



# **LANXESS AG**

**Cheuvreux - 5<sup>th</sup> German Corporate Conference**

**Schlosshotel Kronberg, January 16, 2006**

**Matthias Zachert (CFO)**

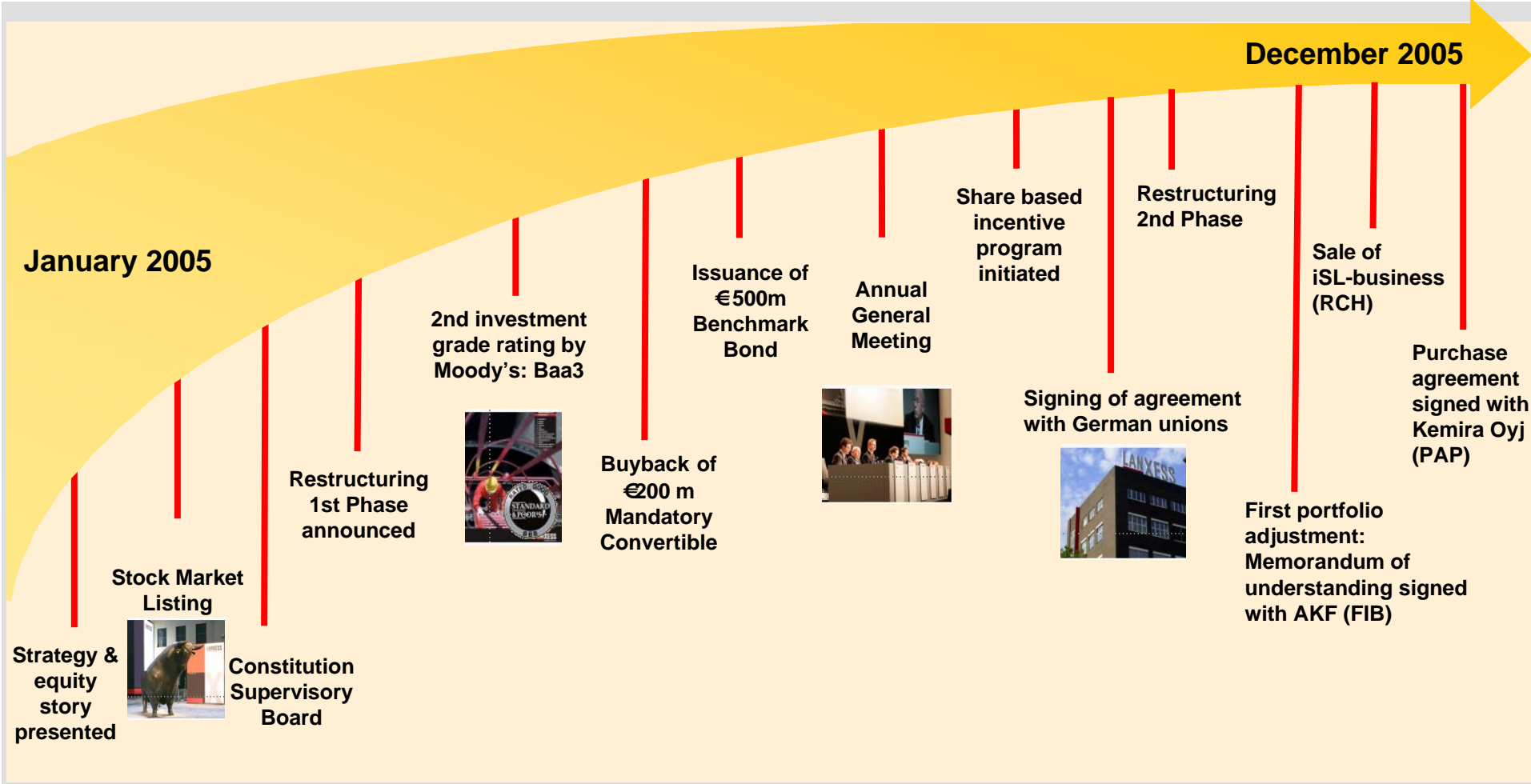
## Safe Harbour Statement

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# Agenda

- 1. Company Overview**
- 2. Strategy and Restructuring**
- 3. 9M Financials**
- 4. Outlook and Summary**

# We have Achieved a Lot So Far And Keep Going With High Speed...



**...and continuous strong business momentum**

# Built on Polymers and Chemicals



Performance Rubber



Top 1-3\*

Engineering Plastics



Top 3\*

Chemical Intermediates



Top 1-2\*

Performance Chemicals



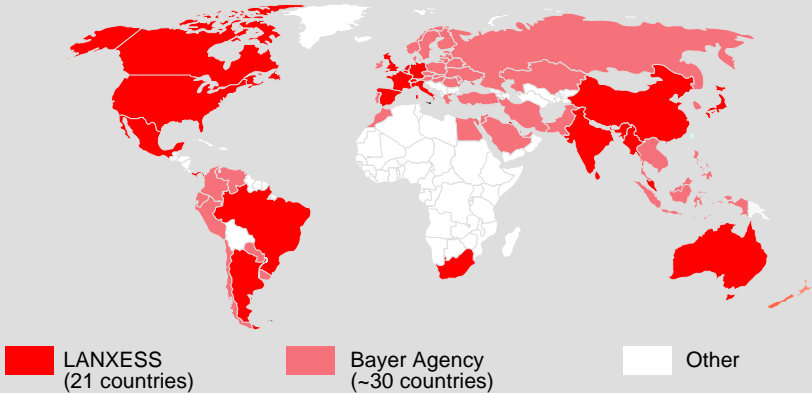
Top 1-4\*

\* Excellent Market Positions in 70% of sales

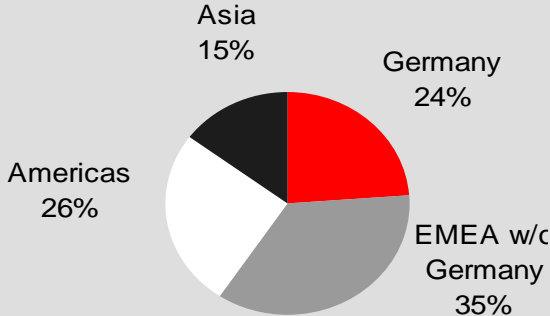
**Independence. Restructuring. Portfolio Management.**

# Global Presence

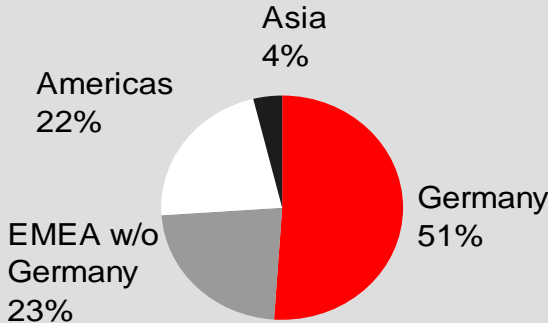
## World Coverage



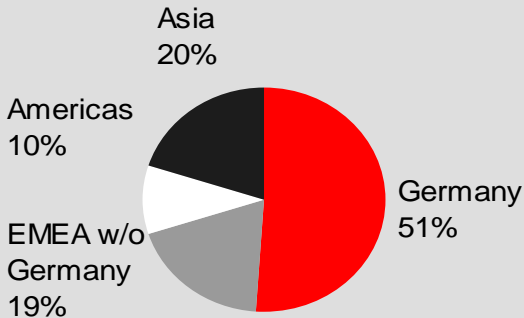
## Sales by Region



## Assets by Region



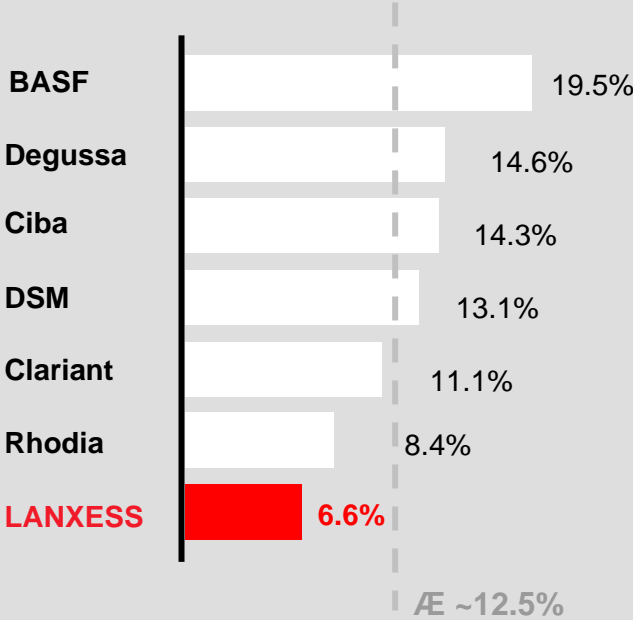
## Employees by Region



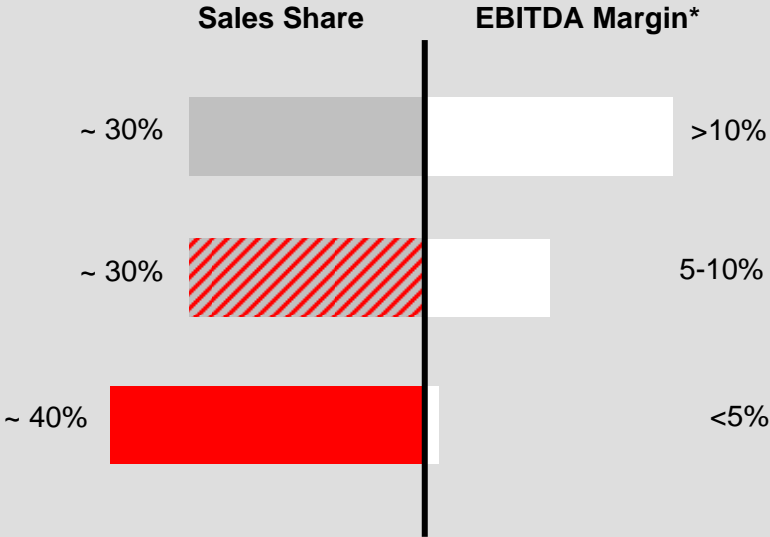
All figures based on combined financial statements 2004

# Strong Foundation, but Unsatisfactory Profitability in 2004

## EBITDA Margin\* 2004



## Profitability Distribution LANXESS

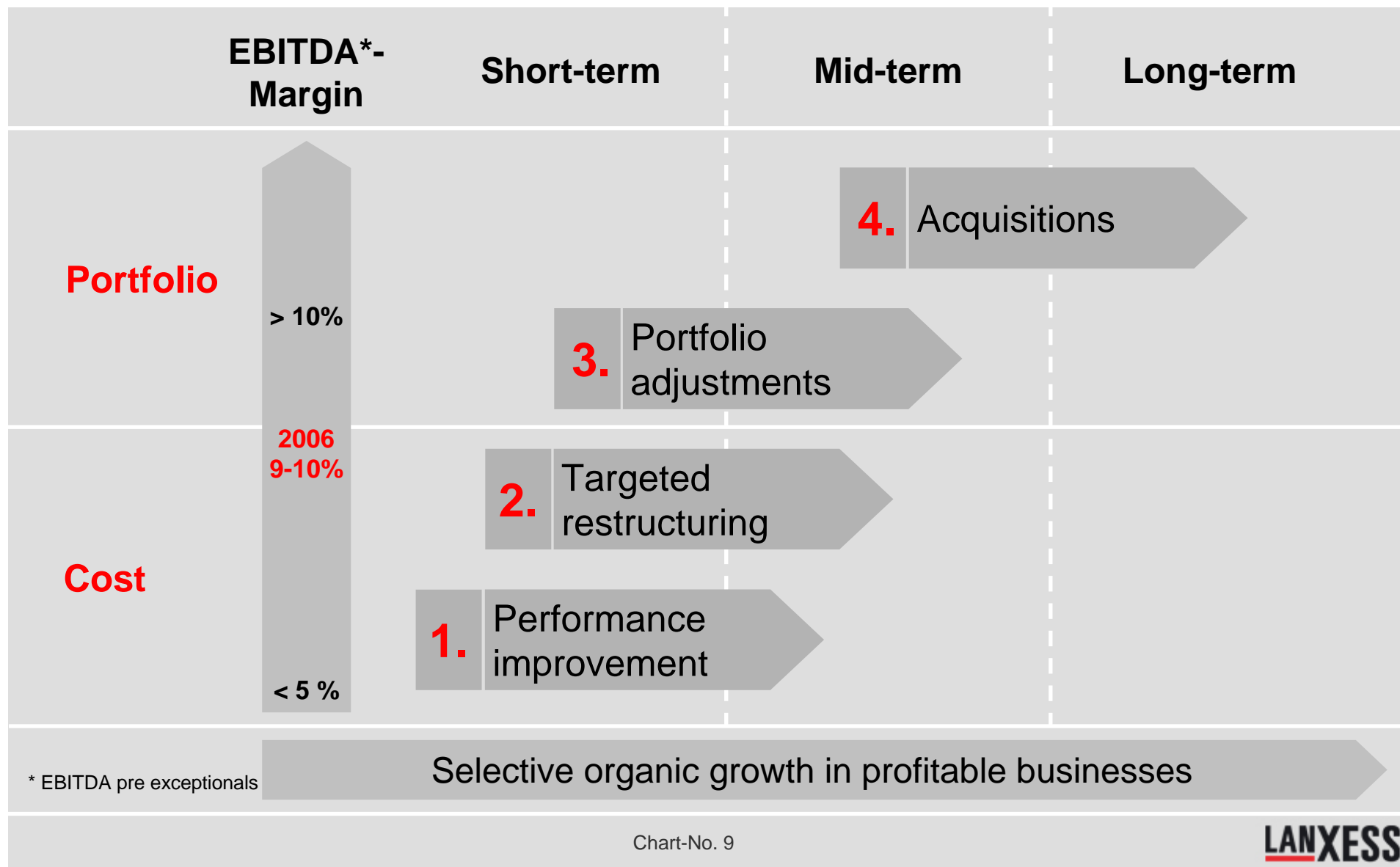


\*EBITDA pre exceptionals in % of sales  
Source: annual reports

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# “Step-by-Step Approach” to Creating Value



# Restructuring 1<sup>st</sup> Phase and 2<sup>nd</sup> Phase

Portfolioadjustment



# 1<sup>st</sup> Phase: Immediate Action Taken for FCH and STY - Implementation Ahead of Plan

## Fine Chemicals cornerstones

- 2 unprofitable facilities already closed and others realigned
- New legal structure for FCH and market approach initiated
- Investments to achieve competitiveness
- Headcount reduction in FCH of ~500 employees
- Headcount reduction of ~160 employees out of employment pool

## Styrenic Resins cornerstones

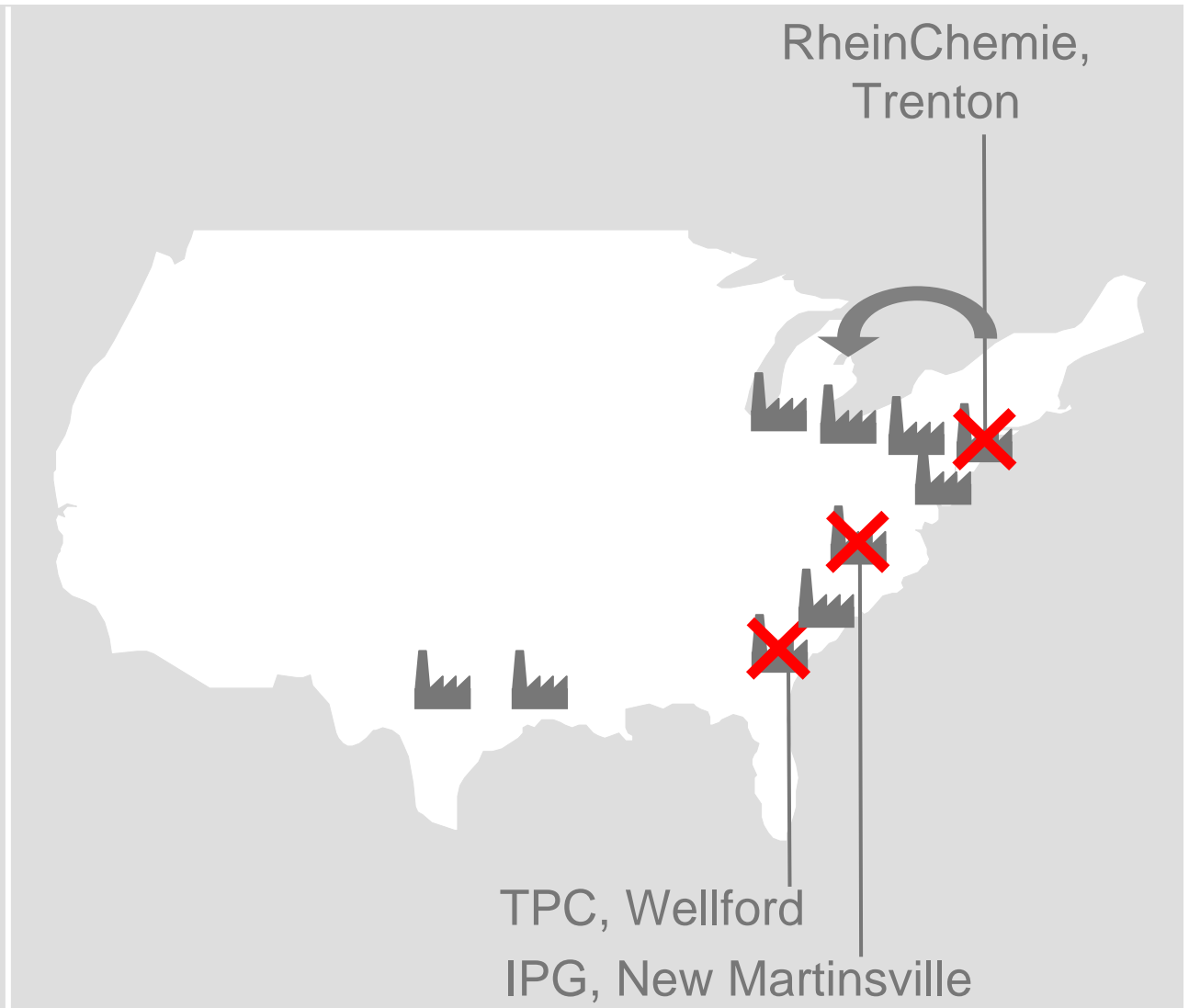
- Agreement reached in STY, Tarragona:
  - annual worktime increased
  - reduction of annual bonus
  - savings on supplies and infrastructure
- Realignment of Dormagen / Tarragona sites: Relocation of management by summer '06
- Tarragona: Capacity adjustments and focus on profitable specialties
- Dormagen: Capacity reduction in Dormagen and focus on exclusive production for Bayer MaterialScience
- Headcount reduction of ~200 employees

As capacity in STY and FCH will be reduced by 2007/08, certain sales volume and corresponding profit will be lost on purpose → By this reduction of capacity, we improve the supply/demand ratio

## 2<sup>nd</sup> Phase: Small U.S. Production Sites to be Closed

### Asset Consolidation

- Approx. 20% of LANXESS sales are in the U.S. market
- Some production sites of under-critical size with unfavourable cost structure
- Closure of three out of ten production sites; decision to consolidate two RCH sites in Chardon, Ohio



## 2<sup>nd</sup> Phase: Process Optimization and Aggressive Cost-Cutting in TRP and Closure of Outdated Plant in LEA

### Uerdingen; LEA

- Eroding European market
- Outdated plant design
- Capacities underutilized
- Plant closure and shift to other facilities improves profitability

### La Wantzenau; TRP

- NBR-business has been unprofitable for 10 years
- Double-digit million euro saving is necessary to ensure sustainable profitability
- Agreement reached for TRP, La Wantzenau, France: headcount reduction and cost savings



# Financial Impact Due to Major Restructuring

Phase I+II (€ m)	2005	2006	2007	2008
P&L Expenses	-145	-35	-30	-15
Cash outs	-40	-95	-75	-40
<b>Cost reduction</b>		<b>40</b>	<b>90</b>	<b>160</b>
<b>EBITDA improvement</b>		<b>40</b>	<b>85</b>	<b>120</b>
Headcount reduction	~340	~670	~400	

## Key Take-Aways:

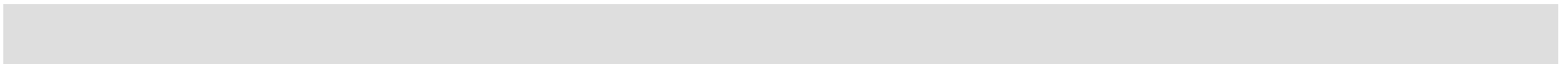
- €225 m total P&L expense; €250 m total cash costs
- €160 m annual savings as of 2008 with EBITDA improvement of ~€120 m
- Total headcount reduction: ~1,400
- €132 m P&L restructuring charge in Q3 2005
- ~€10 m cash out in Q3 2005

→ **“Solidarity agreement” on top of above numbers give positive “one-time” effect of €60 m (€15 m, €20+ m and €20+ m in 2005 to 2007) - ~ €7 million effect in P&L already in Q3 2005**

**Expected for Q4 2005: additional €10-20 m expenses, ~€30 m cash outs**

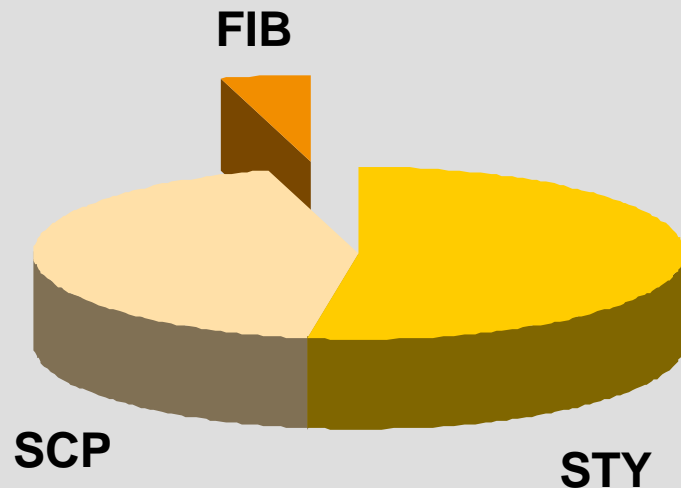
Restructuring 1<sup>st</sup> Phase and 2<sup>nd</sup> Phase

**Portfolioadjustment**



# Fibers - First Adjustment to the Portfolio

## Sale of Dorlastan Fibers business to Asahi Kasei Fibers planned



Engineering Plastics Sales by BU

## Cornerstones:

- Purchase agreement with AKF signed on December 22, 2005; transaction subject to approval of authorities
- Purchase price not disclosed
- ~280 employees in Dormagen, Germany (thereof ~170 transferred to AKF)
- ~190 employees in the Bushy Park, U.S., (thereof ~160 transferred to AKF)

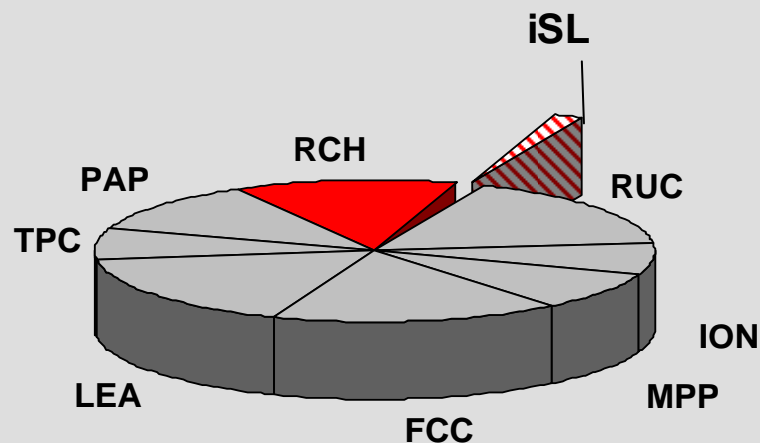
## Transaction cash neutral:

- Financing of headcount reduction by transaction related cash-in
- Exceptional write-off of around ~€35 m expected for Q4 2005

**Securing the future for the Fibers business with a strong partner**

# Second Adjustment to the Portfolio: iSL - A Non-Core Business of RheinChemie (RCH)

**Sale of iSL-business to Berlac AG,  
Switzerland, which is non-core to RCH**



Performance Chemicals Sales by BU

## Cornerstones:

- iSL is a leading provider of refined color products and related services to the plastics and especially the PU industry
- Contract signed on December 1; transaction effective immediately

## Transaction leads to cash in of €20 m

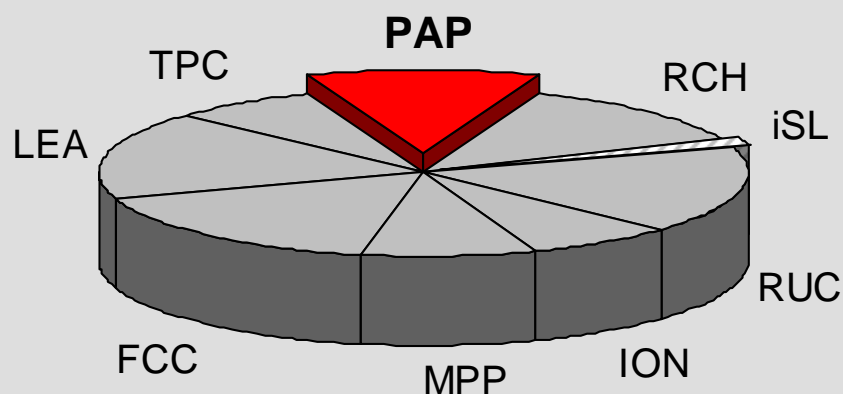
- Purchase price of around €20 million (enterprise value) for debt-free entity
- Projected €25 million sales in 2005
- ~130 employees in Kuerten, Germany

**Sharpening the portfolio of Performance Chemicals while financing anticipated burdens**

# Sale of BU Paper: Third Adjustment to the Portfolio with Kemira as Strong Partner

## Sale of BU Paper to Kemira:

Strengthening Kemira's leading market position by completing their product portfolio and helping to realize synergies



Performance Chemicals Sales by BU

## Key Business Items:

- Sales of ~€240 million in 2004 - around 2/3 of sales consisted of toll-manufactured goods and trading goods
- EBIT-losses in 2003 and 2004
- Marginal EBITDA contribution in 2005
- 375 employees, sites in Leverkusen and Bushy Park

## Transaction Cornerstones:

- Purchase price of €88 million (enterprise value) on a debt / cash-free basis
- Remnant cost for Admin, IT, etc. of around €10 million in 2006 and around €5 - €10 million in 2007
- Transaction subject to approval of anti-trust authorities
- Closing expected by end of March 2006

**Sale of BU Paper at value enhancing multiples**

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# Financial Highlights: Improved Performance and Sharply Reduced Net Debt

(€m)	9M 2004	9M 2005	Δ in %
<b>Sales</b>	<b>5,047</b>	<b>5,364</b>	<b>6.3%</b>
<b>EBITDA pre except. Margin</b>	<b>385</b> 7.6%	<b>492</b> 9.2%	<b>27.8%</b>
<b>Net Income</b>	<b>-8</b>	<b>37</b>	<b>n.m.</b>
<b>Net Financial Debt</b>	<b>1,135<sup>1</sup></b>	<b>811</b>	<b>-28.5%</b>
<b>Capex</b>	<b>158</b>	<b>151</b>	<b>-4.4%</b>
<b>Employees</b>	<b>19,659<sup>1</sup></b>	<b>18,566</b>	<b>-5.6%</b>

- Increased sales due to continued implementation of price before volume strategy
- Net income improved substantially despite restructuring charges
- Net financial debt reduction due to:
  - convertible buyback
  - improved operational Cash Flow
  - tight working capital management

<sup>1</sup> per 12/31/2004  
n.m.: not meaningful

**Faster implementation of restructuring measures and continued strong pricing**

## 9M 2005 Sales Variance by Segment (approximate numbers)

(€m)	9M 2004	Price	Volume	Currency	9M 2005
Performance Rubber	1,046	~ +17%	~ +2%	~ -1%	1,238
Engineering Plastics	1,281	~ +9%	~ -7%	~ -0%	1,303
Chem. Intermediates	1,102	~ +6%	~ +0%	~ -0%	1,168
Perf. Chemicals	1,459	~ +7%	~ -5%	~ -1%	1,478
<b>LANXESS</b>	<b>5,047</b>	~ <b>+9%</b>	~ <b>-3%</b>	~ -0%	<b>5,364</b>

### Independence

- supports re-positioning of businesses on the market
- enables implementation of new pricing strategies
  - improve margin to acceptable level
  - don't go for every volume at any price

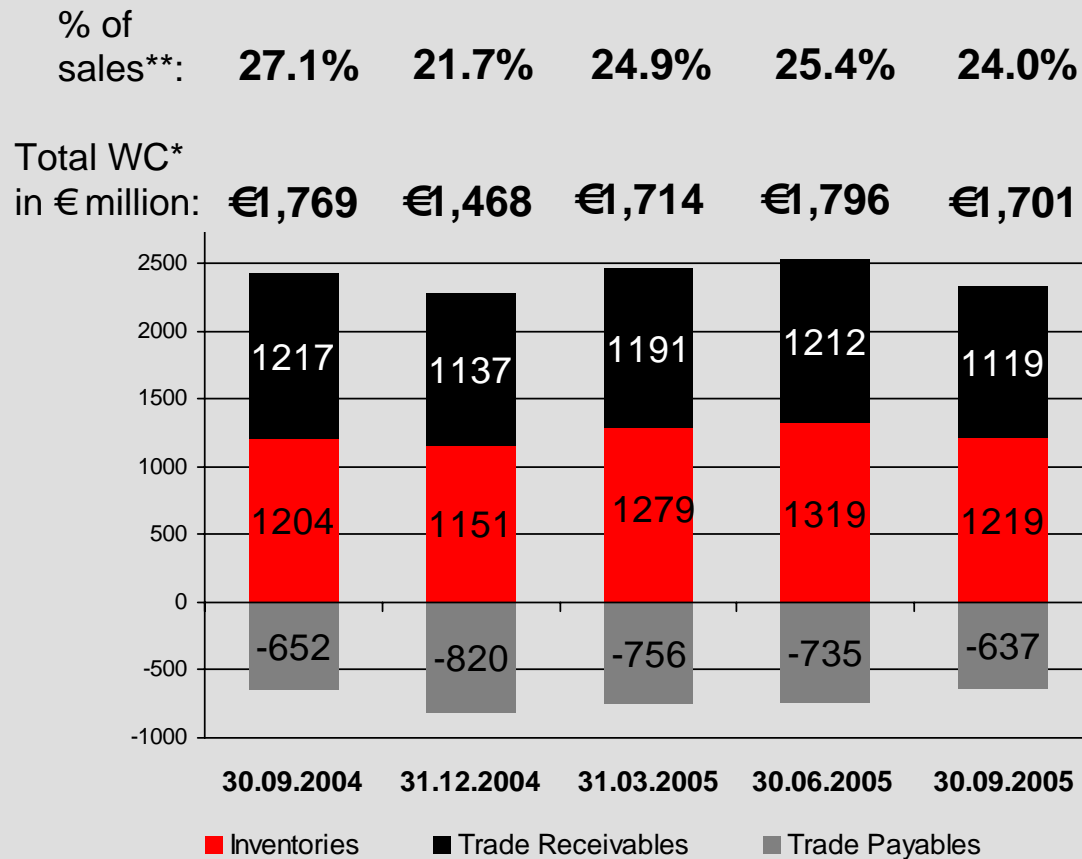
**Further price increases have already been announced for several products, including BUs BAC, STY, SCP and PAP as of October**

# Balance Sheet Has Been Strengthened

(€m)	Dec 31, 2004	June 30, 2005	Sept 30, 2005	(€m)	Dec 31, 2004	June 30, 2005	Sept 30, 2005
<b>Non-current Assets</b>				<b>Stockholders' equity</b>	1,365	1,225	1,422
Intangible assets	65	60	57	thereof Minority interest	14	15	17
Property, plant & equipment	1,521	1,517	1,514	<b>Provisions</b>			
Investments	85	90	93	Pension & post empl. provisions	418	449	455
				Other provisions	481	583	759
<b>Current Assets</b>				<b>Liabilities</b>			
Inventories	1,151	1,319	1,219	Financial obligations	1,207	1,428	938
Trade receivables	1,137	1,212	1,119	thereof Mandatory Convertible	200	211	0
Other receivables & assets	363	395	354	Trade accounts payable	820	735	637
Liquid assets	72	178	127	Other liabilities	190	189	200
				<b>Deferred taxes</b>	55	152	112
<b>Deferred taxes</b>	172	18	56	<b>Deferred income</b>	41	46	38
<b>Deferred charges</b>	11	18	22				
<b>Total assets</b>	4,577	4,807	4,561	<b>Total Liabilities &amp; Equity</b>	4,577	4,807	4,561

The markets' concerns are our concerns - we therefore tackle them

# 2<sup>nd</sup> Half-Year Effects and Better Working Capital Management



- Inventory: substantial sequential decrease due to tight management, planned maintenance turnarounds
- Receivables: Lower mainly due to negotiation of improved payment terms
- Payables: outflow due to timing of maturities and €30 million for payment term adjustment with Bayer as of 31.12.2004

**As announced, Working Capital decreased; expected stable at year end**

\* Working Capital : Inventory plus trade accounts receivable less trade accounts payable

\*\* As % of sales on the basis of last 4 quarters' sales

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# Outlook

## Underlying assumptions

- Exchange rate €1.0 = ~USD1.25
- Continuous supportive economic environment
- Q4 somewhat weaker business versus Q3
- Only minor restructuring expenses expected Q4 2005

## 2005 Guidance based on above assumptions

- Q4 expected with slightly weaker sales compared to previous year, due to strong Q4 2004
- Due to faster implementation of restructuring measures and continued good environment, FY 2005 EBITDA pre exceptionals now expected €560 - €580 m
- Capex at lower end of €250 - 270 m range
- Depreciation and Amortization ~€250 m
- Neutral P&L tax line expected for FY 2005

**Reiteration of 9%-10% EBITDA pre excep. margin target for 2006 on FY 2004 sales**

# LANXESS - Promise and Delivery

## Status and Way Forward

### Independence

- Clear roles and responsibilities and committed management
- Price-before-volume strategy with positive results
- Strengthened finance structure

### Restructuring

- 1<sup>st</sup> Phase: Immediate action taken for largest loss makers
- 2<sup>nd</sup> Phase: Continued restructuring in U.S. and Europe
- EBITDA improvement of €120 m by 2008 p.a.

### Portfolio

- BU Paper: Purchase agreement signed with Kemira Oyj
- BU Fibers: Purchase agreement signed with Asahi Kasei Fibers

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**Thank you very much  
for your attention!**



# Appendix

# Contact Details

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# Financial Calendar 2006

**Full Year Results 2005**

**April 4, 2006**

**Q1 Results 2006**

**May 18, 2006**

**Q2 Results 2006**

**August 16, 2006**

**Q3 Results 2006**

**November 15, 2006**

**2nd Annual General Meeting**

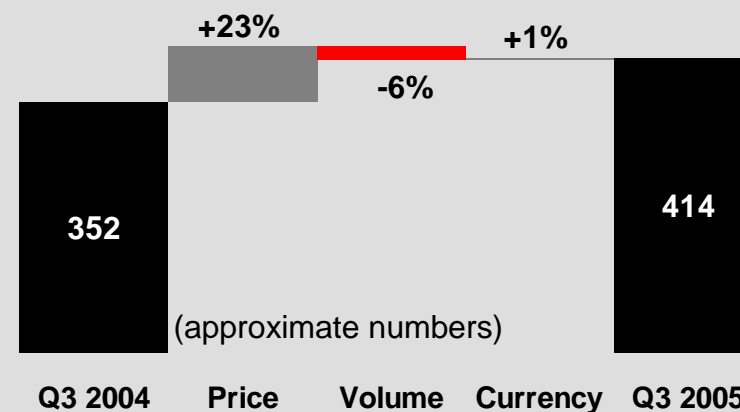
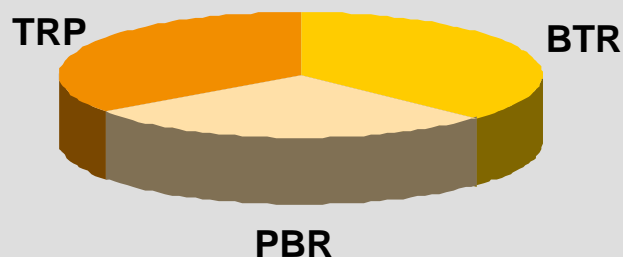
**May 31, 2006**

# Performance Rubber: All Businesses on Track

(€ m)	Q3 2004	Q3 2005
<b>Sales</b>	<b>352</b>	<b>414</b>
EBIT	21	18
Depr. / Amort.	11	17
EBITDA	32	35
<b>EBITDA pre except.</b>	<b>33</b>	<b>39</b>
Margin	9.4%	9.4%
<b>Capex</b>	<b>14</b>	<b>15</b>

- All BUs contributed to increased sales on the basis of improved pricing with even higher volumes in BTR, overall fully offsetting increased raw material costs
- Lower volumes due to comparison with exceptionally strong quantities in Q3 2004 - this does not represent a weakening in underlying demand
- Despite strong pricing, only slight profit increase due to higher input costs (i.e. butadiene and energy), expenses for planned maintenance and minor impact from hurricane "Rita"

Sales by BU:

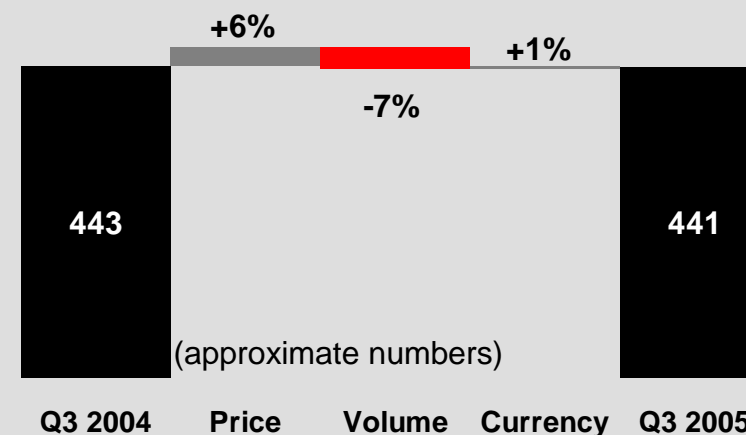
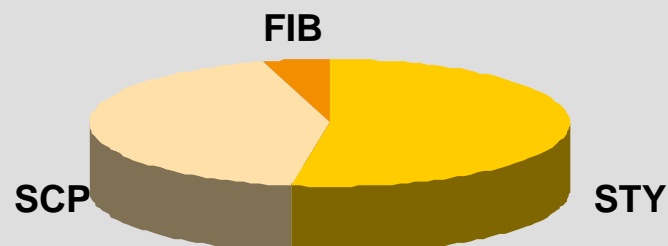


# Engineering Plastics: STY “Back in Black”

(€ m)	Q3 2004	Q3 2005
<b>Sales</b>	<b>443</b>	<b>441</b>
EBIT	0	3
Depr. / Amort.	13	11
EBITDA	13	14
<b>EBITDA pre except.</b>	<b>13</b>	<b>14</b>
Margin	2.9%	3.2%
<b>Capex</b>	<b>9</b>	<b>7</b>

- Improved pricing in STY and stronger volumes in SCP offset impact from weak FIB
- Only slightly improved results on the basis of sound development in STY with raised prices, supported by easing styrene input costs
- SCP somewhat burdened by costs for planned maintenance shutdown, however with solid contribution
- Restructuring is expected to further improve performance

Sales by BU:

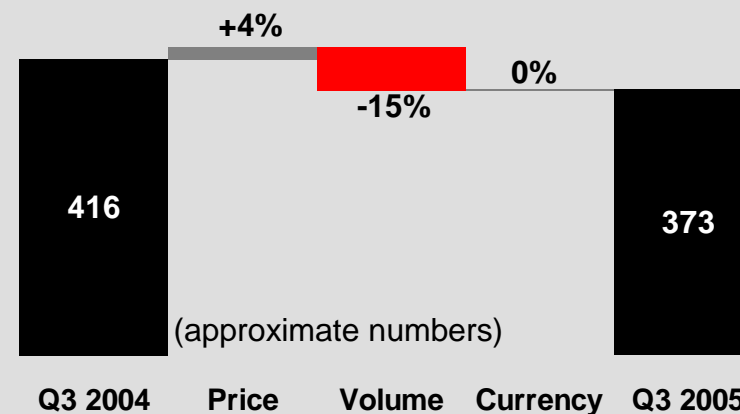
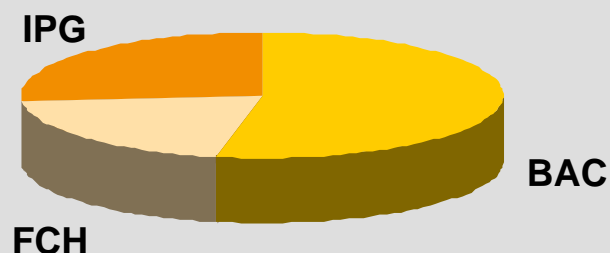


# Chemical Intermediates: Good BAC Performance Backed by Improved FCH and Stable IPG Business

(€m)	Q3 2004	Q3 2005
<b>Sales</b>	<b>416</b>	<b>373</b>
EBIT	14	39
Depr. / Amort.	24	16
EBITDA	38	55
<b>EBITDA pre except.</b>	<b>38</b>	<b>55</b>
Margin	9.1%	14.7%
<b>Capex</b>	<b>25</b>	<b>10</b>

- As anticipated, volumes in BAC and FCH comparably lower due to absence of summer-weakness in 2004, however slightly offset by increased prices
- EBITDA increased with strong profit contribution by BAC supported by tight markets for some products and easing benzene prices
- FCH showed overall good progress on the basis of already implemented measures, IPG back on track - on last year's level
- Capex extraordinarily high in Q3 2004 due to initial investments in several projects

Sales by BU:

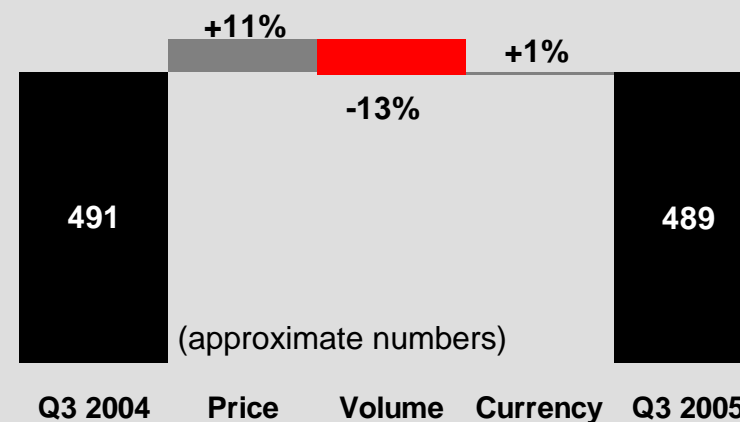
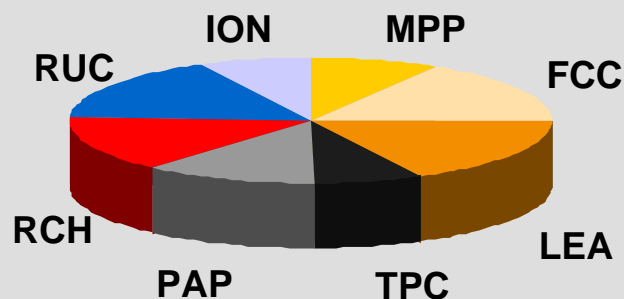


# Performance Chemicals: Effective Cost Management and Improvements in Several BUs

(€m)	Q3 2004	Q3 2005
<b>Sales</b>	<b>491</b>	<b>489</b>
EBIT	-16	38
Depr. / Amort.	15	18
EBITDA	-1	56
<b>EBITDA pre except.</b>	<b>40</b>	<b>57</b>
Margin	8.1%	11.7%
<b>Capex</b>	<b>12</b>	<b>19</b>

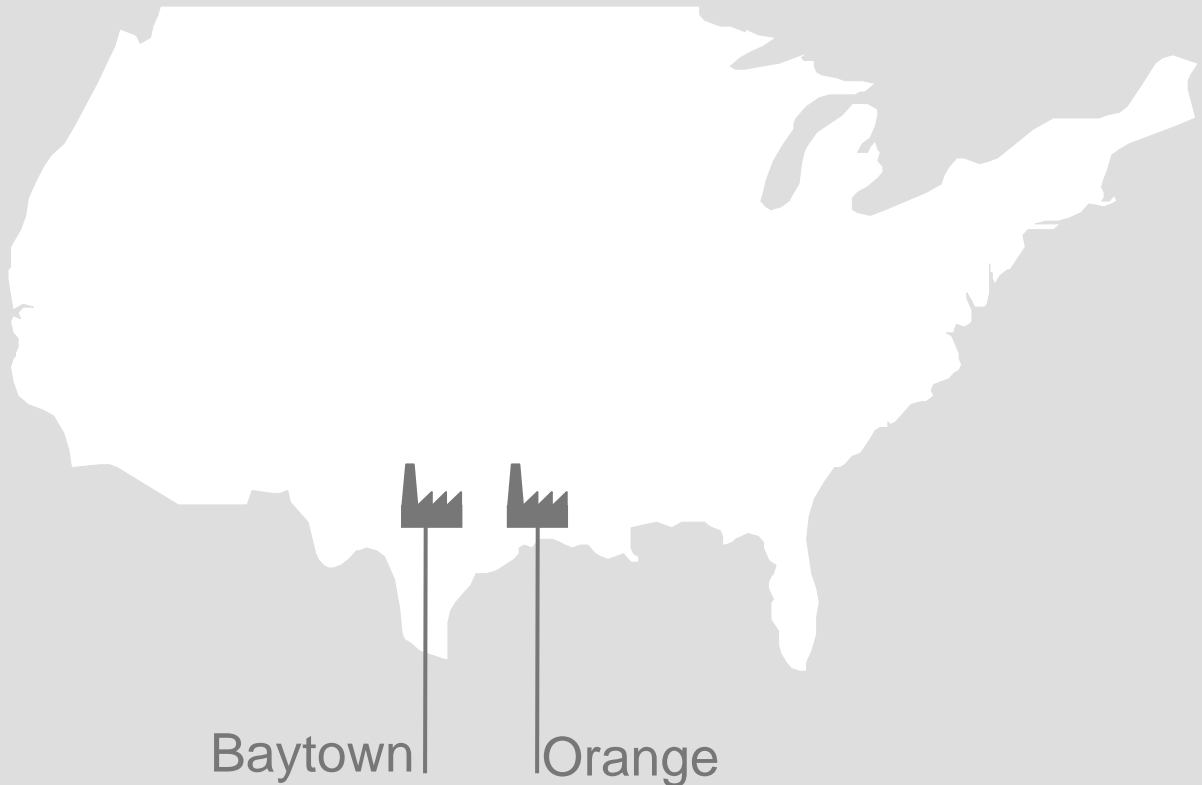
- Stable Sales due to lesser seasonality in performance chemicals (specialities businesses)
- Stronger pricing mainly in RUC and FCC offset decreased volumes primarily in FCC, due to product portfolio changes
- EBITDA improved mainly by increased contributions from LEA, RUC, MPP and ION
- Exceptionals in 2004 consisted mainly of environmental provisions

Sales by BU:



# Update on Impacts due to U.S.-Hurricanes

- No impact from hurricane „Katrina“
- Impacts from hurricane „Rita“ less significant than expected. By end of October, both sites were again fully operational
- Financial P&L impact: additional low single digit million expenses
- Continuous high and volatile raw material prices due to tight supply expected in Q4



# Business Outlook I

## Performance Rubber

- No noteworthy competitive capacity additions expected to come on stream in BTR and PBR midterm - therefore supply / demand is expected to remain well balanced
- New capacity additions at the Sarnia and Zwijndrecht BTR sites in '06 and '07 are going to support our operational performance from 2007 on
- Continuous market support for “price before volume” strategy in PBR; repositioning of TRP especially by restructuring and product portfolio re-alignment

## Engineering Plastics

- Volatile market environment in main customer endmarkets such as automobile and electronics expected to continue in 2006
- Improvements from restructuring being realised, site consolidation and focus on production of ABS-specialities on track
- Favourable development in SCP is fostered by growth strategy in China
- Favourable contracts in place for our merchant market supply of caprolactam

**Supportive market environment expected to continue into 2006**

# Business Outlook II

## Chemical Intermediates

- We expect to continuously participate in the current cyclical upturn, by means of utilization of the outstanding market positions in BAC and IPG- remain optimistic for 2006 - balanced markets expected
- Restructuring and stand-alone strategy of FCH to lead to further improvements
- IPG generally stable business with solid contribution also expected for 2006

## Performance Chemicals

- In general, specialities experience a lesser seasonality compared to the rest of the industry
- Businesses with leading market positions perform well - weaker positions lead to diminished performance
- Selective growth in exclusive Business Units such as MPP, LEA; Asian market represents important supporting pillar in our strategy
- Portfolio re-alignment necessary and ongoing

**Market development encourages our strategy**

# Exceptional Items Incurred in Q3 2004 and 2005

(€m)	Q3 2004		Q3 2005		
	Exceptional	thereof D&A	Exceptional	thereof D&A	
Performance Rubber	1	0	4	0	– “Rubber” Litigation
Engin. Plastics	2	2	3	3	– Capex write-off and amendment to 2003 impairment in 2004
Chemical Intermediates	7	7	2	2	– Capex write-off
Performance Chemicals	40	-1	1	0	– Majority: Environm. provision in 2004, “Rubber” litigation 2005
Reconciliation	0	0	132	4	– Phase I+II restructuring
<b>Total</b>	<b>50</b>	<b>8</b>	<b>142</b>	<b>9</b>	

# Reminder: LANXESS' Long Term Incentive and Employee Participation Programmes finalized

- Long Term Incentive Programme consisted of:
  - Stock Performance Plan (SPP)
  - and Economic Value Plan (EVP)
- Condition to participation: personal investment (40%\* of one annual fixed salary in three tranches)
  - Individual Investments are being done via an intermediary
  - Average purchase price of first tranche is €24.14
- Very satisfying, high turnout of employees in LTIP
  - more than 95% of the top ~50 managers

\* percentage applicable on Board level - lower percentage for first level below Board of Management

# LANXESS LTIP's on Board Level: Stock Performance Plan (SPP) and Economic Value Plan (EVP)

- **Condition to participation: Personal investment (40% of one annual fixed salary in three tranches)**
- **Stock Performance Plan (SPP)**
  - **Benchmark:** Outperformance of the DJ global STOXX 600 Chemicals index (index+10%:100% targeted payout, index+20%: cap and maximum payout)
  - **Targeted payout\*:** 90% of one total annual salary (fixed and variable)
  - **Vesting period:** 3 years, following 2 years of exercise period for each tranche
  - **Blackout periods:** surrounding earnings releases and AGM
  - **Grant price:** volume weighted average of first ten trading days (€15.01 for first tranche)
- **Economic Value Plan (EVP)**
  - **Benchmark:** Increase of Economic Value over three years ('04-'07, '05-'08, '06-'09) according to business plan  
Economic Value = EBITDA \* Multiplier, less net debt
  - **Targeted payout\*:** 40% of one total annual salary
  - **Vesting period:** 3 years, automatic exercise after 3 years
- **Accounting treatment:** Value calculated by option pricing model (Black-Scholes) will be expensed over three years for each tranche.

\* percentage applicable on Board level - lower percentage for first level below Board of Management

# Sound Financing Structure

## Main Financing Components

€1,250 m	Revolving Credit Facility 5-year maturity with two one-year extension options Improved terms and conditions vs. prior €1.5 bn facility Signed on October 5, 2005
€500 m	Debut Eurobond Seven-year tenor, maturing on June 21, 2012 4.125% coupon
€200 m	Asset Backed Securities Programme Revolving sale of trade receivables

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~€2,000 m **Financing Instruments in place**

€938 m **Status of Financial Obligations as per 30.09.2005**

(€811 m: Status of Net Financial Debt as per 30.09.2005)

**Plenty of headroom: Revolving Credit Facility is mainly intended as a long-term liquidity back-up and will probably only be drawn to a limited degree**

# Improved Cash Flow: Stronger Operating Results Combined with Improved Working Capital Management

(€m)	9M 2004	9M 2005
<b>EBIT</b>	<b>76</b>	<b>139</b>
Income Taxes	-52	-72
Depreciation & Amortization	249	217
Change in Pension Provisions	-27	0
Gain/ Loss from Sale of Assets	6	-2
Change in Working Capital*	-300	-161
Change in Other Net Current Assets	88	237
<b>Cash provided by Operating Act.</b>	<b>40</b>	<b>358</b>
<b>Capex</b>	<b>-158</b>	<b>-151</b>
Cash Flow used in Investing Activities**	85	-140
Cash Flow used in Financing Activities	-59	-162
Cash at End of Period	80	127

- Cashflow improved mainly on higher operating result
- Strong improvement in working capital, despite ~€30 million cash out for payment term adjustment with Bayer
- Continuous tight Capex management

**Excess Cash has been used to reduce Net Financial Debt**

\* Working Capital : Inventory plus trade accounts receivable less trade accounts payable

\*\* including Capex

# Quarterly Overview 2004/ 2005

	Q1		Q2		H1		Q3		9M		Q4	FY
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2004
<b>Sales</b>												
Perf Rubber	326	392	368	432	694	824	352	414	1046	1238	385	1431
Eng Plastics	407	414	431	448	838	862	443	441	1281	1303	441	1722
ChemIntermed	366	389	320	406	686	795	416	373	1102	1168	385	1487
Perf Chem	478	478	490	511	968	989	491	489	1459	1478	451	1910
Recon	33	56	64	62	97	118	62	59	159	177	64	223
Lanxess	1610	1729	1673	1859	3283	3588	1764	1776	5047	5364	1726	6773
<b>EBITDA pre exc.</b>												
Perf Rubber	32	56	49	70	81	126	33	39	114	165	9	123
Eng Plastics	21	35	8	14	29	49	13	14	42	63	7	49
ChemIntermed	81	65	31	59	112	124	38	55	150	179	52	202
Perf Chem	55	58	43	58	98	116	40	57	138	173	14	152
Recon	-24	-33	-16	-38	-40	-71	-19	-17	-59	-88	-20	-79
Lanxess	165	181	115	163	280	344	105	148	385	492	62	447

# Antitrust Proceedings in Bayer AG's former Rubber Business Group

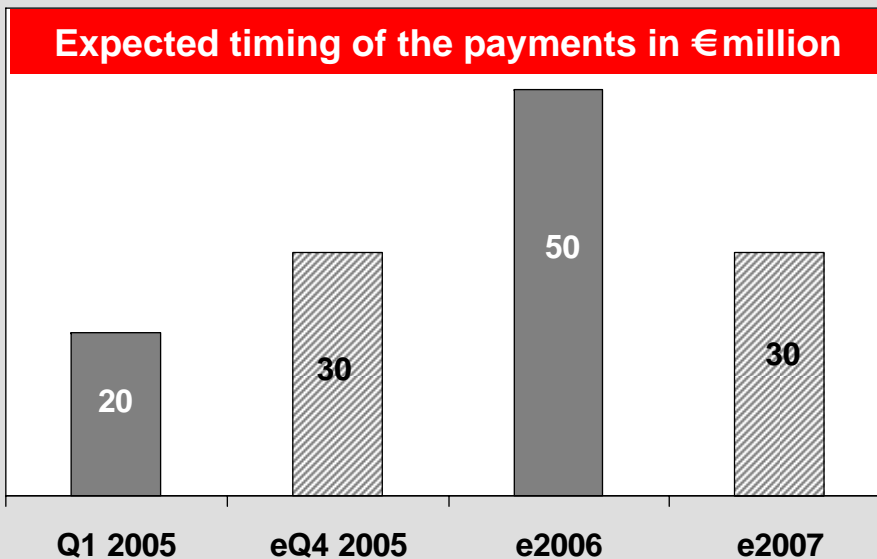
With respect to all liabilities arising out of the antitrust proceedings relating to the former Bayer rubber business, LANXESS bears 30% of such liabilities to a limit of €100 million (excl. legal defence costs and tax disadvantages).

In relation to settlement agreements Bayer is entering into with several groups of plaintiffs in the US, LANXESS is making an extraordinary provision in the amount of €61 million in Q4 2005.

Taken into account the €39 million of provisions already made, the maximum liability of LANXESS is now reached.



**There will be no further P&L impacts for LANXESS from the Bayer antitrust proceedings**



- The payments are limited to €50 million per year.
- First payments in the amount of €20 million have been made in Q1 2005. Therefore the maximum payment in Q4 2005 is €30 million.
- In dependence on the finalization of the settlement agreements Bayer is entering into, the payment of the €30 million might occur in 2007, however.