



# LANXESS – Energizing Chemistry

**Dr. Axel C. Heitmann**

Chairman of the Board of Management

1<sup>st</sup> LANXESS Investor Conference  
Leverkusen, September 15, 2006

**Today, LANXESS is a strong ...**



**... established ...**



**... and energetic company, ...**



**... which delivers on ambitious targets ...**



**... and is prepared for the future.**



**Continuity**  
**Competence**  
**Execution**  
**Ambition**



**Continuity**

LANXESS – a strong and capable chemical company

## LANXESS driven by entrepreneurial and performance culture

### Entrepreneurial Culture

- Clear cut BU design
  - High transparency, no overlap
  - Clear roles and responsibilities
  - Global accountability
- Dedicated ownership
- Internal competition for resources and rewards

Portfolio Flexibility

### Performance Culture

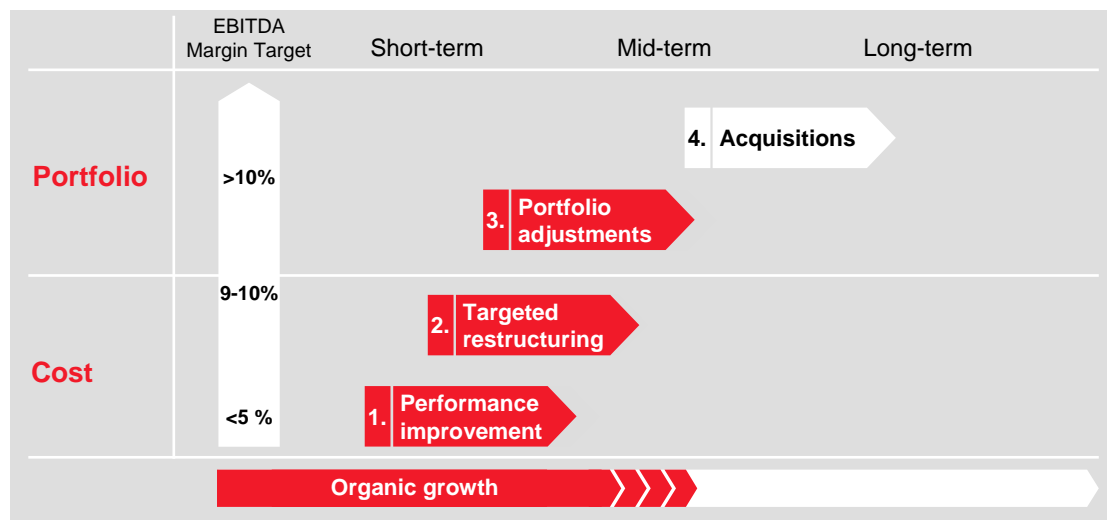
- Fully accountable, entrepreneurial managers
- Focus on BU profitability
- Three KPIs: EBITDA, Working Capital, CAPEX
- Aligned with short-term incentive program

Maximum Performance

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## Strategy implementation well under way



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## Profit-driven market approach to the chemical business

- "Price-before-Volume" strategy
- Pass on of raw material and energy cost increase
- Rationalization of products and grades
- Reduction of complexity
- Disciplined working capital management
- Implementation of new business models

**Focus on profitable sales**



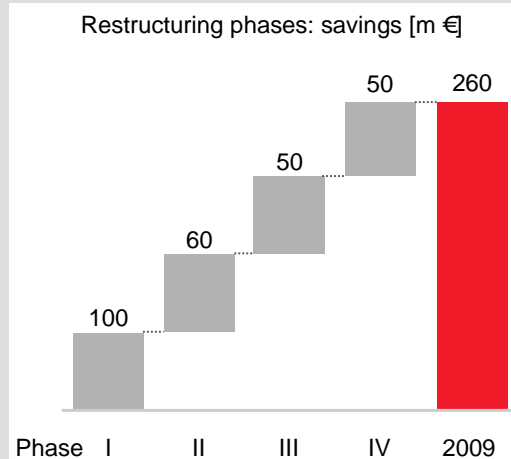
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## Targeted restructuring results in €260 m cost savings

- Closure of several sites worldwide
- Closure and consolidation of plants
- Reduction of workforce
- Optimization of sites, plants and processes
- Optimization of internal services
- New business models for Saltigo and Lustran Polymers

**Rigorous cost management**



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## Active Portfolio Management strengthens businesses

- Non-core businesses were divested to strategic investors
- Long-term perspective created for the divested businesses
- Fair solutions achieved for employees



Fibers

- Strategic investor with growth concept



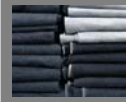
Paper  
Chemicals

- Globally active strategic investor with full product range



Parts of  
Business  
Units

- Strategic investors for iSL, SAN to supplement their product portfolios



Textile  
Processing  
Chemicals

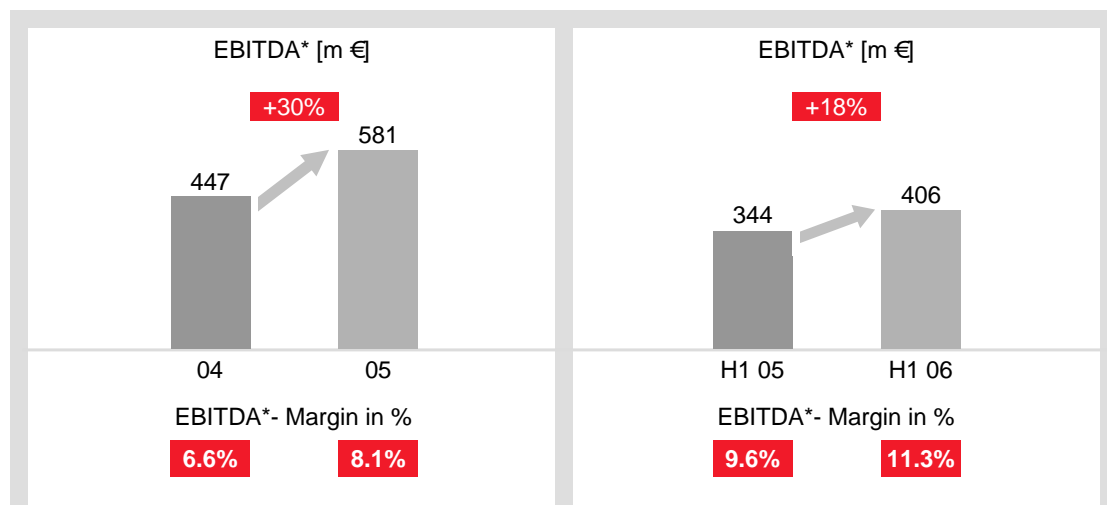
- Process on track



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## EBITDA increased by 30% in 2005 and by 18% in H1 2006

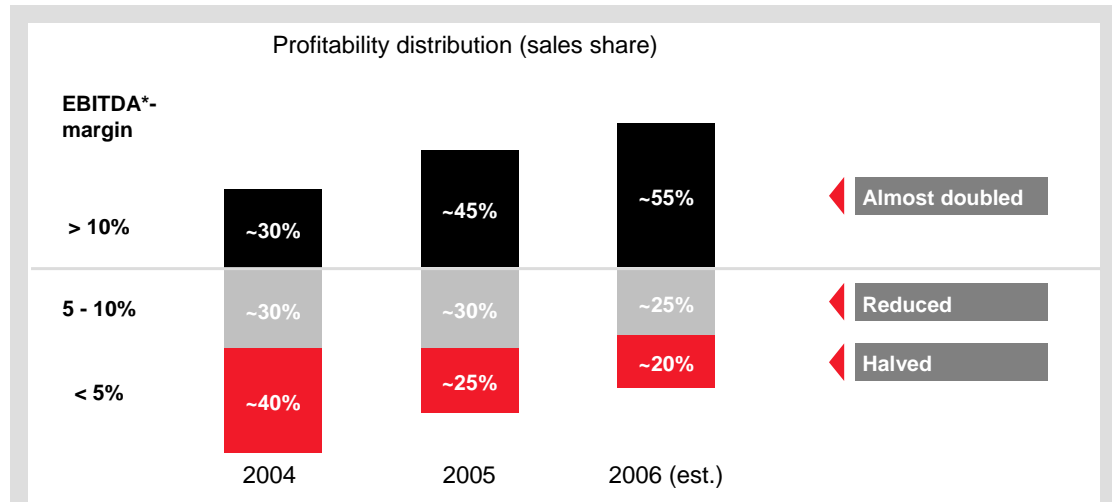


\* EBITDA pre exceptionals; source: annual report 2005, interim report Q2 06

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## Share of profitable sales almost doubled



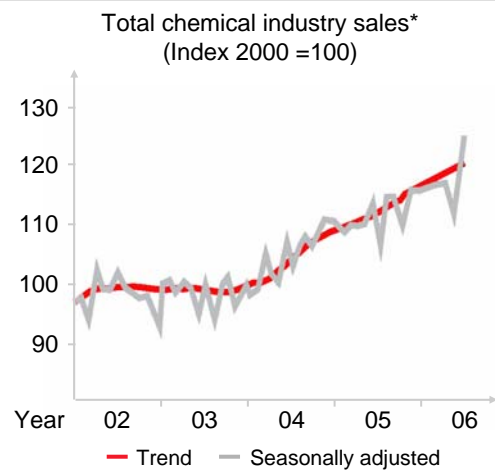
\* EBITDA pre exceptionals  
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## Action taken to become more cycle-proof

- Stronger focus on high margin products and specialties
- Flexible asset management
- Flexible services and support structures
- Strict working capital management
- Strengthened balance sheet
- Tools for early response
- Massive increase of overall profitability

**Managing towards stability**

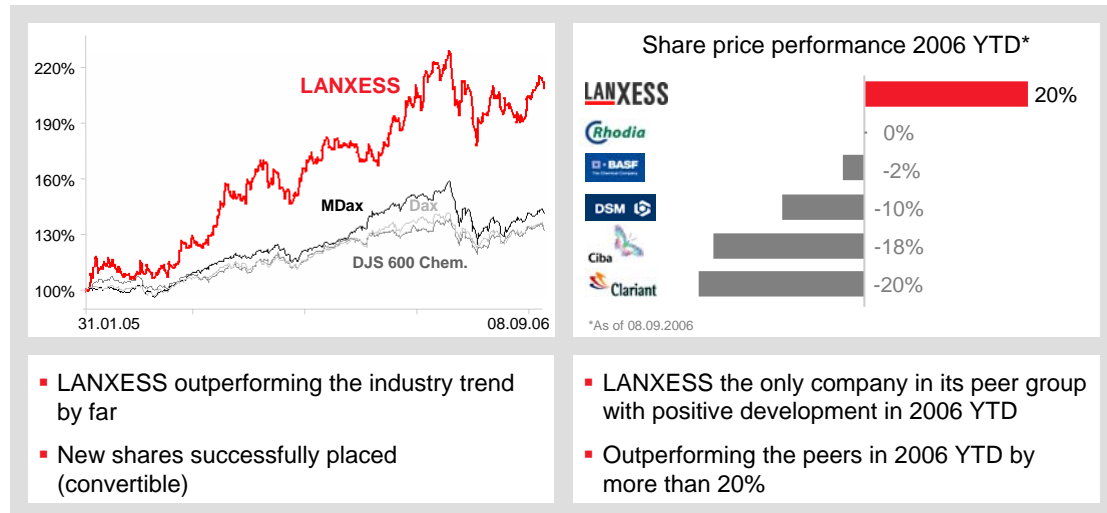


\* Source: VCI Quarterly Report II/06  
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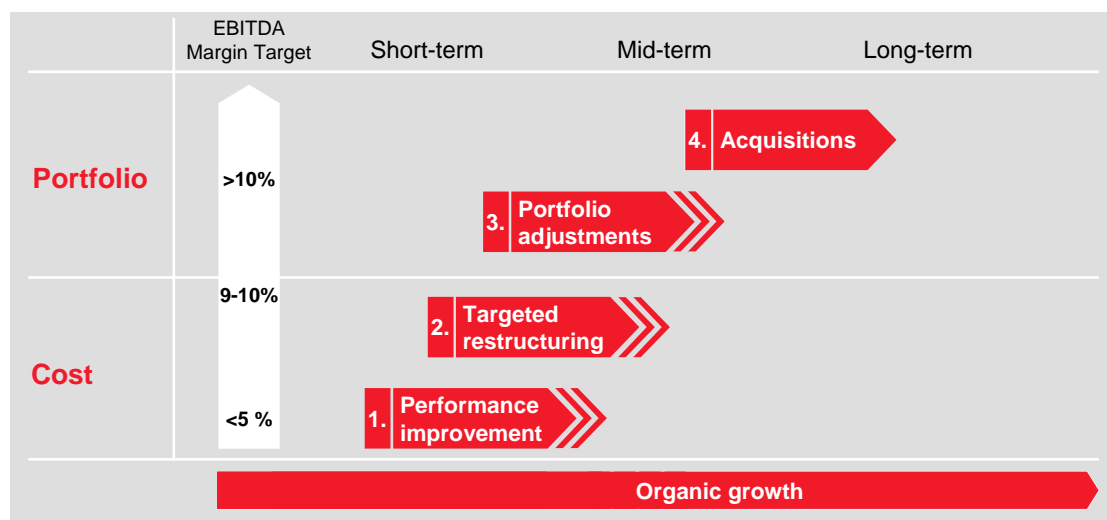
## LANXESS shares outperform the industry



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## Strong foundations are in place – the future starts now



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# Competence

LANXESS acts in a fast changing world

## LANXESS acts in a fast changing world

### Increasing Competition

*"Many chemicals groups are facing ruthless competition from low-cost Asian producers for commoditized products."*

**FINANCIAL TIMES**  
(July 4, 2006)

### Global Markets Change

*"There are increasing concerns about the ability of the European chemical industry to survive [...] when the world's manufacturing base is shifting to Asia."*

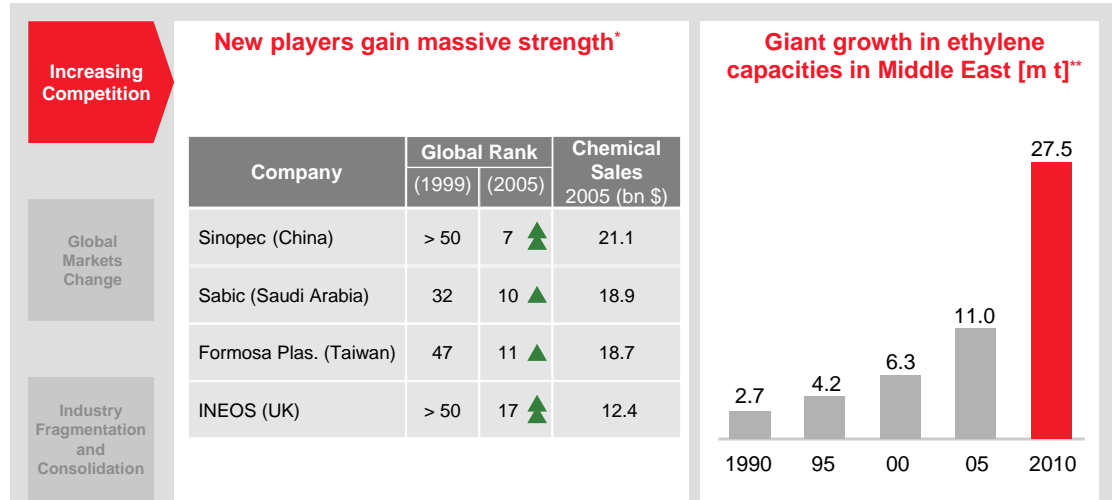
**Chemistry & Industry**  
(October 3, 2005)

### Industry Fragmentation and Consolidation

*"The countless number of M&A has led to many new faces, .... and a more financially disciplined industry."*

**chemicalweek**  
(May 24, 2006)

## Asian and Middle East players change geochemical landscape

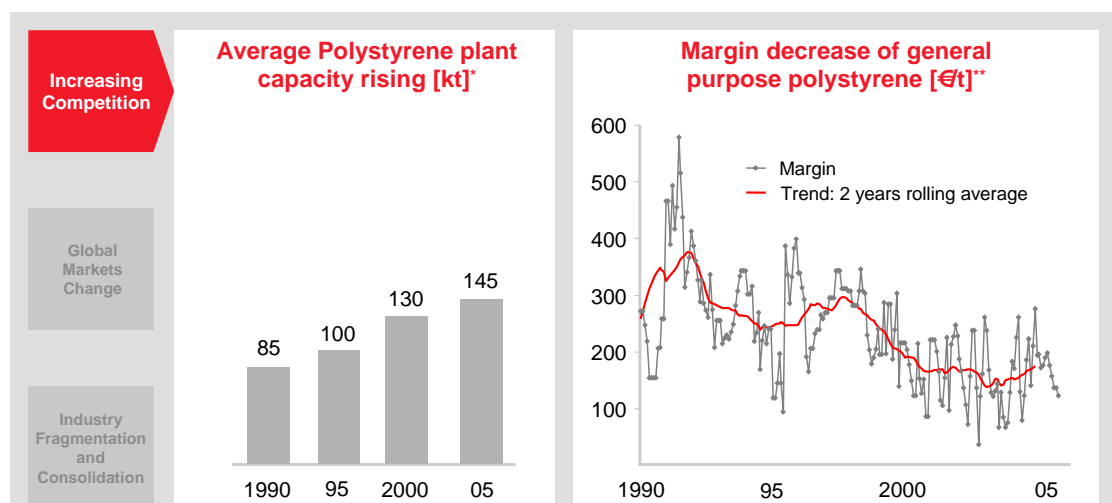


\* Source: Chemical & Engineering News 2000-07-24, Chemical & Engineering News 2006-07-24; \*\* Source: Parpinelli-Tecnol, 2006

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## Commoditization drives continuous margin pressure

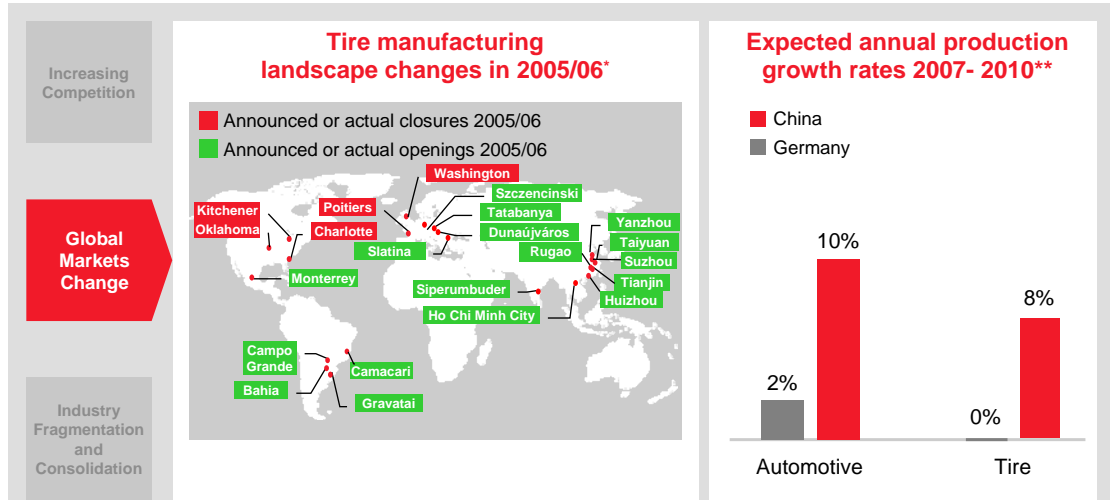


\* Source: Parpinelli-Tecnol, 2006; \*\* Source: CMAI, 2006

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## Customer industries moving to low cost countries

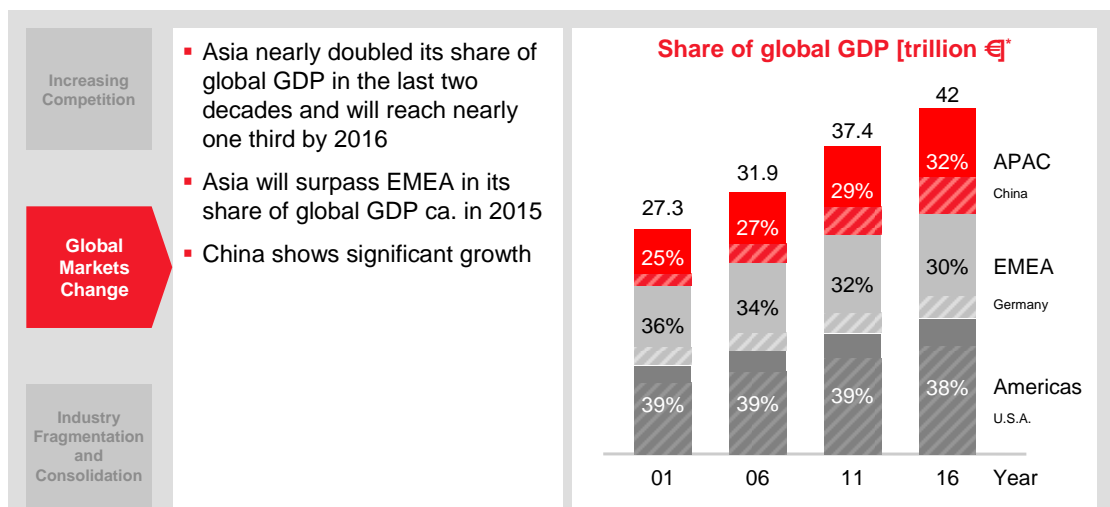


\* Source: European Rubber Journal, Global Tyre Report 2005, LXS; \*\* Source: LMC, JD Powers, LXS

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## Growing importance of Asian markets



\* Source: Consensus Forecast, LXS Calculations, GDP Gross Domestic Product

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# Mega trends change markets and create new opportunities

Increasing Competition

Industry Fragmentation and Consolidation

**Global Markets Change**

### Examples of global mega trends

Mobility	Sustainable development	Safety
<ul style="list-style-type: none"> <li>▪ Globalization pushes trade worldwide</li> <li>▪ Individualization drives consumer demand</li> <li>▪ Rapid growth rates for mobility related products in emerging markets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need for resource efficiency                             <ul style="list-style-type: none"> <li>- Energy</li> <li>- Raw materials</li> <li>- Water</li> </ul> </li> <li>▪ Need to explore alternative sources</li> <li>▪ Global trend towards environmental awareness</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increased desire for product safety</li> <li>▪ Increased need for personal protection</li> <li>▪ Higher awareness of hazardous substances</li> </ul>
		

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# Fragmentation and consolidation is reshaping the industry

Increasing Competition

Global Markets Change

**Industry Fragmentation and Consolidation**

Separation of Companies	Spin off of Chemical Assets	New Chemical Assets on the Capital Markets
<p><b>Fragmentation</b></p> <ul style="list-style-type: none"> <li>▪ Split up of Akzo Nobel</li> <li>▪ Split up of ICI</li> <li>▪ Split up of Hoechst AG</li> <li>▪ Planned split up of Altana AG</li> <li>▪ Etc.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Arkema Spin-off from Total</li> <li>▪ Cognis Spin-off from Henkel</li> <li>▪ LANXESS Spin-off from Bayer</li> <li>▪ Etc.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Planned IPO of Symrise by EQT</li> <li>▪ Wacker IPO</li> <li>▪ Etc.</li> </ul>

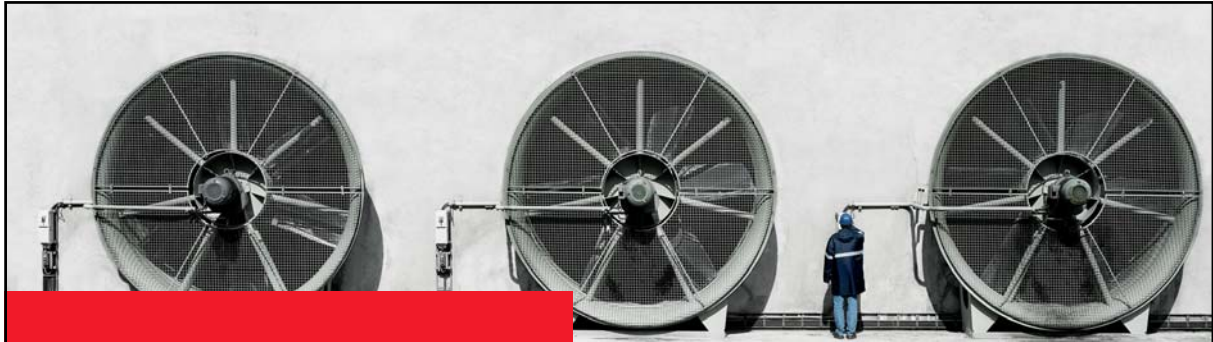
Consolidation	Consolidation	Consolidation
<ul style="list-style-type: none"> <li>Orica acquires Dyno Nobel</li> <li>Cargill, Inc. acquires Degussa food ingredients</li> <li>Hexion Chemicals acquires Ink and Adhesive Resins from Akzo Nobel</li> <li>Altana Chemie acquires Kelstar Intl.</li> </ul>	<ul style="list-style-type: none"> <li>Lonza acquires USB Bio-products</li> <li>RAG acquires Degussa</li> <li>Soquimich acquires DSM Minera</li> </ul>	<ul style="list-style-type: none"> <li>BASF acquires Degussa Construction Chemicals</li> <li>Linde acquires BOC</li> <li>Altana Chemie acquires Eckart</li> <li>Bayer acquires Schering</li> <li>Ashland acquires Degussa Water Treatment Business</li> <li>BASF acquires Engelhardt</li> </ul>

09/2005
12/2005
03/2006
06/2006

Source: Merger Markets  
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# Execution

LANXESS delivers on promises – with speed and precision

## We develop our businesses into leadership businesses



## Close the profitability gap with competitors

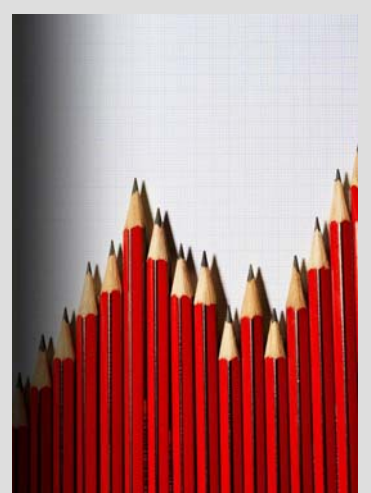
**Increasing  
Competition**

Global  
Markets  
Change

Industry  
Fragmentation  
and  
Consolidation

### Continue aggressive efficiency improvement

- Consequent cost management lowers cost year by year
- Margin improvements through pricing excellence
- Return-oriented resource allocation



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## Drive sustainable and profitable organic growth

Increasing  
Competition

**Global  
Markets  
Change**

Industry  
Fragmentation  
and  
Consolidation

### Align businesses along market and industry trends

- Adaptation of business models
- Seizing opportunities in emerging markets
- Leveraging LANXESS' technology platform



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## Build and strengthen portfolio of leadership businesses

Increasing  
Competition

Global  
Markets  
Change

Industry  
Fragmentation  
and  
Consolidation

### Play active role in ongoing industry consolidation

- Continue active portfolio adjustment
- Targeted acquisitions to further strengthen existing businesses
- Targeted acquisitions to enter into new attractive businesses



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## Fast and decisive action energizes our segments

### Performance Rubber



- Butyl Rubber
- Polybutadiene Rubber
- Technical Rubber Products

### Engineering Plastics



- Lustran Polymers
- Semi-Crystalline Products

### Chemical Intermediates



- Basic Chemicals
- Saltigo
- Inorganic Pigments

### Performance Chemicals



- Material Protection Products
- Functional Chemicals
- Leather
- Textile Processing Chemicals
- Rhein Chemie
- Rubber Chemicals
- Ion Exchange Resins

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## Performance Rubber – gained strength

<b>Performance Rubber</b>	<b>Position</b> Global leader in synthetic rubber	<b>Action taken</b> Turned competencies into value by restructuring and repositioning
<ul style="list-style-type: none"> <li>▪ <b>Clear cut business unit design</b></li> <li>▪ <b>Consolidation, restructuring and rigorous cost management</b> <ul style="list-style-type: none"> <li>- Closure of PBR production in Sarnia and Marl; improved flexibility of production lines in Orange and Port Jerome</li> <li>- Redefinition of business models (commodities/specialties)</li> <li>- Restructuring of TRP NBR in La Wantzenau (France) and Chloroprene Rubber in Dormagen (Germany)</li> </ul> </li> <li>▪ <b>Recovery of margins</b> <ul style="list-style-type: none"> <li>- Focus on premium products</li> <li>- Implementation of "Price-before-Volume" strategy</li> <li>- Shift customer focus from "price security" to "supply security"</li> </ul> </li> </ul>		<p><b>EBITDA*</b></p> <p>04      05 + 74%</p> <p><b>Productivity**</b></p> <p>04      05 + 76%</p>
<small>* EBITDA pre exceptionals; ** EBITDA pre exceptionals /FTE 32 2006-09-15</small>		

## Performance Rubber – focus on high tech growth segments

<b>Performance Rubber</b>	<b>Position</b> Global leader in synthetic rubber	<b>Way forward</b> Focus on high tech growth segments
<ul style="list-style-type: none"> <li>▪ <b>Continuation of cost management is essential</b></li> <li>▪ <b>Focus on profitable high tech synthetic rubber segments</b> <ul style="list-style-type: none"> <li>- Halobutyl Rubber for the radialization of tires, especially in Asia</li> <li>- Nd-BR and S-SBR to support global trend towards high-performance tires</li> <li>- Chloroprene Rubber for adhesives and Therban® (HNBR) for high temperature resistant elastomers</li> <li>- Performance Rubber Research Center in Qingdao (China)</li> </ul> </li> <li>▪ <b>Profitable Growth by debottlenecking</b> <ul style="list-style-type: none"> <li>- Butyl Rubber in Sarnia and Antwerp</li> <li>- Chloroprene Rubber in Dormagen</li> </ul> </li> <li>▪ <b>Continuous monitoring for acquisition opportunities</b></li> </ul>		<p><b>Trend towards high-performance tires*</b></p> <p>■ Performance and high-performance tires [units]    ■ GP Tires [units]</p> <p>00      05      10</p> <p>ca. 250 m      ca. 420 m      ca. 610 m</p>
<small>* Michelin Fact Book 2005, GP General Purpose 33 2006-09-15</small>		

## Engineering Plastics – successful turnaround

### Engineering Plastics

#### Position

Track record of excellent application engineering

#### Action taken

Turned restructuring and technology leadership into value

#### Aggressive Restructuring

- Consolidation of all Lustran Polymers activities on one site per region: Tarragona (Spain) for Europe; Addyston (USA) for Americas
- Closure of Lustran Polymers site Camacari (Brazil)
- Consolidation of Durethan® and Pocan® tolling and production in Europe and Americas

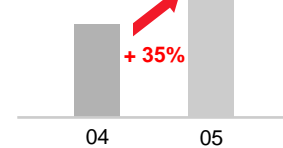
#### Portfolio Management

- Divestiture of fibers business to strategic investor

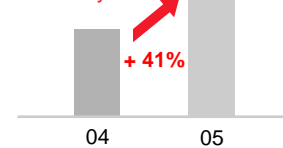
#### New business models

- Lustran Polymers (LUP) to focus on pre-colored ABS and specialty grades
- Semi-Crystalline Products with separate and distinct business models for intermediates (commodities) and for engineering plastics (specialties)

#### EBITDA\*



#### Productivity\*\*



\* EBITDA pre exceptional; \*\* EBITDA pre exceptional /FTE  
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## Engineering Plastics – boost high tech product business, particularly in Asia

### Engineering Plastics

#### Position

Track record of excellent application engineering

#### Way forward

Expand leading position in specialty engineering plastics to Asia

#### Cost competitiveness by continuous restructuring and optimization

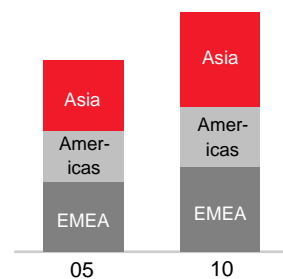
- **Focus on high tech product business and push global brand and reputation**
  - Push new Lustran Polymers (LUP) strategy by launch of new business name
  - Push Durethan® and Pocan® technology development

#### Leverage exploding demand for specialty engineering plastics in Asia

- Investment in 2nd production line for Durethan® and Pocan® compounds in Wuxi (China)
- Investment in new capacity for pre-colored specialty ABS in India
- Partner LUP business to build up a strong position in Asia

#### Continuous monitoring for acquisition opportunities

Demand for compounds based on Polyamide and PBT\*



\* PCI 2005, Top Right 2005  
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## Chemical Intermediates – repositioned and restructured

### Chemical Intermediates

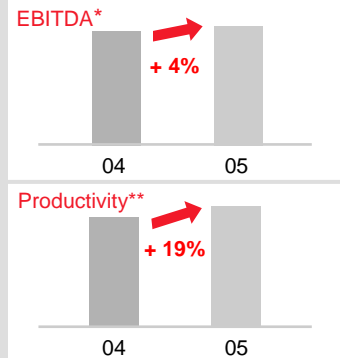
#### Position

World scale plants, competitive "Verbund" structures on integrated sites

#### Action taken

Turned asset structure into value by restructuring and repositioning

- **Aggressive restructuring by consolidation and cost cutting**
  - Significant restructuring in Fine Chemicals Unit by closure of several plants in Germany and streamlined cost structures
  - Closure of Inorganic Pigments (IPG) site in New Martinsville (USA)
  - Consequent optimization of production networks in Leverkusen and Uerdingen (Germany) in Basic Chemicals (BAC) as well as IPG
- **New business models:**
  - Relaunch Fine Chemicals under Saltigo with new business model as a pure service provider on a competitive technology and asset basis
  - Focus on high quality pigments worldwide in IPG



\* EBITDA pre exceptional; \*\* EBITDA pre exceptional /FTE  
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## Chemical Intermediates – profitable growth from strong platform

### Chemical Intermediates

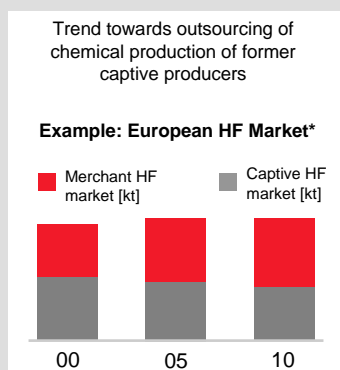
#### Position

World scale plants, competitive "Verbund" structures on integrated sites

#### Way forward

Profitable growth with selective expansions on strong asset platform

- **Continuous improvement of productivity is essential**
- **Leverage the outsourcing trend of chemical production and the continuing consolidation in Europe and US**
  - Optimize market position through volume gains and cost improvements
  - Debottlenecking of GMP capacities in SALTIGO
- **Occupy the fast developing high quality segments in emerging markets**
  - Expand IPG presence in China and India with focus on higher performance products
  - Profitable Growth with selective investments to position BAC as the reliable supplier of choice for top quality intermediates in Asia
- **Continuous monitoring for acquisition opportunities**



\* ICIS 2006, LXS analysis  
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## Performance Chemicals – stronger and more focused

<b>Performance Chemicals</b>	<b>Position</b> Top position in application driven niches	<b>Action taken</b> Consolidation of structures and realignment of business models
<ul style="list-style-type: none"> <li> <b>Consolidation of structures</b> <ul style="list-style-type: none"> <li>- Closure of several plants in Germany (LEA, FCC) and USA (RCH, TPC)</li> <li>- Transfer of production capacity to Asia (FCC) and Italy (LEA)</li> <li>- Reduction of complexity</li> </ul> </li> <li> <b>Portfolio adjustments</b> <ul style="list-style-type: none"> <li>- Divestiture of Paper business and ISL to strategic investors</li> <li>- TPC divestment process underway</li> </ul> </li> <li> <b>Realignment of business models</b> <ul style="list-style-type: none"> <li>- Shift to specialties in Ion Exchange Resins</li> <li>- Expand value chain downstream towards solution engineering in Material Protection Products and Rhein Chemie</li> </ul> </li> </ul>		<p><b>EBITDA*</b></p> <p><b>Productivity**</b></p>
<small>* EBITDA pre exceptionals; ** EBITDA pre exceptionals /FTE                  38 2006-09-15</small>		

## Performance Chemicals – expand leadership in profitable areas

<b>Performance Chemicals</b>	<b>Position</b> Top position in application driven niches	<b>Way forward</b> Expand leadership by aggressive growth in profitable areas
<ul style="list-style-type: none"> <li> <b>Rigorous complexity management and continuous adaptation of structures to market requirements are key</b> </li> <li> <b>Push solution engineering and spread of modern products</b> <ul style="list-style-type: none"> <li>- MPP, Rhein Chemie and ION focus on solution engineering and service</li> <li>- Leverage trend towards sustainable products like Velcorin®, modern wood protection products (MPP); halogene-free flame retardants, phthalate-free additives (FCC) and formaldehyde free resin retanning agent (LEA)</li> </ul> </li> <li> <b>Develop and push Asian markets to high quality segments</b> <ul style="list-style-type: none"> <li>- Leverage the excellent position in Leather with own tech center in Wuxi</li> <li>- Establishment of production capacities for additives in China (RUC, FCC)</li> <li>- Prepare Asian market for modern Material Protection Products</li> </ul> </li> <li> <b>Continuous monitoring for acquisition opportunities</b> </li> </ul>		<p>Specialty segment in China with highest growth rate*</p>
<small>* Total consumption USD Billions; Growth rate = CAGR, source: McKinsey                  39 2006-09-15</small>		

## We develop our businesses into leadership businesses

- We implement sound strategies
- We work along measurable and realistic action plans
- We execute precisely and timely
  
- We further advance organic growth
- We actively pursue portfolio management
  
- We utilize our entrepreneurial culture and experience
- We are fast and courageous

LANXESS executes and delivers on promises



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## LANXESS is delivering on past promises ...

### Good Start in 2004 – Realistic Short-term Targets

*Media/Analyst  
Conference  
November 2004*

	2003	2004 Target***	2006 Target***		Status H1 2006
EBITDA* Margin	< 5%	~ 7%	9-10%	✓	~ 11%
CapEx / Sales	~ 5%	4 - 5%	~ 4%	✓	< 4%
Net Financial Debt** / EBITDA*	~ 4.5	< 3	< 2.5	✓	< 1

\* Excluding exceptionals  
\*\* Net financial debt excluding pensions; financial obligations (including convertible) less cash & cash equivalents  
\*\*\* The financial targets do not include any impact of potential divestments

Analyst Conference LANXESS 2004-11-26 Chart-No. 10

**Full year guidance:  
660-680m €EBITDA\***

\* EBITDA pre exceptionals  
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## ... and LANXESS will deliver on new ambitious targets

<b>LANXESS</b>	<b>EBITDA* margin: Peer group profitability in 2009</b>  (currently 12-14%)	
<b>Business</b>	<b>No business &lt; 5 % EBITDA* margin in 2009</b>	
<b>Finance</b>	<b>Investment grade rating</b>	

\* EBITDA figures pre exceptionals; excluding acquisitions  
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## Ambition

LANXESS is energizing the chemical industry

## We see attractive opportunities ahead to generate more value

There are additional chances beyond our current portfolio

In leveraging

- our competencies
- our experience
- our portfolio platform
- our deep understanding of the chemical industry



In taking advantage of

- fragmentation and consolidation process of the chemical industry
- need for restructuring of chemical businesses

Creating additional value, strength  
and a long-term perspective for LANXESS



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## We are looking for appropriate acquisition opportunities

▪ **Strengthen portfolio**

Small to mid-sized individual businesses to strengthen our leadership businesses

▪ **Complement portfolio**

Attractive mid-sized businesses to broaden our portfolio

▪ **Another turn-around opportunity**

A company or part of a conglomerate to boost under-managed businesses

We know how to energize chemical businesses



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## A careful selection process will guarantee LANXESS success

- We are driven by value creation
- We will only acquire when we can leverage our competencies
- We will apply our proven financial discipline
- We will run an ambitious and thorough selection process
- We take our time in decision making

LANXESS will continue to create value



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## LANXESS is energizing the chemical industry

**Continuity**

We are a strong and capable chemical company

**Competence**

We act in a fast changing world

**Execution**

We deliver on promises – with speed and precision

**Ambition**

We are energizing the chemical industry



# LANXESS

Energizing Chemistry

## LANXESS successfully established

### Achievements

#### Continuity

Strict cost and portfolio management

#### Competence

Significant EBITDA development

#### Execution

Simple, fast and result driven action

#### Ambition

Strong foundation laid for further growth

## LANXESS sets ambitious new targets

<b>LANXESS</b>	<b>EBITDA margin: Peer group profitability in 2009</b>  (currently 12-14%)	
<b>Business</b>	<b>No business &lt; 5 % EBITDA margin in 2009</b>	
<b>Finance</b>	<b>Investment grade rating</b>	

Excluding acquisitions; EBITDA figures pre exceptionals  
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## LANXESS is energizing the chemical industry

<b>Strategy</b>	
<b>Competitiveness</b>	Restructure and build leadership businesses
<b>Portfolio</b>	Optimize portfolio permanently for performance
<b>Value</b>	Capitalize on industry trends and LANXESS competencies

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## Safe Harbour Statement

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