9M 2009

[€ m]	9M 2008		9M 2009	
	Exceptional	thereof D&A	Exceptional	thereof D&A
Performance Polymers	59	6	11	0
Advanced Intermediates	0	0	5	0
Performance Chemicals	7	1	5	0
Reconciliation	3	-1	3	3
<b>Total</b>	<b>69</b>	<b>6</b>	<b>24</b>	<b>3</b>

Chart 34

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## Net financial debt increased due to financing of acquisitions

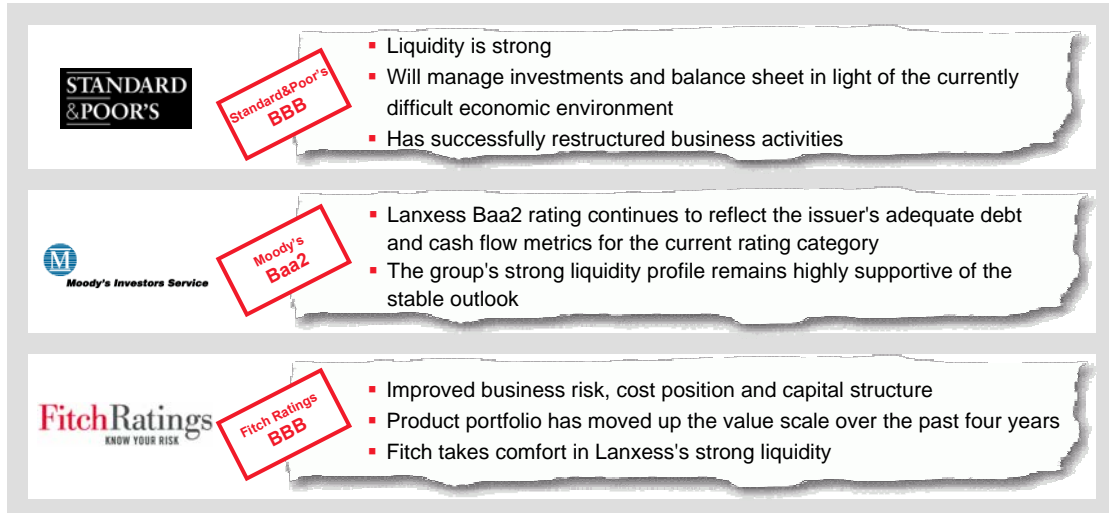


\* Adjusted for liabilities for accrued interest and specific exchange hedging of financial liabilities; in Sep-2009, non current financial liabilities adjusted by €11 m and current financial liabilities adjusted by €32 m

Chart 35

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## Rating-agencies confirm LANXESS' achievements

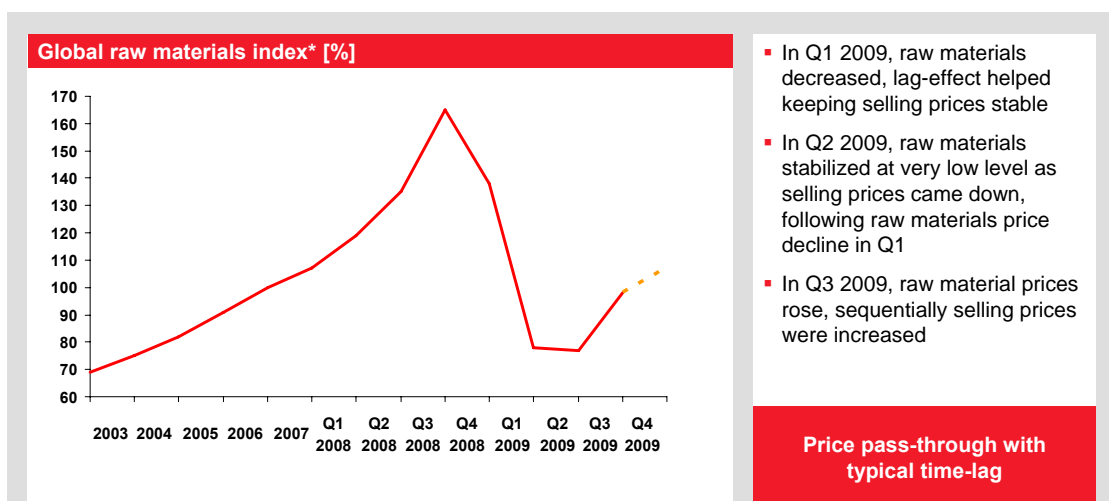


Source: Rating-Agencies

Chart 36

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## Raw materials are expected to rise again as of Q3



\* Source: LANXESS, average 2006 = 100%

Chart 37

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## LANXESS amplifies and broadens its product portfolio: Acquisition of Gwalior Chemicals in India

### Gwalior Chemical Industries Ltd.

- Stock-listed basic and specialty chemicals company; founded in 1978
- Permanent employees: approx. 400
- Gwalior Chemical Industries produces building blocks for the agro- and pharma industry, esp.
  - Sulphur Chlorides and
  - Benzyl products
- Integration into LANXESS India Private Ltd.



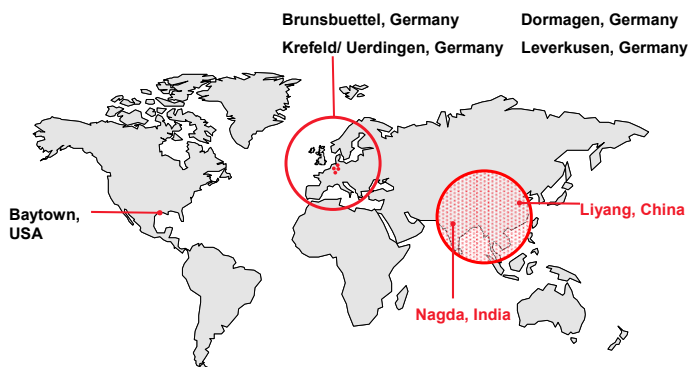
Product	Gwalior	LANXESS	Category
Thionyl Chloride	█	█	Sulphur Chlorides
Sulphuryl Chloride	█	█	
Sulphur dichloride	█	█	Benzyl Products
Benzyl alcohol	█	█	
Benzyl chloride	█	█	
Benzaldehyde	█	█	
Benzyl acetate	█	█	
Benzyl benzoate	█	█	Others
Cinnamic aldehyde	█	█	
...	█	█	
...	█	█	
...	█	█	
...	█	█	

Strengthening and complementing the product and customer portfolio for BU BAC

Chart 38



## In addition BU BAC strengthens LANXESS position in China via another selective acquisition



### Jiangsu Polyols Chem. Co

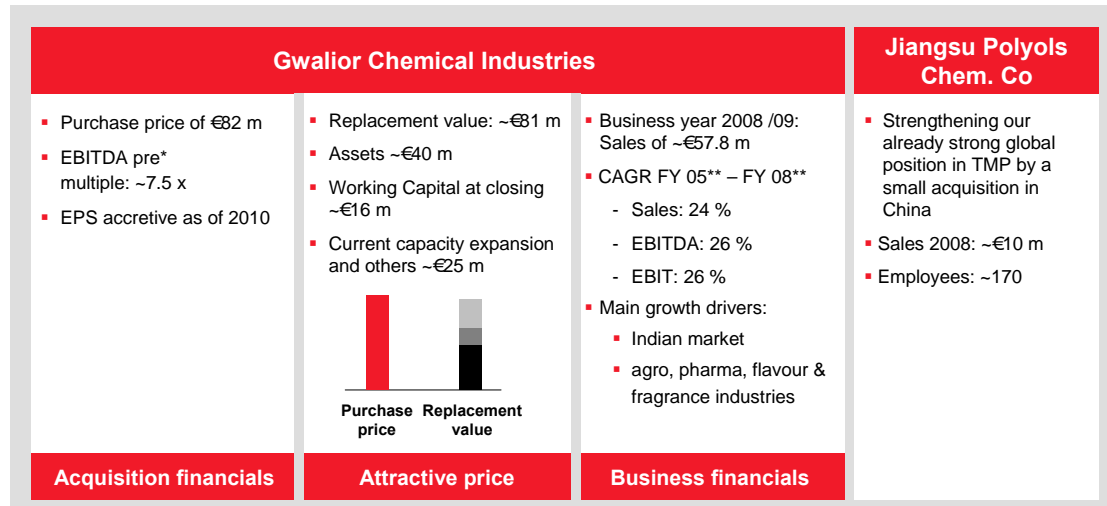
- Acquisition of production assets in the polyols business (TMP\*)
- Young company, founded in 2006
- Products mainly for lubricants, paints and coatings

\* Trimethylolpropane

Chart 39



## Attractive financial terms for acquisition of Gwalior

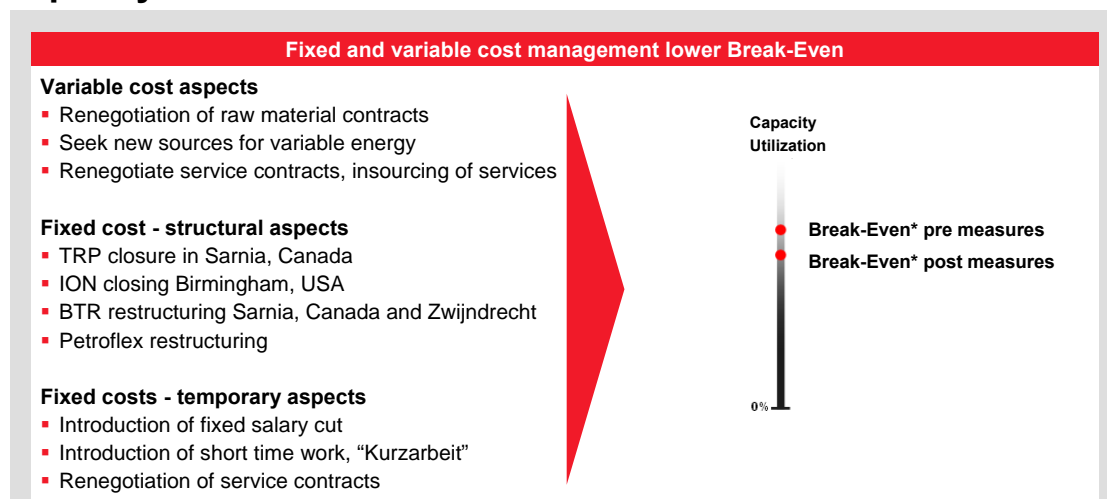


\* based on EBITDA pre estimates FY 09 \*\* Accounting period ends March 31st, e.g. financial year 2008 ends March 31st, 2008

Chart 40

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## LANXESS Break-Even\* now at around 10% points lower capacity utilization



\* Break-Even of EBITDA pre = 0

Chart 41

**LANXESS**

## Challenge09: specific measures in response to the crisis

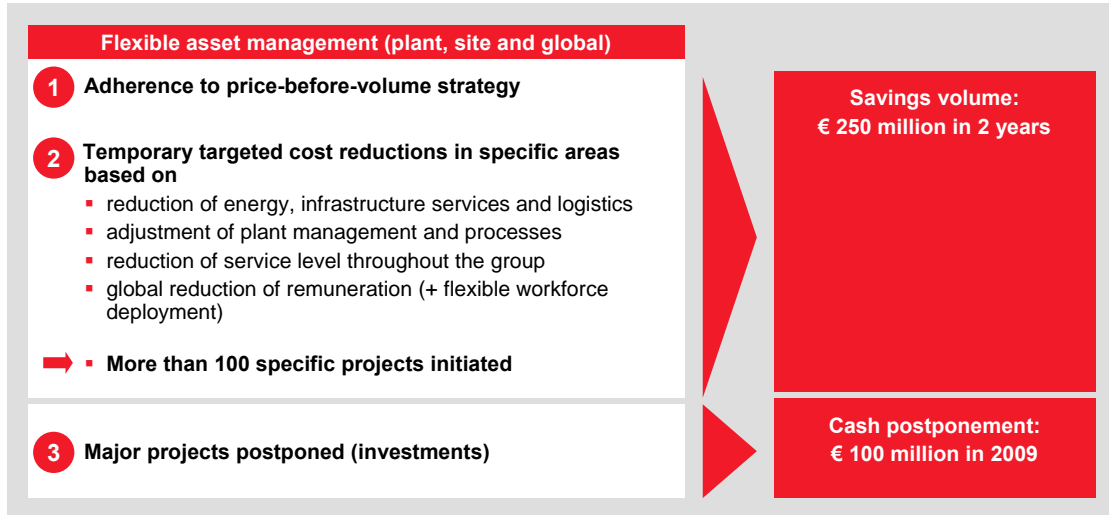


Chart 42

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## Challenge09: substantial savings effective already 2009

[€ m]	2008	2009	2010	Σ 2009/10	
Cost savings mitigating volume decline	45	130	120	<b>250</b>	<b>Break down of cost savings 2009</b> <ul style="list-style-type: none"> <li>▪ Reduction of remuneration ~€65 m</li> <li>▪ Reduction of G&amp;A costs ~€20 m</li> <li>▪ Additional projects ~€45 m               <ul style="list-style-type: none"> <li>- Restructuring BUs BTR, TRP</li> <li>- Realignment of BU FCC</li> <li>- Streamlining of Petroflex</li> <li>- Consolidation of U.S. and Canadian admin organizations</li> </ul> </li> </ul>
P&L Expenses/ one time costs*	-139	-40	-10	<b>-50</b>	
Estimated cash out	-80	-80	-20	<b>-100</b>	
<b>Cost savings mitigating volume decline</b>					

\* Restructuring/M&A

Chart 43

**LANXESS**

## Serving global markets with world-wide rubber manufacturing network

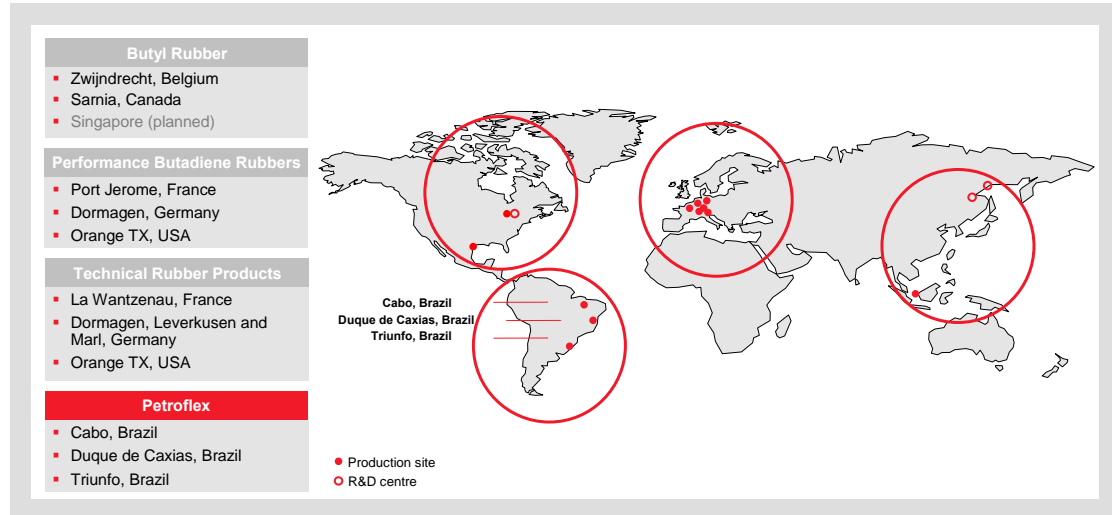


Chart 44

**LANXESS**

## 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

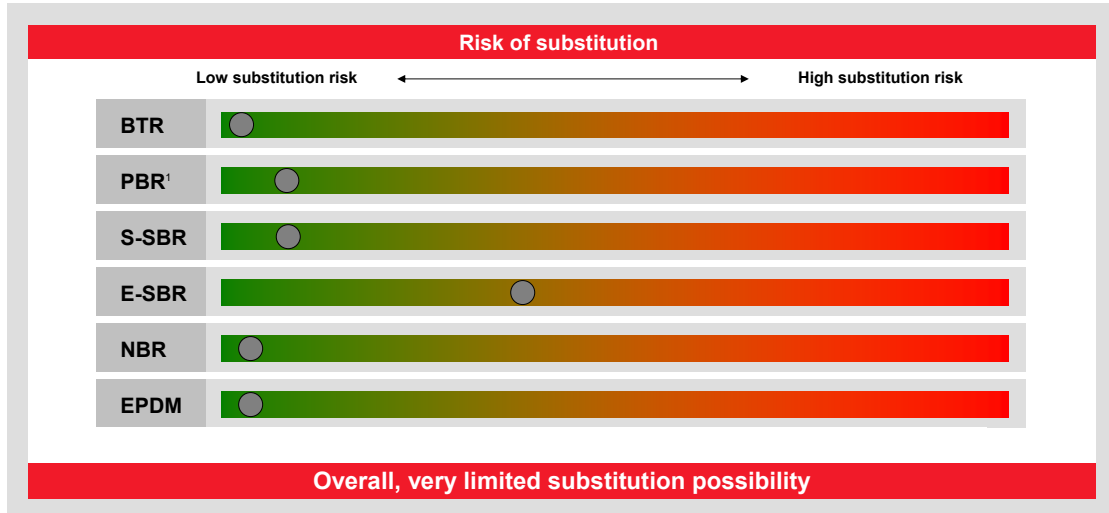
**LANXESS is not a swing producer**

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

Chart 45

**LANXESS**

## Does natural rubber cannibalize synthetic rubber?



<sup>1</sup> Nd-PBR

Chart 46

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## Abbreviations

Performance Polymers	Advanced Intermediates
<ul style="list-style-type: none"> <li>▪ BTR Butyl Rubber</li> <li>▪ PBR Performance Butadiene Rubbers</li> <li>▪ TRP Technical Rubber Products</li> <li>▪ SCP Semi-Crystalline Products</li> </ul>	<ul style="list-style-type: none"> <li>▪ BAC Basic Chemicals</li> <li>▪ SGO Saltigo</li> </ul>
Performance Chemicals	
<ul style="list-style-type: none"> <li>▪ MPP Material Protection Products</li> <li>▪ IPG Inorganic Pigments</li> <li>▪ FCC Functional Chemicals</li> <li>▪ LEA Leather</li> <li>▪ RCH Rhein Chemie</li> <li>▪ RUC Rubber Chemicals</li> <li>▪ ION Ion Exchange Resins</li> </ul>	

Chart 47

**LANXESS**

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