Transformation for value generation

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Key focus on value generation

Agenda

- Cost structure transformation
- Balance sheet transformation
- Comparison to peers
- Capital allocation for value generation
- … thoughts on valuation
Significant cost structure improvements achieved

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th></th>
<th>2007 LTM*</th>
<th>Δ%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>5,349</td>
<td>79.0</td>
<td>5,332</td>
<td>-0.3</td>
</tr>
<tr>
<td>Selling</td>
<td>860</td>
<td>12.7</td>
<td>693</td>
<td>-19.4</td>
</tr>
<tr>
<td>G&amp;A</td>
<td>284</td>
<td>4.2</td>
<td>248</td>
<td>-12.7</td>
</tr>
<tr>
<td>R&amp;D</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Last twelve months as of 30.06.2007

COGS were characterized by raw material price inflation

- Substantial increase since spin-off
- ~€ 500 mn additional costs since spin-off
- Successfully offset by price increases

Successful restructuring in a challenging environment of significantly rising input costs
Reduced cyclicality risk due to lower dependence on styrene and acrylonitrile mainly

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

A closer look at conversion costs demonstrates the improvements

<table>
<thead>
<tr>
<th>In € mn</th>
<th>2004*</th>
<th>Continuous enhancement 2007 e</th>
<th>Δ%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel + Other</td>
<td>~800</td>
<td>~670</td>
<td>-16%</td>
</tr>
<tr>
<td>Energy</td>
<td>~380</td>
<td>~480</td>
<td>+26%</td>
</tr>
<tr>
<td>D&amp;A + Maintenance</td>
<td>~520</td>
<td>~540</td>
<td>+4%</td>
</tr>
<tr>
<td>Logistics, Environm., Safety</td>
<td>~180</td>
<td>~190</td>
<td>+6%</td>
</tr>
<tr>
<td>Total</td>
<td>~1,880</td>
<td>~1,880</td>
<td>± 0%</td>
</tr>
</tbody>
</table>

* Comparable to 2007, adjusted for divestments
Effective margin protection by increased flexibility of costs

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

Organizational realignment has led to optimization of selling expenses

More efficient sales force organization has led to leaner cost structure
Reduced general / administration results in lowered expenses

Consistent efficiency enhancement and cost structure improvements

In € m

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007e</th>
</tr>
</thead>
<tbody>
<tr>
<td>COGS / Sales</td>
<td>82.5%</td>
<td>79.0%</td>
<td>77.4%</td>
<td>77.8%</td>
<td>stable</td>
</tr>
<tr>
<td>Variable COGS</td>
<td>~65%</td>
<td>65.6%</td>
<td>66.1%</td>
<td>68.5%</td>
<td>~70%</td>
</tr>
<tr>
<td>Number of sites</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>50</td>
<td>47</td>
</tr>
<tr>
<td>SG&amp;A / Sales</td>
<td>18.9%</td>
<td>16.9%</td>
<td>16.1%</td>
<td>14.7%</td>
<td>reduced</td>
</tr>
<tr>
<td>R&amp;D / Sales</td>
<td>2.7%</td>
<td>1.8%</td>
<td>1.4%</td>
<td>1.3%</td>
<td>increased</td>
</tr>
</tbody>
</table>

Flexibility
Efficiency
Strength

Ongoing improvement of value and stability
Our cost structure is healthy and supports value generation in every economic environment

- **Flexibility**
  - Continuing increase in cost structure flexibility provides effective protection

- **Efficiency**
  - Striving for enhancements in the entire value chain is everyday life and has become an integral part of our culture

- **Strength**
  - We have proven the strength to turn this company around and will not stop where we are

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Key focus on value generation

**Agenda**

- Cost structure transformation
- **Balance sheet transformation**
- Comparison to peers
- Capital allocation for value generation
- ... thoughts on valuation
Increasing returns: Excellent deployment and further development of assets

- Restructuring initiated in 2005
- Restructuring started to yield results as of 2006, reaching its full amount in 2009
- Efficient use of assets to generate returns

**ROE**: (Return On Equity): Net income* / equity
**ROA**: (Return On Assets): Net income* / total assets

* Net income adjusted for exceptions (assumed tax rate of 30%)

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Significant increase of return on the basis of a healthy balance sheet

- After impairments in the first years, the assets will grow again organically in the future
- Simultaneously with the ongoing implementation of restructuring measures, profitability was enhanced

**ROCE**: EBIT pre exceptionals / capital employed

* ROCE: EBIT pre exceptionals / capital employed
Balance sheet successfully transformed which is helpful in turbulent financial markets

- Long-term healthy financing structure
- Financially prepared to make use of opportunities
- Rated BBB / Baa2 by

Financing with attractive conditions and long maturities up to 2011 and 2012

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Amount</th>
<th>Drawn**</th>
<th>Financial Covenant</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurobond</td>
<td>500</td>
<td>500</td>
<td>--</td>
<td>Jun 2012</td>
</tr>
<tr>
<td>Syndicated Credit Facility</td>
<td>1,250</td>
<td>0</td>
<td>Net Debt*/EBITDA*</td>
<td>Oct 2011</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&lt; 3.5x</td>
<td></td>
</tr>
<tr>
<td>Bilateral Credit Facilities</td>
<td>431</td>
<td>95</td>
<td>Net Debt*/EBITDA*</td>
<td>mainly 2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&lt; 3.5x</td>
<td></td>
</tr>
<tr>
<td>Leasing</td>
<td>67</td>
<td>67</td>
<td>--</td>
<td>diverse</td>
</tr>
<tr>
<td>Total**</td>
<td>2,248</td>
<td>662</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

LANXESS has built a strong bank group in the past 3 years.

Financing based on solid ground

* As defined in LANXESS’ credit documentation, where applicable; ** as per 30.06.2007
Solid financing foundation in place for future opportunities

Financial metrics substantially improved on the basis of sustainable cash generation

<table>
<thead>
<tr>
<th>In € mn</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007e</th>
<th>Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>1,120*</td>
<td>1,256</td>
<td>1,428</td>
<td>1,464**</td>
<td>stable</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>25.9%*</td>
<td>28.9%</td>
<td>34.0%</td>
<td>33.7%**</td>
<td>stable</td>
</tr>
<tr>
<td>Net financial debt</td>
<td>1,135</td>
<td>680</td>
<td>511</td>
<td>stable</td>
<td></td>
</tr>
<tr>
<td>Interest result</td>
<td>-46</td>
<td>-41</td>
<td>-23</td>
<td>31.5%**</td>
<td></td>
</tr>
<tr>
<td>Gearing***</td>
<td>101.3%*</td>
<td>54.1%</td>
<td>35.8%</td>
<td>~0.7x</td>
<td></td>
</tr>
<tr>
<td>Net financial debt / EBITDA</td>
<td>2.5x</td>
<td>1.2x</td>
<td>0.8x</td>
<td>~0.7x</td>
<td></td>
</tr>
</tbody>
</table>

* 2004 comparable to 2005, i.e. incl. deferred tax adjustment; **as of 30.06.2007; *** net financial debt / equity

LANXESS’ balance sheet is efficiently used to generate returns and documents reliability

Balance sheet transformation

- We make efficient investments that are geared to generate returns
- We have the soundness to be a reliable business partner
- We have built a strong financial backbone for flexibility even in tougher financial markets
### Key focus on value generation

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### EBITDA improvement outpaces peers significantly

#### LANXESS EBITDA* margin

<table>
<thead>
<tr>
<th>Year</th>
<th>LANXESS EBITDA*</th>
<th>Peers’ CAGR of absolute EBITDA*:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>4.9%</td>
<td>~30%</td>
</tr>
<tr>
<td>2004</td>
<td>6.6%</td>
<td>~20%</td>
</tr>
<tr>
<td>2005</td>
<td>8.1%</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>9.7%</td>
<td></td>
</tr>
</tbody>
</table>

#### LANXESS’ CAGR of absolute EBITDA*: ~30%

#### Peers’ CAGR of absolute EBITDA*: ~20%

- Application of appropriate strategies for each type of business
- Continuous pricing power
- Consistent restructuring implementation
- LANXESS is on track to close the performance gap further

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* Pre exceptionals; Peer group: Arkema, BASF, Ciba, Clariant, DSM, Huntsman, Rhodia; Source: KPMG’s disclosures handbook, Annual reports, Company websites

Productivity increases made visible: EBITDA / employee

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

- Restructuring has helped improve productivity
- LANXESS is on track to reach its performance targets
- We will continue to improve our businesses in the future
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

Financial metrics clearly show LANXESS' transformation

- On the basis of S&P's methodology, LANXESS possesses the strongest financial ratios in the "BBB"- range
- The initial borderline BBB- candidate has transformed to a solid BBB address on the capital markets

Source: Standard & Poor's
Reduced gearing provides high level of comfort

- Financial soundness provides comfort in turbulent financial markets
- De-leveraging will be evaluated in order to keep capital costs under control in the future

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Further value creation sets the priorities for capital allocation

Organic Growth
- We will invest in our own business to generate the best returns for shareholders
- Capex allocation follows profitability and return on capital

External Growth
- Stringent application of our valuation criteria ensures value generation by external growth

Debt and Pensions
- Our policy is to fund our employees’ pension obligations on a year-by-year discretionary basis depending on cash and earnings situations

Dividend
- Cash returns are an important element of our value strategy
- LANXESS’ dividend development will be in line with profitability increase
- Used on a case-by-case basis to back the share price when appropriate

LANXESS’ investments support organic growth

- ~€900 mn of capex invested since 2004, ~45% for growth
- Additionally, focused towards profitable growth
Financial criteria for internal resource allocation ensure excellent returns

<table>
<thead>
<tr>
<th>Financial investment criteria for decision making on capex:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- NPV calculation, applying company WACC</td>
</tr>
<tr>
<td>- plus risk premium of ~1.5%</td>
</tr>
<tr>
<td>- plus country-specific risk premium</td>
</tr>
<tr>
<td>- Ambitious payback-period required</td>
</tr>
<tr>
<td>- Every project should improve the total company’s ROCE</td>
</tr>
</tbody>
</table>

Every organic investment is carefully evaluated

Financial criteria for internal resource allocation ensure excellent returns

Organic Growth

Financial evaluation
- DCF model using LANXESS’ own WACC (~7.7% after tax) plus risk premium
- Multiples pre and post synergies are calculated

Financial hurdles
- EPS accretion after year 3 at the latest
- Earn its own cost of capital (if necessary after restructuring)
- Lead to positive NPV

Conservative evaluation
- Disciplined Process
- Stringent application of performance hurdles
- Value Generation

Financially prudent evaluation of external growth opportunities, focused on value generation

External Growth

Financial evaluation
- DCF model using LANXESS’ own WACC (~7.7% after tax) plus risk premium
- Multiples pre and post synergies are calculated

Financial hurdles
- EPS accretion after year 3 at the latest
- Earn its own cost of capital (if necessary after restructuring)
- Lead to positive NPV

Conservative evaluation
- Disciplined Process
- Stringent application of performance hurdles
- Value Generation
Pension funding policy:
- Future cash risks are limited
  Based on a recently conducted actuarial study, the peak in future cash-outs for pensions is not seen before the year 2025 / 2030
- Preserving the current level of pension provisions
  We aim to keep a level of ~€ 500 - € 550 mn of pension provisions on our balance sheet
- Voluntary funding of pensions
  We target an annual cash contribution of € 20 - € 40 mn into our German CTA (depending on cash / profitability situation)

Conservative pension funding reduces risk and enhances stability

Main instrument for returns to shareholders will be increasing dividends

Dividend strategy:
- Objective: to further increase dividend
- LANXESS’ dividend to be increased as profitability increases

Share buyback strategy:
- Share buyback is considered an instrument of low priority
- Preferred value generating options are internal and external growth
- Share buyback to set a signal and back the share price. LANXESS will utilize a share buyback without regular occurrence

Share buyback constitutes an additional instrument for cash return to shareholders with low priority
LANXESS allocates capital according to projected value generation

- Capital for growth
  - Internal and external profitable growth remain the top priorities

- Capital for stability
  - We act with foresight and have a conservative funding policy for pensions

- Capital for cash returns
  - We strive to increase cash returns to shareholders with increasing profitability

Key focus on value generation

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Considerable transformation through portfolio management and restructuring

- Majority of businesses are now generating an EBITDA* margin of more than 10%
- This has been achieved in an environment of significantly higher raw material costs since 2004
- We are well on our way to having no businesses <5% margin in 2008

Profitability distribution (sales share)

<table>
<thead>
<tr>
<th>EBITDA*-margin</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007 e</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 10%</td>
<td>~30%</td>
<td>~45%</td>
<td>~60%</td>
<td>~75%</td>
</tr>
<tr>
<td>5 - 10%</td>
<td>~30%</td>
<td>~30%</td>
<td>~20%</td>
<td>~20%</td>
</tr>
<tr>
<td>&lt; 5%</td>
<td>~40%</td>
<td>~25%</td>
<td>~20%</td>
<td>~5%</td>
</tr>
</tbody>
</table>

LANXESS earns a premium on its capital costs since 2005 … … even adjusted for impairments of 2003

- Structurally challenged, low profitability businesses exited
- Even post-tax ROCE, adjusted for 2003 impairments, would be above cost of capital as well!
- Sustainable growth and value generation is the path forward

Profitability distribution (sales share)

<table>
<thead>
<tr>
<th>Year</th>
<th>&gt; 10%</th>
<th>5 - 10%</th>
<th>&lt; 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>~30%</td>
<td>~45%</td>
<td>~60%</td>
</tr>
<tr>
<td>2005</td>
<td>~30%</td>
<td>~30%</td>
<td>~25%</td>
</tr>
<tr>
<td>2006</td>
<td>~20%</td>
<td>~20%</td>
<td>~15%</td>
</tr>
</tbody>
</table>

ROCE: EBIT pre exceptional / Capital employed
Valuation suggests additional upside

- It’s up to the market now to judge whether trading multiples are comparable to peers’ as:
  - performance is about to match peers’
  - financial soundness is superior to many peers already

Value generation in every respect

- Capex allocation to profitable, growing businesses
- Accretive small to mid-size M&A deals that meet stringent financial hurdles
- Shareholder-friendly dividend policy (rising payouts-outs with increased operational performance)

* Pre exceptionals; source: Vara Research, Thomson Financial