



# Successful acquisition and integration of Petroflex Investor & Analyst Briefing

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# Agenda

- **Acquisition of Petroflex**
- Successful integration of Petroflex
- Financial perspective
- Conclusion

# Petroflex in Latin America, a major player in synthetic rubber

## Origin

- Formerly listed on Brazilian Stock Exchange
- Main holders were Braskem, UNIPAR & others

## Size

- Largest synthetic rubber producer in LATAM
- Sole PBR/S-SBR producer in LATAM

## Plants

- Cabo
- Duque de Caxias
- Triunfo

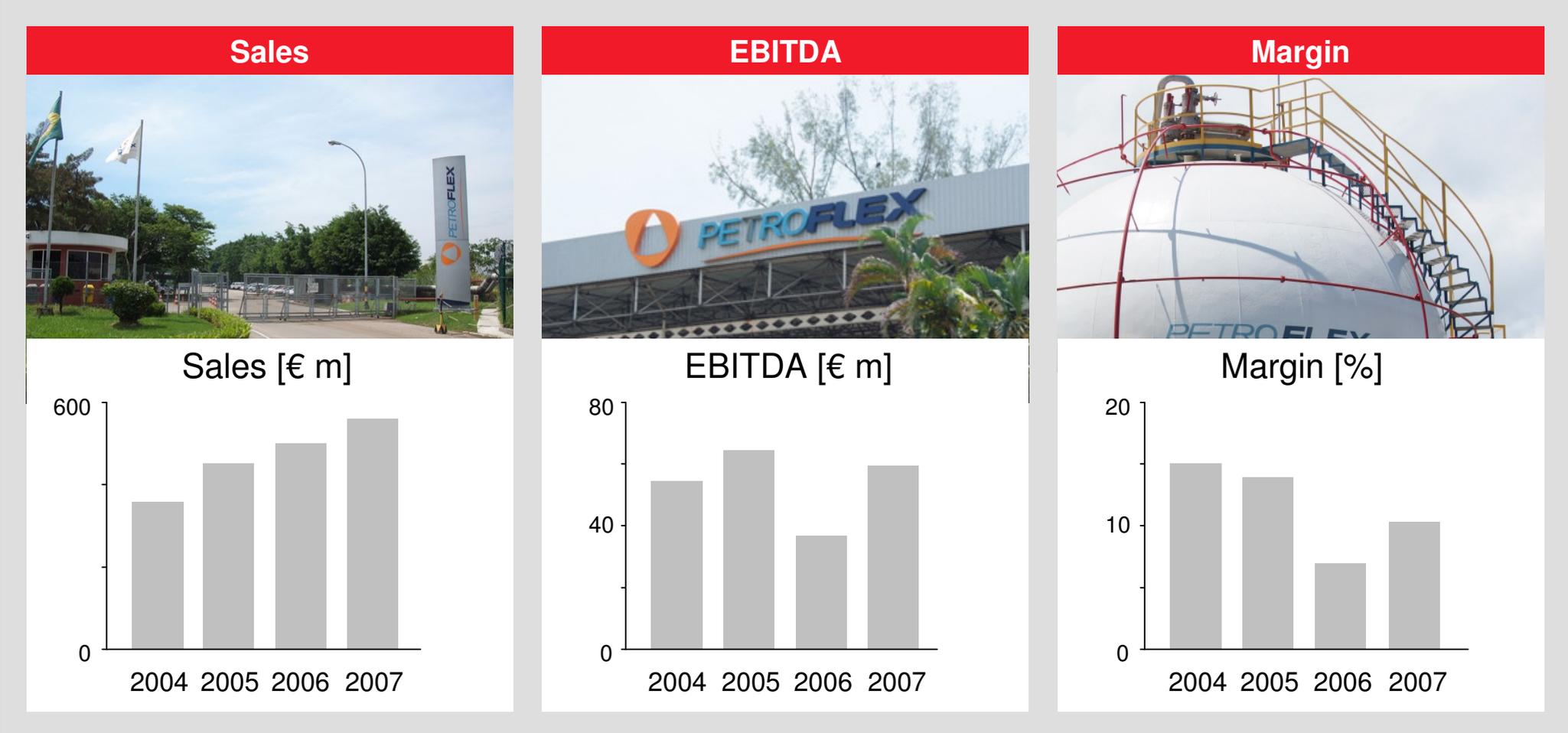
## Rationale

- Strengthen global manufacturing net
- Follow key customers to LATAM
- Cost savings and technical upgrade

## Petroflex with good manufacturing base in Brazil



# Petroflex with mixed financial performance before the acquisition



# Operating in three world-scale plants, integrated into petro-chemical infrastructure

## Petroflex – a powerful asset base for Latin American market

### Cabo



The only solution rubber manufacturing site in LATAM

- Employees : ~310 (incl. contractors)
- Rubbers : BR, S-SBR
- Capacity : ~130kt

### Duque de Caxias



Largest plant for E-SBR in LATAM

- Employees : ~740 (incl. contractors)
- Rubbers : E-SBR
- Capacity : ~190kt

### Triunfo



Most modern E-SBR plant in LATAM

- Employees : ~170 (incl. contractors)
- Rubbers : E-SBR, NBR
- Capacity : ~80kt

# All major tire producers are located in LATAM growth region

## Tire manufacturers producing in Brazil\*



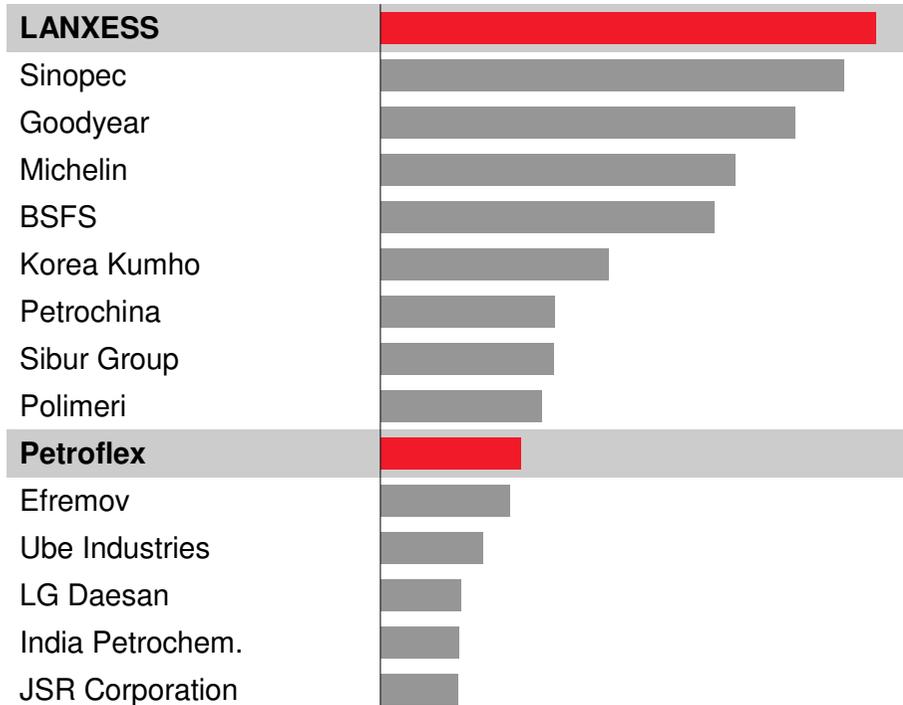
## Brazil: a region with growth potential

- All major tire producers are present in Brazil with manufacturing capacities
- Supportive trend: shift of production from North America to Latin America
- Expected growth rate of tire production in Latin America mid- to long-term: >5%

\* source: European Rubber Journal

# LANXESS and Petroflex team up for a real global BR / S-SBR supplier

## Top 15 BR / S-SBR producers 2007\*

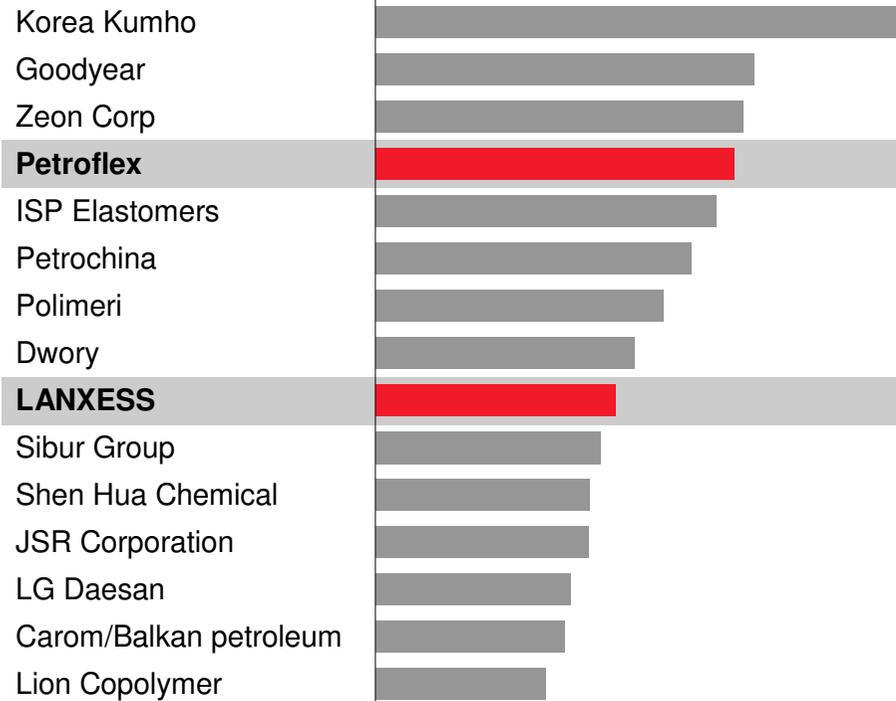


- LANXESS improves its market position
- Status as largest merchant market world wide supplier is reinforced

\* capacity in kt; source: IISRP (International institute of synthetic rubber producers, Inc)

# LANXESS benefits from Petroflex additional emulsion rubber assets

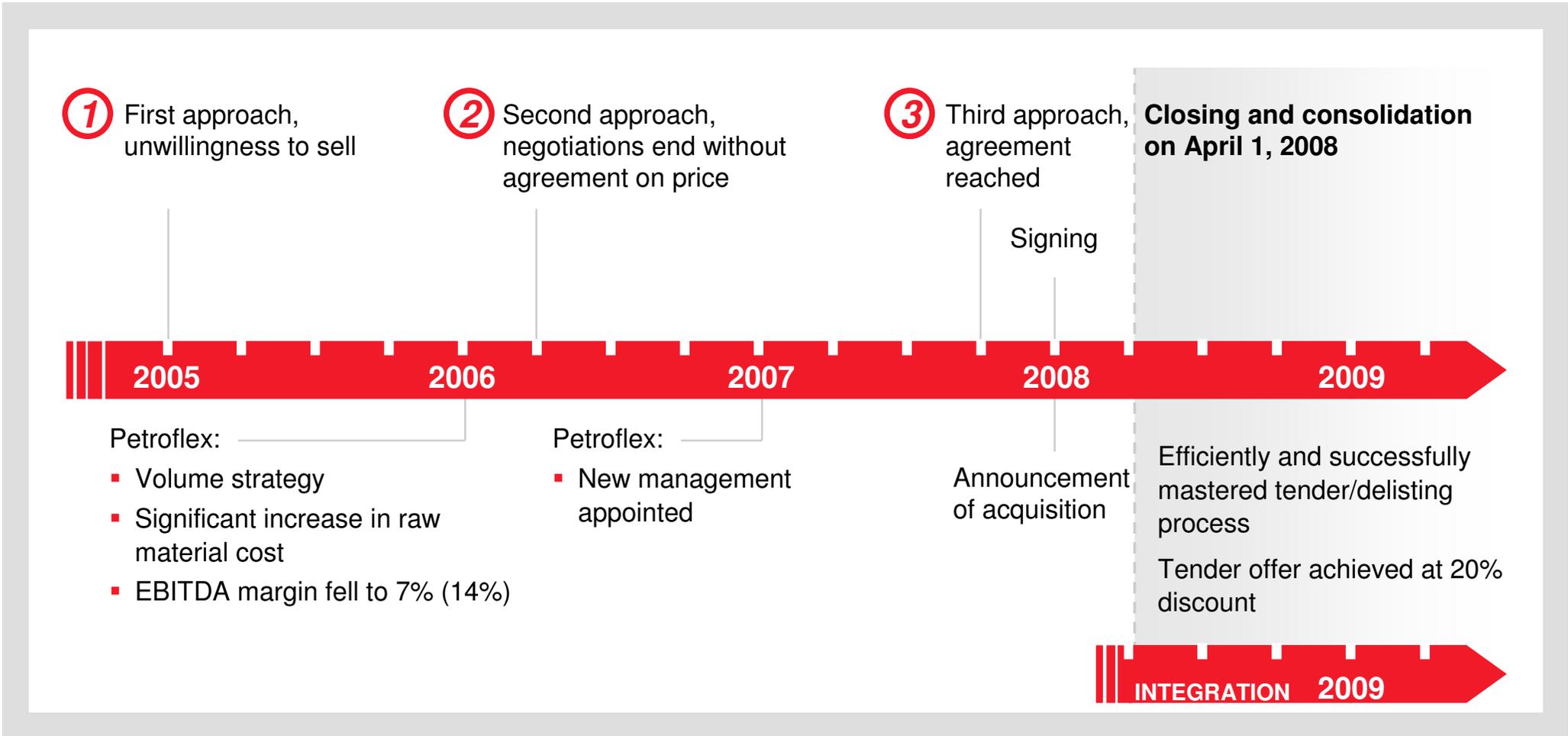
## Top 15 NBR / E-SBR producers 2007\*



- LANXESS improves its market position
- Emulsion rubbers can be produced in the same lines
- Many of the market players combine NBR and E-SBR in their portfolio

\* capacity in kt; source: IISRP (International institute of synthetic rubber producers, Inc)

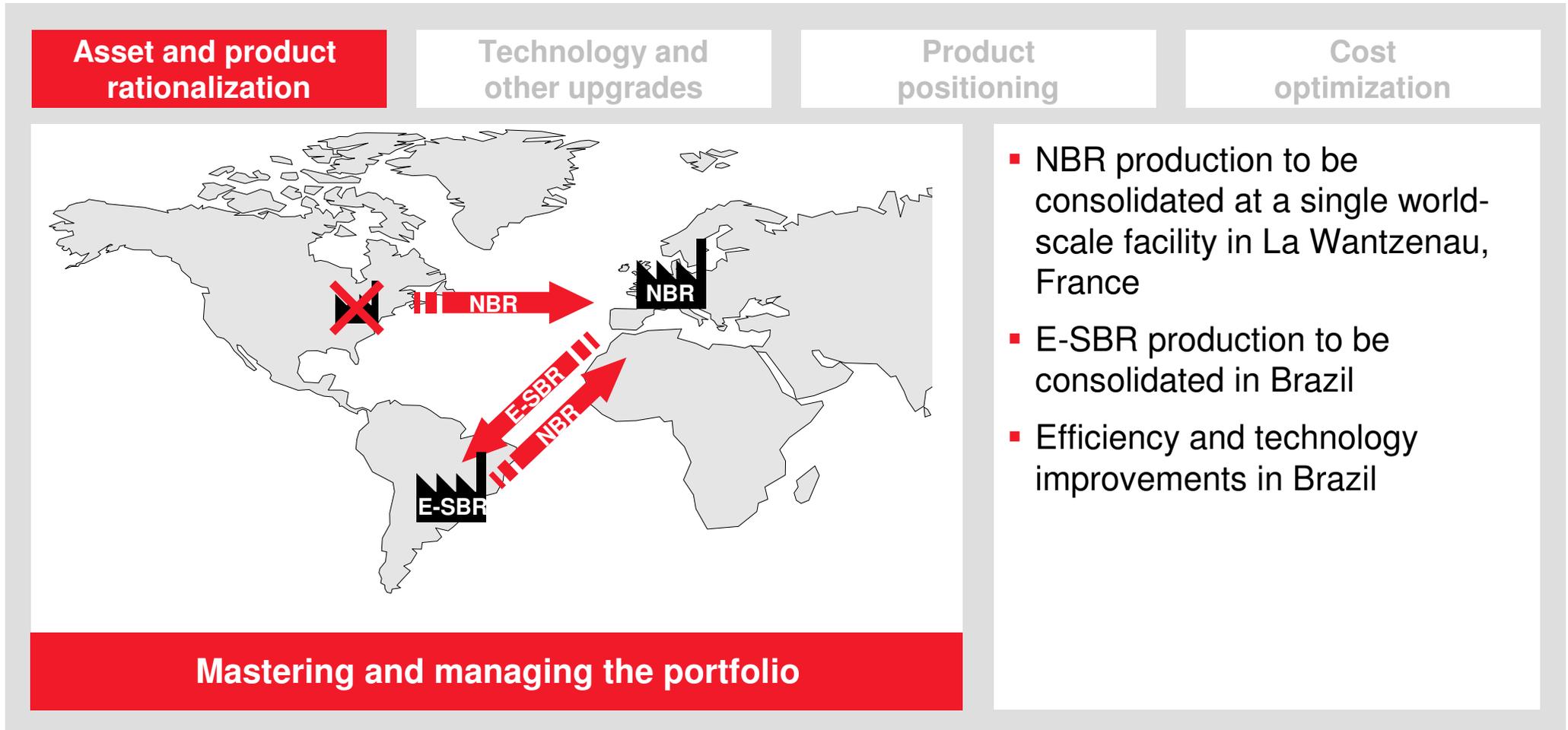
# Transaction history shows commitment and professionalism



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# Consolidating facilities to optimize world production net



# A complex portfolio was streamlined to meet market needs

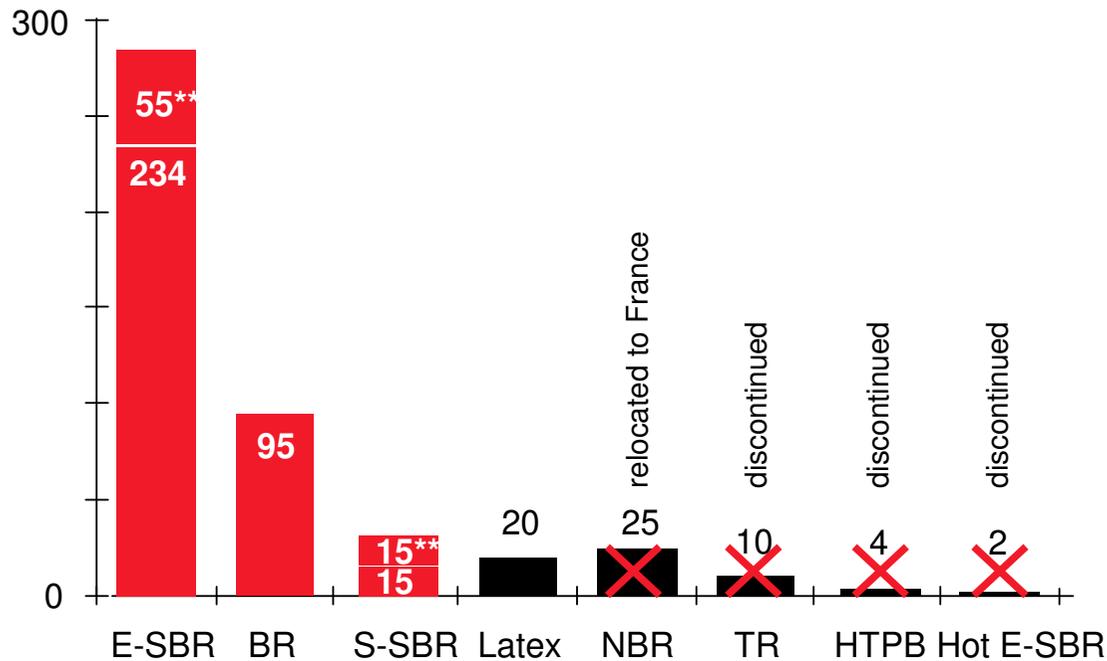
## Asset and product rationalization

## Technology and other upgrades

## Product positioning

## Cost optimization

### Petroflex capacities\* and product rationalization



- Consolidation of product grades: 66 reduced to 20
- Integration of Petroflex product grades into LANXESS portfolio
- HTPB, TR, NBR discontinued, Latex business with substantial price increases
- Substantial reduction of complexity resulting in much higher efficiencies

\* in kt, all capacities 2006, except 55kt and 15kt streamlining additions in 2008; \*\* 55kt new capacity from NBR relocation and 15kt from TR closure

# Opportunities for technological upgrade to LANXESS standard

Asset and product rationalization

**Technology and other upgrades**

Product positioning

Cost optimization

- Transfer of LANXESS synthetic rubber manufacturing technology
  - New LANXESS recipes and equipment
  - Chemical reaction process optimized
  - Production processes being optimized, e.g. coagulation process improvement, reduction of hexane lost in production
- Upgrade of product specifications to premium level
- Upgrade of Petroflex to LANXESS HSEQ standards
- Upgrade of infrastructure



# LANXESS pricing excellence applied on Petroflex creates upsides

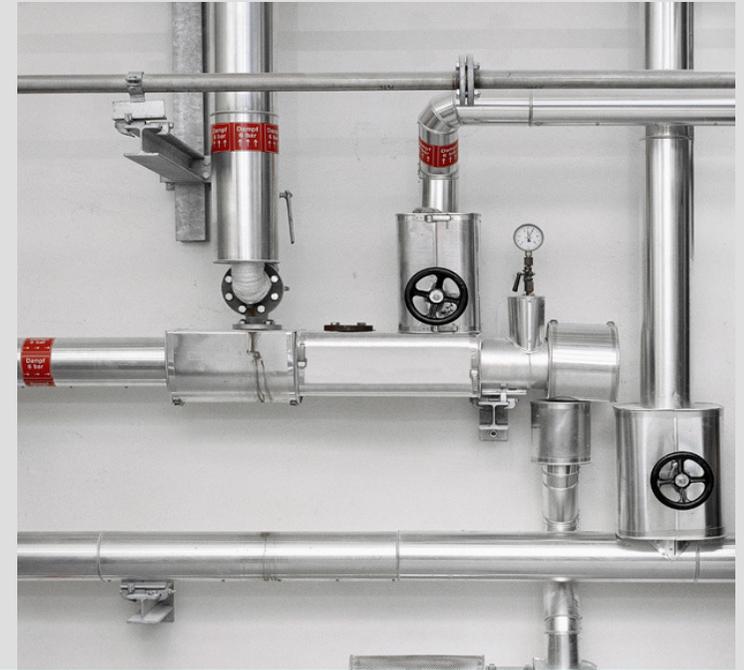
Asset and product rationalization

Technology and other upgrades

**Product positioning**

Cost optimization

- Before acquisition, Petroflex considered by its owners merely as a Butadiene converter (end-of-pipe)
- Today, pricing excellence of global player LANXESS is applied
- Today, products are integrated in comprehensive offerings of global player LANXESS



**Customer contracts were renegotiated on basis of improved product offerings**

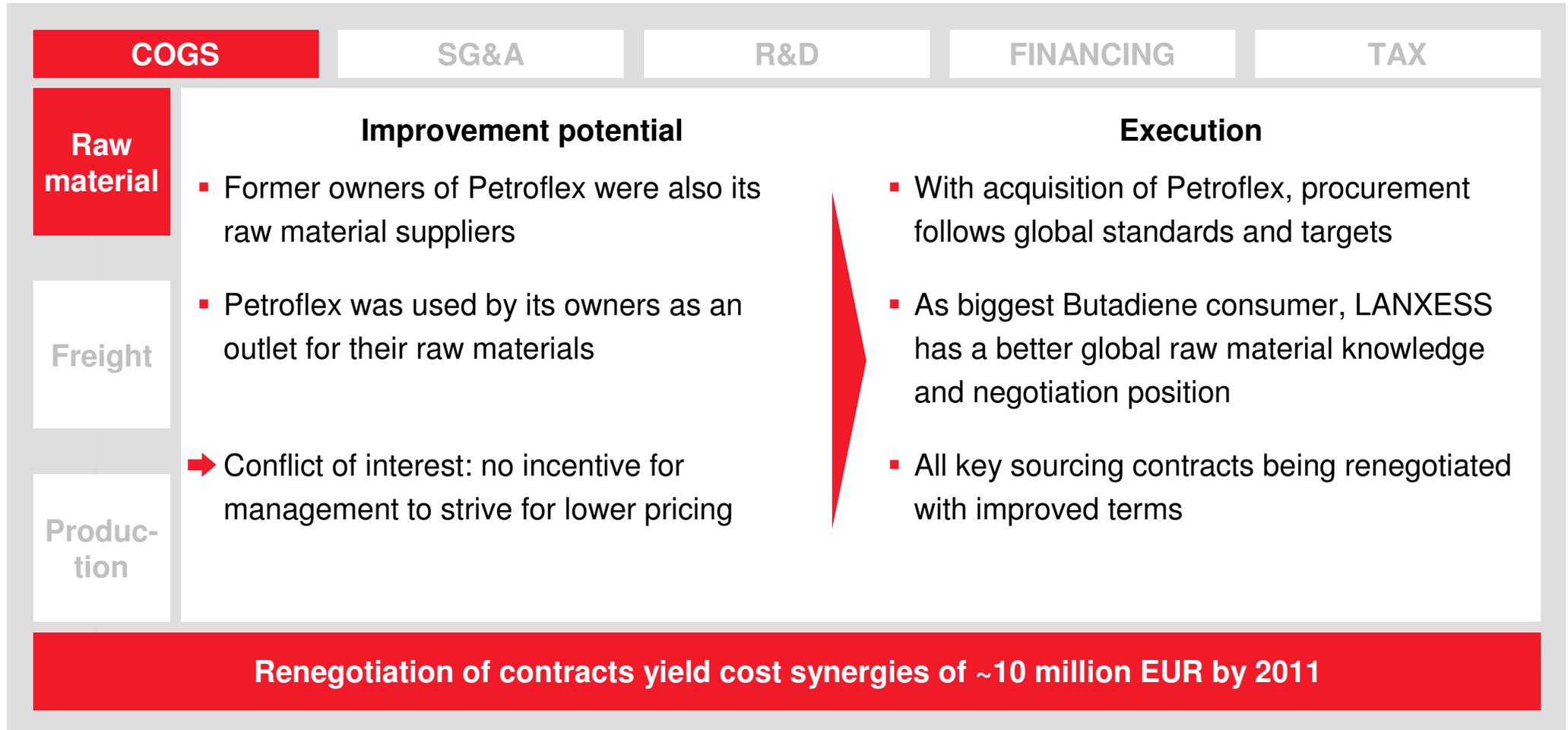
# Transformation of a listed company into three plants in global manufacturing network

Asset and product rationalization	Technology and other upgrades	Product positioning	Cost optimization
<b>Group and Business Unit cost optimization</b> <ul style="list-style-type: none"><li>▪ Significant cost synergies of ~60 million EUR expected by 2011</li><li>▪ Integration of Petroflex R&amp;D into LANXESS R&amp;D structures</li><li>▪ Streamlining of overhead functions</li><li>▪ Less freight costs &amp; tariffs based on local production</li></ul>		<b>Implementing global best practices</b> <ul style="list-style-type: none"><li>▪ Key raw material contracts of Petroflex renegotiated</li><li>▪ Petroflex refinanced with LANXESS standard conditions</li><li>▪ Petroflex today with LANXESS insurance contracts</li></ul>	

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# LANXESS renegotiated key raw material contracts of Petroflex

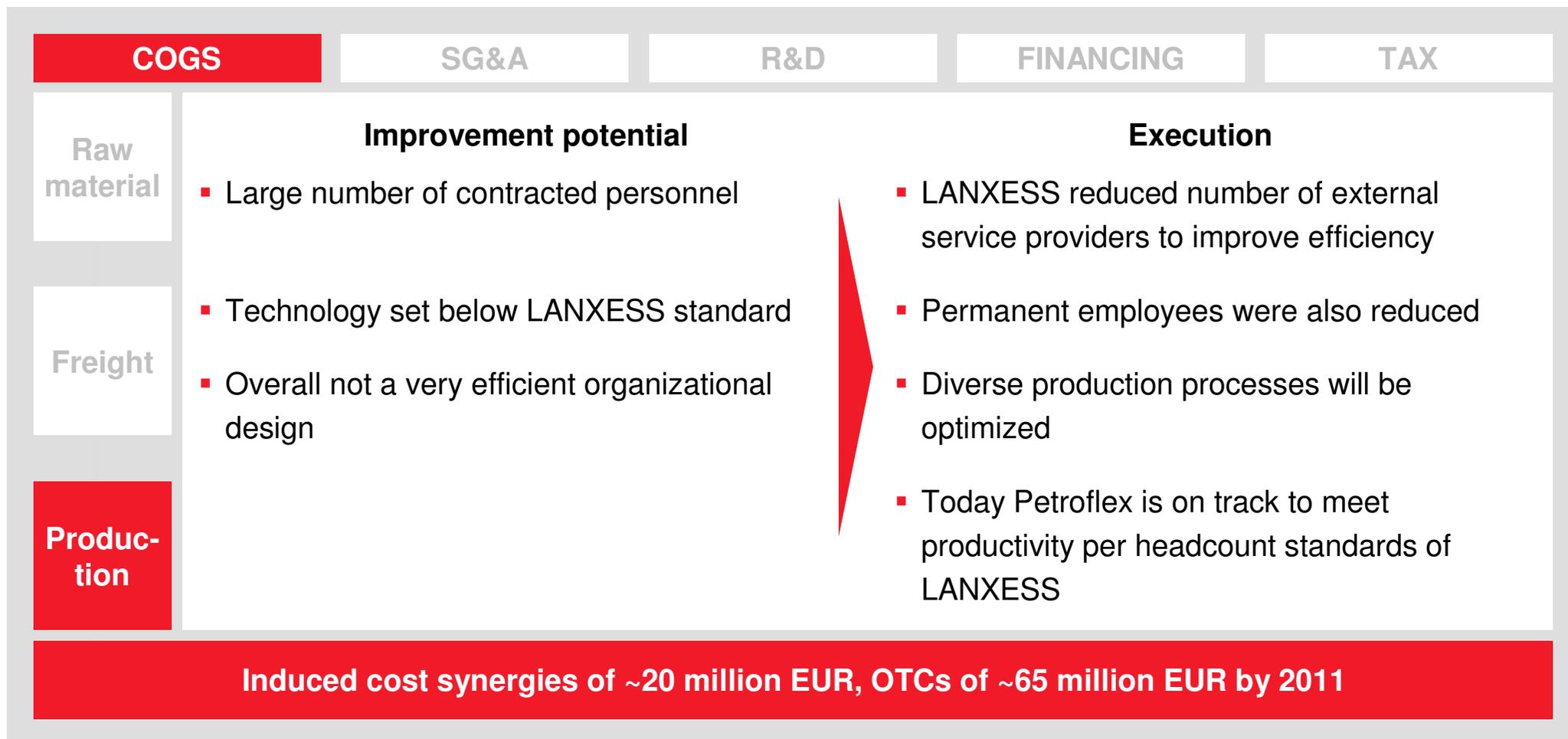


\* vs. planned cost base

# Lower freight costs and tariffs due to local presence

	COGS	SG&A	R&D	FINANCING	TAX
Raw material	<p><b>Improvement potential</b></p> <ul style="list-style-type: none"> <li>LANXESS with no major footprint in Latin America</li> </ul>		<p><b>Execution</b></p> <ul style="list-style-type: none"> <li>Petroflex largest player in Latin America</li> </ul>		
Freight	<ul style="list-style-type: none"> <li>Need to ship products from other regions to Latin America</li> <li>Co-operation with agencies needed</li> </ul>		<ul style="list-style-type: none"> <li>Through Petroflex, products can now be sold directly to markets (termination of agency agreements)</li> </ul>		
Production	<ul style="list-style-type: none"> <li>High freight costs and tariffs had to be paid</li> </ul>		<ul style="list-style-type: none"> <li>Reduced shipping, agency costs and import taxes</li> </ul>		
<p><b>Cost synergies of ~15 million EUR and OTCs of ~5 million EUR by 2011</b></p>					

# Petroflex production processes streamlined



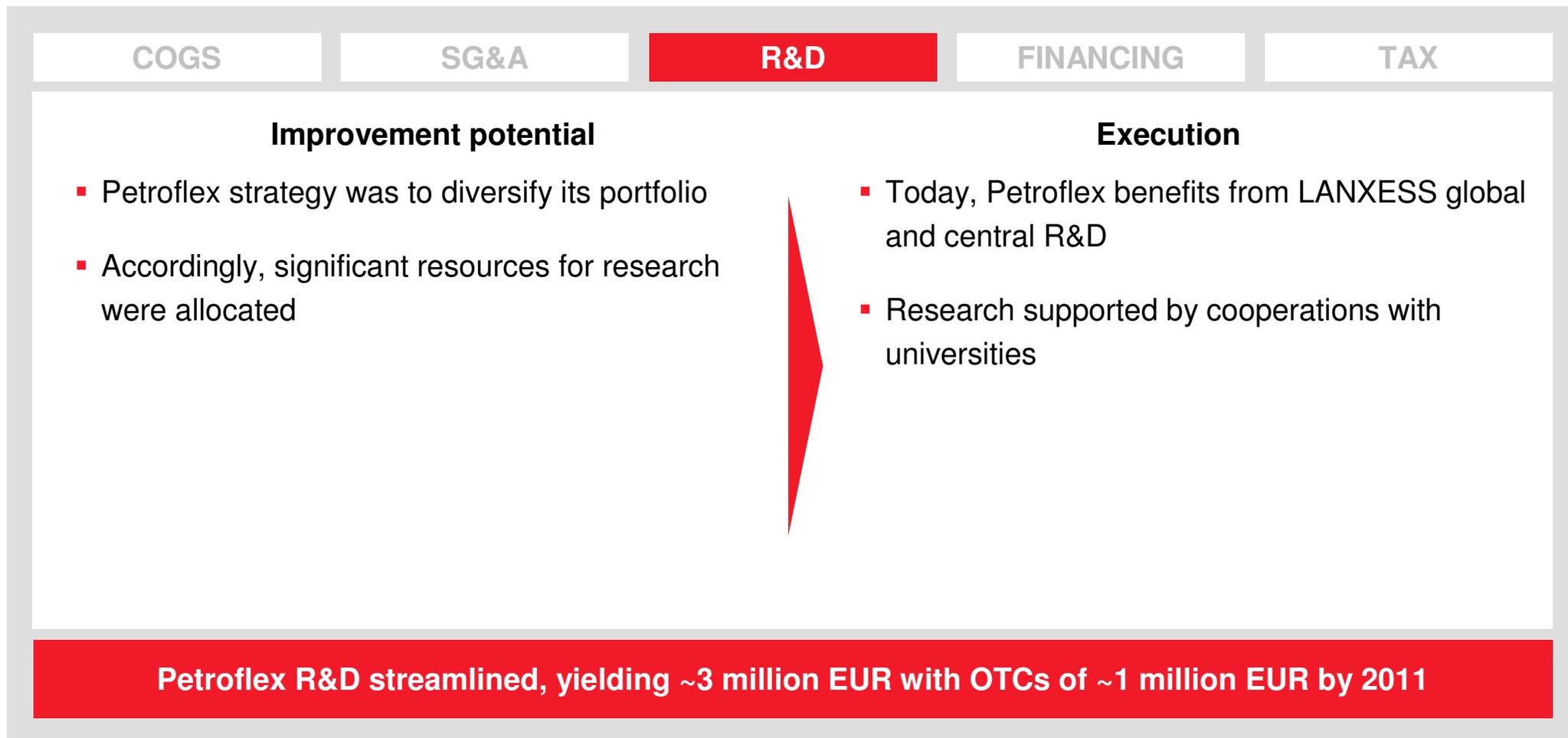
# Sales forces streamlined, reducing FTEs

COGS	SG&A	R&D	FINANCING	TAX
<b>Sales force</b>	<b>Improvement potential</b> <ul style="list-style-type: none"><li>▪ Petroflex had its own sales force with respective sales offices</li><li>▪ LANXESS with its global set-up had sales offices in Argentina and Brazil</li><li>▪ Sales offices of Petroflex and LANXESS together too numerous to be economical</li></ul>		<b>Execution</b> <ul style="list-style-type: none"><li>▪ The Petroflex product portfolio is well-known to LANXESS</li><li>▪ Petroflex sales offices redundant, almost all closed today</li><li>▪ Centralization of all BU PBR sales functions in Brazil at Petroflex</li><li>▪ Customers are now serviced by one team with global rubber know-how and service</li></ul>	
<b>Other SG&amp;A</b>	<b>Sales organization streamlined, yielding ~4 million EUR with OTCs of ~1 million EUR by 2011</b>			

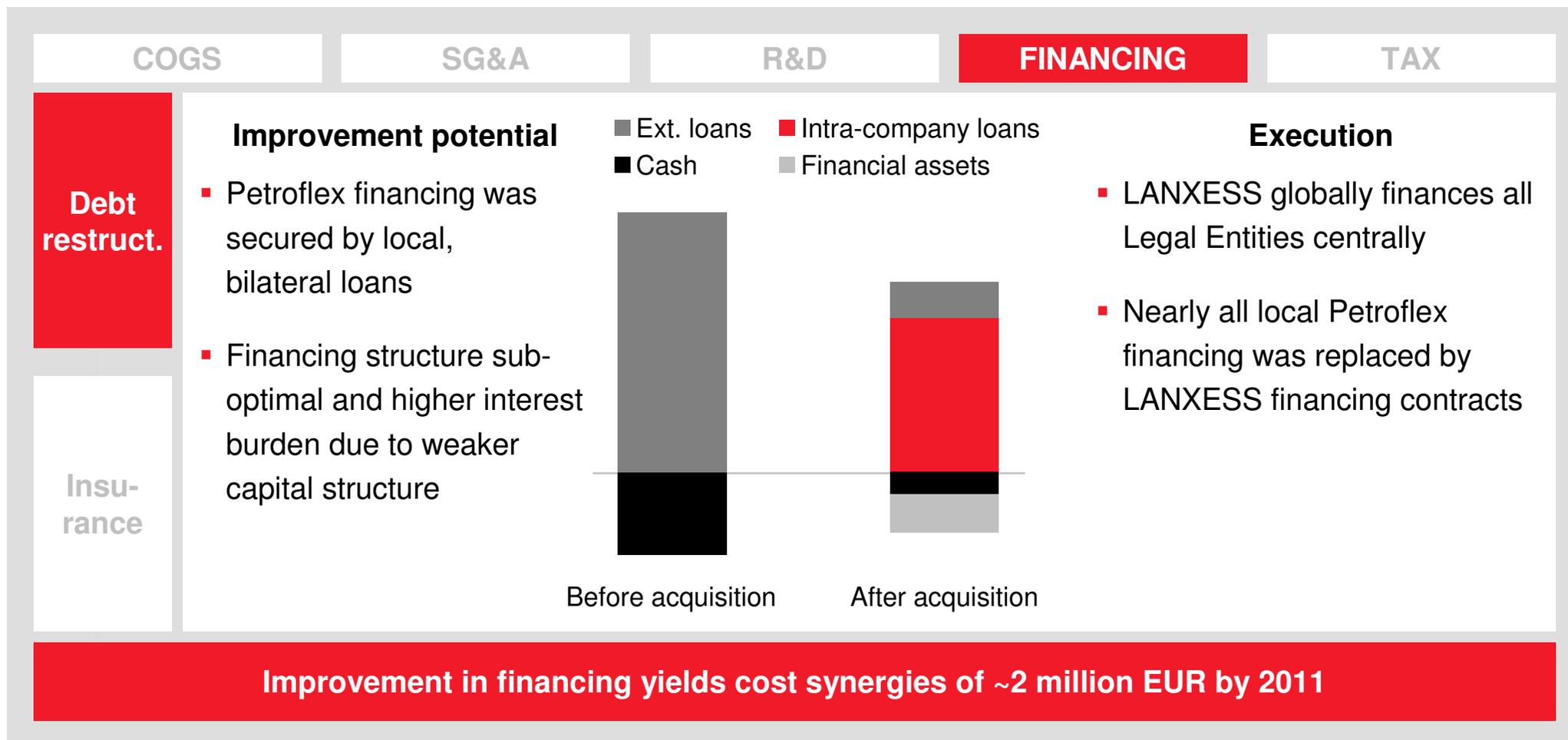
# Other SG&A staff reduced

	COGS	SG&A	R&D	FINANCING	TAX
Sales force		<p><b>Improvement potential</b></p> <ul style="list-style-type: none"> <li>▪ Petroflex was a listed company, hence needed resources to fulfill reporting requirements and shareholder relations</li> <li>▪ As stand alone company other corporate functions had to be in place, however, with insufficient critical mass</li> </ul>			
Other SG&A				<p><b>Execution</b></p> <ul style="list-style-type: none"> <li>▪ Petroflex corporate functions integrated into LANXESS central corporate functions</li> <li>▪ Today businesses are supported and serviced from the global and central LANXESS corporate functions</li> <li>▪ Due to the delisting of Petroflex, less staff is needed to fulfill reporting requirements</li> </ul>	
<p><b>Other SG&amp;A streamlined, cost synergies of ~8 million EUR, OTCs of ~2 million EUR by 2011</b></p>					

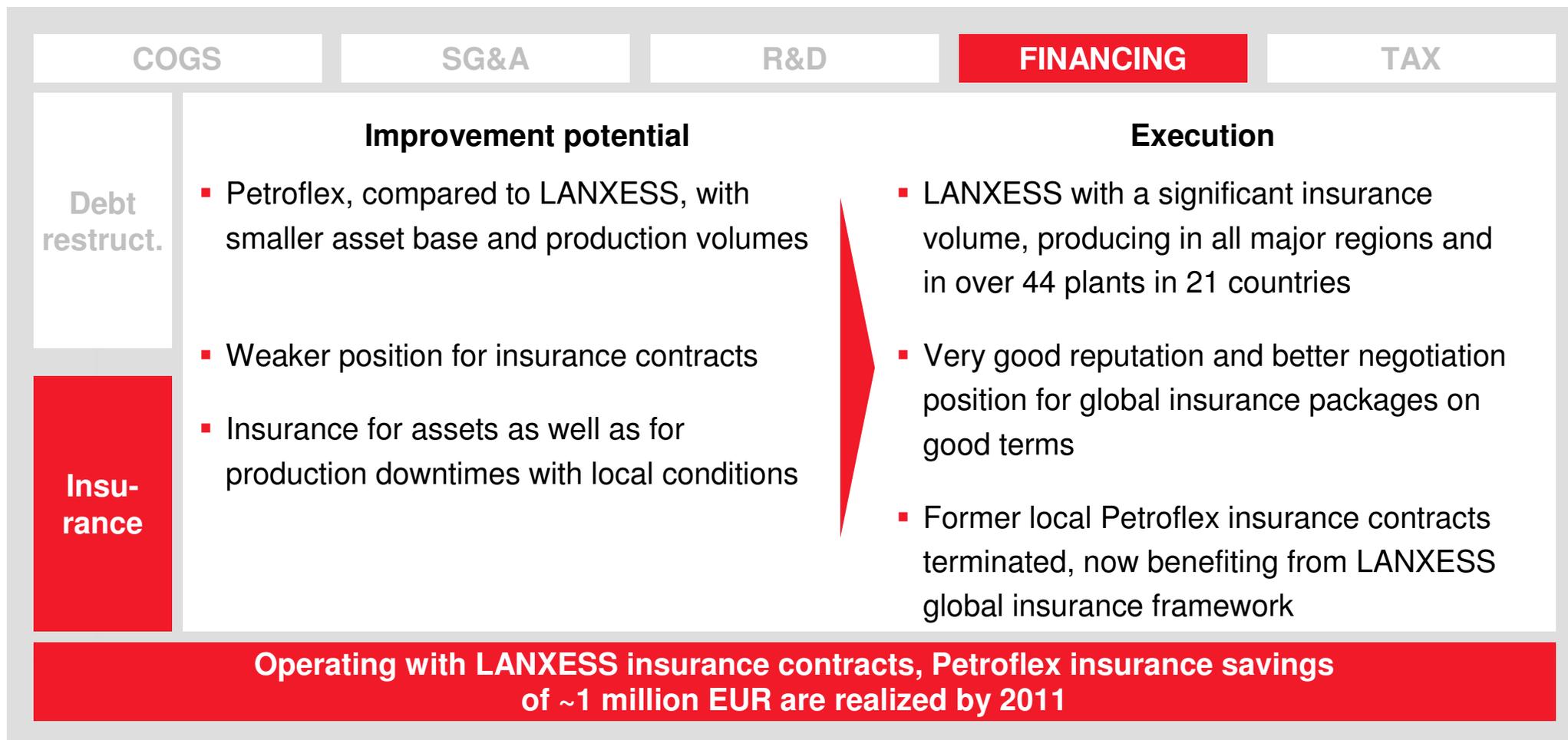
# Applying LANXESS research strategy on Petroflex helps streamline R&D



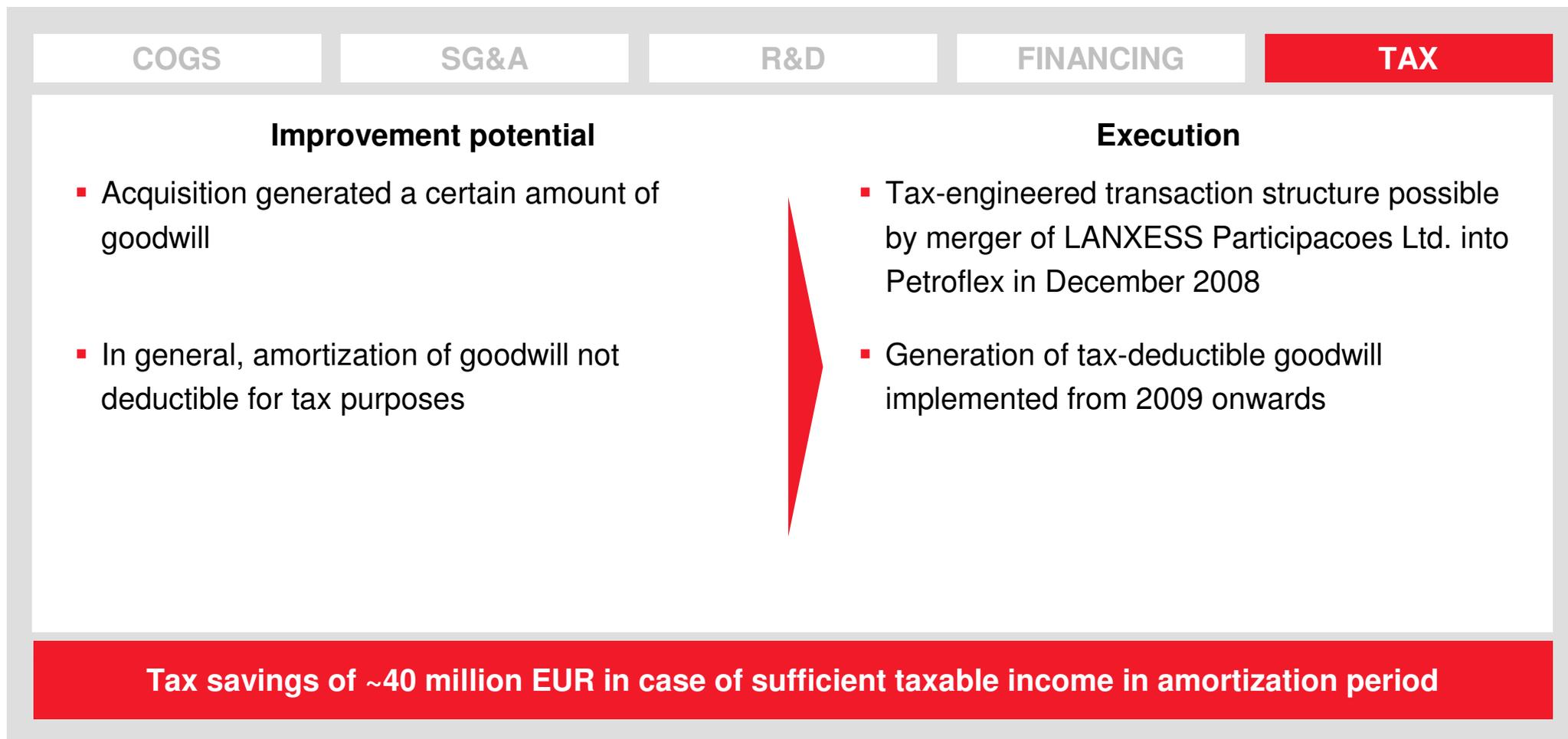
# Petroflex completely refinanced under the LANXESS umbrella



# Petroflex benefits from global LANXESS insurance contracts



# Consistently planned and implemented tax framework allows generation of tax-deductible goodwill



# Savings to be achieved until 2011

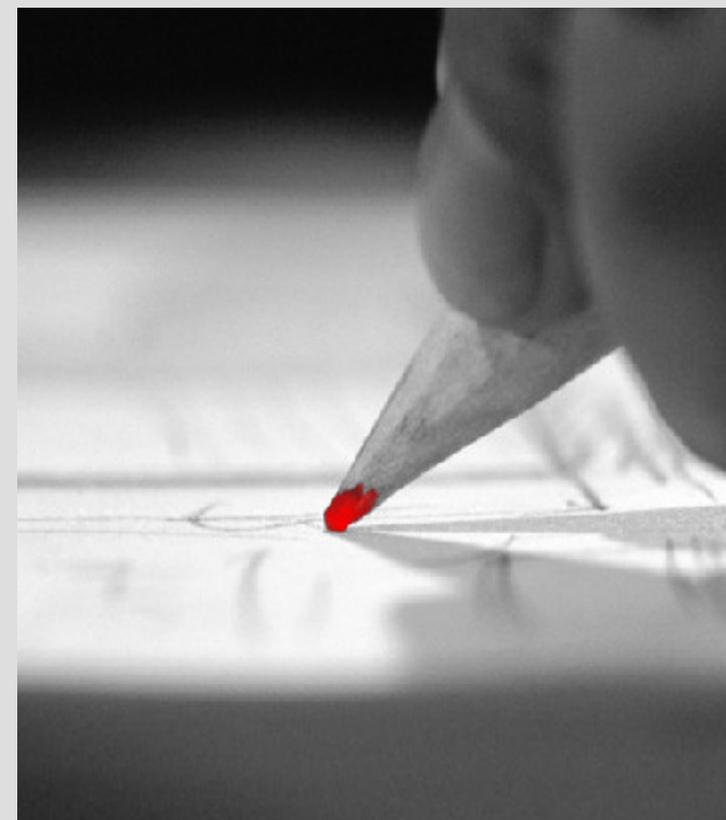
	COGS	SG&A	R&D	FINANCING	TAX	
In € m	COST SYNERGIES <sup>1</sup>			OTCs <sup>2</sup> CASH-OUT		
	by 2008	by 2009*	by 2011*	by 2008	in 2009*	by 2011*
COGS	1	7	45	11	21	70
SG&A	2	5	12	1	1	3
R&D	1	2	3	1	0	1
FINANCING	3	3	3			
TOTAL	7	17	63	13	22	74
TAX SAVINGS <sup>3</sup>	←    40    →					

Rounded numbers; \* expected; <sup>1</sup> vs 2007 baseline; <sup>2</sup> capex and restructuring; <sup>3</sup> tax deductible amortization of goodwill, distributed over years

# Financially attractive deal structure

## Financial assessment previously announced versus today

	Initial statement	After integration
▪ Price for 70%	~€198 m	✓
▪ Remaining 30%		at 20% discount
▪ EPS accretive	in first year	✓
▪ Positive net present value	using WACC of 12.5%	✓
▪ Sales multiple	~0.5x	< 0.5
▪ EBITDA multiple	~7.5x	~3.1x* post 2011 synergies

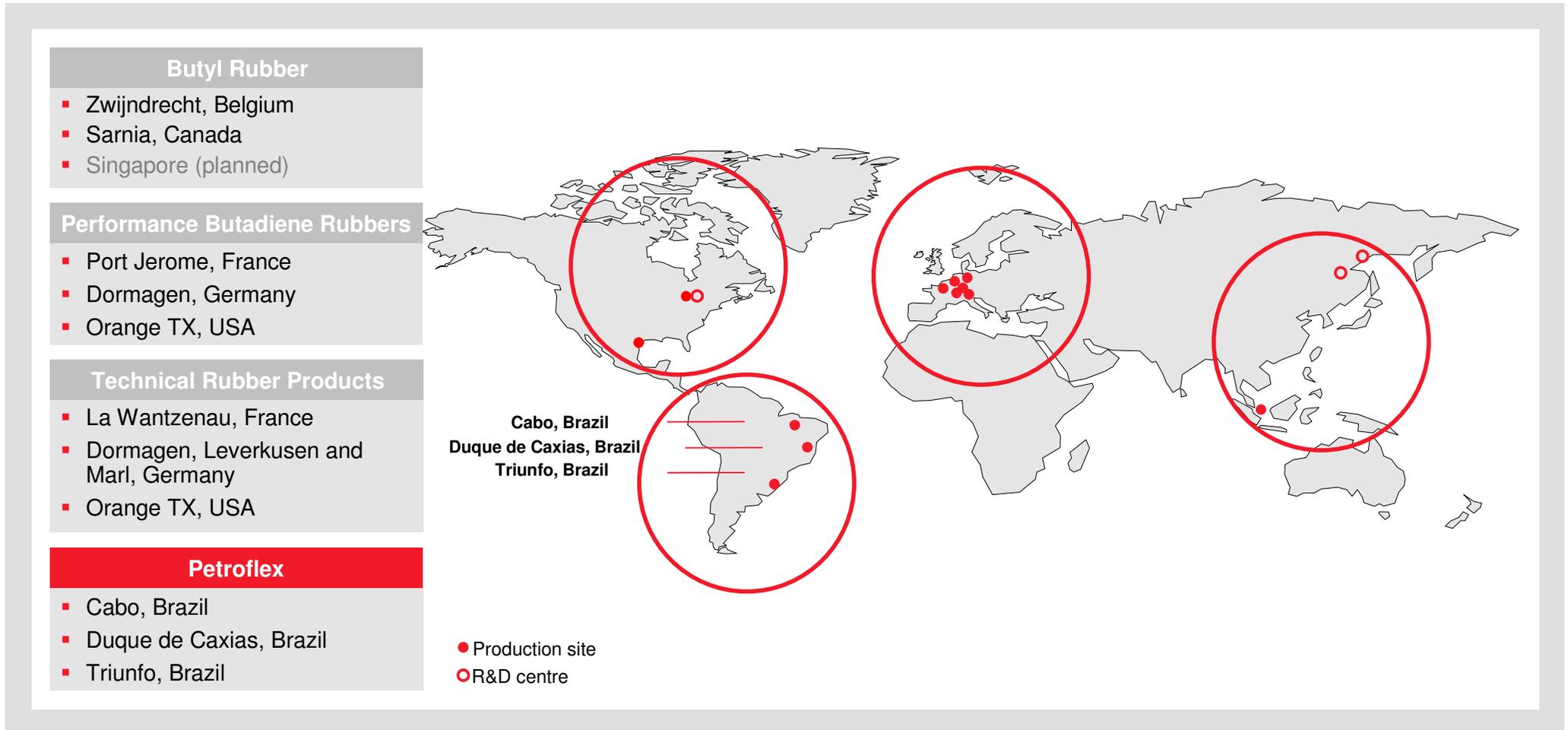


\*FY 2007 EBITDA

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# Petroflex strengthens portfolio and worldwide production net



# LANXESS and Petroflex – a perfect fit

## Strategic fit

Acquisition in a major competence area of LANXESS



Petroflex strengthens LANXESS position in terms of asset base and customer proximity in important **BRIC** region



## Acquisition process

Process completed with commitment, persistence and professionalism



## Integration

Smooth integration with significant synergy potential



## Value creation

Earnings accretive



**LANXESS**

Energizing Chemistry

# LANXESS on track with confidence in rough times

**Transformation**

**Crisis management**

**Cash management**

**Acquisition and integration**

