



# **LANXESS – Focus on value generation**

## **Merrill Lynch Chemicals Conference 2007**

**Matthias Zachert, CFO**

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## Focus on value generation

### Agenda



- Strategy update



- Business and portfolio update



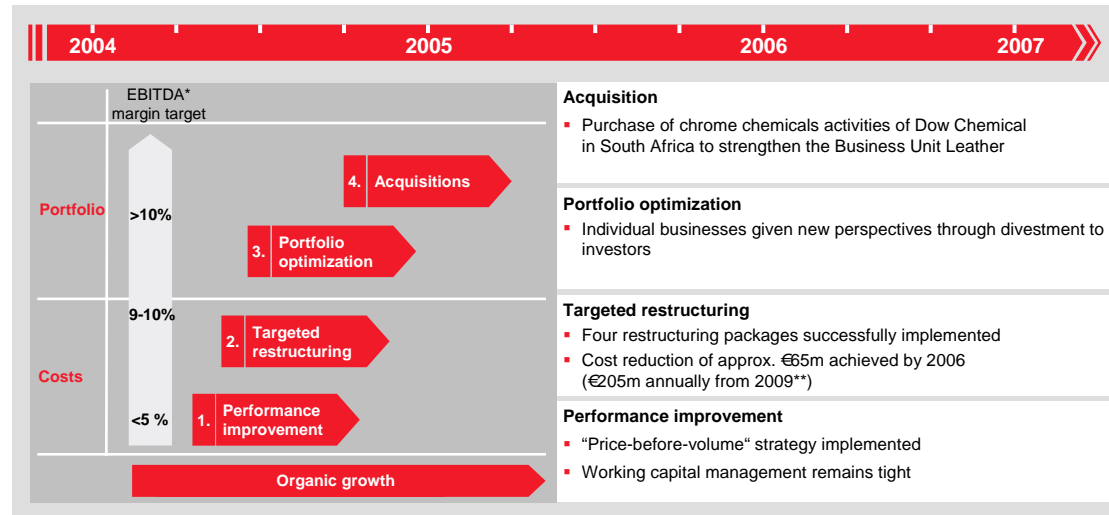
- Financial transformation



- Current market topics, outlook and guidance

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## Consistent improvement as four-phase strategy is being implemented



\* pre exceptionals \*\* adjusted for impact of Lustran Polymers exit

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## 9M 2007 financial overview: operational business fully on track

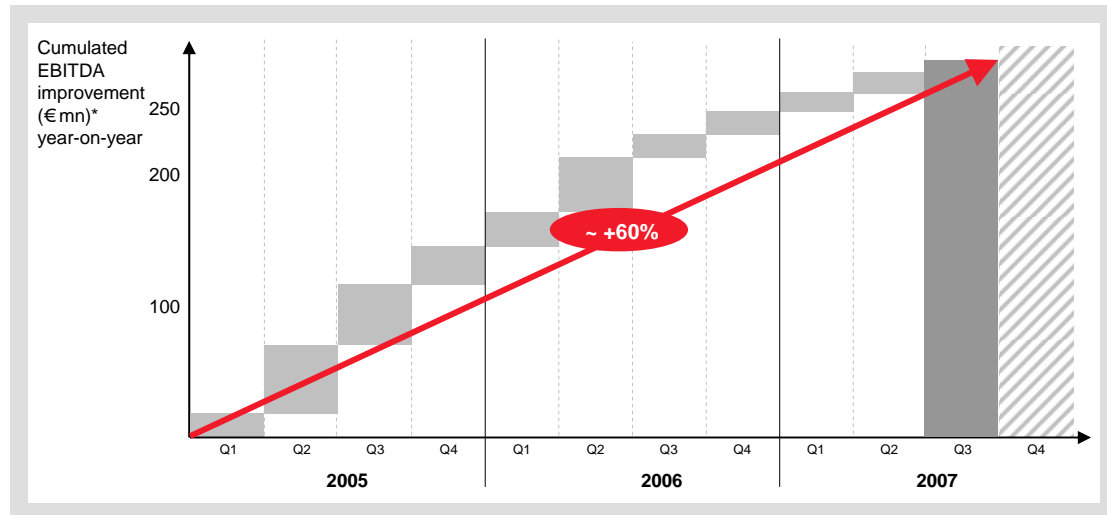
(€m)	9M 2006	9M 2007	Δ in %	
<b>Sales</b>	5,278	5,143	-2.6%	– Organic sales growth based on strong pricing (+2,2%) and higher volumes (+2,1%) does not fully offset portfolio change (-3,6%) and unfavourable currency effects (-3,3%)
<b>EBITDA pre except. margin</b>	570 10.8%	605 11.8%	6.1%	
<b>Net Income</b>	195	107	-45.1%	– Net income is distorted by exceptional write-offs in LUP and restructuring expenses
<b>Net Financial Debt</b>	511*	491	-3.9%	
<b>Working Capital</b>	1,531	1,282	-16.3%	– Capex for Q4 expected to rise significantly and reach foreseen level
<b>Capex</b>	147	170	+15.6%	
<b>Employees</b>	16,481*	14,659	-11.1%	– Headcount reduction due to portfolio and restructuring

\* as per Dec. 31, 2006

**Sounds improvements throughout the first nine months**

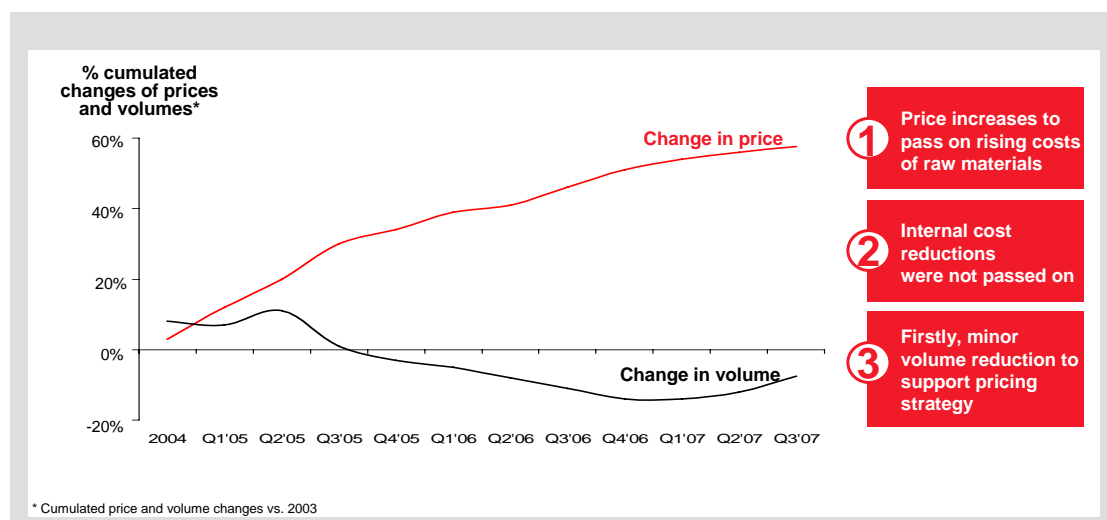
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## Eleven successive quarters of EBITDA improvement



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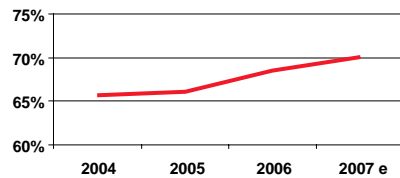
## Q3 continues on the new path of price and volume growth



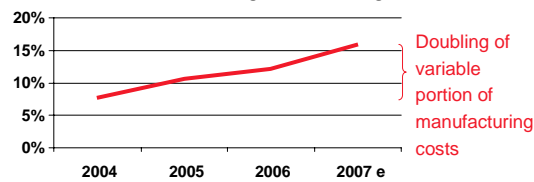
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## Effective margin protection through increased flexibility of costs

Share of variable manufacturing costs including raw materials



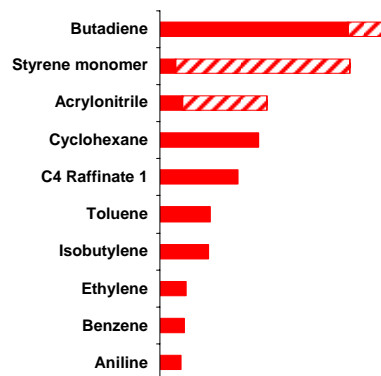
Share of variable manufacturing costs excluding raw materials



- Share of variable manufacturing costs, excluding raw materials was doubled since spin-off
- Restructuring and striving for efficiency have shifted our cost structure towards higher flexibility

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## Reduced cyclical risk due to lower dependence on styrene and acrylonitrile

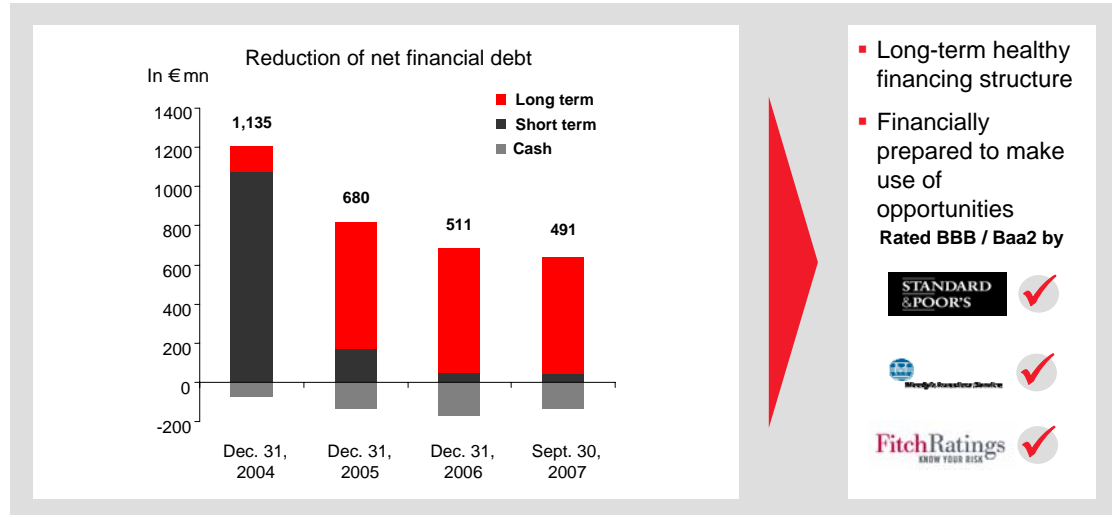


~30% lower exposure to petrochemical raw materials

- After exit from Lustran Polymers, volatility from petrochemical raw materials is significantly reduced
- LANXESS will be less dependent on the petrochemical markets

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## Successfully transformed balance sheet helpful in turbulent financial markets



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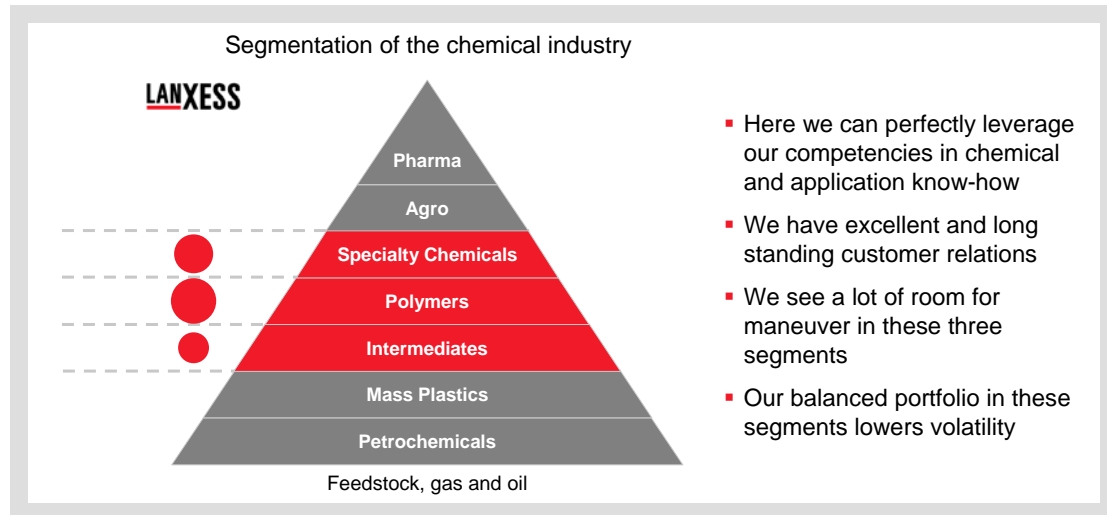
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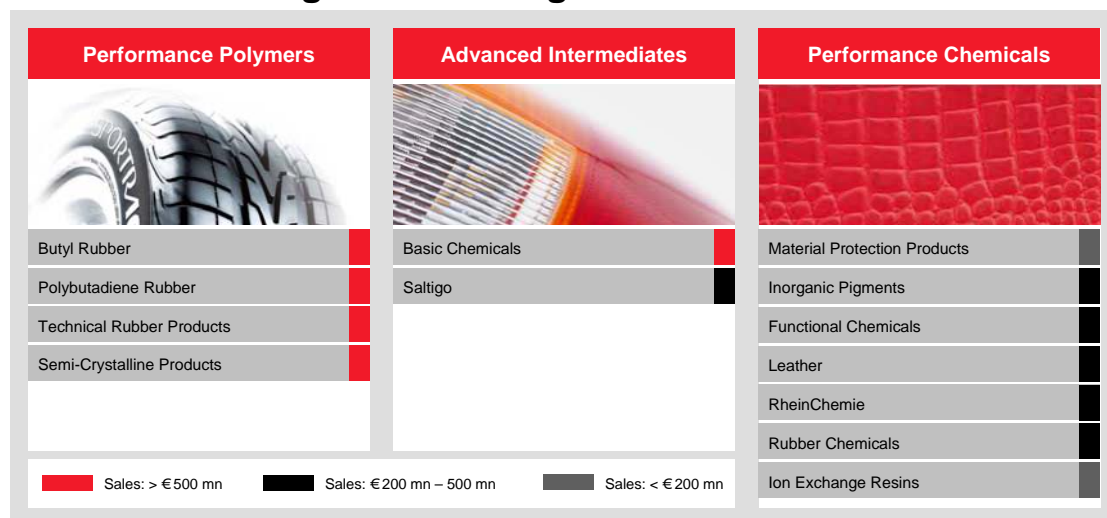
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## LANXESS focuses on the core of the chemical industry



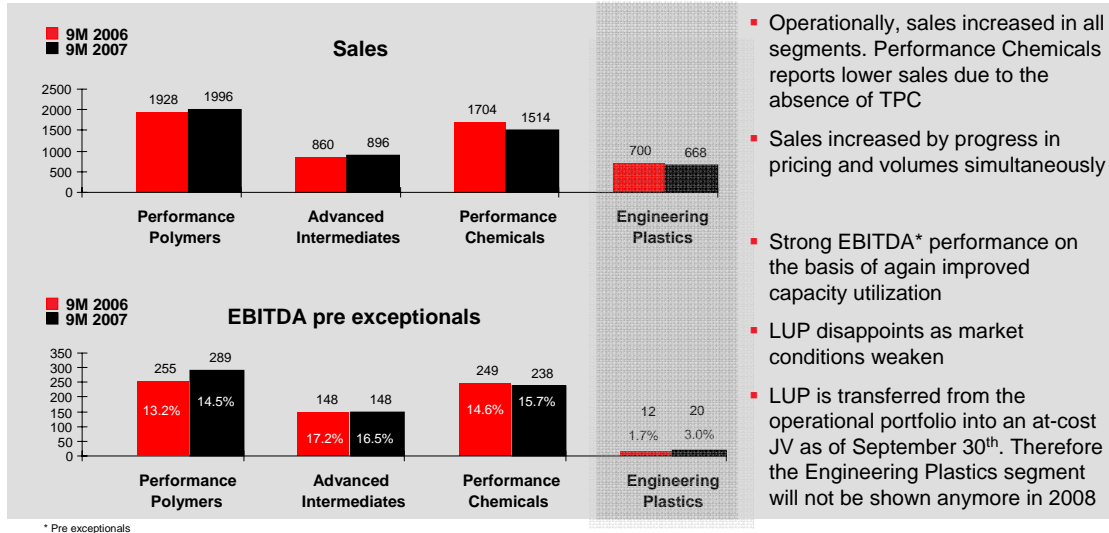
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## Portfolio management allows for regrouping of LANXESS businesses along chemical segmentation



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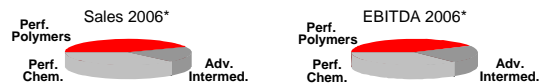
## Nine months of firm operational performance



- Operationally, sales increased in all segments. Performance Chemicals reports lower sales due to the absence of TPC
- Sales increased by progress in pricing and volumes simultaneously
- Strong EBITDA\* performance on the basis of again improved capacity utilization
- LUP disappoints as market conditions weaken
- LUP is transferred from the operational portfolio into an at-cost JV as of September 30<sup>th</sup>. Therefore the Engineering Plastics segment will not be shown anymore in 2008

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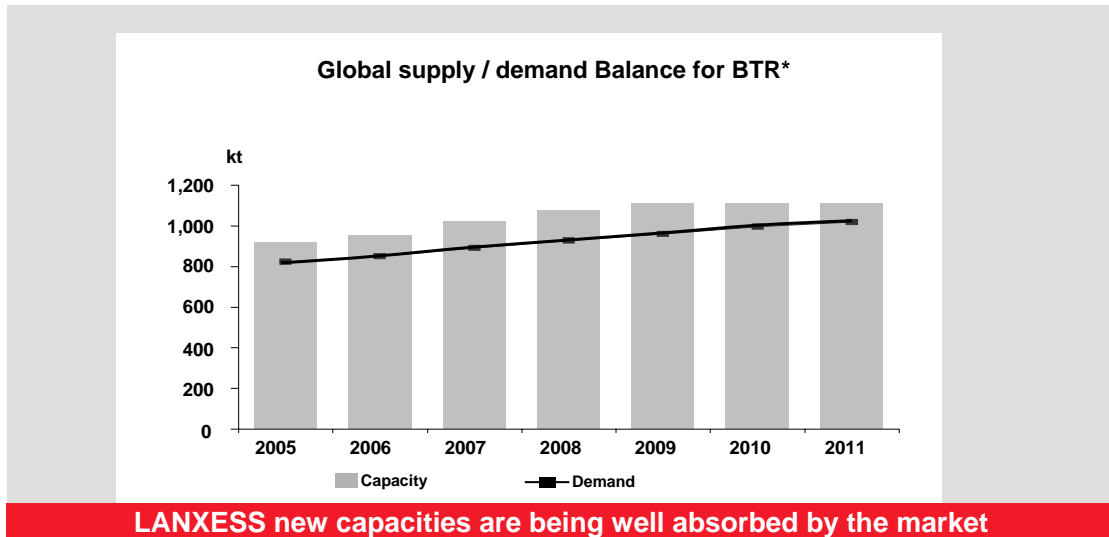
## Growth at high margin levels



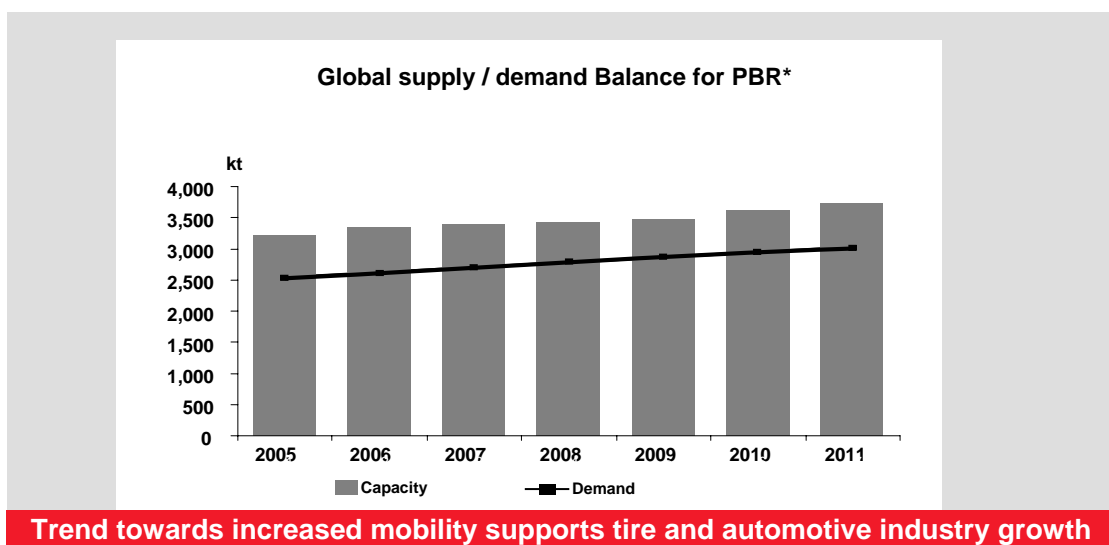
Performance Polymers	Position LANXESS World wide top market positions	Growth & Stability participation in major growth trends	EBITDA margin FY'06: 13.2% EBITDA margin 9M'07: 14.5% Market / Supply / Demand
<b>Butyl Rubber</b> X <b>Bromobutyl</b> Integral part of tubeless tyres	A leading position	International mobilization	Growing and balanced until 2011
<b>Polybutadiene Rubber</b> X <b>Buna CB™</b> Tyre body and tread	A leading position	High performance tires	Growing and balanced until 2011
<b>Technical Rubber Products</b> X <b>Therban</b> Specialty applications	Strong	New applications	Balanced for major products until 2009 / 10
<b>Semi-Crystalline Products</b> X <b>Durethan</b> Thermoplastics for modern applications, e.g. in cars	Strong	Hightech plastics replacing metal	Growing and balanced until 2011

15 \* Percentage of sum of operational segments, excluding LUP and reconciliation / others

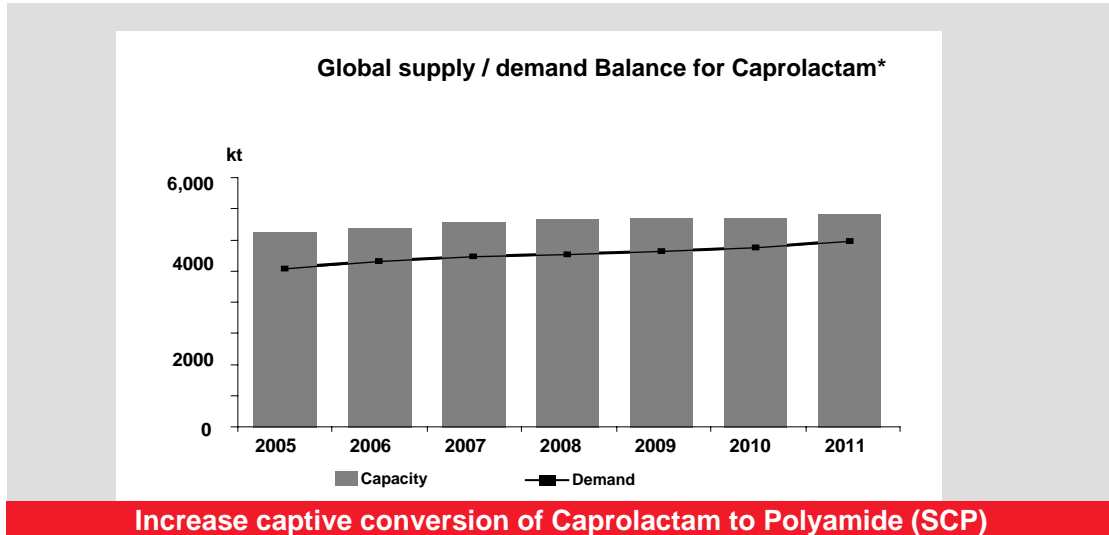
## Balanced supply / demand growth in Butyl Rubber



## Balanced supply / demand growth in Polybutadiene Rubber



## Balanced supply / demand growth in Semi-Crystalline Products



18\* Source: CMAI

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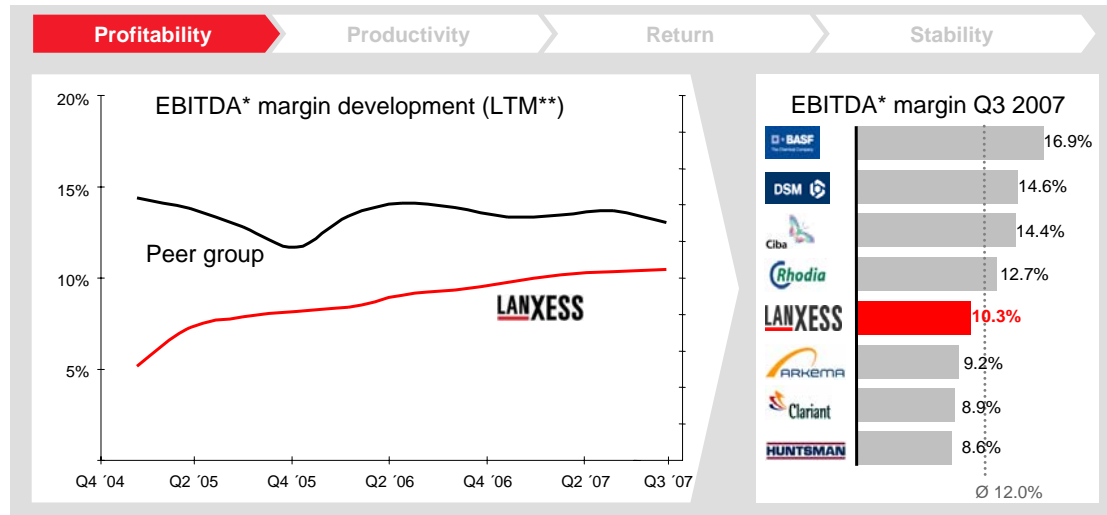


- **Financial Transformation**



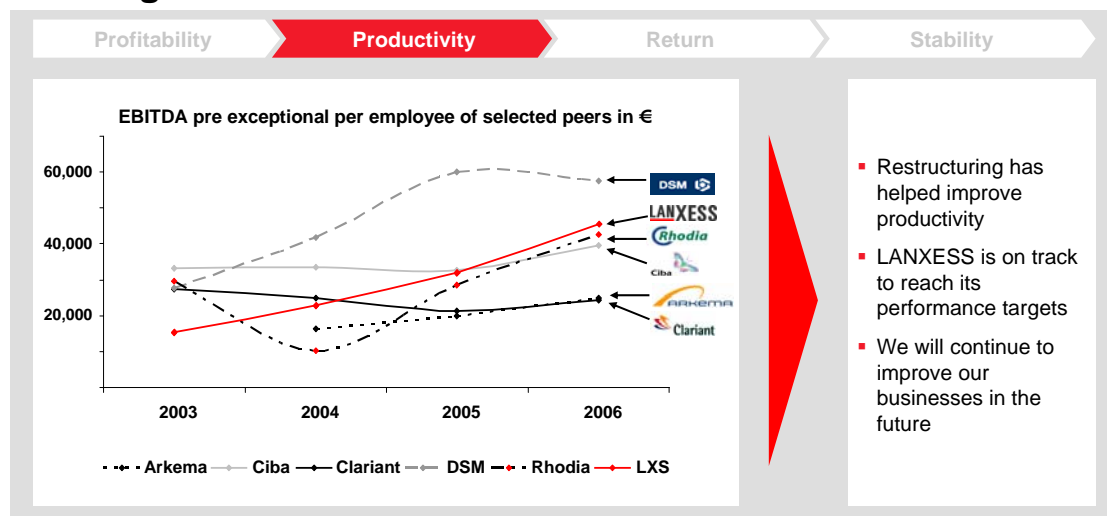
- Current market topics, outlook and guidance

## LANXESS is closing the profitability gap to peers



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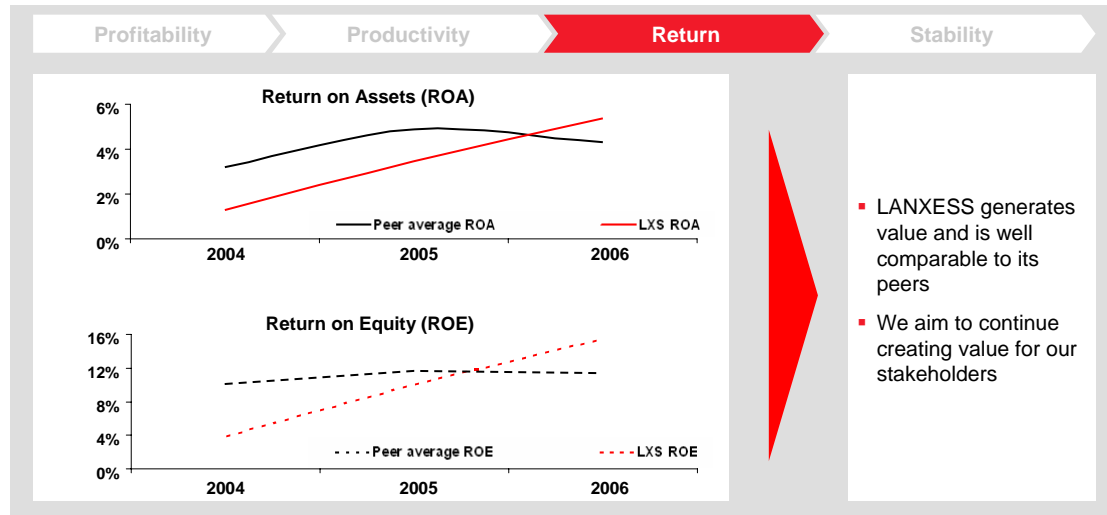
## Productivity increases made visible: EBITDA / employee – even higher without LUP



Source: KPMG's disclosures handbook, Annual reports, Companies websites; 2006 LANXESS data adjusted for Lustran

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## Rising returns have already reached the average peer level



- LANXESS generates value and is well comparable to its peers
- We aim to continue creating value for our stakeholders

Source: KPMG's disclosures handbook, Annual reports, Companies websites; LANXESS peer group except where ROE / ROA is negative, all pre exceptionals

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## Solid financing foundation in place for future opportunities

	Profitability	Productivity	Return	Stability
In € mn	2004	2005	2006	2007e
Equity	1,120*	1,256	1,428	1,526**
Equity ratio	25.9%*	28.9%	34.0%	36.9%**
Net financial debt	1,135	680	511	stable
Interest result	-46	-41	-23	stable
Gearing***	101.3%*	54.1%	35.8%	32.2%**
Net financial debt / EBITDA	2.5x	1.2x	0.8x	~0.7x

**Strength**

**Financial metrics substantially improved on the basis of sustainable cash generation**

\* 2004 comparable to 2005, i.e. incl. deferred tax adjustment; \*\*as of 30.09.2007; \*\*\* net financial debt / equity

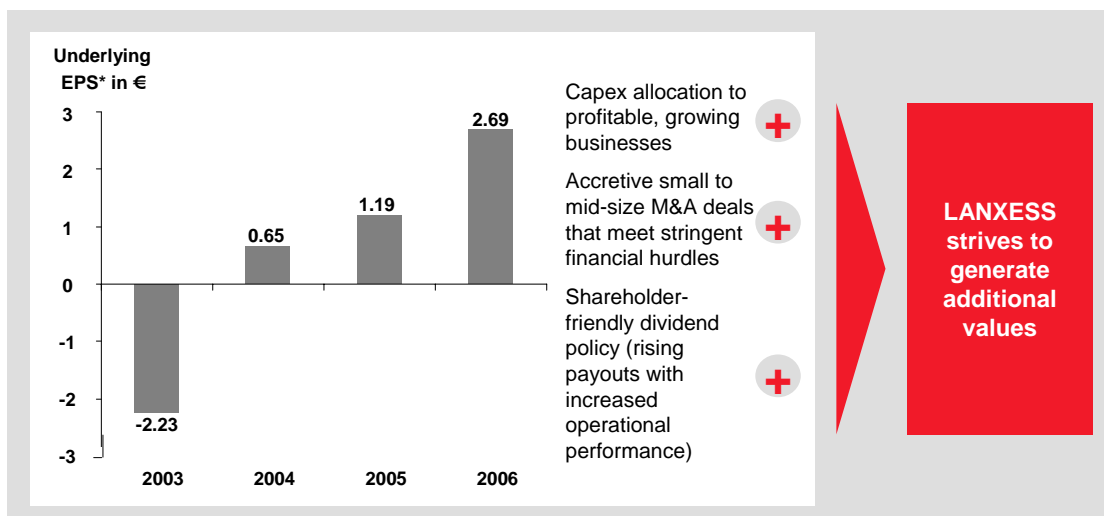
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## Further value creation sets the priorities for capital allocation

①	Organic Growth	<ul style="list-style-type: none"> <li>We will invest in our own business to generate the best returns for shareholders</li> <li>Capex allocation follows profitability and return on capital</li> </ul>
	External Growth	<ul style="list-style-type: none"> <li>Stringent application of our valuation criteria ensures value generation by external growth</li> </ul>
②	Debt and Pensions	<ul style="list-style-type: none"> <li>Our policy is to fund our employees' pension obligations on a year-by-year discretionary basis depending on cash and earnings situations</li> </ul>
	Dividend	<ul style="list-style-type: none"> <li>Cash returns are an important element of our value strategy</li> <li>LANXESS' dividend development will be in line with profitability increase</li> </ul>
③	Share Buyback	<ul style="list-style-type: none"> <li>Used on a case-by-case basis to back the share price when appropriate</li> </ul>

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## Value generation in every respect



\* EPS pre exceptionals

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- Financial Transformation

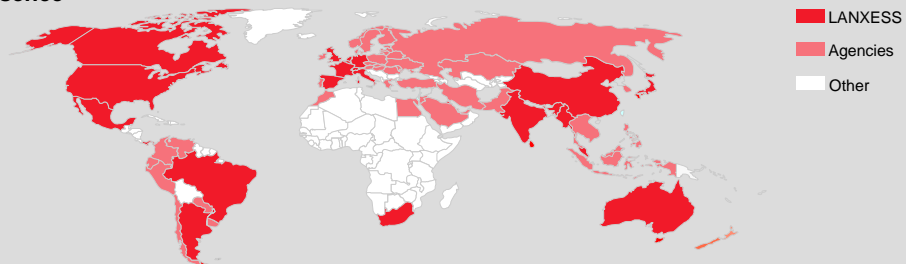


- Current market topics, outlook and guidance

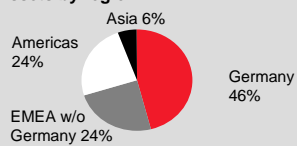
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## LANXESS - a global player in the chemical industry

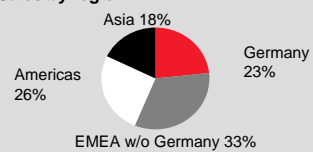
### Global presence



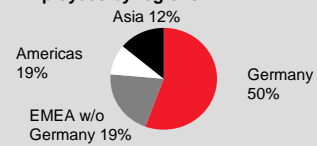
#### Assets by region



#### Sales by region



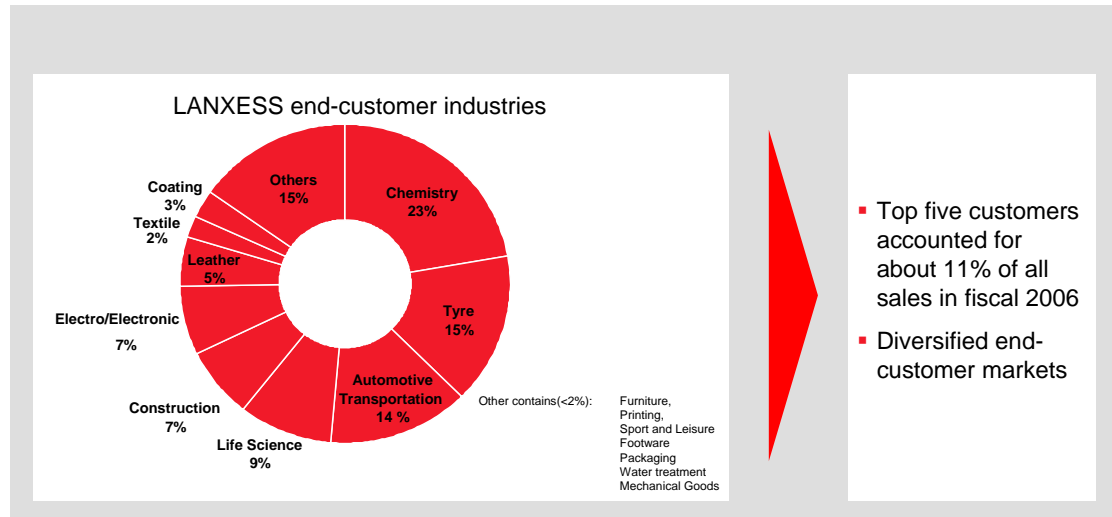
#### Employees by regions



based on 2006 figures

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## Diversified customer base and industry portfolio



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## LANXESS manages its currency exposure

### Economic Environment – Foreign Currencies

- The current weakness of the U.S. Dollar is considered in our FY 2007 guidance
- Generally, a weak U.S. Dollar burdens our results
- Sensitivity: Based on our annual net exposure, a change of 1 cent of the exchange rate of the U.S. Dollar to the Euro affects our EBITDA by €5-6 m
- However, the actual impact may be significantly lower due to our rolling hedging approach



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## LANXESS has significantly reduced its volatility

### Peak to trough fluctuation is significantly reduced since spin-off

- Most volatile businesses divested (~€1.4 bn of sales)
- Sales and purchasing contracts renegotiated
- Restructuring has led to a leaner and more efficient organization
- Cost structures have been changed to a higher portion of variable costs

**There is no reason why LANXESS' margins\* should be more volatile compared to its peers**

**The market expects chemical companies' margins\* to fluctuate by 3%-4% peak to trough**

\* EBITDA pre exceptionals

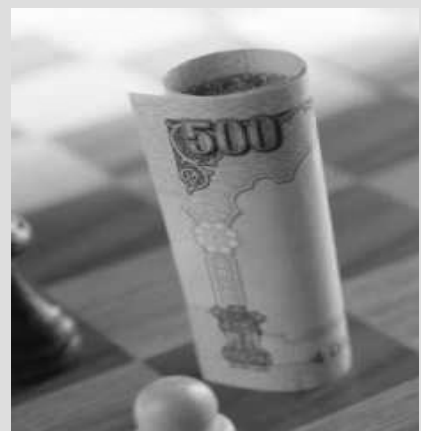


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## LANXESS is well on track to achieve its FY targets

### Guidance update for 2007


- FY 2007 EBITDA\* guidance reiterated:  
€700 - €720 m, despite LUP performance shortfall in Q3 of ~€10 m and an expected adverse FX effect in Q4
- Capex expectation: ~€300 m
- Underlying P&L tax rate seen around 30%, excluding effects from LUP JV. Reported tax rate will however be distorted due to LUP-divestment
- D&A around €300 - €310 m (increase vs. 2006, mainly due to impairments in LUP of ~€50 m)
- Reminder: majority of restructuring exceptionals to be booked in Q4 2007



\* Pre exceptionals

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## LANXESS will meet its ambitious targets faster than planned

EBITDA* margin: Peer group profitability	<del>2008 2009</del>	
No business < 5% EBITDA* margin	<del>2008 2009</del>	
Investment grade rating	Ongoing	

\* EBITDA figures pre exceptionals; excluding acquisitions  
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# LANXESS

Energizing Chemistry

## Exceptional items incurred in Q3 2006 and 2007

(€m)	Q3 2006		Q3 2007		
	Exceptional	thereof D&A	Exceptional	thereof D&A	
Performance Polymers	0	0	0	0	
Advanced Intermediates	0	0	0	0	
Performance Chemicals	0	0	4	0	Restructuring
Engineering Plastics	0	0	10	7	Write off BU LUP
Reconciliation	17	1	-6	0	Restructuring / M&A
<b>Total</b>	<b>17</b>	<b>1</b>	<b>8</b>	<b>7</b>	

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## Exceptional items incurred in 9M 2006 and 2007

(€m)	9M 2006		9M 2007		
	Exceptional	thereof D&A	Exceptional	thereof D&A	
Performance Polymers	1	0	0	0	
Advanced Intermediates	0	0	0	0	
Performance Chemicals	1	0	4	0	Restructuring
Engineering Plastics	0	0	196	51	Write off BU LUP
Reconciliation	44	1	11	1	Restructuring / M&A
<b>Total</b>	<b>46</b>	<b>1</b>	<b>211</b>	<b>52</b>	

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## Restructuring savings to be adjusted

Phase I+II+III+IV (€ m)	2005	2006	2007e	2008e	2009e
P&L Expenses	-166	-31	-40	-30	-10
Cash outs	-10	-89	-120	-65	-10
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

–All future figures are adjusted for the exit of Lustran Polymers. The main respective cumulative effects are:

- Reduction of expected cost reduction :~€45m by 2009
- Reduction of expected EBITDA improvement:~€35m by 2009
- Lower expected cash outs: ~€50 m by 2009

**Restructuring implementation continues according to plan**

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## Abbreviations

### Performance Polymers

- BTR Butyl Rubber
- PBR Polybutadiene Rubber
- TRP Technical Rubber Products
- SCP Semi-Crystalline Products

### Performance Chemicals

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

### Advanced Intermediates

- BAC Basic Chemicals
- SGO Saltigo
- IPG Inorganic Pigments

### Engineering Plastics

- LUP Lustran Polymers

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## Financial Calendar 2007 / 2008

### Financial Calendar

- |                                 |                          |
|---------------------------------|--------------------------|
| ● <b>FY Results 2007</b>        | <b>March 11, 2008</b>    |
| ● <b>Q1 Results 2008</b>        | <b>May 14, 2008</b>      |
| ● <b>Annual General Meeting</b> | <b>May 29, 2008</b>      |
| ● <b>Q2 Results 2008</b>        | <b>August 13, 2008</b>   |
| ● <b>Q3 Results 2008</b>        | <b>November 13, 2008</b> |

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## Contact details

### **Michael Pontzen (Head of IR)**

Tel.: +49-214 30 43804  
Fax.: +49-214 30 959 43804  
Mobile: +49-175 30 43804  
Email: Michael.Pontzen@lanxess.com

### **Oliver Stratmann**

+49-214 30 49611  
+49-214 30 959 49611  
+49-175 30 49611  
Oliver.Stratmann@lanxess.com

### **Tanja Satzer**

Tel.: +49-214 30 43801  
Fax.: +49-214 30 959 43801  
Mobile: +49-175 30 43801  
Email: Tanja.Satzer@lanxess.com

### **Dr. Gerd Zelesny**

+49-214 30 71416  
+49-214 30 959 71416  
+49-175 30 71416  
Gerd.Zelesny@lanxess.com

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