Success in a challenging environment

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Success in a challenging environment

Agenda

- On track towards sustainable value management

- Profitable stability

- Room for maneuver

- Basis for new financial targets

On track towards sustainable value management

On track towards sustainable value management

2004	2005	2006	Future
▪ Company was combined out of several business entities ▪ Process of "analyzing and finding" oneself ▪ Weak financial base ▪ Business strategies partly perceived inadequate	▪ Still large part of sales unprofitable ▪ Partly cash burning businesses ▪ First year of "clean-up"	▪ Implementation of new reporting systems ▪ Implementation of operational improvement initiatives ▪ Use of cash flow and profitability metrics for incentive scheme	▪ Introduction of value management metrics (ROCE) in addition to profitability metrics ▪ Further enhancement of controlling tools

Before: Leveraged, highly unprofitable → **Clean-up:** EBITDA, Working Capital Focus: Cash generation + profitability → **Value management, sustainable profits**

From “Firefighting“ to “Financial Scope“ – financial metrics underpin the evolution

In € m	2004	2005	2006e	
EBITDA*	447	581	660-680	Profitability
EBITDA* margin	6.6%	8.1%	9-10%	
Equity ratio	24.5%**	28.9%	33.1%***	Stability
Net financial debt	1,135	680	590***	Strength
Net financial debt / EBITDA	2.5x	1.2x	<1	

„Firefighting“ → „Fireprotection“ → „Financial Scope“

* pre exceptionals; ** 2004 comparable to 2005, i.e. incl. deferred tax adjustment; ***as of June 30, 2006

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Profitable stability

We use various means to create profitable stability

Operational
- Procurement
- Production
- Resource Allocation
- Sales
- Working Capital

Financial
- Responsibilities
- Systems
- Financial Risk Management
- Financing Structure
- Financing Headroom

Execution

Process Optimization

Performance

Stability

Raw material risk management through improved procurement

Operational

Procurement
Production
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Execution
- Review of procurement contracts
- Analysis of raw material price volatility
- Review of supplier strategies

- Raw material contracts optimized
- Quarterly price adjustments where appropriate
- Multiple supplier strategies

Performance ✓
- Improved supply conditions for strategic raw materials

Stability ✓
- Increased input security
- Most supply on contract rather than spot market

Production with efficiency increase and more flexible asset structures

Operational

Procurement

Production

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Execution

- Review of all production sites for profitability
- Review of production plants for necessity
- Analysis of maintenance needs and patterns
- Continuous implementation of best practices

- Closure of seven sites worldwide in process
- Several production plants combined or closed
- More planned maintenance
- Implementation of more flexible asset structures, where appropriate

Performance ✓

- Reduced production costs

Stability ✓

- Increased production security, less downtime
- More flexible asset structures

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Resource allocation along strategic, technical and economic criteria to ensure adequate returns

Operational

Procurement

Production

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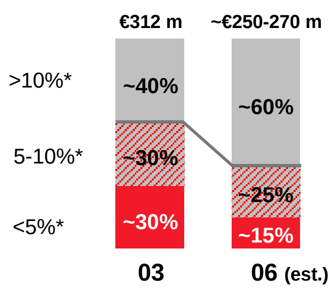
Execution

- Introduction of structured investment process with independent assessment:
  - Strategic
  - Technical
  - Economic



*EBITDA margin pre exceptionals

Performance ✓

- More profitable capex allocation

Stability ✓

- Sustainable businesses through strategic investments

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Sales with enhanced profitability and reduced complexity

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Execution

- „Price before volume“
- Detailed analysis of customer/product profitability
- Customer segmentation and differentiated offerings
- Review of major selling contracts

- Reduced number of customers (e.g. PBR by 20%)
- Reduced number of products (e.g. TPC by 30%)
- Small lots handling given to distributors
- Price formulas adjusted to manage raw material and energy price volatility

Performance ✓

- Improved margins
- Better market and customer intelligence

Stability ✓

- Reduced complexity
- Appropriate reaction to raw material volatility

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Working capital: evolving from marginal to systematic management

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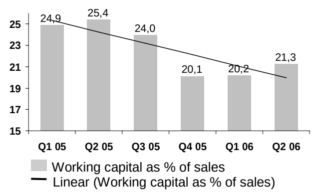
Execution

- Company-wide projects to reduce working capital with incentives linked to success
- DSO, DSI analysis and “earning / burning” comparison on BU level, monthly discussion with businesses
- Management of working capital, e.g.:
  - Reduction but still in accordance with nature of business
  - Preparation for maintenance



Performance ✓

- Improved cash flow

Stability ✓

- Early spotting of deviations – lower likelihood for surprises

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Responsibilities: clear structures implemented

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Execution

- Clear-cut responsibilities on P&L, Balance Sheet and Cash Flow

For example P&L:

Sales Cost of sales **Gross profit** Selling expenses R&D General admin exp. Other operating exp. **EBIT**	**Business focus**
Interest Taxes **Net income**	**Corporate focus**

Performance

- Clear accountability
- Early warning by individualized responsibilities

Stability

- Increased ownership

Systems: improved monitoring and controlling

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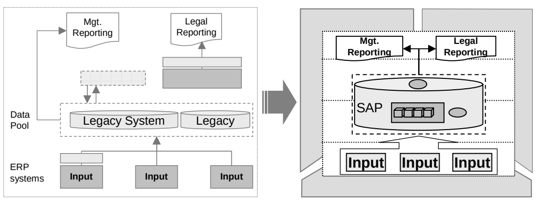
Execution

- Introduction of financial information systems:
  - Forecasting tool on legal entity and BU level
  - Monthly reporting
  - Generation of financial key metrics
- Combined legal and management reporting



Performance

- Improved basis for accurate decision making

Stability

- Consistency in reported numbers internally and externally

Financial risk management: increased stability achieved

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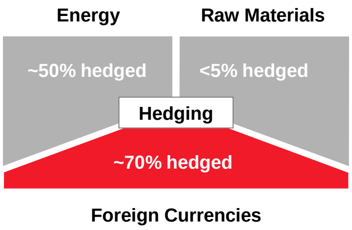
Execution

- Introduction of appropriate policy for nature of business
- Risk assessment with close cooperation between procurement, businesses and treasury
- Group-wide treasury controlling put in place



Performance ✓

- Significantly reduced exposure to FX and energy price fluctuations

Stability ✓

- Long term: decreased volatility impact

Example: hedging of foreign currencies

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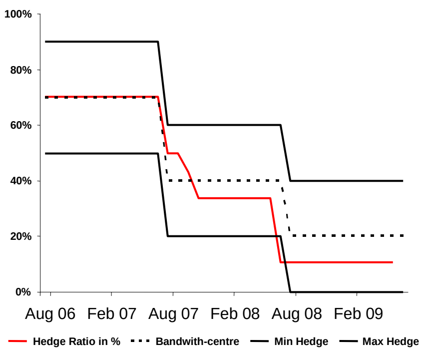
LANXESS foreign exchange exposure:

- Main currencies: US$, Can$, Yen, SA Rand
- Total US$ exposure: ~ €700 m

Conservative, rolling hedging approach:

- Each month, forecasted cash flows of the next 36 months are hedged to a certain extent in a layered approach in order to smooth volatilities
- Instruments used are forwards, and zero cost options

Hedging approach: EUR/USD hedge ratio



For 2006, ~70% of the net exposure are hedged, for 2007, ~35% are already locked in

Financing structure: low financing vulnerability with currently ~80% fixed interest rates

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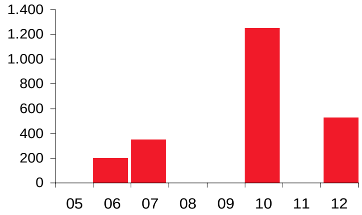
Execution

- Arrangement of new financing structure
- Longer maturities
- More liquidity available
- Locked in at historically low interest rates

Debt maturity profile



Performance

- Lower interest burden

Stability

- Sound financing basis with majority at fixed interest rates

Financing back-up facilities: sufficient headroom in place

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Execution

- Setup of arrangement of new financing back-up facilities
  - €1,250 m revolving credit facility
  - €200 m asset backed securities program – on balance
  - ~€350 m bilateral credit facilities
  - €135 m cash holdings

All instruments largely undrawn

Performance

- Improved conditions on undrawn instruments

Stability

- „Fire protection“ at hand

Transformation for lower vulnerability and cyclicality impact

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Continuous execution on operational means reduces complexity and enhances profitability

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Conservative financing provides soundness and strength

Performance ✓

Stability ✓

Room for maneuver

LANXESS has achieved substantial financial headroom

	2004	2006 YTD**
Equity ratio	24.5%*	33.1%
Debt, long-term financed***	11%	85%
Net financial debt in € m	1,135	590
Net financial debt / EBITDA	2.5x	<1

Additional financial debt: - within investment grade	limited	€0.5 – 1.0 bn
- within BB+ / BB		add. €0.5 bn

*incl. deferred tax adjustment; ** as of June 30, 2006 ; ***non-current financial liabilities / total financial liabilities

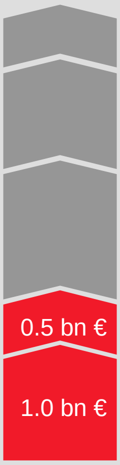
LANXESS' financial scope can be further increased

Several instruments available (separately/combined) :

- Additional debt
  We are prepared to use modern financing instruments
  that have also strong balance sheet characteristics (e.g. hybrids)
- Financing inflows from disposals
  We are open to active portfolio management
- Additional equity
  We have proven track record of accessing
  the capital market in a reasonable way
- Cooperation with a partner
  We are flexible to bundle strength

Significant headroom

LANXESS‘ total financial scope is reasonably high



- Additional financial debt
- Additional equity
- Incomes from disposals
- Cooperation with a partner

- Increasing financial debt, moving temporarily into BB+/BB

- Increasing finacial debt, remain investment grade

Prudent financing policy for the future

Policy

- **Rating policy:**
Remain investment-grade within longer-term corridor of BBB- and BBB
- **Organic growth:**
strive not to have rating deterioration for a longer period of time
- **External growth:**
under certain circumstances, a temporary rating deterioration into non-investment grade “BB+/BB” would seem acceptable with the clear target to re-enter investment grade status after integration of an acquisition

Food for thought

- Current financing structure
- Existing back up facilities
- Current rating ratios offer room to maneuver
- Acquisitions in-line with the new financing policy

Basis for new financial targets

The basis for new financial targets is prepared

€ m Company	2005	2006e	2007e	2008e	2009e	Resulting Margin*
Fixed cost savings					260	
Phase 1-4 EBITDA improvement cumulative	10	60	110	150	195**	Up to ~11%

€ m Portfolio adjustment	Effects	Resulting Margin*
FIB	-100 sales, -10 EBITDA loss	Up to ~12%
PAP	-240 sales, negligible EBITDA	
iSL	-20 sales	
TPC	-150 sales	

Resulting EBITDA* margin improvement to ~ 12% builds the basis for new financial targets

* using FY 2005 EBITDA pre exceptionals margin of 8.1% as basis; ** €40 m of phase 4 not yet broken down by years

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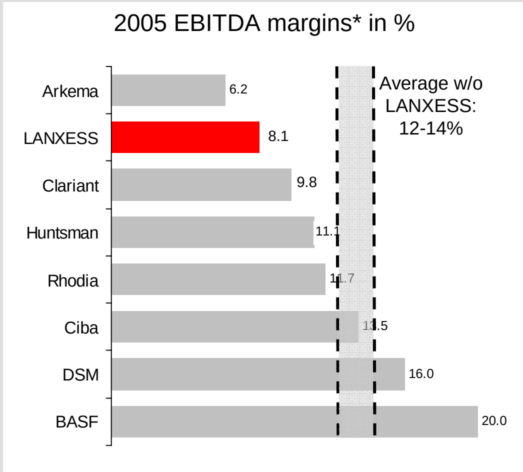
We strive to achieve peer average profitability in 2009

- LANXESS' peer group defined to reflect international competition for capital
- LANXESS to close performance gap to peer group in 2009
- LANXESS to achieve peer average EBITDA margin* in 2009 (currently 12-14%)



* Pre exceptionals, source: annual reports

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Success in a challenging environment

Performance	Increased by multiple improvements in operational and financial perspective Cash flow finances restructuring and capex
Stability	Stable and sound balance sheet Improved management of volatility
Financial scope	Stability and strength now provide the platform for maneuver within the still prudent financial policy

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Energizing Chemistry