



# LANXESS – Q3 2012 Conference Call

**A demanding quarter for a resilient growth business**

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**LANXESS**  
Energizing Chemistry

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# Agenda


- **Executive overview Q3 2012**
- Business and financial review Q3 2012
- Outlook / Guidance

# Q3 2012 highlights

## Operational

Lower demand mainly from automotive and tire industry; decreasing raw material prices

Planned maintenance, aligned with customers' down times, weighs on Q3 EBITDA

 **Softer demand during summer continues**




## Strategic

- Capital Markets Day 2012; new mid-term goals:
  - EBITDA of ~€1.4bn brought forward to 2014
  - EBITDA of ~€1.8bn in 2018
- Groundbreaking of Nd-PBR plant in Singapore (BU PBR) and EPDM plant in Changzhou, China (BU TRP)
- Acquisition of Bond-Laminates in Brilon, Germany, to strengthen high-tech plastics expertise and opening of compounding plant in Gastonia, US (BU HPM)

 **New goals – Megatrends intact**

All references to EBITDA are pre exceptionals

# Portfolio diversity mitigates temporarily weaker Performance Polymers' markets

Q3 yoy sales variances		Price	Volume	Currency	Portf.	Total
	Perf. Polymers	-12%	-11%	6%	0%	-17%
	Adv. Intermediates	4%	2%	4%	0%	9%
	Perf. Chemicals	-2%	0%	5%	2%	6%
<b>LANXESS</b>		<b>-7%</b>	<b>-6%</b>	<b>5%</b>	<b>1%</b>	<b>-8%</b>

- Prices and volumes decline as raw material prices decrease and demand softens -particularly in Performance Polymers
- Positive effects from currency and portfolio

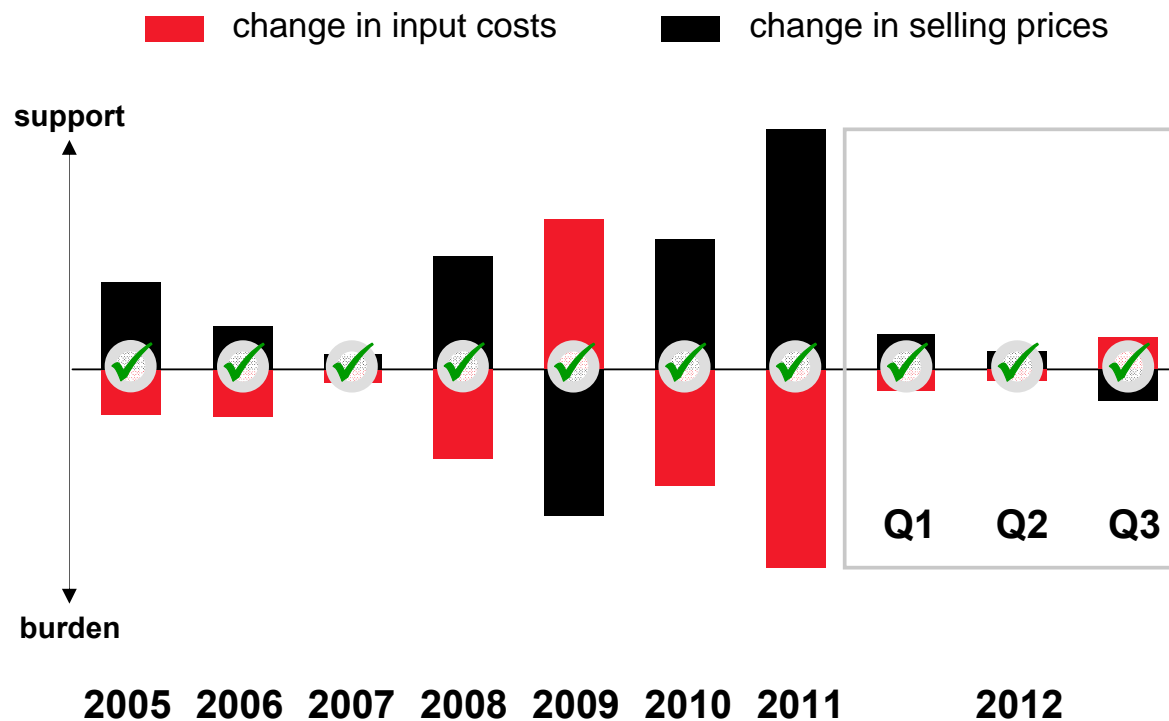
## Q3 yoy EBITDA pre bridge [€ m]



- Prices decline in line with relief from raw material costs (energy prices rose)
- “Others” contains mainly currency effects mitigated by volume-related idle costs and higher maintenance activities

# Q3 2012: “Price-before-volume” in a demanding environment

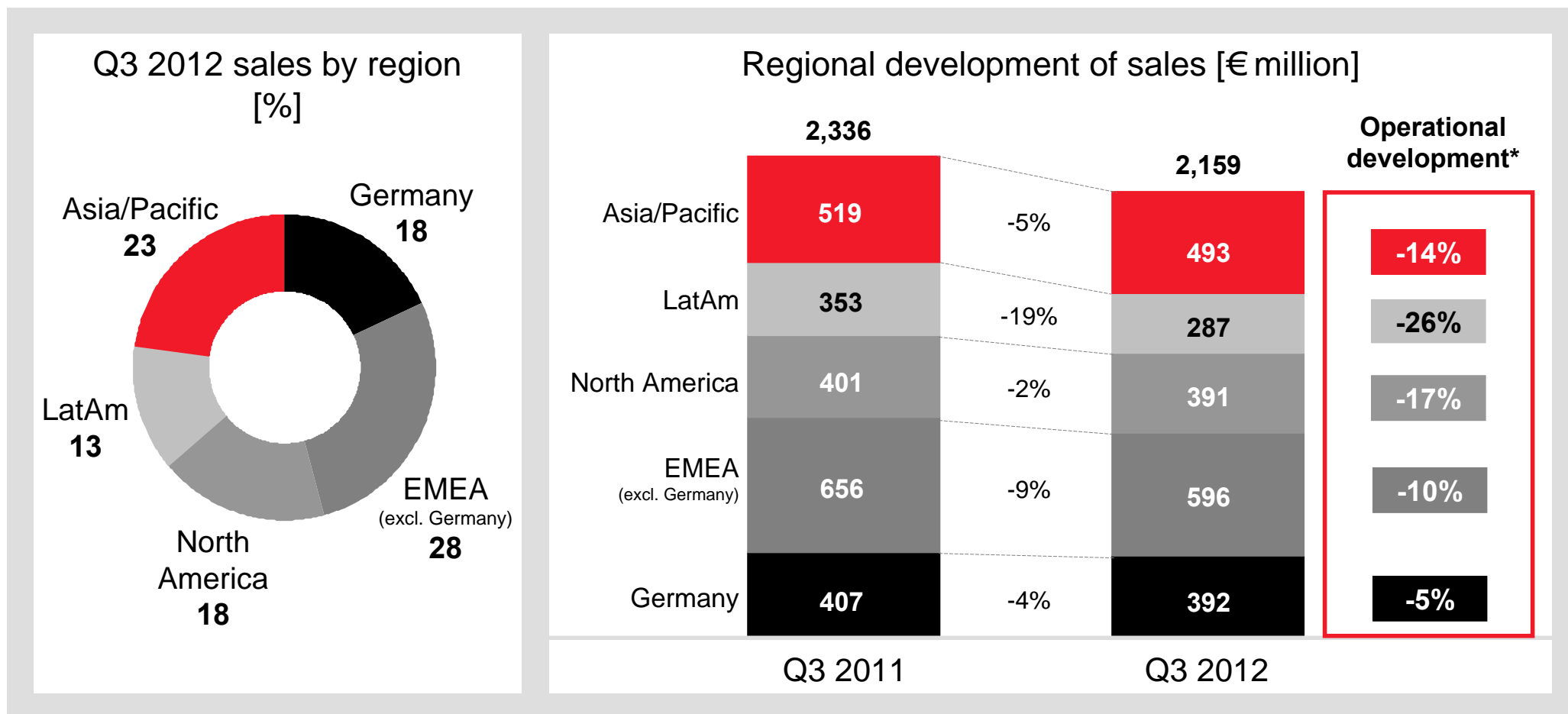
## Raw material effects sustainably balanced



## Effective pricing management

- More than seven years track record of managing volatile input costs
- Premium high-tech products
- Price-before-volume strategy
- After substantial raw material price increases at the beginning of 2012, Q3 with reversed price development
- Determined to manage changes in input costs in the future

# Sales decline in all regions on lower raw material prices and softer demand



\* Currency and portfolio adjusted

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## Q3 2012 financial overview: Weaker quarter in line with expectations

[€ m]	Q3 2011	Q3 2012	yoy in %
Sales	2,336	2,159	-7.6%
EBITDA pre except.	311	255	-18.0%
margin	13.3%	11.8%	
EPS	1.85	1.13	-39.0%
Capex*	148	152	2.7%
[€ m]	30.06.2012	30.09.2012	% vs. H1
Net financial debt	1,738	1,606	-7.6%
Net working capital	2,203	2,094	-4.9%
Employees	16,881	17,078	1.2%

- Sales decrease on pricing and volumes, partly mitigated by positive currency and portfolio
- EBITDA and margin burdened by idle costs from lower volumes and maintenance
- EPS decrease reflects softer Q3 business environment, higher D&A and weaker financial result
- Net debt sequentially lower mainly due to reduced working capital

**Q3 result reflects summer weakness**

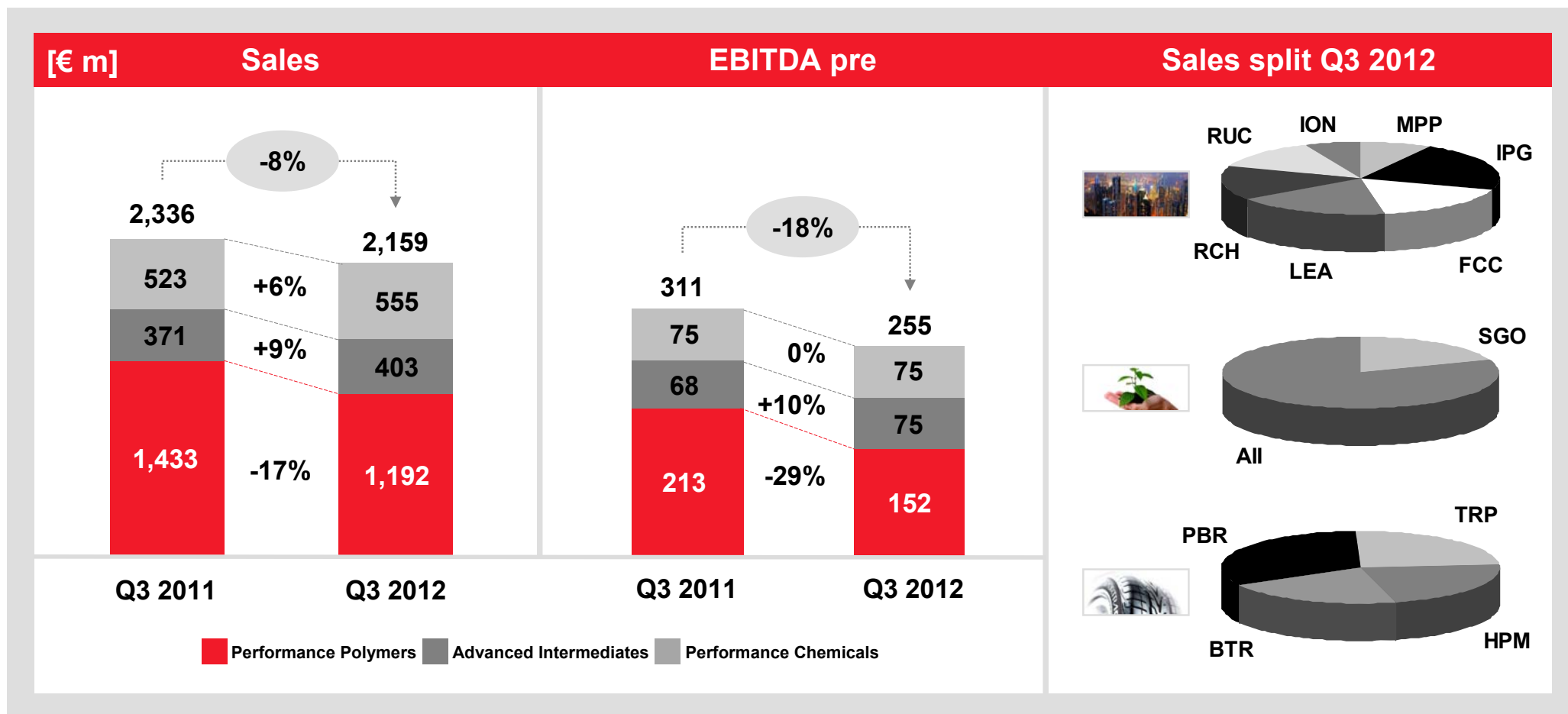
\* Net of capitalized borrowing costs and finance lease

## Substantial summer weakness weighs on results

[€ m]	Q3 2011	Q3 2012	yoy in %	
Sales	2,336 (100%)	2,159 (100%)	-8%	<ul style="list-style-type: none"> <li>▪ Sales decrease due to pricing (-7%) and lower volumes (-6%), partly offset by currency (+5%) and portfolio effects (+1%)</li> <li>▪ COGS increase in relation to sales due to idle costs and maintenance expenses</li> <li>▪ R&amp;D expenses reflect focus on technology and innovation</li> <li>▪ Decrease in EBITDA reflects lower demand of customer industries</li> </ul>
Cost of sales	-1,805 (77%)	-1,698 (79%)	-6%	
Selling	-183 (8%)	-183 (8%)	0%	
G&A	-77 (3%)	-80 (4%)	4%	
R&D	-40 (2%)	-49 (2%)	23%	
<b>EBIT</b>	<b>223 (10%)</b>	<b>156 (7%)</b>	<b>-30%</b>	
<b>Net Income</b>	<b>154 (7%)</b>	<b>94 (4%)</b>	<b>-39%</b>	
<b>EPS</b>	<b>1.85</b>	<b>1.13</b>	<b>-39%</b>	
EBITDA	306 (13%)	251 (12%)	-18%	
thereof exceptionals	-5 (0%)	-4 (0%)	-20%	
<b>EBITDA pre exceptionals</b>	<b>311 (13.3%)</b>	<b>255 (11.8%)</b>	<b>-18%</b>	

**Weaker performance mirrors softer demand**

# Q3 2012: Agro business only partly offsets tire and auto related demand softness



Total group sales and EBITDA pre figures include reconciliation

# Performance Polymers: Solid year-to-date growth despite weaker Q3

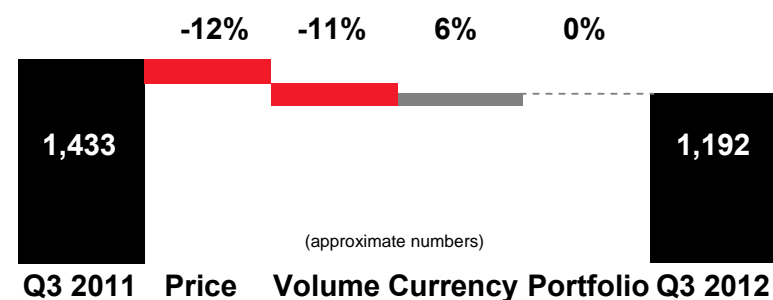
[€ m]	Q3 2011	Q3 2012	Δ
Sales	1,433	1,192	-16.8%
EBIT	166	98	-41.0%
Depr. / Amort.	45	53	17.8%
<b>EBITDA pre exceptionals</b>	<b>213</b>	<b>152</b>	<b>-28.6%</b>
Margin	14.9%	12.8%	
Capex*	88	93	5.7%

## Q3 comments

- Selling prices decrease in line with lower input costs
- BU BTR with lower volumes mainly in Asia
- BU PBR resilient HP rubbers, lower volumes in ESBR (LATAM)
- BU TRP weaker due to slow down in automotive industry
- BU HPM with European demand weakness while Asia and US mitigate; one-offs burden additionally
- Maintenance expenses and idle costs in all BUs additionally burden earnings and margin

9M 2011	9M 2012	Δ
3,798	4,010	5.6%
522	510	-2.3%
117	151	29.1%
<b>641</b>	<b>664</b>	<b>3.6%</b>
16.9%	16.6%	
200	241	20.5%

## Q3 sales bridge yoy [€ m]



\* Net of capitalized borrowing costs

# Advanced Intermediates: Solid agro-driven growth

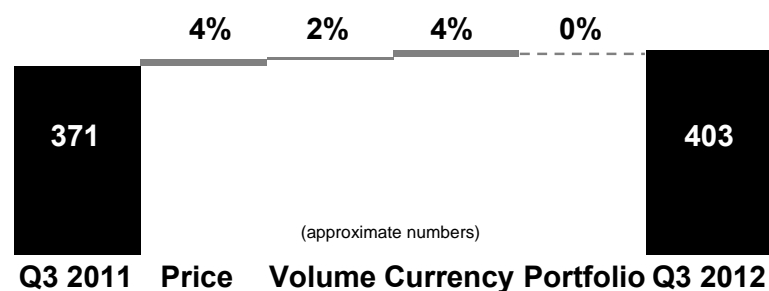
[€ m]	Q3 2011	Q3 2012	Δ
Sales	371	403	8.6%
EBIT	52	58	11.5%
Depr. / Amort.	16	17	6.3%
<b>EBITDA pre exceptionals</b>	<b>68</b>	<b>75</b>	<b>10.3%</b>
Margin	18.3%	18.6%	
Capex*	26	22	-15.4%

## Q3 comments

- Pricing offsets raw material price increases (benzene, toluene)
- Positive volumes and FX add to strong performance
- BUs All and SGO with improved product mix due to good contribution from a strong and resilient agro business
- BU All with higher volumes in flavour & fragrances helps offset lower volumes in construction
- Consistent performance underlines resilience

9M 2011	9M 2012	Δ
1,182	1,231	4.1%
158	174	10.1%
50	50	0.0%
<b>208</b>	<b>224</b>	<b>7.7%</b>
17.6%	18.2%	
59	54	-8.5%

## Q3 sales bridge yoy [€ m]



\* Net of capitalized borrowing costs and finance leases

# Performance Chemicals: Solid performance in a demanding environment

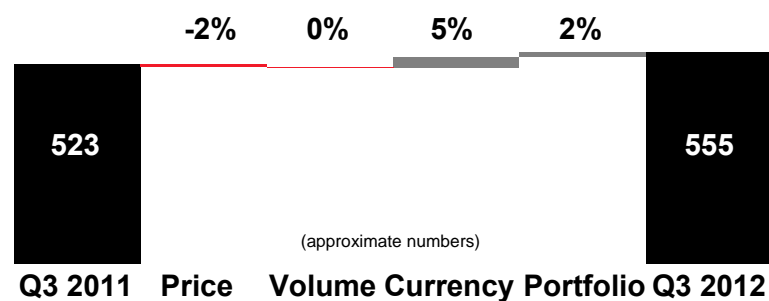
[€ m]	Q3 2011	Q3 2012	Δ
Sales	523	555	6.1%
EBIT	55	54	-1.8%
Depr. / Amort.	20	21	5.0%
<b>EBITDA pre exceptionals</b>	<b>75</b>	<b>75</b>	<b>0.0%</b>
Margin	14.3%	13.5%	
Capex*	31	29	-6.5%

## Q3 comments

- A stable quarter with support from currency and portfolio
- BU IPG with good pricing and slightly higher volumes; construction in Asia positive, while Europe still weak
- BU LEA burdened by CO<sub>2</sub> supply instability, additionally decreasing chrome prices weigh on EBITDA
- BUs RUC and RCH with negative volumes due to pronounced summer weakness and customers destocking
- BU MPP with good pricing but lower volumes

9M 2011	9M 2012	Δ
1,640	1,698	3.5%
203	156	-23.2%
57	65	14.0%
<b>260</b>	<b>236</b>	<b>-9.2%</b>
15.9%	13.9%	
59	61	3.4%

## Q3 sales bridge yoy [€ m]



\* Net of capitalized borrowing costs

# Solid balance sheet

[€ m]	Dec '11	Jun '12	Sep '12		Dec '11	Jun '12	Sep '12
<b>Non-current assets</b>	<b>3,489</b>	<b>3,529</b>	<b>3,599</b>	<b>Stockholders' equity</b>	<b>2,074</b>	<b>2,259</b>	<b>2,313</b>
Intangible assets	373	358	393	<b>Non-current liabilities</b>	<b>2,715</b>	<b>3,071</b>	<b>3,107</b>
Property, plant & equipment	2,679	2,752	2,808	Pension & post empl. provis.	679	799	879
Equity investments	12	16	13	Other provisions	331	309	301
Other investments	19	25	19	Other financial liabilities	1,465	1,729	1,704
Other financial assets	82	9	9	Tax liabilities	63	55	50
Deferred taxes	196	241	233	Other liabilities	102	100	90
Other non-current assets	128	128	124	Deferred taxes	75	79	83
<b>Current assets</b>	<b>3,389</b>	<b>3,487</b>	<b>3,366</b>	<b>Current liabilities</b>	<b>2,089</b>	<b>1,686</b>	<b>1,545</b>
Inventories	1,386	1,588	1,601	Other provisions	446	429	434
Trade accounts receivable	1,146	1,330	1,147	Other financial liabilities	633	267	236
Other financial & current assets	329	335	316	Trade accounts payable	766	715	654
Near cash assets	350	0	0	Tax liabilities	49	61	47
Cash and cash equivalents	178	234	302	Other liabilities	195	214	174
<b>Total assets</b>	<b>6,878</b>	<b>7,016</b>	<b>6,965</b>	<b>Total equity &amp; liabilities</b>	<b>6,878</b>	<b>7,016</b>	<b>6,965</b>

- Net debt/EBITDA unchanged at ~1.4x
- Provisions for pensions again increased due to changes in discount rates (mainly in Germany)

## Q3 2012: Good cash flow on the basis of reduced working capital

[€ m]	Q3 2011	Q3 2012	
<b>Profit before tax</b>	<b>200</b>	<b>122</b>	<ul style="list-style-type: none"> <li>▪ Profit before tax down due to weaker business environment in Q3 2012</li> <li>▪ Cash tax payments increase on differing timing patterns in both periods</li> <li>▪ Cash inflow from changes in working capital due to lower receivables</li> <li>▪ Financing cash flow mirrors repayment of short term financial liabilities</li> </ul>
Depreciation & amortization	83	95	
Gain from sale of assets	0	0	
Result from equity investments	-7	3	
Financial (gains) losses	22	23	
Cash tax payments / refunds	-28	-41	
Changes in other assets and liabilities	45	47	
<b>Operating cash flow before changes in WC &amp; CTA</b>	<b>315</b>	<b>249</b>	
Changes in working capital	-152	95	
<b>Operating cash flow</b>	<b>163</b>	<b>344</b>	
<b>Investing cash flow</b>	<b>-189</b>	<b>-185</b>	
thereof capex <sup>1</sup>	-148	-152	
<b>Financing cash flow</b>	<b>-24</b>	<b>-91</b>	

<sup>1</sup> Net of capitalized borrowing cost and finance lease



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- Executive overview Q3 2012
- Business and financial review Q3 2012
- **Outlook / Guidance**

# LANXESS actively manages demand fluctuations

## Current macro view

- Pronounced demand weakness during summer to continue through Q4
- No further worsening of economic environment expected
- Visibility remains low based on volatile and short-term order patterns
- Various customer industries with reduced demand; Megatrends remain intact
- Raw material prices expected to remain volatile mid-term

## LANXESS takes action

- Countermeasures active to mitigate current weaker demand
- Flexible asset management as self-help
- Strict adherence to “price-before-volume” strategy key for the future
- Based on our macro view, we confirm EBITDA pre for FY 2012 at the lower end of 5 -10% growth



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# Appendix

# Housekeeping items for consideration

## Additional financial expectations

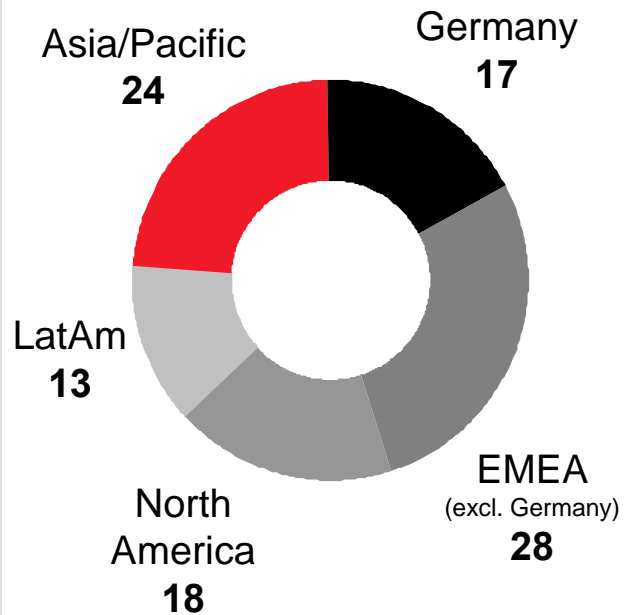
- Capex 2012: ~€650 - €700 m
- D&A 2012: ~€350 - €370m
- Annual tax rate:
  - mid-term: ~22%
  - short-term: depending on regional profit contribution and respective tax regimes – tax rate may increase
- Hedging 2012: ~50% at 1.25 -1.35 USD / EUR
- Hedging 2013: ~30% at 1.25 -1.35 USD / EUR
- Preparation costs Singapore\*
  - ~€10 m in Q4 2012
  - ~€20 m in Q1 2013
- IAS 19 revised 2013
  - operational result: negligible amount
  - financial result: higher single-digit million € amount, depending on further development of interest rates in 2012



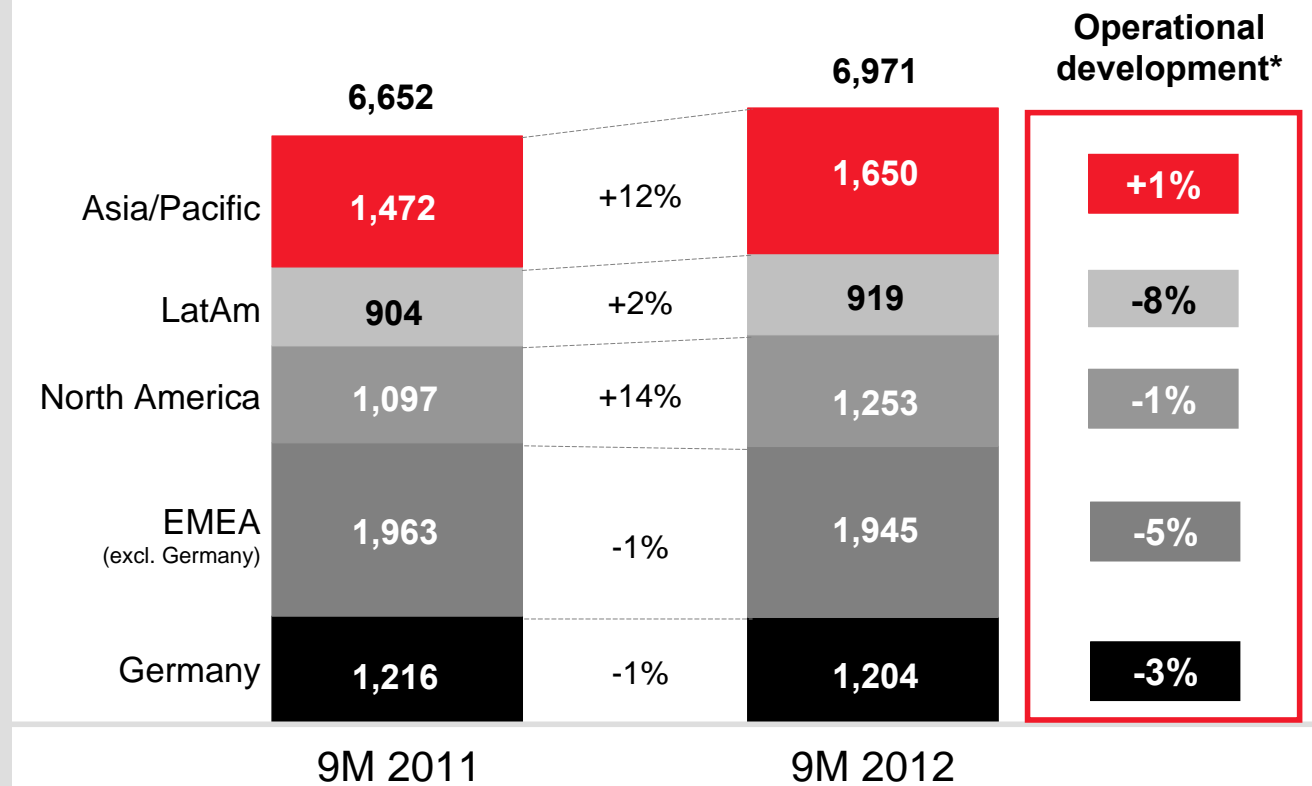
\* Included in FY EBITDA pre guidance; start-up of BTR Singapore plant unchanged

# 9M 2012: Region Asia/Pacific as important pillar

9M 2012 sales by region [%]






Regional development of sales [€ million]



\* Currency and portfolio adjusted

# Solid performance in weaker business environment

9M yoy sales variances		Price	Volume	Currency	Portf.	Total
	Perf. Polymers	2%	-6%	6%	5%	6%
	Adv. Intermediates	3%	-1%	3%	0%	4%
	Perf. Chemicals	1%	-4%	4%	3%	4%
<b>LANXESS</b>		<b>2%</b>	<b>-5%</b>	<b>5%</b>	<b>3%</b>	<b>5%</b>

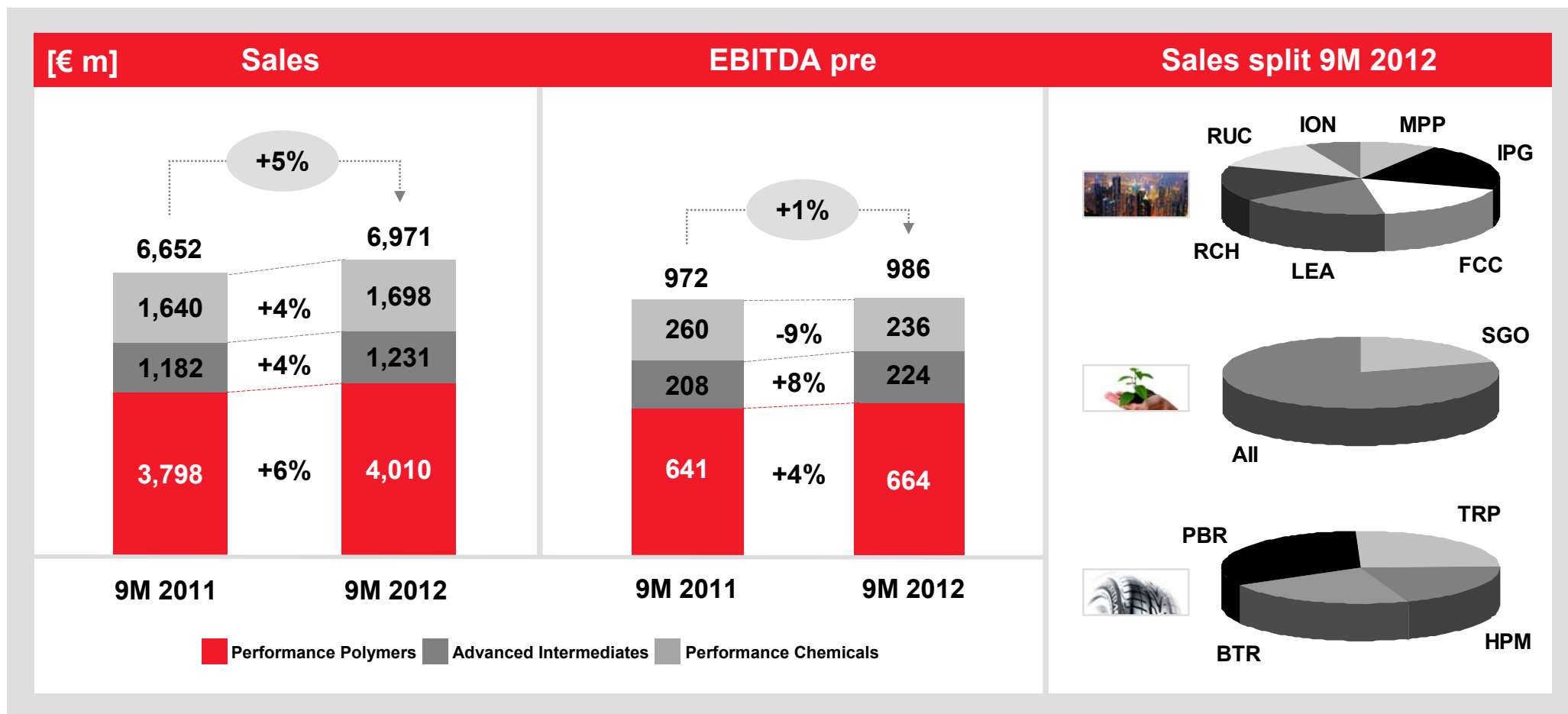
- Sales increase on pricing and portfolio, while negative volumes are mitigated by positive currency effects

## 9M yoy EBITDA pre bridge [€ m]



- “Price-before-volume” strategy continued
- Favorable product mix
- “Others” contains portfolio and currency effects mitigated by volume-related idle costs

# 9M 2012: Segment performance overview



Total group sales and EBITDA pre figures include reconciliation



## Good performance despite weaker Q3

[€ m]	9M 2011		9M 2012		yoy in %	
Sales	6,652	(100%)	6,971	(100%)	5%	<ul style="list-style-type: none"> <li>▪ Sales increase due to pricing (+2%), currency (+5%) and portfolio effects (+3%), while lower volumes mitigate (-5%)</li> <li>▪ Inventory devaluation of ~€15 m digested (raw material driven)</li> <li>▪ Planned increase in R&amp;D reflects innovation efforts</li> <li>▪ Net earnings burdened by higher exceptionals and lower financial result</li> </ul>
Cost of sales	-5,060	(76%)	-5,327	(76%)	5%	
Selling	-540	(8%)	-564	(8%)	4%	
G&A	-221	(3%)	-236	(3%)	7%	
R&D	-105	(2%)	-147	(2%)	40%	
<b>EBIT</b>	<b>724</b>	<b>(11%)</b>	<b>684</b>	<b>(10%)</b>	<b>-6%</b>	
<b>Net Income</b>	<b>501</b>	<b>(8%)</b>	<b>463</b>	<b>(7%)</b>	<b>-8%</b>	
<b>EPS</b>	<b>6.02</b>		<b>5.56</b>		<b>-8%</b>	
EBITDA	957	(14%)	960	(14%)	0%	
thereof exceptionals	-15	(0%)	-26	(0%)	73%	
<b>EBITDA pre exceptionals</b>	<b>972</b>	<b>(14.6%)</b>	<b>986</b>	<b>(14.1%)</b>	<b>1%</b>	

**Stable margins in a volatile environment**

# Strong operating cash flow

[€ m]	9M 2011	9M 2012	
<b>Profit before tax</b>	<b>651</b>	<b>599</b>	
Depreciation & amortization	233	276	
Gain from sale of assets	-2	-1	
Result from equity investments	-19	-3	
Financial (gains) losses	65	71	
Cash tax payments / refunds	-34	-90	
Changes in other assets and liabilities	35	-89	
<b>Operating cash flow before changes in WC &amp; CTA</b>	<b>929</b>	<b>763</b>	
Changes in working capital	-518	-339	
<b>Operating cash flow</b>	<b>411</b>	<b>424</b>	
<b>Investing cash flow</b>	<b>-540</b>	<b>17</b>	
thereof capex <sup>1</sup>	-325	-381	
<b>Financing cash flow</b>	<b>210</b>	<b>-316</b>	

- Larger asset base drives D&A
- Tax payments in 2011 includes usage of loss carried forward
- Change in other assets and liabilities contains among others cash outs related to hedging
- Lower cash outflow from working capital vs 2011
- Investing cash flow mirrors inflow from financial assets
- Financing cash flow reflects repayment of maturing bond and issuance of new bonds<sup>2</sup>

<sup>1</sup> Net of capitalized borrowing cost and finance lease

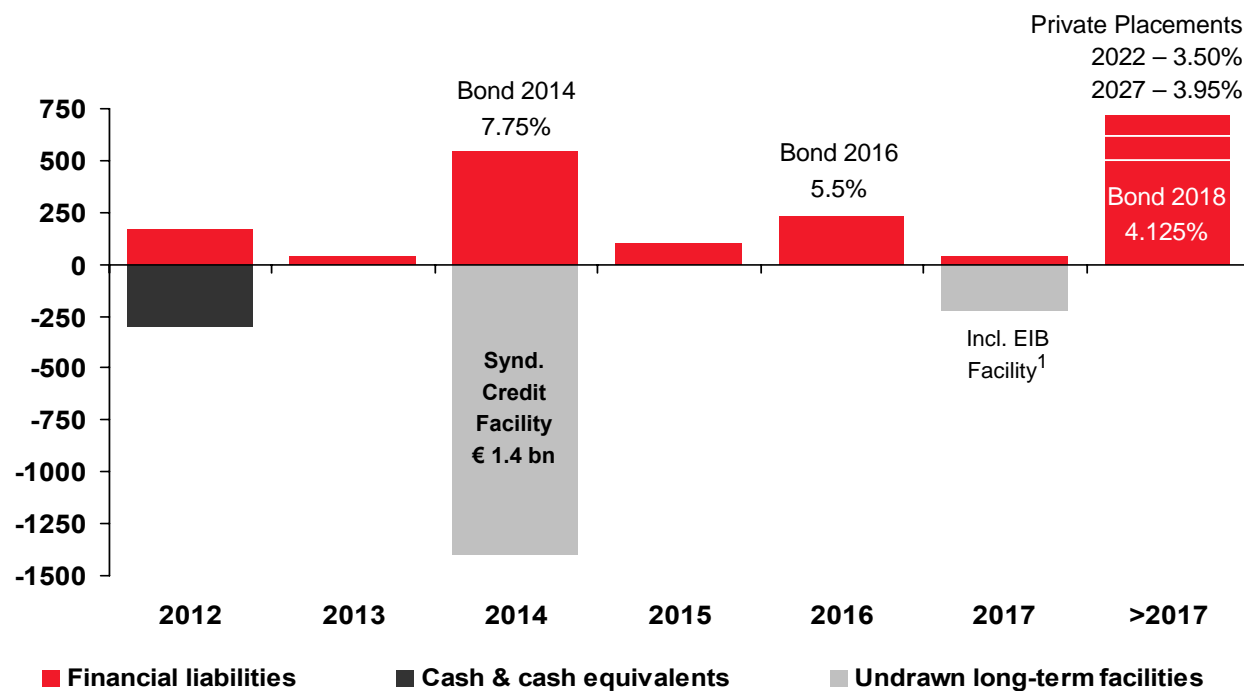
<sup>2</sup> Including CNH bond of ~€60 m and private placements of €200m

# A well managed and conservative maturity profile

## Long term financing secured

- Well balanced maturity profile
- Diversified financing sources
  - Bonds
  - Private placements
  - Syndicated credit facility
  - Development banks
  - Bilateral bank facilities
- €1.4 bn RCF and €200 m credit facility with EIB<sup>1</sup> undrawn

## Liquidity and maturity profile as per September 2012



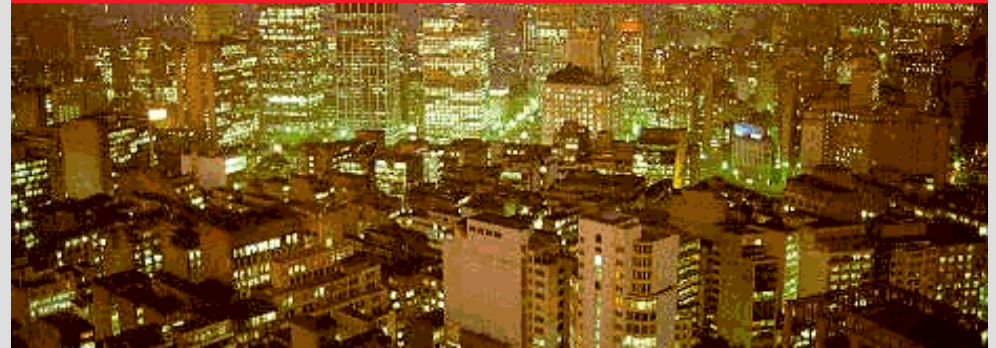
<sup>1</sup> European Investment Bank; final maturity of EIB financing in case of utilization in 2017 or later; EIB facility currently undrawn

# Premium products and technologies for global megatrends

**Mobility**



**Urbanization**



**Agriculture**



**Water**



# High volatility among raw materials

Global raw materials index\*



- Raw material prices have increased since start of 2009
- Feedstock prices (mainly Butadiene and Cyclohexane) rose in 2011 despite a sharp decline in H2 2011
- Since the start of 2012, raw material prices (mainly butadiene) increased again; reversing in Q2 2012
- Q4 2012 raw material prices expected at similar level

**LANXESS committed to  
“price-before-volume”  
strategy**

\* Source: LANXESS, average 2008 = 100%

## Overview exceptional items Q3 2011 and Q3 2012

[€ m]	Q3 2011		Q3 2012	
	Exceptional	thereof D&A	Exceptional	thereof D&A
Performance Polymers	2	0	1	0
Advanced Intermediates	0	0	0	0
Performance Chemicals	0	0	0	0
Reconciliation	3	0	3	0
<b>Total</b>	<b>5</b>	<b>0</b>	<b>4</b>	<b>0</b>

# Abbreviations

## Performance Polymers

- BTR Butyl Rubber
- PBR Performance Butadiene Rubbers
- TRP Technical Rubber Products
- HPM\* High Performance Materials

## Performance Chemicals

- MPP Material Protection Products
- IPG Inorganic Pigments
- FCC Functional Chemicals
- LEA Leather
- RCH Rhein Chemie
- RUC Rubber Chemicals
- ION Ion Exchange Resins

## Advanced Intermediates

- All Advanced Industrial Intermediates
- SGO Saltigo

\* Formerly SCP (Semi-Crystalline Products)

# Upcoming events

## 2012 / 2013

▪ Morgan Stanley Asia Pacific Conference	November 8	Singapore
▪ DZ Bank Equity Conference	November 12	Frankfurt
▪ UBS European Conference	November 13/14	London
▪ Cheuvreux One-stop-shops 2012	November 16	Amsterdam
▪ BZWBK Chemists Day Conference	November 20	Warsaw
▪ BofA Merrill Lynch European Chemicals Conference	November 27/28	London
▪ HSBC Zürich-Konferenz	November 27	Zurich
▪ Oddo Midcap Forum 2013	January 10/11	Lyon
▪ Commerzbank German Investment Seminar	January 15/16	New York
▪ Cheuvreux German Corporate Conference	January 21/22	Frankfurt
▪ <b>FY results 2012</b>	<b>March 21</b>	
▪ Nomura Global Chemistry Industry Leaders	March 22	Venice
▪ <b>Q1 results 2013</b>	<b>May 8</b>	
▪ <b>AGM 2013</b>	<b>May 23</b>	<b>Cologne</b>
▪ Goldman Sachs European Chemicals 2020	June 18/19	London
▪ <b>Q2 results 2013</b>	<b>August 6</b>	
▪ <b>Q3 results 2013</b>	<b>November 12</b>	



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