Analyst Conference

Axel C. Heitmann
Leverkusen, 2004-11-26

LANXESS
Energizing Chemistry

HEAD

WAY

A brand new company…

… with a great heritage, …

… dynamic perspectives …

… and ambitious actions.

Independence

Cost Reduction

Portfolio Management

LANXESS
Energizing Chemistry

Our name:
– “Lancer” – to launch – a dynamic new start
– Success

Our personality:
expert, entrepreneurial, energetic

Our image:
streamlined, dynamic, focused on the future

Significant player in the chemical world

LANXESS

Energizing Chemistry

Focused on improving profitability

Closing the profit gap to competition

Good Start in 2004 – Realistic Short-term Targets

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

* 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

LANXESS

BREAK

THROUGH

BREAK

Independent. Sovereign. Autonomous.

THROUGH

Built on Polymers and Chemicals

LANXESS
Energizing Chemistry

Performance Rubber

Engineering Plastics

Chemical Intermediates

Performance Chemicals

In Record Time a New Company

	Organisation and assignment of employees		Inauguration party		Registration with Commercial Register		First meeting with capital market representatives	
Decision on separation		New name: LANXESS		New assignment of board responsibilities		Extraordinary General Meeting		Spin-off
2003	**2004**							**2005**
Nov	**Feb**	**Mar**	**Jul 1st**	**Sep**	**Sep 30th**	**Nov 17th**	**Nov 26th**	

Independent. Sovereign. Autonomous.

Independent

- Full operational independence
- Independent board of management
- Independent supervisory board*
- Solid capital structure

More Focus. More Attention.
More Flexibility.

* Not yet elected

LANXESS

FORE

SIGHT

FORE

Performance Driven Set-up

SIGHT

FORE

SIGHT

Entrepreneurial and Experienced Board

Board of Management

- Committed team with broad industry expertise
- Significant international and restructuring experience
- Energetic and result driven attitude
- Clear roles and responsibilities

Axel C. Heitmann (CEO), Matthias Zachert (CFO), Ulrich Koemm, Martin Wienkenhöver (right to left)

LANXESS

BU Architecture for Maximum Performance and Portfolio Flexibility

Clear-cut BU Design

- Technology, products
- Size
- Competitors' structures
- High transparency, no overlap
- Better partnering options

Result Driven BU Management

- Ownership
- Fully accountable, entrepreneurial managers
- Focus on BU profitability
- Global responsibility
- Internal competition for resources and rewards

LANXESS Impact

Portfolio flexibility

+

Maximum performance

LANXESS

BU Heads Directly Connected to Board

Board of Management

Performance Rubber	Engineering Plastics	Chemical Intermediates	Performance Chemicals
Butyl Rubber	Styrenic Resins	Basic Chemicals	Material Protection Products
Polybutadiene Rubber	Semi-Crystalline Products	Fine Chemicals	Functional Chemicals
Technical Rubber Products	Fibers	Inorganic Pigments	Leather
			Textile Processing Chemicals
			Paper
			RheinChemie
			Rubber Chemicals
			Ion Exchange Resins

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BU Heads Directly Connected to Board

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			Textile Processing Chemicals
			Paper
			RheinChemie
			Rubber Chemicals
			Ion Exchange Resins

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

LANXESS

Committed International Leadership Team

More than 50% of Business Unit heads are newly appointed.

More than 20% of Senior Managers are international.

Strong Result Driven Culture

Clear structures
allow clear performance measurement, resource allocation, efficient portfolio management

Defined responsibilities
foster ownership for separate businesses with completely different requirements

Value

Strong incentives
reward performance in all parts of LANXESS

Focused metrics
which are easily understood and consistent, lead to transparency and clear goals

LANXESS

CLEAR

SPACE

CLEAR

Significant Global Player

SPACE

LANXESS, a Significant Player*

STRONG FOUNDATION

Size Benefits

- Strategic flexibility
- Attraction and retention of excellent people
- Sales network
- Purchasing power

(1) Sales including € 3.6 bn Pharma (2) Sales including € 1.8 bn Pharma Source: Deutsche Bank

* Among European listed companies
** Sales based on 2003 combined financial statements

LANXESS

In all Segments Solid Size and Top Positions

STRONG FOUNDATION

	Performance Rubber	Engineering Plastics	Chemical Intermediates	Performance Chemicals
Substantial Sales*	€ 1.4 bn	€ 1.6 bn	€ 1.4 bn	€ 1.9 bn
Excellent Market Position**	Top 1-3	Top 3	Top 1-2	Top 1-4

* Sales based on 2003 combined financial statements
** In 70% of sales

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Turn Leadership Into Value

STRONG FOUNDATION

Performance Rubber

Position LANXESS
World wide number one in Synthetic Rubber*

Action LANXESS
Turn leadership into value

Butyl Rubber

Polybutadiene Rubber

Technical Rubber Products

Buna™ CB BR

Tyre body and tread (**)

Therban®

High temperature resistant engine compounds

Butyl

Inner tubes and chewing gums

Bromobutyl

Integral part of tubeless tyre technology

* LANXESS estimate based on sales volume
** not registered in U.S.A.

LANXESS

Turn Restructuring Into Value

STRONG FOUNDATION

Engineering Plastics

Position LANXESS
Track record of excellent application engineering

Action LANXESS
Improve profitability substantially, reduce complexity. Capture growth opportunities, improve product mix

Styrenic Resins

Semi-Crystalline Products

Fibers

Durethan®

Thermoplastics for modern hybrid technology in cars

Pocan®

Offers high heat resistance, strength and hardness

Novodur®

Good toughness for housings and covers

Lustran®

Transparency, dimensional accuracy and brilliant appearance

LANXESS

Turn Strong Asset Base Into Value

STRONG FOUNDATION

Chemical Intermediates

Position LANXESS
– World scale plants
– Competitive “Verbund”-structures

Action LANXESS
Keep competitiveness against upcoming Asian players

Basic Chemicals

Fine Chemicals

Inorganic Pigments

BAYFERROX®

High quality environmentally-friendly iron oxide pigments for construction materials

Colortherm®

Heat-resistant colorants

Bayrepel®

The user-friendly, effective repellent

2-Methyl-6-Ethyl-Aniline

Intermediate for agrochemicals

Turn Application Engineering Into Value

STRONG FOUNDATION

Performance Chemicals

Position LANXESS
Top positions in application driven niches

Action LANXESS
Grow in profitable niches, expand regionally

- Material Protection Products
- Functional Chemicals
- Leather
- Textile Processing Chemicals
- Paper
- RheinChemie
- Rubber Chemicals
- Ion Exchange Resins

MACROLEX®

Coloration of polymers from transparent to total coverage

PREVENTOL®

Long-term outdoor material protection

LEWATIT® THE BETTER CHANGE

Purification of drinking water

VELCORIN®

Stabilisation of soft drinks

LANXESS

Global Presence

STRONG FOUNDATION

World Coverage

LANXESS (21 countries)

Bayer Agency (~30 countries)

Other

Sales by Region

Assets by Region

Employees by Region

All figures based on combined financial statements 2003 (2003-12-31)

LANXESS

Strong Foothold in Asia

STRONG FOUNDATION

Current Asian Position

- 14% of sales*
- More than 10 sales and application centres
- 8 production sites
- ~ 1,800 employees

* Combined financial statements 2003

Asian Sales and Manufacturing Network**

** Selection of offices and sites

LANXESS

World Class Assets – Technological Edge

STRONG FOUNDATION

Verbund and Processes

World Scale

reliable
well maintained

Latest Technology

Corporate Social Responsibility

LANXESS

Proactive Response in South Africa

On November, 23rd Dr Martin Wienkenhöver discussed with Dr Marthinus van Schalkwyk – Minister of Environmental Affairs of South Africa – the planned LANXESS measures in Merebank

- Open communication
- Technical expertise
- Action plan under development

LANXESS

Well Established Brands for Diversified Industry Portfolio

STRONG FOUNDATION

Brands

LEWATIT

BAYFERROX®

Buna CB BR (*)

MACROLEX®

Therban®

PREVENTOL®

-
-
-

* not registered in U.S.A.

End User Industries

* – Water Treatment
– Nutrition
– Furniture
– Hygienics
– Coatings
– Packaging
– Health Care

LANXESS

Strong Foundation, but Unsatisfactory Profitability

Profit Margin 1-9 2004*

*EBITDA in % of sales 1-9 2004; Source: Quarterly reports

[1] excluding exceptionals

[2] before restructuring costs

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Strong Foundation, but Unsatisfactory Profitability

Profit Margin 1-9 2004*

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[2] before restructuring costs

Profitability Distribution LANXESS**

** Approximate figures based on 1-9 2004 combined financial statements

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Focus on Performance a Must

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POWER

BOOST

POWER

Clear Strategy for Value Generation

BOOST

Step-by-step Approach to Creating Value

	EBITDA Margin Target	Short-term	Mid-term	Long-term
Cost	**9-10%** ↑	**2.** Targeted restructuring	Secures future cash flows by turning around underperforming businesses: reach satisfying performance or prepare for partnering or divestments	
	< 5 %	**1.** Performance improvement	Jump starts the operational performance to immediately generate cash	

Selective organic growth in profitable businesses

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Step-by-step Approach to Creating Value

	EBITDA Margin Target	Short-term	Mid-term	Long-term
Portfolio	> 10%		**4.** Acquisitions	Considered, once performance significantly improved and previous steps implemented
		3. Portfolio adjustments	Creates twofold impact on cash by – Focusing on higher margin businesses – Creating proceeds from divestment	
Cost	9-10%	**2.** Targeted restructuring	Secures future cash flows by turning around underperforming businesses: reach satisfying performance or prepare for partnering or divestments	
	< 5 %	**1.** Performance improvement	Jump starts the operational performance to immediately generate cash	

Selective organic growth in profitable businesses

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Step 1. Performance Improvement Programme Under Way

Continuous cost cutting	Streamlining processes
Organic growth in profitable businesses	Product mix optimization
New price / volume strategy	Customer mix optimization

~ € 25 m from Performance Improvement Programme in 2004 already

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Step 2. Selective Restructuring Started in 2004

Q1 2004

Plant Closure
Marl, Germany,
PB Rubber

Q2 2004

Site Closure
Goch, Germany, Fibers
Production

Q1 2004

Plant Closure
Marl, Germany,
PB Rubber

Q3 2004

Restructuring
USA/Europe, Styrenics

Site Closure
Goch, Germany, Fibers
Production

Q1 2004

Plant Closure
Marl, Germany,
PB Rubber

Q4 2004

Restructuring
Asset Transfer
USA to China and JV
Hydrazine Hydrate

Restructuring
USA/Europe, Styrenics

Site Closure
Goch, [illegible] ers

[illegible] losure
Marl, Germany,
PB Rubber

~ € 25 m annual savings from 2004/05 onwards

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Step 2. Recent Joint Venture in China

Restructuring

Growth in Asia

USA
Asset transfer to China

Hydrazine Hydrate

China
Formation of Joint Venture

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Step 2. Our Situation Demands Targeted Restructuring

Constraints

Cash flow flexibility low

Debt situation tight

Standortsicherungs-vereinbarung III limits headcount reductions

Criteria for Restructuring

Minimum cash out

Short payback time

Achievable

Fast to implement

Targeted Restructuring

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Step 2. Targeted Restructuring Continued in 2005/06

Measures

Asset consolidation
- Site closure
- Plant closure
- Plant transfer

Streamline processes
- Production
- Maintenance
- Services

Personnel cost reduction
- Head count
- Remuneration and benefits
- Working hours

Results

Increased profitability

+

More strategic options for underperforming businesses

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Step 3. Portfolio Adjustment to Further Increase Profitability

Profitability Distribution LANXESS*

Portfolio Strategy

- Focus on highly profitable chemical businesses
- Unprofitable businesses will either meet performance criteria in given time frame or be subject to partnering or divestment

* Approximate figures based on 1-9 2004 combined financial statements

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Step 4. Acquisitions in Due Course

Acquisitions postponed, until …

… Significant performance improvements achieved

… Portfolio adjustments carried out

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Selective Organic Growth

Selective internal growth with moderate CapEx and high returns

In profitable businesses
with attractive growth opportunities

In Asia with lean
asset approach

LANXESS

Selective Organic Growth

Selective internal growth with moderate CapEx and high returns

In profitable businesses
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In Asia with lean
asset approach

Example Debottlenecking Butyl Rubber

Position Butyl Rubber
– LANXESS number two in global Butyl rubber market*
– Leading technology

Market Situation*
– Tight market
– Butyl rubber demand increasing globally
(CAGR 2002-08: 3%)
– Strong growth in Asia
(CAGR 2002-08: 6%)

Expansion of plants in Belgium and Canada

– To 250 kt total capacity (+ 25%)

– € 40 m CapEx 2005/06

* LANXESS estimate based on sales volume

LANXESS

PATH

FINDER

PATH

Disciplined Cash Management

FINDER

Disciplined Cash Management

Cash watched without compromise

- CapEx to be reduced to 4% of sales by 2006
- Working capital to be closely monitored

CapEx reallocation to profitable businesses

Free cash flow

- Primarily used for debt reduction
- Dividends will be considered – depending on profitability improvement

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Significant Improvement in 9M 2004*

Sales

EBITDA**

Net Income

* Combined financial statements ** Excluding exceptionals

LANXESS

INDEPENDENT. SOVEREIGN. AUTONOMOUS.

PERFORMANCE DRIVEN SET-UP.

SIGNIFICANT GLOBAL PLAYER.

CLEAR STRATEGY FOR VALUE GENERATION.

DISCIPLINED CASH MANAGEMENT.

ENERGY

SOURCE

LANXESS Successfully Built

Achievements

Independence	Established a new company in record time
Structure	Accountable corporate architecture
Team	Experienced and entrepreneurial management
Profitability	EBITDA margin improved

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LANXESS' Way into the Future

Strategy

Independence	Free hidden performance potential
Cost	Cut cost to gain competitive edge
Portfolio	Focus on profitable businesses

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Thank you very much.

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