H1

# LANXESS – Q2 2014 Roadshow

## Realignment program and Q2 2014 results

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LANXESS
Energizing Chemistry

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# Agenda

- **“Let’s LANXESS again” status overview**
- Executive overview Q2 2014
- Business and financial review Q2 2014
- Outlook

# Fast process with ongoing communication

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# Business structure competitiveness: New business set-up creates more efficient and more effective market approach

## Performance Polymers

- Tire & Specialty Rubbers
- High Performance Elastomers
- High Performance Materials

## Advanced Intermediates

- Advanced Industrial Intermediates
- Saltigo

## Performance Chemicals

- Material Protection Products
- Inorganic Pigments
- Rhein Chemie Additives
- Leather
- Liquid Purification Technologies

Sales: > €500 m | Sales: €200 m – 500 m | Sales: < €200 m

Reporting structure as of January 1st 2015



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# Business structure competitiveness: Leaner structure and better market orientation

**Changes to Performance Polymers segment reported as of January 1st 2015**

| BU name | Composition | Rationale | Headed by |
|---|---|---|---|
| **Tire & Specialty Rubbers (TSR)** | BTR, PBR → **TSR** | ▪ Customer-oriented: Combine tire-related businesses in best-practice approach<br>▪ High customer overlap in established markets; complementary regional strength in emerging markets | **Jorge Nogueira** |
| **High Performance Elastomers (HPE)** | KEL, HPE → **HPE** | ▪ Customer-oriented: Significant customer overlap in technical rubber related business<br>▪ Combined services (e.g. application technology) | **Jan Paul de Vries** |

Sales split based on H1 2014 sales



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# Business structure competitiveness: Efficiency increase

**Considered change to Advanced Intermediates segment reported as of January 1st 2015**

| BU name | Composition | Rationale | Headed by |
|---|---|---|---|
| **Advanced Industrial Intermediates (AII)** | **Option A**<br>AII + RUC (AOX/ACC) → **AII** | ▪ Business model driven: Combine two asset-driven businesses, leveraging asset management know-how<br>▪ Apply AII's best practice approach to globally market rubber chemicals out of Europe | **Hubert Fink** |
| **Rubber Chemicals (AOX / ACC)** | **Option B**<br>**RUC (AOX / ACC)** | **Parallel consideration:**<br>▪ Evaluation of strategic options for AOX and ACC businesses ongoing<br>▪ Decision latest by end of Q3 2014 | |

Sales split based on H1 2014 sales



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# Business structure competitiveness: Leaner structure and better market orientation

**Changes to Performance Chemicals segment reported as of January 1st 2015**

| BU name | Composition | Rationale | Headed by |
|---|---|---|---|
| **Rhein Chemie Additives (ADD)** | RCH, RUC (SC), FCC → **ADD** | ▪ Business model driven: Additive businesses with similar service-oriented market approach<br>▪ Stronger market position in additives business as one combined player<br>▪ One face to the customer: More efficient customer approach especially in rubber and plastic businesses | **Anno Borkowsky** |

Sales split based on H1 2014 sales



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# ~40 % of leadership functions have been changed with focus on Performance Polymers

| | Areas of change | New responsibilities | |
|---|---|---|---|
| Board | MoB (PP / AI) | MoB (PP / AI) | Matthias Zachert (interim) |
| Performance Polymers | BTR<br>PBR<br>KEL<br>HPE | TSR<br>HPE | Jorge Nogueira<br>Jan Paul de Vries |
| Performance Chemicals | LEA<br>RUC<br>FCC<br>RCH | LEA<br>ADD | Luis López-Remón<br>Anno Borkowsky |
| Group functions | DEV<br>COM<br>IEA<br>ASC<br>INN<br>IT<br>LIP<br>IA | DEV<br>COM<br>PTSE<br>IT<br>LEX | Markus Eckert<br>Claus Zemke (Jan 1st 2015)<br>Par Singh<br>Hermann Schuster (interim)<br>Jochen Schroer |

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# A 3-phase realignment program has been defined

Schematic

Competitiveness

**1 Business & administration structure competitiveness**

- Consolidate BUs and GFs with similar business model
- Improve customer and market focus and leverage synergies
- Leaner administrative structures by restructuring and adjustment to business model

**2 Operations competitiveness**

- Operational excellence:
  - Analyze and adjust asset base and supply chain
  - Evaluate mothballings and site closures
  - Implementation of operational best practices
- Marketing & Sales excellence

**3 Portfolio competitiveness and alliances**

- Evaluate portfolio options to better balance the company set-up
- Consider alliances to improve competitive raw material access e.g. for rubber businesses
- Improve market access e.g. through marketing alliances

**Leadership excellence and performance culture**

2014 — 2015

**No time wasted: Diligently driven process since April. Clear schedule developed.**



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# Agenda

- “Let’s LANXESS again” status overview
- **Executive overview Q2 2014**
- Business and financial review Q2 2014
- Outlook



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# Highlights Q2 2014

| | | |
|---|---|---|
| + | ▪ Sequentially stable prices in Performance Polymers, but pressure remains<br>▪ Advanced Intermediates segment rock solid<br>▪ Strong EBITDA contribution from Performance Chemicals segment | **Operational improvements in Performance Chemicals** |
| - | ▪ Volumes in Performance Polymers lower yoy<br>▪ No improvement in prices yoy for most synthetic rubber products; EPDM (BU KEL) and Butyl (BU BTR) with ongoing challenges | **Ongoing challenges in Performance Polymers** |
| ! | ▪ Successful capital increase to fund restructuring and strengthen balance sheet (May 8th 2014)<br>▪ "Let's LANXESS again" program with full steam ahead<br>▪ New business unit set-up and management announced | **Strong sense of urgency** |



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# Q2 2014: Price decline shows competitive challenges

| Q2 yoy sales variances | Price | Volume | Currency | Portf. | Total |
|---|---|---|---|---|---|
| Perf. Polymers | -7% | -1% | -3% | -1% | -12% |
| Adv. Intermediates | -3% | 8% | -2% | 0% | 3% |
| Perf. Chemicals | 0% | 4% | -3% | 0% | 1% |
| LANXESS | -5% | 2% | -3% | 0% | -6% |

- Sales decrease on lower selling prices (mainly raw-material induced) and currency burden
- Volumes increase in Advanced Intermediates and Performance Chemicals, more than offsetting volume decline in Performance Polymers (impact from strike)

**Q2 yoy EBITDA pre bridge [€ m]**

- Relief from lower raw material did not fully offset effect of price decrease
- “Others” driven by reduced idle costs due to higher production volumes, absence of inventory devaluation (~€10 m) and some “Advance” effects



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# Q2 2014 yoy: Improved or stable earnings in all segments – prices in Performance Polymers remain a burden

## Performance Polymers

**Sales** **€1,036 m**

| Price | Volume | Currency | Portfolio | **Total** |
|---|---|---|---|---|
| -7% | -1% | -3% | -1% | **-12%** |

- Prices decline mainly driven by raw-material prices (butadiene)
- Price challenges in EPDM and Butyl remain (S/D driven)
- Volumes slightly lower yoy (e.g. strike in BU BTR)
- Higher utilization and absence of inventory devaluation support

## Advanced Intermediates

**Sales** **€403 m**

| Price | Volume | Currency | Portfolio | **Total** |
|---|---|---|---|---|
| -3% | +8% | -2% | 0% | **+3%** |

- Lower prices reflect lower raw-material prices (mainly toluene)
- Strong profitability across the segment; Agro markets with good demand
- EBITDA improvement held back somewhat by maintenance and currency effects (BU AII)

## Performance Chemicals

**Sales** **€569 m**

| Price | Volume | Currency | Portfolio | **Total** |
|---|---|---|---|---|
| 0% | +4% | -3% | 0% | **+1%** |

- Visible improvement in BU LEA
- Good contribution from BU RUC based on restructuring efforts and increased focus on environmental sustainability in China
- Good construction demand (BU IPG)

**EBITDA pre and Margins Q2 2014** (Q2 2013)

| Performance Polymers | Advanced Intermediates | Performance Chemicals |
|---|---|---|
| **€122 m, 12%** (€94 m, 8%) | **€73m, 18%** (€74 m, 19%) | **€86 m, 15%** (€67 m, 12%) |

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# Q2 2014: Selling prices decline in all regions – volumes however increased, except for Latin America

Q2 2014 sales by region
[%]

Regional development of sales
[€ million]

* Currency and portfolio adjusted



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# Q2 2014 financial overview: Earnings improve but remain at moderate levels

| [€ m] | Q2 2013 | Q2 2014 | yoy in % |
|---|---|---|---|
| **Sales** | **2,141** | **2,019** | **-5.7%** |
| **EBITDA pre except.** | **198** | **239** | **20.7%** |
| margin | 9.2% | 11.8% | |
| **EPS** | **0.11** | **0.63** | **>100%** |
| EPS pre[1] | 0.42 | 0.79 | 87.5% |
| **Capex[2]** | **159** | **154** | **-3.1%** |
| **Free Cash Flow** | **-66** | **24** | **>100%** |
| **[€ m]** | **31.12.2013** | **30.06.2014** | **Δ %** |
| **Net financial debt** | **1,731** | **1,495** | **-13.6%** |
| **Net working capital** | **1,679** | **1,935** | **15.2%** |
| **ROCE** | **5.8%** | **7.1%** | |
| **Employees** | **17,343** | **16,886** | **-2.6%** |

- Sales decrease due to price declines and currency burden, mitigated by slight volume increase
- EPS increase on improved operating earnings and lower exceptional items
- Net financial debt reduction reflects capital increase
- Net working capital higher on volume-driven inventory increase (preparation for H2 maintenance shut-downs)

[1] Net of exceptionals, using the local tax rate applicable where the expenses were incurred
[2] Net of capitalized borrowing costs, projects financed by customers and finance lease



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# Agenda

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# Q2 2014: EBITDA increase versus a comparatively low basis

| [€ m] | Q2 2013 | | Q2 2014 | | yoy in % |
|---|---|---|---|---|---|
| Sales | 2,141 | (100%) | 2,019 | (100%) | -6% |
| Cost of sales | -1,736 | (81%) | -1,579 | (78%) | 9% |
| Selling | -200 | (9%) | -188 | (9%) | 6% |
| G&A | -75 | (4%) | -71 | (4%) | 5% |
| R&D | -43 | (2%) | -40 | (2%) | 7% |
| **EBIT** | **50** | **(2%)** | **122** | **(6%)** | **>100%** |
| **Net Income** | **9** | **(0%)** | **55** | **(3%)** | **>100%** |
| **EPS** | **0.11** | | **0.63** | | **>100%** |
| EPS pre[1] | 0.42 | | 0.79 | | 56% |
| EBITDA | 166 | (8%) | 221 | (11%) | 33% |
| thereof exceptionals | -32 | (0%) | -18 | (1%) | -44% |
| **EBITDA pre exceptionals** | **198** | **(9.2%)** | **239** | **(11.8%)** | **21%** |

- Sales declined mainly as slightly higher volumes (+2%) do not offset lower prices (-5%)
- Overhead costs lower due to high cost discipline
- EBITDA pre performance is held back by effect from strike in Belgium (BU BTR)
- Net income is supported by lower exceptionals and lower interest costs

**Cost discipline and lower idle costs drive profit improvement**

[1] Net of exceptionals, using the local tax rate applicable where the expenses were incurred



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# Q2 2014: Performance Polymers and Chemicals with improved performance

Total group sales and EBITDA pre figures include reconciliation

# Performance Polymers: Market conditions remain tough – improved utilization rates drive earnings

| [€ m] | Q2 2013 | Q2 2014 | Δ | H1 2013 | H1 2014 | Δ |
|---|---|---|---|---|---|---|
| **Sales** | **1,178** | **1,036** | **-12.1%** | **2,312** | **2,099** | **-9.2%** |
| EBIT | 29 | 68 | >100% | 81 | 120 | 48.1% |
| Depr. / Amort. | 65 | 51 | -21.5% | 125 | 107 | -14.4% |
| **EBITDA pre exceptionals** | **94** | **122** | **29.8%** | **206** | **239** | **16.0%** |
| Margin | 8.0% | 11.8% | | 8.9% | 11.4% | |
| **Capex*** | **85** | **112** | **31.8%** | **143** | **188** | **31.5%** |

## Q2 comments

- Prices decline raw-material induced (butadiene) and from competitive pressure in EPDM (BU KEL) and Butyl (BU BTR)
- Volumes decline in almost all rubber units, additionally negatively impacted by strike in Belgium; volumes in PA compounds increase, continuing BU HPM's growth path
- EBITDA improves on higher utilization rates and absence of inventory devaluation (~€10 m in Q2 2013)
- D&A decreases due to impairments at year end 2013

## Q2 sales bridge yoy [€ m]

* Net of capitalized borrowing, costs projects financed by customers and finance lease



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# Advanced Intermediates: Again rock solid performance

| [€ m] | Q2 2013 | Q2 2014 | Δ | H1 2013 | H1 2014 | Δ |
|---|---|---|---|---|---|---|
| **Sales** | **393** | **403** | **2.5%** | **826** | **822** | **-0.5%** |
| EBIT | 59 | 51 | -13.6% | 113 | 99 | -12.4% |
| Depr. / Amort. | 19 | 21 | 10.5% | 36 | 44 | 22.2% |
| **EBITDA pre exceptionals** | **74** | **73** | **-1.4%** | **145** | **145** | **0.0%** |
| Margin | 18.8% | 18.1% | | 17.6% | 17.6% | |
| **Capex*** | **23** | **20** | **-13.0%** | **42** | **39** | **-7.1%** |

## Q2 comments

- Selling price decline driven by raw-material prices (mainly toluene)
- Volumes rise in BU AII in aromatic network (e.g. debottlenecking in cresol) and benzyl products (agro demand driven)
- BU SGO with positive volumes from new agro projects
- EBITDA pre performance held back by maintenance expenses and some currency effects

## Q2 sales bridge yoy [€ m]

* Net of capitalized borrowing costs, projects financed by customers and finance lease



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# Performance Chemicals: Another quarter of improved earnings

| [€ m] | Q2 2013 | Q2 2014 | Δ | H1 2013 | H1 2014 | Δ |
|---|---|---|---|---|---|---|
| **Sales** | **561** | **569** | **1.4%** | **1,081** | **1,119** | **3.5%** |
| EBIT | 6 | 60 | >100% | 35 | 98 | >100% |
| Depr. / Amort. | 28 | 23 | -17.9% | 49 | 43 | -12.2% |
| **EBITDA pre exceptionals** | **67** | **86** | **28.4%** | **118** | **154** | **30.5%** |
| Margin | 11.9% | 15.1% | | 10.9% | 13.8% | |
| **Capex*** | **34** | **18** | **-47.1%** | **53** | **28** | **-47.2%** |

## Q2 comments

- Prices remain stable amid some input cost relief
- Volumes driven by BU LEA (stable production in chrome ore) and BU MPP with good demand for biocides in paints
- EBITDA improvement driven by BU LEA and BU RUC (restructuring yielding results and recovering accelerators-business due to environmental aspects in China); BU IPG (construction) with consistent strong contribution
- Capex lower as projects are finalized in BUs LEA and RCH

## Q2 sales bridge yoy [€ m]

* Net of capitalized borrowing costs, projects financed by customers and finance lease



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# Financials start to gradually move into the right direction

| [€ m] | Dec 13 | Jun 14 |
|---|---|---|
| Total assets | 6,811 | 7,196 |
| Equity | 1,900 | 2,324 |
| **Equity ratio** | **28%** | **32%** |
| Net financial debt | 1,731 | 1,495 |
| **Net financial debt/EBITDA pre**[1] | **2.36** | **1.85** |
| Near cash, cash & cash equivalents | 533 | 570 |
| Pension provisions | 943 | 1,083 |
| **ROCE**[1] | **5.8%** | **7.1%** |
| | | |
| Net working capital | 1,679 | 1,935 |
| **Net working capital/sales**[1] | **20%** | **24%** |
| DSI (in days)[2] | 58 | 66 |
| DSO (in days)[2] | 48 | 51 |

- Total assets increase due to capital increase in May 2014 and higher working capital
- Equity ratio and net financial debt/EBITDA nicely improve with successful capital increase
- Pension provisions increase mainly due to lower interest rates
- Net working capital rises on higher inventories (in preparation for maintenance in H2) and higher receivables

[1] Based on last twelve months for EBIT pre, EBITDA pre or sales
[2] Days of sales in inventories / Days of sales outstanding calculated on quarterly sales



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# Q2 2014: Improved operating cash flow

| [€ m] | Q2 2013 | Q2 2014 |
|---|---|---|
| **Profit before tax** | **11** | **94** |
| Depreciation & amortization | 116 | 99 |
| Gain from sale of assets | -1 | 0 |
| Result from investments (using equity method) | 0 | -4 |
| Financial (gains) losses | 28 | 13 |
| Cash tax payments/refunds | -7 | 9 |
| Changes in other assets and liabilities | -109 | 9 |
| **Operating cash flow before changes in WC** | **38** | **220** |
| Changes in working capital | 55 | -42 |
| **Operating cash flow** | **93** | **178** |
| **Investing cash flow** | **-93** | **-293** |
| thereof capex* | -159 | -154 |
| **Financing cash flow** | **-80** | **11** |

- Profit before tax increased from improved business performance
- D&A decreased after impairments at year end 2013
- Changes in other assets and liabilities mainly reflect lower variable compensation payouts
- Investing cash flow mirrors investment in near cash assets
- Financing cash flow contains €500 m bond repayment and inflowing funds from capital increase

**Free cash flow turns positive**

* Net of capitalized borrowing costs, projects financed by customers and finance lease



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# Agenda

- “Let’s LANXESS again” status overview
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- **Outlook**



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# Almost unchanged outlook for most industries – FY 2014 guidance narrowed

## Macro expectations 2014

- Tire industry growth higher than 2013 but less than expected; good replacement tire demand but weaker than expected OEM businesses
- Automotive industry with slower growth than anticipated (especially Latin America and Asia)
- Agro chemicals demand remains robust
- Construction industry expected to grow yoy with regionally different impetus; US robust
- US Dollar expected volatile in 2014; political uncertainties remain a risk

## LANXESS expectations 2014

- Guidance narrowed: For FY 2014 we expect an improved EBITDA pre in the bandwidth of €780-820 m; H2 burdened by maintenance in several BUs and ramp-up costs for EPDM in China (included in guidance)

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# Appendix

# Housekeeping items for consideration

| Additional financial expectations | |
|---|---|
| ▪ Capex 2014: | around previous year's level (2013: €624 m) |
| ▪ Capex 2015: | clearly <€600 m |
| ▪ Capex 2016: | €400-450 m |
| ▪ D&A 2014: | ~€400-420 m |
| ▪ Reconciliation 2014: | ~€190 m |
| ▪ Ramp-up cost EPDM China: | ~€10 m in Q4 2014 |
| ▪ Updated: Annual tax rate: | - due to the current weakness of the rubber businesses and regionally different tax rates, we now expect a tax rate >30% in 2014<br>- mid-term: In normalized business environment and after completion of realignment program ~22-25% |
| ▪ Hedging 2014:<br>Hedging 2015: | ~50% at 1.25 -1.40 USD/EUR<br>~25% at 1.25 -1.40 USD/EUR |

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# LANXESS has a broad customer portfolio

**LANXESS sales distribution by industry, 2013**

# LANXESS – a strong and successful history

## From a “NewCo” to a chemical brand

- Transformation from an unwanted child into an established chemical player
- Successful development rewarded and reflected externally (first share price @ 15.75€)

DAX

## Increasing global footprint

## Strong business leaderships

- Quality, technology and process leadership in many products across the company
- Strong market positions
  (#1-4 in most business units)

## Good financial strength for most of the years

- Investment grade rating since spin-off
- Strong maturity profile with long term financing

| STANDARD & POOR'S | Moody's Investors Service | FitchRatings KNOW YOUR RISK |
|---|---|---|
| BBB (-) stab. outlook | Baa3 stab. outlook | BBB neg. outlook |



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# Strong fundamentals face apparent challenges

## Strong fundamentals

- **Performance Polymers** as the inventor of synthetic rubber with global presence across different rubber products
- **Advanced Intermediates** with a strong cost leadership in a consolidated market
- **Performance Chemicals** delivering additives and services in niches with solid margins

## Apparent challenges

- **Imbalanced business portfolio** dominated by rubber for tire and automotive industries
- **Mid-term Supply/Demand imbalance** for some synthetic rubbers products, whilst new LANXESS world scale plants come on stream
- **Less competitive cost structure**
- **Foundation for healthy growth** is weakened (competitive landscape, increased indebteness)



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# - S/D balances in the rubber industry mid-term unfavorable

## Leading market positions …

**Halo Butyl**
- LANXESS globally #2 of 3 established players

**Nd-PBR**
- LANXESS leading player in quality and technology
- Globally #1 (of total ~7 established players)

**SSBR**
- Amongst the leading players with high quality

**EPDM**
- LANXESS globally #1 (ACE technology)

## … but investments were made in an up-cycle move

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# We have returned to an uncompetitive cost structure

## Overhead Cost inflation

## Overhead Costs 2013

- Overhead costs have substantially increased since 2009
- We are at “pre-restructuring levels” of 2005
- Cost structure has become inappropriate for the type of businesses we have
- R&D alone has risen by ~110% since 2007

**We have to get back to cost competitive structures again**



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# LANXESS Debt / EBITDA ratio is currently too high

Deterioration is actively addressed by a set of measures:

- Back to capex discipline
- Cost savings program to be initiated
- Portfolio measures to be considered

**Committed to our investment grade rating**

All references to EBITDA are pre exceptionals; all reference to Debt: Debt = financial debt – cash + pensions + oper. leases
pensions are provisions on balance sheet, operating leases are included with amount of minimum future payments



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# Q1 vs Q2 2014 with sequentially lower volumes and stable prices

| Q2 seq sales variances | Price | Volume | Currency | Portf. | Total |
|---|---|---|---|---|---|
| Perf. Polymers | 1% | -3% | 0% | -1% | -3% |
| Adv. Intermediates | 0% | -4% | 0% | 0% | -4% |
| Perf. Chemicals | 0% | 4% | 0% | 0% | 4% |
| LANXESS | 0% | -1% | 0% | 0% | -1% |

- Sales decrease marginally due to lower volumes
- Selling price increase in Performance Polymers mainly from raw material price movements (butadiene)
- Volume decline in Performance Polymers driven by BUs KEL and HPE
- Volume decline in Advanced Intermediates mainly due to maintenance patterns
- Volume increase in Performance Chemicals reflects normal seasonality



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# H1 2014: Earnings held back by reduced selling price levels

| H1 yoy sales variances | Price | Volume | Currency | Portf. | Total |
|---|---|---|---|---|---|
| Perf. Polymers | -10% | 3% | -2% | 0% | -9% |
| Adv. Intermediates | -4% | 5% | -2% | 0% | 0% |
| Perf. Chemicals | 0% | 6% | -3% | 1% | 4% |
| LANXESS | -6% | 4% | -2% | 0% | -4% |

- Sales decrease mainly due to lower selling prices and currency headwinds
- All segments with positive volume development

**H1 yoy EBITDA pre bridge [€ m]**

- Selling price decline exceeds relief in input costs; BUs BTR and KEL with ongoing challenges
- “Others” driven by absence of one-time burdens and lower idle costs



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# H1 2014: Emerging market's sales development dominated by Performance Polymers' sales decline

H1 2014 sales by region
[%]

Regional development of sales
[€ million]

* Currency and portfolio adjusted



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# H1 2014: Performance Polymers and Performance Chemicals with earnings improvement

Total group sales and EBITDA pre figures include reconciliation



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# H1 2014: Cost discipline and lower idle costs drive earnings development

| [€ m] | H1 2013 | | H1 2014 | | yoy in % |
|---|---|---|---|---|---|
| Sales | 4,236 | (100%) | 4,062 | (100%) | -4% |
| Cost of sales | -3,436 | (81%) | -3,205 | (79%) | 7% |
| Selling | -389 | (9%) | -374 | (9%) | 4% |
| G&A | -154 | (4%) | -145 | (4%) | 6% |
| R&D | -91 | (2%) | -85 | (2%) | 7% |
| **EBIT** | **117** | **(3%)** | **197** | **(5%)** | **68%** |
| **Net Income** | **34** | **(1%)** | **80** | **(2%)** | **>100%** |
| **EPS** | **0.41** | | **0.93** | | **>100%** |
| EPS pre[1] | 0.76 | | 1.32 | | 21.9% |
| EBITDA | 335 | (8%) | 399 | (10%) | 19% |
| thereof exceptionals | -37 | (1%) | -45 | (1%) | 22% |
| **EBITDA pre exceptionals** | **372** | **(8.8%)** | **444** | **(10.9%)** | **19%** |

- Sales decrease as lower prices (-6%) are not offset by higher volumes (+4%)
- Cost of sales show a disproportionately large decline due to the absence of one-time burdens (~€40 m) and reduced idle costs on better utilization
- All overhead line items reflect "Advance" measures and high cost discipline
- Net income and EPS positively impacted by lower interest rates and reduced D&A[2]

**Improved earnings on low levels**

[1] Net of exceptionals, using the local tax rate applicable where the expenses were incurred
[2] Impairment at year-end 2013



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# H1 2014: Improved operating cash flow

| [€ m] | H1 2013 | H1 2014 |
|---|---|---|
| **Profit before tax** | **42** | **132** |
| Depreciation & amortization | 218 | 202 |
| Gain from sale of assets | -1 | 0 |
| Result from investments (using equity method) | 0 | -5 |
| Financial (gains) losses | 53 | 38 |
| Cash tax payments/refunds | -41 | 19 |
| Changes in other assets and liabilities | -108 | 51 |
| **Operating cash flow before changes in WC** | **163** | **437** |
| Changes in working capital | -230 | -250 |
| **Operating cash flow** | **-67** | **187** |
| **Investing cash flow** | **51** | **-415** |
| thereof capex* | -252 | -262 |
| **Financing cash flow** | **-99** | **100** |

- Profit before tax increased due to better business performance
- D&A decrease reflects impact of year-end 2013 impairment
- Changes in other assets and liabilities reflect pay-out for var. compensation in 2013; 2014 reflects “Advance” provisions
- Financing cash flow comprises €500 m bond repayment and funds from capital increase
- Investing cash flow also contains investment in near cash assets

* Net of capitalized borrowing costs, projects financed by customers and finance lease



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# Balance sheet

| [€ m] | Jun'13 | Dec'13 | Jun'14 |
|---|---|---|---|
| **Non-current assets** | **3,820** | **3,592** | **3,717** |
| Intangible assets | 388 | 323 | 319 |
| Property, plant & equipment | 3,081 | 2,903 | 3,000 |
| Equity investments | 0 | 12 | 17 |
| Other investments | 14 | 13 | 13 |
| Other financial assets | 7 | 11 | 13 |
| Deferred taxes | 213 | 254 | 283 |
| Other non-current assets | 117 | 76 | 72 |
| **Current assets** | **3,448** | **3,219** | **3,479** |
| Inventories | 1,527 | 1,299 | 1,477 |
| Trade accounts receivable | 1,212 | 1,070 | 1,152 |
| Other financial & current assets | 338 | 317 | 280 |
| Near cash assets | 97 | 106 | 269 |
| Cash and cash equivalents | 274 | 427 | 301 |
| **Total assets** | **7,268** | **6,811** | **7,196** |

| | Jun'13 | Dec'13 | Jun'14 |
|---|---|---|---|
| **Stockholders' equity** | **2,198** | **1,900** | **2,324** |
| **Non-current liabilities** | **3,097** | **3,029** | **3,281** |
| Pension & post empl. provis. | 921 | 943 | 1,083 |
| Other provisions | 286 | 258 | 269 |
| Other financial liabilities | 1,681 | 1,649 | 1,774 |
| Tax liabilities | 35 | 49 | 39 |
| Other liabilities | 103 | 101 | 86 |
| Deferred taxes | 71 | 29 | 30 |
| **Current liabilities** | **1,973** | **1,882** | **1,591** |
| Other provisions | 366 | 355 | 387 |
| Other financial liabilities | 740 | 668 | 316 |
| Trade accounts payable | 657 | 690 | 694 |
| Tax liabilities | 27 | 21 | 60 |
| Other liabilities | 183 | 148 | 134 |
| **Total equity & liabilities** | **7,268** | **6,811** | **7,196** |

- Inventories increase in a normal pattern to prepare for maintenance in H2 2014
- Increase in stockholders' equity reflects capital increase in May 2014
- Other financial liabilities clearly reduced with €500 m bond repayment in April 2014



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# “The perfect storm”: Burdens in 2013

| Topic | in € m | characteristic | cash relevance | EBITDA pre relevance | PBT relevance |
|---|---|---|---|---|---|
| Ramp-up cost Butyl SGP | ~20 | non-recurring | ~20 | ~20 | ~20 |
| Technology upgrade EPDM (ACE) | ~10 | non-recurring | ~10 | ~10 | ~10 |
| Inventory devaluation | ~20 | unpredictable | - | ~20 | ~20 |
| Impairment BUs KEL, RUC and HPE | 257 | tested according to IAS 36 | - | - | 257 |
| Expenses for “Advance” | ~110 | continues into 2014 | ~25 | - | ~110 |
| **Sum of quantified effects** | **~417** | | **~55** | **~50** | **~417** |
| Reduction of excess inventory | not quantified | non-recurring | ✓ | ✓ | ✓ |
| Low utilization, idle costs | not quantified | unpredictable | ✓ | ✓ | ✓ |
| Temp. regional disadvantage of butadiene prices | not quantified | unpredictable | ✓ | ✓ | ✓ |



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# Major projects expected to be on stream after 2014

| | | |
|---|---|---|
| **2013 (completed)** | BU BTR | Butyl (SGP), Q1 2013, new plant 100kt |
| | BU HPE | Chloroprene rubber (GER), H2 2013, debottlenecking +10% |
| | BU AII | Dichlorobenzene (GER), Q1 2013, debottlenecking +15% |
| | BU AII | Cresols (GER), end of 2013, debottlenecking +20% |
| | BU LEA | Leather chemicals (CHN), H1 2013, up to 50kt |
| | BU LEA | $CO_2$ plant (ZA), Q4 2013, new plant |
| **2014 (completed)** | BU HPM | Polyamide (Belgium), Q3 2014, new plant 90kt |
| | BU HPM | Compounding (BRA), Q2 2014, new plant 20kt |
| **2014** | BU LPT | Ion exchange resins (GER), mid 2014, debottlenecking +33% |
| **2015 +** | **BU PBR** | **Nd-PBR (SGP), H1 2015, new plant 140kt** |
| | **BU KEL** | **EPDM (CHN), 2015, new plant 160kt** |
| | BU PBR | SSBR (BRA) conversion from ESBR (110kt)* |
| | BU IPG | Iron oxide red (CHN), Q1 2016, new plant 25kt |

* Expected for the label introduction in Brazil (2016); to be further evaluated



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# Active portfolio transformation

- Assets representing around 25% of global sales were divested
- Acquisitions began only after completion of divestment program
- Series of small- to mid-sized, bolt-on acquisitions
- Portfolio optimization
  - to address global megatrends
  - to focus on premium products
  - to strengthen position in emerging markets

Size of bubbles represents relative sales volume; illustration



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# Tire labeling – a global trend fueled by the need of resource efficiency

| Region | EU | Japan | South Korea | China | US | Brazil | Mexico |
|---|---|---|---|---|---|---|---|
| Tire labeling performance attributes | | | | | | | |
| **Traction** (Wet Grip) | Nov 2012 | since 2010 | Nov 2011 | Self-discipline standard launched 1st March 2014 | In discussion | 2016 | Regulatory initiatives expected |
| **Fuel economy** (Cost of Ownership) | Nov 2012 | since 2010 | Nov 2011 | | | | |
| **Treadlife** (Cost of Ownership) | - | Not expected | Not expected | | | | |

Source: EU regulation no. 1222/2009, National Highway Traffic Safety Administration (NHTSA), Japan Automobile Tyre Manufacturers Association (JATMA), Korea Energy Management Corporation (KEMCO), LANXESS
CRIA: China Rubber Industry Association

# Corporate Responsibility well integrated - achieving goals sustainably

## Climate / Environmental goals

- Reduction of specific $CO_2$ emission by 10%* until 2015
- Reduction of specific energy consumptions by 10%* until 2015
- Reduction of volatile organic compounds (VOC) emissions by 30%* until 2015

## Procurement initiatives

- 'Supplier Code of Conduct' for supplier selection and rating
- 'Together for Sustainability' initiative** for higher transparency in the supply chain (implementation of a global auditing program)

## Saftey goals

- Xact: Global safety program to improve occupational, process and plant safety (since 2011)
- Global management system for optimization of transportation of (dangerous) goods

## Society initiatives

- Global education initiatives/ cooperation with Teach First
- Global board initiative 'Diversity & Inclusion'
- XCare: responding to employees' demographic challenges

THE GLOBAL COMPACT WE SUPPORT

CDP CLIMATE DISCLOSURE LEADER 2013

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

oekom research Rating Category: C+

FTSE4Good

* Base year: 2010; **Members: BASF, Bayer, Evonik, Henkel, LANXESS, Akzo Nobel, Solvay



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# A well managed and conservative maturity profile

## Long term financing secured

- Diversified financing sources
  - Bonds
  - Private placements
  - Syndicated credit facility
  - Development banks
  - Bilateral bank facilities
- €500 m bond maturity in April 2014 was funded by cash and €200 m EIB facility
- Average €-funding interest rate below 4%
- All group financings without financial covenants

## Liquidity and maturity profile as per June 2014

EIB = European Investment Bank



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# High volatility in raw material prices

- In 2012, raw material prices (mainly butadiene) started a declining trend, with an apparent bottom end of 2013
- Since Q1 2014 raw materials show a more or less stable sideways trend

* Source: LANXESS, average 2010 = 100%

# Overview exceptional items Q2 and YTD

| [€ m] | Q2 2013 | | Q2 2014 | | H1 2013 | | H1 2014 | |
|---|---|---|---|---|---|---|---|---|
| | Excep. | Thereof D&A | Excep. | Thereof D&A | Excep. | Thereof D&A | Excep. | Thereof D&A |
| Performance Polymers | 0 | 0 | 4 | 1 | 0 | 0 | 13 | 1 |
| Advanced Intermediates | -4 | 0 | 1 | 0 | -4 | 0 | 2 | 0 |
| Performance Chemicals | 39 | 6 | 3 | 0 | 40 | 6 | 13 | 0 |
| Reconciliation | 3 | 0 | 11 | 0 | 7 | 0 | 18 | 0 |
| **Total** | **38** | **6** | **19** | **1** | **43** | **6** | **46** | **1** |



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# Abbreviations

## Performance Polymers

- BTR Butyl Rubber
- PBR Performance Butadiene Rubbers
- KEL Keltan Elastomers
- HPE High Performance Elastomers
- HPM High Performance Materials

## Performance Chemicals

- MPP Material Protection Products
- IPG Inorganic Pigments
- FCC Functional Chemicals
- LEA Leather
- RCH Rhein Chemie
- RUC Rubber Chemicals
- LPT Liquid Purification Technologies

## Advanced Intermediates

- AII Advanced Industrial Intermediates
- SGO Saltigo



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# Upcoming events 2014

| Active capital market communication | | |
|---|---|---|
| Berenberg Goldman Sachs German Corporate Conference 2014 | September 22-24 | Munich |
| Baader Investment Conference | September 25 | Munich |
| J.P. Morgan Cazenove Milan Investor Conference | September 30 | Milan |
| Berenberg Specialty Chemicals & Food Ingredients Conference 2014 | October 1 | London |
| **Q3 results 2014** | **November 6** | |
| **Capital Markets Day** | **November 6** | **Cologne** |
| Morgan Stanley Global Chemicals Conference | November 11 | Boston |
| Bank of America Merrill Lynch German Corporate Days 2014 | November 18 | Singapore |
| MainFirst Conference | November 18 | Paris |
| Deutsches Eigenkapitalforum | November 26 | Frankfurt |
| Bank of America Merrill Lynch European Chemicals Conference | December 2/3 | London |
| HSBC Conference | December 4 | Luxembourg |



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