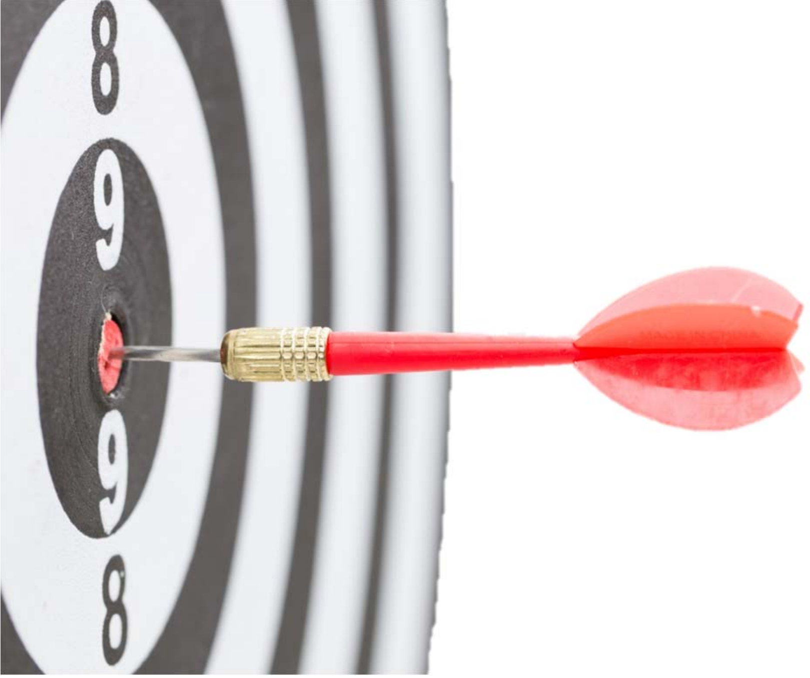


# LANXESS – Roadshow FY 2017

## Solid ending to a strong year

Matthias Zachert, CEO

Energizing Chemistry

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# Agenda

- **Executive summary FY 2017 and Q4 2017**
- Business and financial details Q4 2017
- Back-up



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# FY 2017: LANXESS delivers

## Strategic progress

- Chemtura: Closing of largest acquisition in LXS' history; operational integration completed, synergies on track
- "Improvement" phase started (Chapter 2)
  - Brownfield investments and debottleneckings initiated
  - Ongoing restructuring measures
  - Active portfolio management

**Substantial strategic transformation**

## Financial highlights

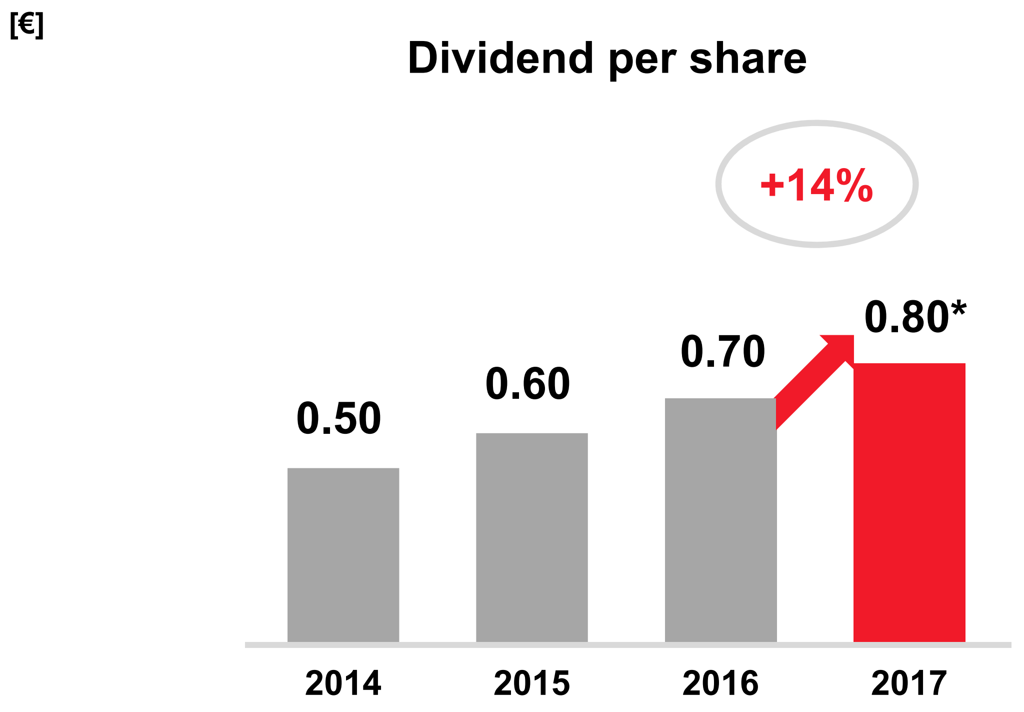
- EBITDA pre: 30% increase to €1,290 m
- EBITDA pre margin: increase to 13.3% (+0.4 percentage points)
- EPS pre*: increase of 54% to €4.14
- Net financial debt: increase to €2,252 m due to Chemtura acquisition; deleveraging ahead of plan

**Record financials despite agro/rubber trough**

* Net of exceptionals and amortization of intangible assets as well as attributable tax effects as well as non-recurring earnings effects of the U.S. tax reform

# Shareholders participate in successful transformation

## A reliable income stream for investors




## Dividend policy

**LANXESS aims for a rising or at least stable dividend**

* To be proposed to the Annual General Meeting on May 15, 2018

# Q4 2017 highlights: A solid finish of a successful year – robust start to 2018

**Strong business performance**

- + Strong volume growth of 6% despite high base
- + Substantial EBITDA pre improvement of 36%
- + Synergies from Chemtura acquisition on track
- – Weak agro market conditions in BU Saltigo
- – One-time tax expense caused by U.S. tax reform

# Q4 2017 financial overview: Operational strength and progressing integration of Chemtura drive results

| [€ m] | Q4 2016 | Q4 2017 | yoy in % |
|---|---|---|---|
| **Sales** | **1,915** | **2,337** | **22%** |
| **EBITDA pre** | **183** | **248** | **36%** |
| margin | 9.6% | 10.6% | |
| EPS | 0.02 | -0.54 | n.m. |
| EPS pre* | 0.24 | 0.44 | 83% |
| Capex | 211 | 260 | 23% |
| **[€ m]** | **31.12.2016** | **31.12.2017** | **Δ %** |
| Net financial debt** | 269 | 2,252 | >100% |
| Net working capital | 1,628 | 1,948 | 20% |
| ROCE*** | 6.9% | 9.3% | |

- Substantial sales increase driven by acquisition and strong volume growth
- EBITDA pre and margin increase driven by higher volumes, Chemtura acquisition and synergies
- EPS burdened by one-time effect from U.S. tax reform
- Net working capital and net financial debt increase vs PY due to Chemtura acquisition in Q2, but deleveraging ahead of plan

* Net of exceptionals and amortization of intangible assets as well as attributable tax effects as well as non-recurring earnings effects of the U.S. tax reform
** After deduction of current financial assets in 2016
*** 2017 incl. Chemtura EBIT pre since Closing on 21. April 2017



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# Q4 2017 segment performance (1): Positive volume development in all segments, partly offset by currency

## Advanced Intermediates

| Price | Volume | FX | Portfolio |
|---|---|---|---|
| +7% | +5% | -3% | +9% |
| | | Total | **+17%** |

- Solid volume development in BU AII
- Ongoing weak demand from agro customers
- Organometallics with dilutive effect and multiple unplanned outages weigh on EBITDA pre and margin
- Negative FX impact on sales and EBITDA pre

| [€ m] | Q4'16 | Q4'17 |
|---|---|---|
| Sales | 401 | 468 |
| EBITDA pre | 66 | 60 |
| Margin | 16% | 13% |

## Specialty Additives

| Price | Volume | FX | Portfolio |
|---|---|---|---|
| -1% | +12% | -5% | +124% |
| | | Total | **+130%** |

- Earnings increase driven by acquired additives business
- Strong volumes in both BUs
- Margin improvement driven by BU ADD despite only partial pass-through of higher raws in lubricants
- Sales and EBITDA pre burdened by negative FX effects

| [€ m] | Q4'16 | Q4'17 |
|---|---|---|
| Sales | 194 | 447 |
| EBITDA pre | 29 | 71 |
| Margin | 15% | 16% |

## Performance Chemicals

| Price | Volume | FX | Portfolio |
|---|---|---|---|
| +2% | +7% | -5% | -2% |
| | | Total | **+2%** |

- Volume increase in all BUs; strongest growth in BUs MPP and LPT
- Divestiture of chlorine dioxide business shown in portfolio effect
- EBITDA pre and margin driven by strong volume and higher utilization, partly offset by currency effects

| [€ m] | Q4'16 | Q4'17 |
|---|---|---|
| Sales | 331 | 339 |
| EBITDA pre | 42 | 48 |
| Margin | 13% | 14% |



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# Q4 2017 segment performance (2): Ongoing strong demand in Engineering Materials – ARLANXEO impacted by currency

## Engineering Materials

| Price | Volume | FX | Portfolio |
|---|---|---|---|
| +10% | +5% | -3% | +23% |
| | | Total | **+35%** |

- Good volume growth; price adjust-ments due to higher raw materials
- Portfolio effect driven by acquired urethanes business
- Burden on BU URE due to MDI / TDI shortage
- EBITDA margin burdened by major capro turnaround in Antwerp (BU HPM) and weak U.S. dollar

| [€ m] | Q4'16 | Q4'17 |
|---|---|---|
| Sales | 251 | 339 |
| EBITDA pre | 34 | 35 |
| Margin | 14% | 10% |

## ARLANXEO

| Price | Volume | FX | Portfolio |
|---|---|---|---|
| +3% | +4% | -7% | - |
| | | Total | **+1%** |

- Successful management of raw material cost pass-through and higher volumes in BU TSR
- Pressure on EPDM margins (BU HPE) remains
- Stable earnings despite weak U.S dollar

| [€ m] | Q4'16 | Q4'17 |
|---|---|---|
| Sales | 725 | 730 |
| EBITDA pre | 74 | 73 |
| Margin | 10% | 10% |



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# Ongoing positive macro trends expected, however with intense U.S. dollar headwind

**Macro economic trends 2018**

- North America with continued growth
- Europe further improving
- Asia continues solid growth momentum
- Growth in Latin America expected to improve

**LANXESS FY 2018**

- ARLANXEO to be shown as discontinued operations
- New LANXESS EBITDA pre FY 2018 expected slightly above previous year (~€925 m), including substantial FX burden around current EUR / USD levels

**LANXESS Q1 2018**

- First Q1 contribution of Chemtura
- Good start in Q1



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# Agenda

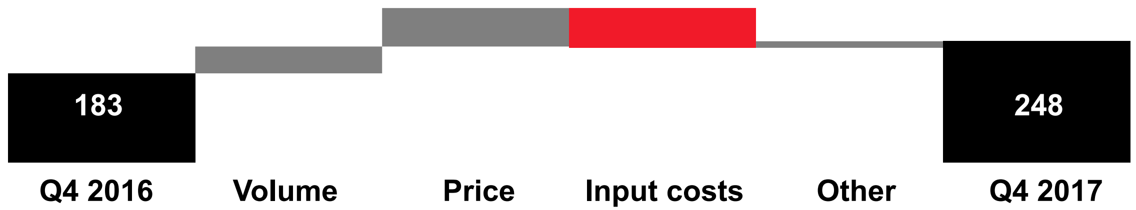
- Executive summary FY 2017 and Q4 2017
- **Business and financial details Q4 2017**
- Back-up

# Q4 2017: Strong volume growth on top of portfolio effect

| Q4 yoy sales variances | Price | Volume | FX | Portfolio | Total |
|---|---|---|---|---|---|
| Advanced Intermediates | +7% | +5% | -3% | +9% | +17% |
| Specialty Additives | -1% | +12% | -5% | +124% | +130% |
| Performance Chemicals | +2% | +7% | -5% | -2% | +2% |
| Engineering Materials | +10% | +5% | -3% | +23% | +35% |
| ARLANXEO | +3% | +4% | -7% | +0% | +1% |
| LANXESS | +4% | +6% | -5% | +17% | +22% |

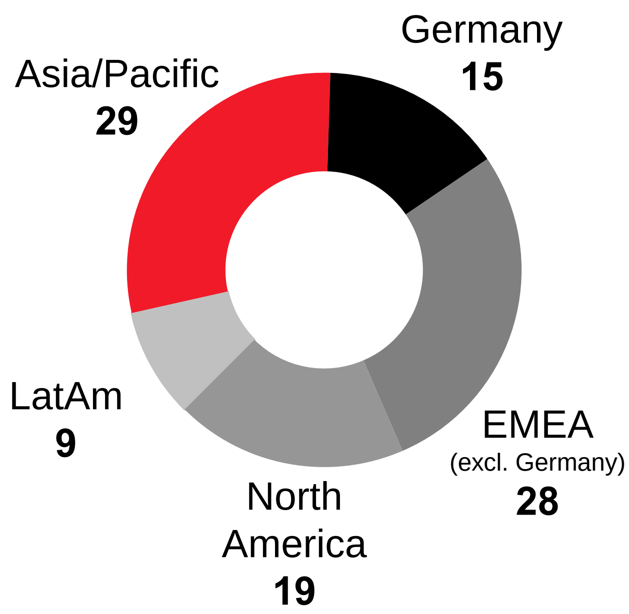
- Sales rise in all segments:
  - Chemtura acquisition
  - Continued volume increases
  - Raw material-driven price increases
- Euro strength negatively impacts all segments

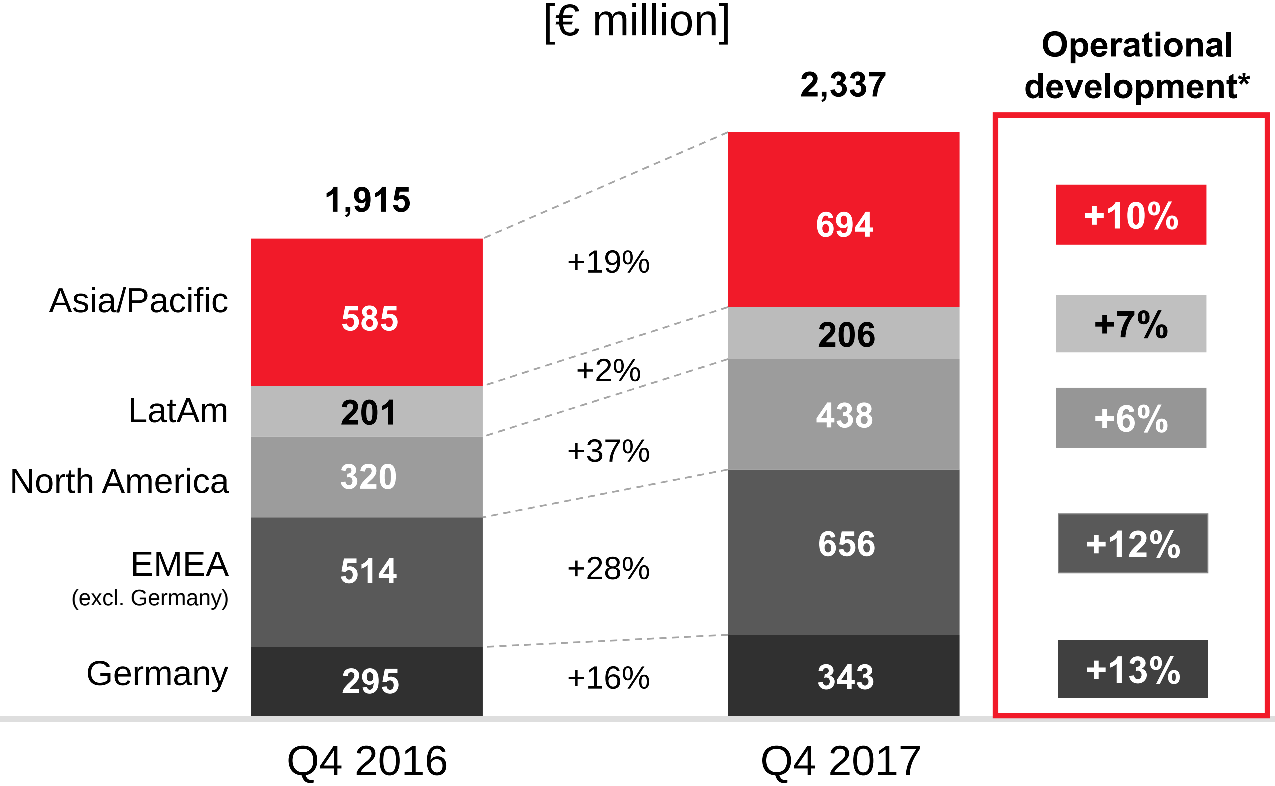
## Q4 yoy EBITDA pre bridge [€ m]




- Higher volumes drive EBITDA pre increase
- Successful price pass-through of higher input costs
- “Other” includes the portfolio effect mitigated by negative FX

# Q4 2017: All regions with strong operational development plus portfolio effect especially in North America and EMEA




* Currency and portfolio adjusted

# Q4 2017: Improved earnings due to Chemtura acquisition and successful price pass-through

| [€ m] | Q4 2016 | | Q4 2017 | | yoy in % |
|---|---|---|---|---|---|
| Sales | 1,915 | (100%) | 2,337 | (100%) | 22% |
| Cost of sales | -1,545 | (-81%) | -1,855 | (-79%) | -20% |
| Selling | -204 | (-11%) | -256 | (-11%) | -25% |
| G&A | -91 | (-5%) | -123 | (-5%) | -35% |
| R&D | -35 | (-2%) | -33 | (-1%) | 6% |
| **EBIT** | **35** | **(2%)** | **49** | **(2%)** | **40%** |
| Non-controlling interests | -3 | (0%) | 0 | (0%) | -100% |
| **Net Income** | **2** | **(0%)** | **-49** | **(-2%)** | **n.m.** |
| **EPS pre*** | **0.24** | | **0.44** | | **83%** |
| EBITDA | 162 | (8%) | 214 | (9%) | 32% |
| thereof exceptionals | -21 | (-1%) | -34 | (-1%) | 62% |
| **EBITDA pre exceptionals** | **183** | **(9.6%)** | **248** | **(10.6%)** | **36%** |

- Sales benefit from joint price and volume increase
- Cost of sales increase disproportionately less than sales due to portfolio effect and higher utilization
- SG&A stable relative to sales, absolute increase due to portfolio effect
- Net income impacted by one-time effect from U.S. tax reform
- Exceptionals mainly driven by restructuring as well as Chemtura integration

**A further good quarter with improved profitability**

* Net of exceptionals and amortization of intangible assets as well as attributable tax effects as well as non-recurring earnings effects of the U.S. tax reform



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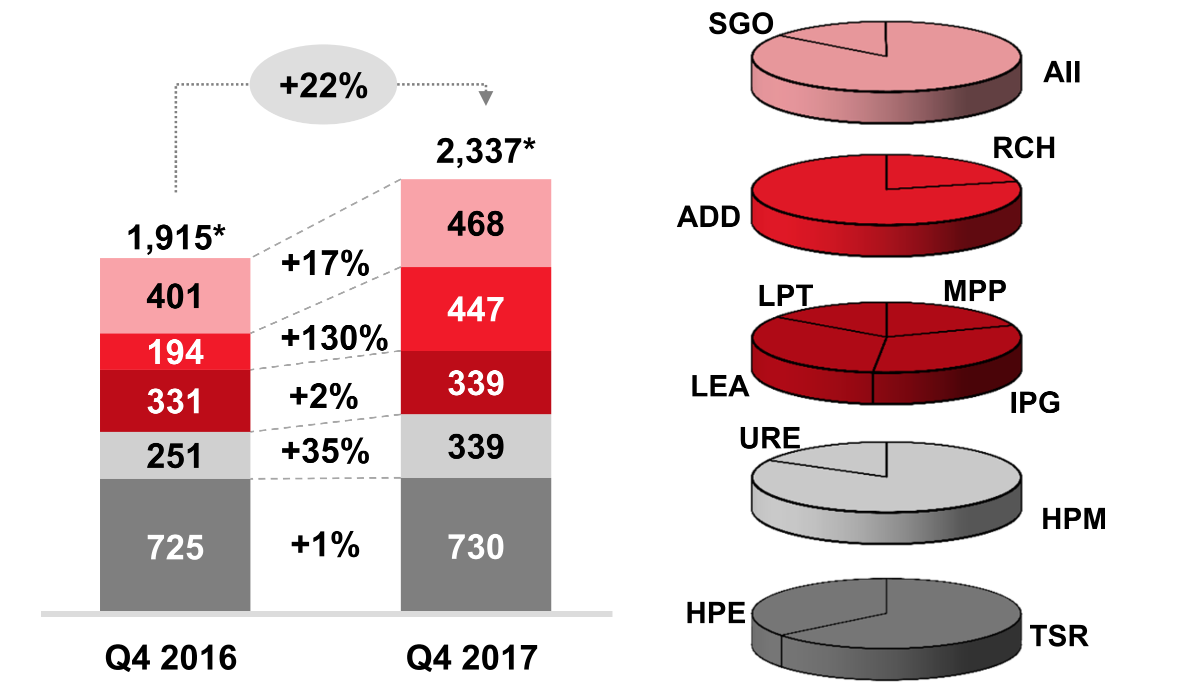
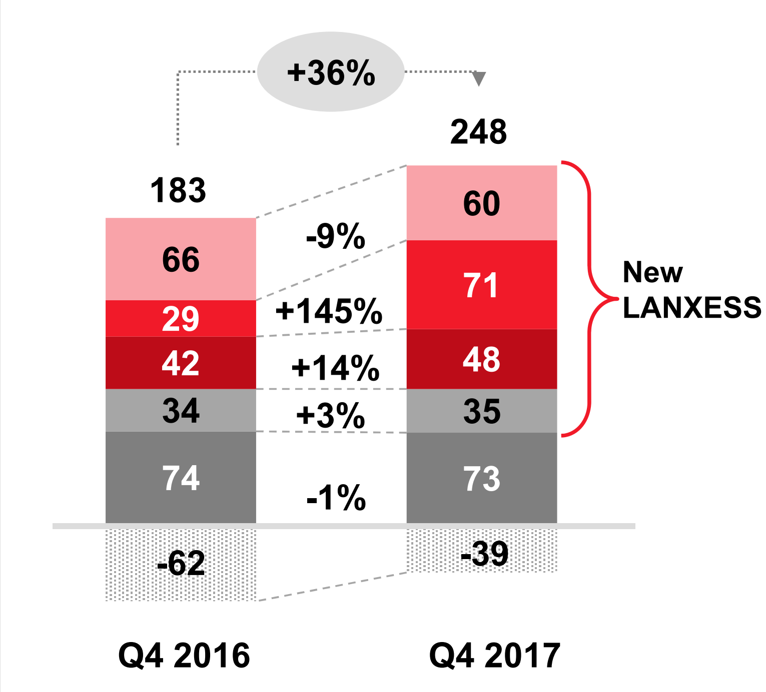
# Q4 2017: EBITDA pre increase driven by NEW LANXESS segments




Advanced Intermediates | Specialty Additives | Performance Chemicals | Engineering Materials | ARLANXEO | Reconciliation

* Total group sales including reconciliation

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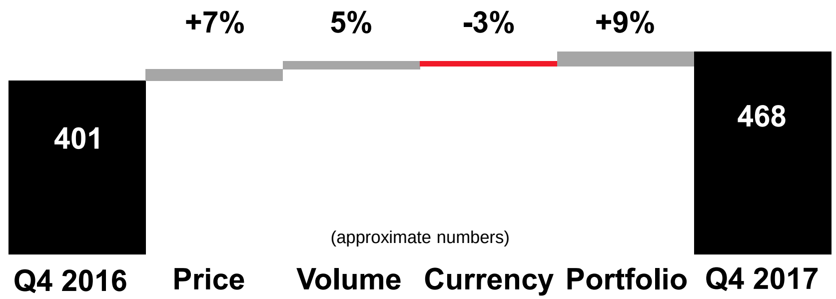
# Advanced Intermediates: Solid volume growth, however burdened by one-time effects

| [€ m] | Q4 2016 | Q4 2017 | Δ | FY 2016 | FY 2017 | Δ |
|---|---|---|---|---|---|---|
| **Sales** | **401** | **468** | **17%** | **1,742** | **1,970** | **13%** |
| EBIT | 39 | 25 | -36% | 223 | 211 | -5% |
| Depr./Amort. | 29 | 31 | 7% | 105 | 117 | 11% |
| **EBITDA pre exceptionals** | **66** | **60** | **-9%** | **326** | **335** | **3%** |
| Margin | 16.5% | 12.8% | | 18.7% | 17.0% | |
| Capex | 62 | 62 | 0% | 123 | 146 | 19% |

## Q4 sales bridge yoy [€ m]




## Q4 yoy effects

- Solid volume development in BU AII
- Further weak demand from agro customers
- Organometallics with dilutive effect and multiple unplanned outages weigh on EBITDA pre and margin
- Negative FX impact on sales and EBITDA pre

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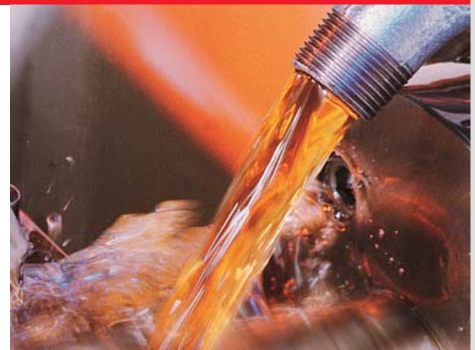
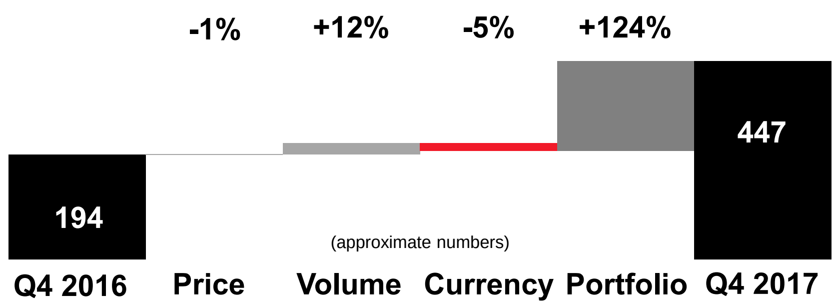
# Specialty Additives: Operational integration of Chemtura business completed

| [€ m] | Q4 2016 | Q4 2017 | Δ | FY 2016 | FY 2017 | Δ |
|---|---|---|---|---|---|---|
| **Sales** | **194** | **447** | **>100%** | **841** | **1,604** | **91%** |
| EBIT | 22 | 26 | 18% | 123 | 56 | -54% |
| Depr./Amort. | 7 | 38 | >100% | 28 | 136 | >100% |
| **EBITDA pre exceptionals** | **29** | **71** | **>100%** | **151** | **267** | **77%** |
| Margin | 14.9% | 15.9% | | 18.0% | 16.6% | |
| Capex | 17 | 40 | >100% | 42 | 83 | 98% |



## Q4 sales bridge yoy [€ m]



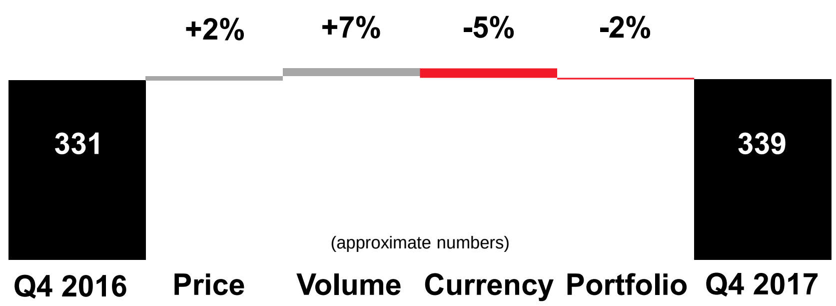

## Q4 yoy effects

- Sales and EBITDA pre increase mainly driven by acquired additives business
- Strong underlying volumes in BU ADD and BU RCH
- Margin improvement in Q4 driven by former Chemtura business (portfolio effect) despite only partial price pass-through of higher raw material costs in lubricants
- FX negatively impacts sales and EBITDA

# Performance Chemicals: Positioning of all business units further improved

| [€ m] | Q4 2016 | Q4 2017 | Δ | FY 2016 | FY 2017 | Δ |
|---|---|---|---|---|---|---|
| **Sales** | **331** | **339** | **2%** | **1,301** | **1,438** | **11%** |
| EBIT | 20 | 31 | 55% | 154 | 108 | -30% |
| Depr./Amort. | 19 | 19 | 0% | 66 | 82 | 24% |
| **EBITDA pre exceptionals** | **42** | **48** | **14%** | **223** | **252** | **13%** |
| Margin | 12.7% | 14.2% | | 17.1% | 17.5% | |
| Capex | 31 | 33 | 6% | 76 | 74 | -3% |

## Q4 sales bridge yoy [€ m]




## Q4 yoy effects

- Volume increase in all BUs; strongest growth in BUs MPP and LPT
- Divesture of chlorine dioxide business shown in portfolio effect
- EBITDA and margin driven by strong volume and higher utilization, partly offset by currency effects

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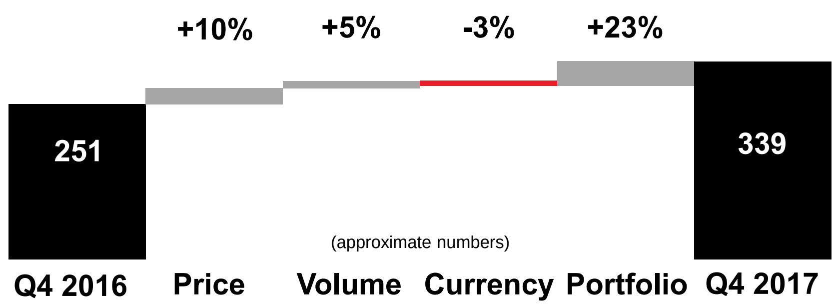
# Engineering Materials: Stable results despite major turnaround

| [€ m] | Q4 2016 | Q4 2017 | Δ | FY 2016 | FY 2017 | Δ |
|---|---|---|---|---|---|---|
| **Sales** | **251** | **339** | **35%** | **1,056** | **1,366** | **29%** |
| EBIT | 22 | 19 | -14% | 114 | 151 | 32% |
| Depr./Amort. | 12 | 16 | 33% | 45 | 56 | 24% |
| **EBITDA pre exceptionals** | **34** | **35** | **3%** | **159** | **219** | **38%** |
| Margin | 13.5% | 10.3% | | 15.1% | 16.0% | |
| Capex | 31 | 42 | 35% | 46 | 68 | 48% |

## Q4 sales bridge yoy [€ m]




- Good volume growth; price adjustments due to higher raw material prices
- Portfolio effect driven by acquired urethane business
- Urethane business negatively impacted by high raw material prices (MDI / TDI shortage)
- EBITDA pre at BU HPM burdened by major capro turnaround in Antwerp
- Weak U.S. dollar negatively impacts EBITDA pre



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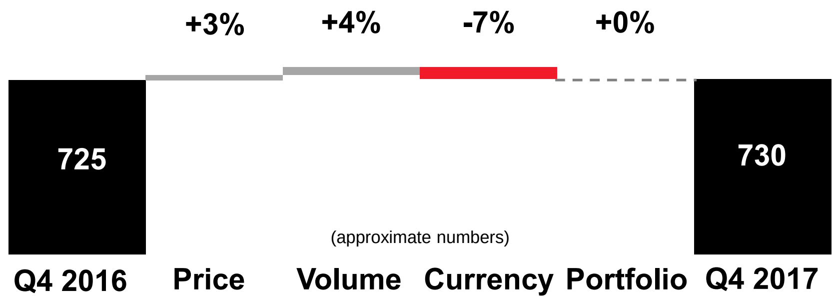
# ARLANXEO: Good quarter despite ongoing raw material volatilities and negative FX effects

| [€ m] | Q4 2016 | Q4 2017 | Δ | FY 2016 | FY 2017 | Δ |
|---|---|---|---|---|---|---|
| **Sales** | **725** | **730** | **1%** | **2,710** | **3,230** | **19%** |
| EBIT | 21 | 15 | -29% | 155 | 159 | 3% |
| Depr./Amort. | 55 | 58 | 5% | 220 | 227 | 3% |
| **EBITDA pre exceptionals** | **74** | **73** | **-1%** | **373** | **385** | **3%** |
| Margin | 10.2% | 10.0% | | 13.8% | 11.9% | |
| Capex | 66 | 65 | -2% | 138 | 149 | 8% |

## Q4 sales bridge yoy [€ m]




## Q4 yoy effects

- Successful management of raw material cost pass-through
- Volume growth driven by BU TSR in Latin America, Europe and China
- Pressure on EPDM margins (BU HPE) remains
- Stable earnings despite weak U.S. dollar

# Q4 2017: Strong operating cash flow

| [€ m] | Q4 2016 | Q4 2017 |
|---|---|---|
| **Profit before tax** | **-2** | **11** |
| Depreciation & amortization | 127 | 165 |
| Financial (gain) losses | 14 | 21 |
| Income taxes paid | -86 | -31 |
| Changes in other assets and liabilities | -52 | 2 |
| **Operating cash flow before changes in WC** | **1** | **169** |
| Changes in working capital | 156 | 164 |
| **Operating cash flow** | **157** | **333** |
| **Investing cash flow** | **-1,784** | **-322** |
| Thereof capex | -211 | -260 |
| **Financing cash flow** | **1,459** | **-7** |

- D&A higher due to portfolio effects
- Changes in other assets and liabilities driven by provision for variable compensation and restructuring
- Change in working capital driven by higher payables and seasonally lower stocks
- Change in financing and investing cash flow reflects acquisition finance in 2016



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# Balance sheet mirrors Chemtura acquisition

| [€ m] | Dec 2016 | Dec 2017 |
|---|---|---|
| **Total assets** | **9,877** | **10,396** |
| Equity (incl. non-controlling interest) | 3,728 | 3,413 |
| **Equity ratio** | **38%** | **33%** |
| **Net financial debt** (after deduction of current financial assets) | **269** | **2,252** |
| Near cash, cash & cash equivalents | 395 | 588 |
| **Pension provisions** | **1,249** | **1,490** |
| **ROCE**[1] | **6.9%** | **9.3%** |
| **Net working capital** | **1,628** | **1,948** |
| DSI (in days)[2] | 67 | 65 |
| DSO (in days)[3] | 51 | 51 |

- Increase in total assets driven by Chemtura acquisition in April 2017
- Equity decreased due to FX translation effects
- Net financial debt increase due to Chemtura acquisition, mitigated by good free cash flow
- Deleveraging ahead of plan
- ROCE improvement due to investment of cash for acquisition
- Net working capital rises due to acquisition

[1] 2017 calculated incl. pro rata Chemtura EBIT pre
[2] Days sales of inventory calculated from quarterly sales
[3] Days of sales outstanding calculated from quarterly sales



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# Acquisition of Chemtura in April 2017 main driver of changes in most balance sheet items

| [€ m] | Dec 2016 | Dec 2017 | | Dec 2016 | Dec 2017 |
|---|---|---|---|---|---|
| **Non-current assets** | **4,519** | **6,439** | **Stockholders' equity** | **3,728** | **3,413** |
| Intangible assets | 494 | 1,769 | attrib. to non-contr. interests | 1,176 | 1,126 |
| Property, plant & equipment | 3,519 | 4,059 | **Non-current liabilities** | **4,516** | **4,525** |
| Equity investments | 0 | 0 | Pension & post empl. provis. | 1,249 | 1,490 |
| Other investments | 12 | 9 | Other provisions | 319 | 460 |
| Other financial assets | 19 | 20 | Other financial liabilities | 2,734 | 2,242 |
| Deferred taxes | 442 | 442 | Tax liabilities | 31 | 119 |
| Other non-current assets | 33 | 140 | Other liabilities | 93 | 99 |
| | | | Deferred taxes | 83 | 113 |
| **Current assets** | **5,358** | **3,957** | | | |
| Inventories | 1,429 | 1,680 | **Current liabilities** | **1,633** | **2,458** |
| Trade account receivables | 1,088 | 1,316 | Other provisions | 406 | 525 |
| Other current financial assets | 2,130 | 7 | Other financial liabilities | 78 | 633 |
| Other current assets | 316 | 366 | Trade accounts payable | 889 | 1,048 |
| Near cash assets | 40 | 50 | Tax liabilities | 44 | 61 |
| Cash and cash equivalents | 355 | 538 | Other liabilities | 216 | 191 |
| **Total assets** | **9,877** | **10,396** | **Total equity & liabilities** | **9,877** | **10,396** |

- Other current financial assets reflect payment for Chemtura acquisition



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# Agenda

- Executive summary FY 2017 and Q4 2017
- Business and financial details Q4 2017
- **Back-up**

# Appendix - Group

# A rapidly changing world – Our answer: Energizing chemistry!

**What it takes to be successful in a changing environment**

- **Mindset**: Agility; Courage & team spirit
- **Balance**: Markets; Industries
- **Speed**: Lean structures; Entrepreneurial organization
- **Leadership**: Markets; Technology & innovation

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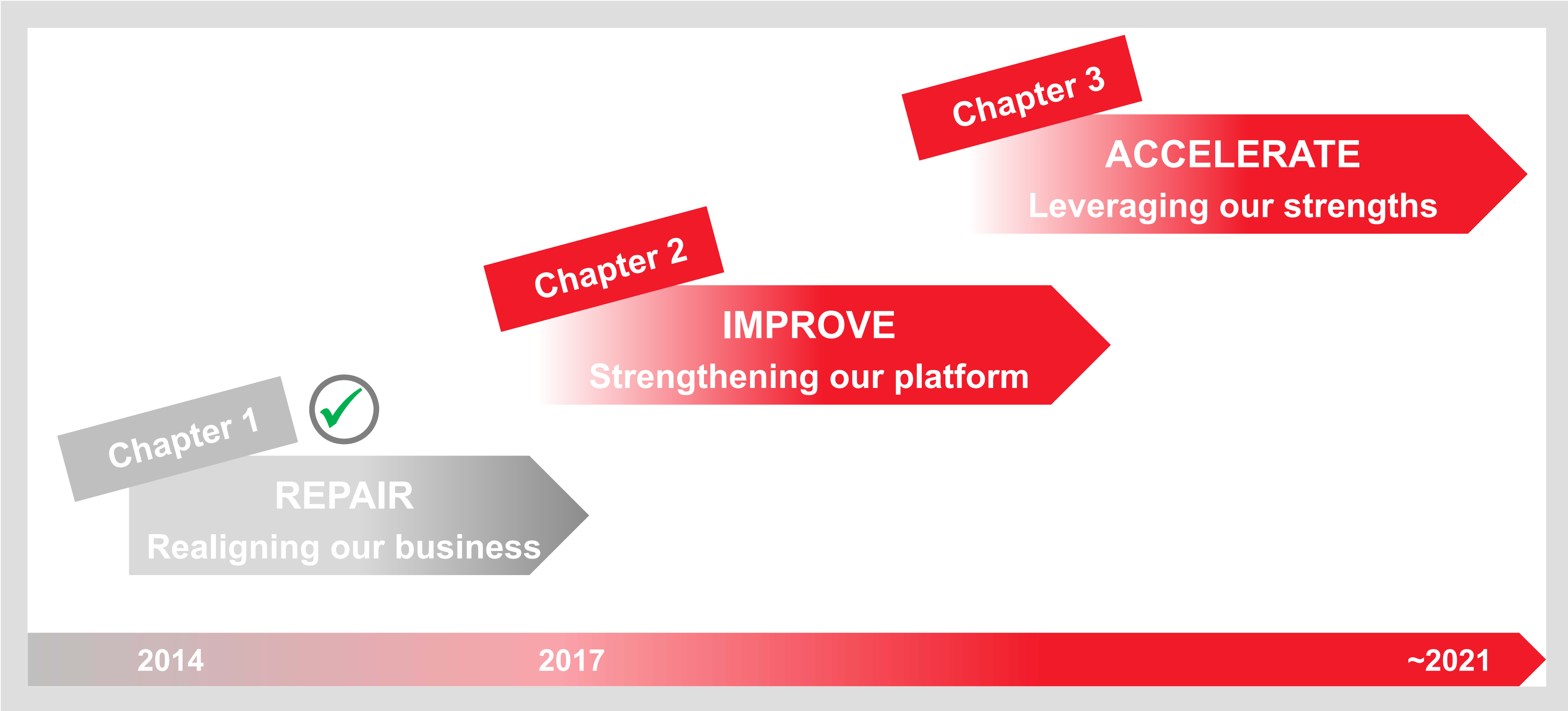
**A strong team and corporate culture make the difference**

# Our journey: Shaping New LANXESS – a story in three chapters



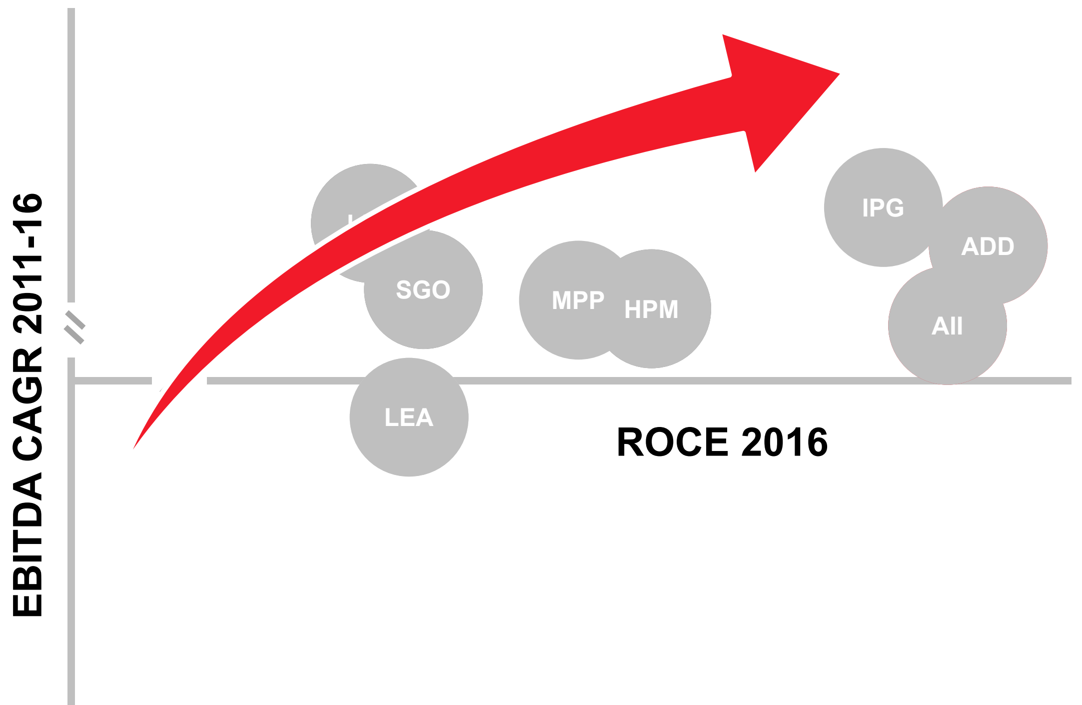
# Restructuring and change of strategy yields first positive results

**Chapter 1**
**Repair**

Chapter 2

Chapter 3

## LANXESS transformation starts to become visible




**Substantial room for improvement left**

## Key 2016 points

- Phase 1 & 2 cost improvements become visible
- All BUs with improved organic return profile
- Growth is picking up

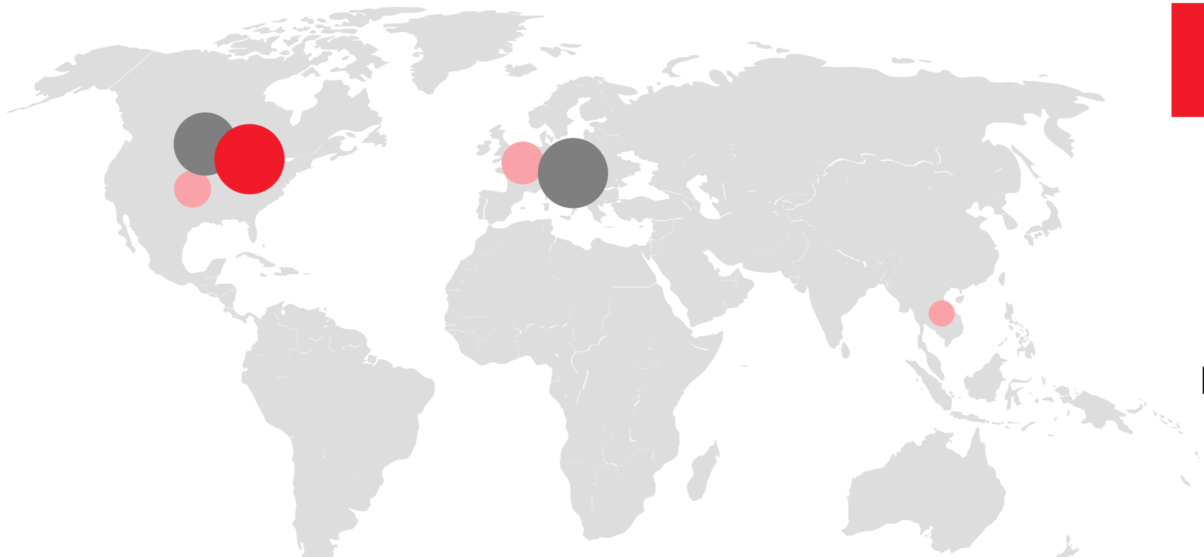
# Chemtura integration: €100 m of synergies by 2020

**Cost management** | Organic investments | Portfolio management

Chapter 1

**Chapter 2**
**Improve**

Chapter 3



- Organizational streamlining
- Leveraging new regional strengths

**€100 m synergy breakdown:**

Corporate / country costs
**~€30 m**

Marketing and sales
**~€20 m**

Production and procurement set-up
**~€50 m**

**Topline synergies provide additional comfort**

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# Organic investments will improve company ROCE

Cost management | **Organic investments** | Portfolio management

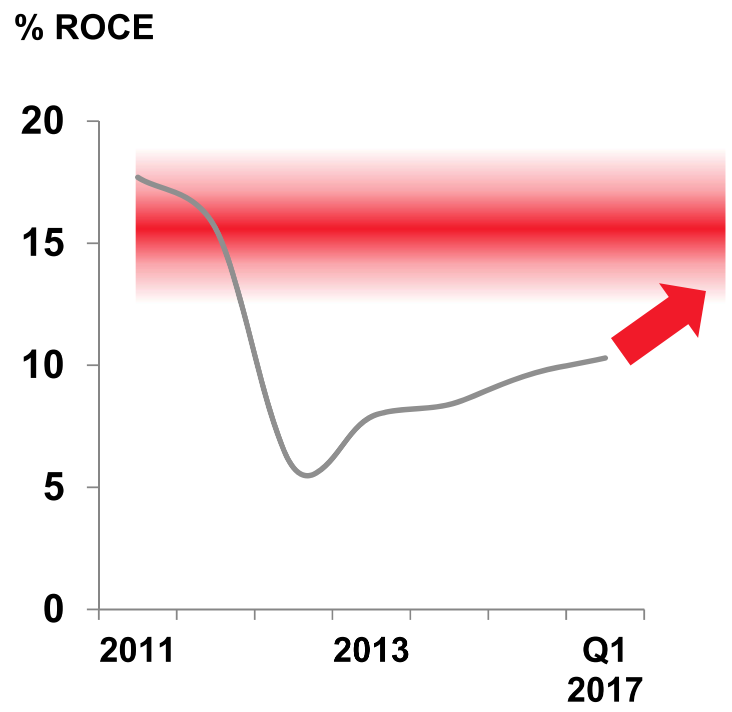
Chapter 1

**Chapter 2**
**Improve**

Chapter 3

| | | |
|---|---|---|
| ▪ | €100 m | Debottleneckings, BU AII |
| ▪ | €60 m | Debottleneckings, BU SGO, custom manufacturing |
| ▪ | €60 m | Greenfield, BU IPG |
| ▪ | €50-100 m | Debottleneckings, BU HPM, global compounding hubs |
| ▪ | €50 m | Debottleneckings in remaining BUs in Performance Chemicals |
| ▪ | €50-100 m | Investments in Specialty Additives |

**~€400 m capex until 2020 at ROCE of ~20%**




**Target: Increase ROCE to former levels**



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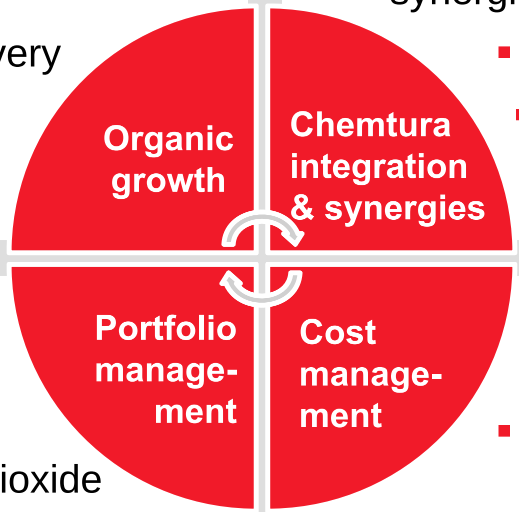
# Further short- to mid-term measures to strengthen platform and increase value

## Advanced Intermediates

- €100 m growth capex for debottleneckings; ROCE of ~20%
- Positive impetus from expected recovery in agro chemicals in 2019
- Improvement of organometallics performance

## Specialty Additives

- Chemtura integration and realization of synergies
  - Optimization of production platform
  - Confirmation of EBITDA pre margin of up to 20%




## Performance Chemicals

- Portfolio & mix improvements:
  – Fruitful contribution of Chemours acquisition in biocides
  – Divestiture of non-core chlorine dioxide business
  – Restructuring in BU Leather Chemicals

## Engineering Materials

- Balanced capacity model with focus on high-tech plastics (compounds)
- Expansion of urethane systems business into Europe and Asia



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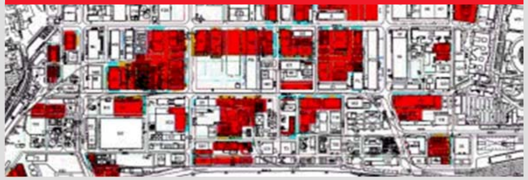
# Chapter 3: More balanced and stronger platform along three key dimensions

Chapter 1

Chapter 2

**Chapter 3**
**Accelerate**

| Regional platform | Industrial platform | Market positions |
|---|---|---|
|  |  |  |

**Balancing the ground for further growth**

- Regionally balanced platform with no pronounced dependencies
- Diversified industrial platform mitigates impact from any individual industry's volatility
- Market positions in every business at least among leading players to keep or improve profitability level


**Solid growth** → **Chapter 3 will establish an even stronger platform**



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# LANXESS’ target 2021 – leading positions, more stable and with a stronger cash flow

## Strategic and financial goals

- Stable specialty chemical company with sound cash generation and balanced portfolio
- Increased footprint in growing regions (North America and Asia)
- Leading positions in core and attractive mid-sized markets
- Low dependency on individual markets, thus less cyclical
- Solid investment grade rating and significantly reduced net financial debt

| | |
|---|---|
| **EBITDA pre margin** (group, Ø through the cycle) | **14-18%** |
| **Cash conversion** | **>60%** |
| **EBITDA margin volatility** |  **2-3%pts** |

## Underlying growth: Sustainable >GDP growth targeted

Cash conversion: (EBITDA pre – capex) / EBITDA pre



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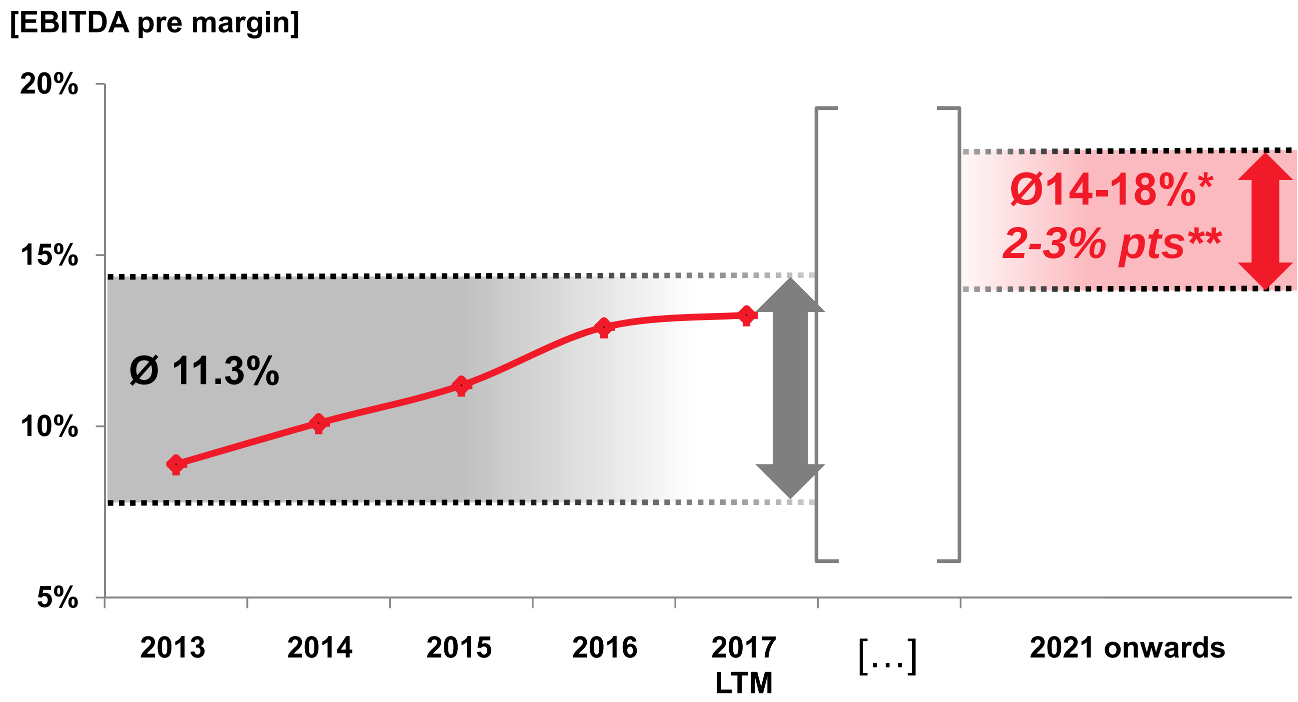
# Continuously improving the quality of earnings

**Trajectory to mid-term target**




**Reducing EBITDA pre margin volatility to 2-3% pts in parallel**

* Group EBITDA pre margin through the cycle
** Margin volatility



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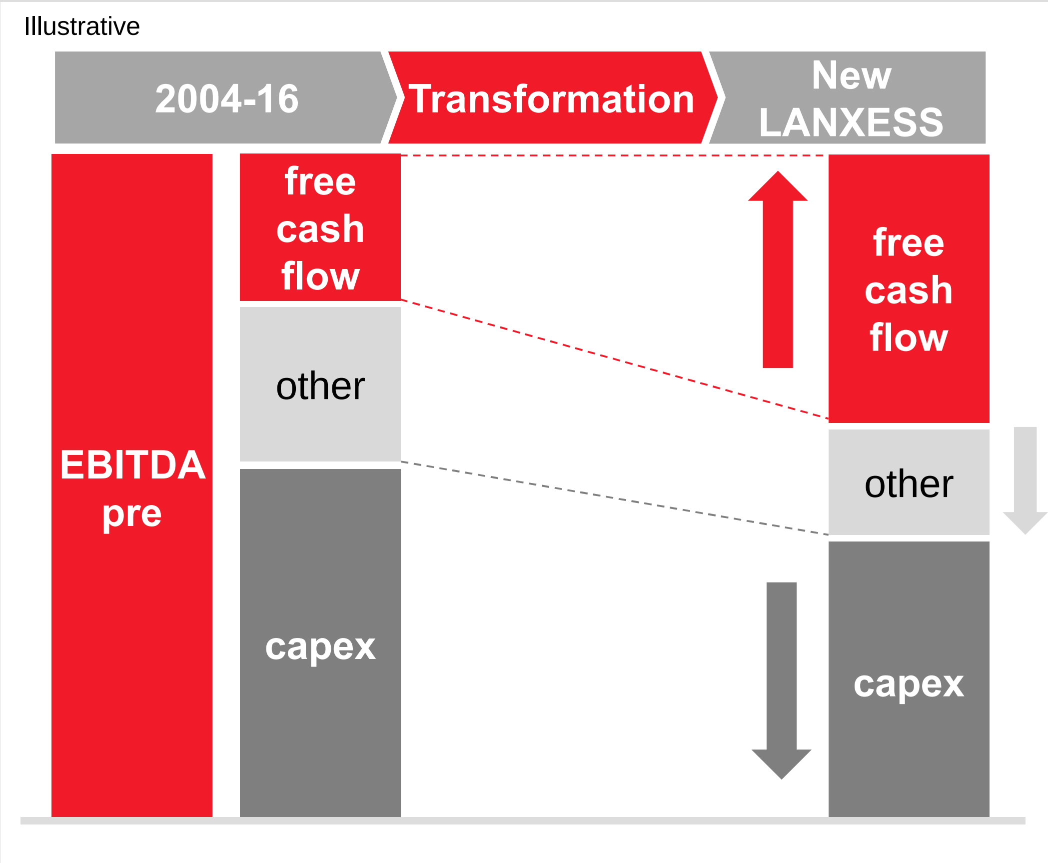
# LANXESS free cash flow and cash conversion rate to improve

Chapter 1

Chapter 2

**Chapter 3**
**Accelerate**




- **EBITDA:** Structural improvement
- **Capex:** Lower because of asset light strategy and ARLANXEO deconsolidation
- **Other:**
  - Exceptionals to decline after Chemtura integration
  - Working capital: lower volatility
  - Tax rate to decline to 30-35%

**Cash conversion* >60%**

* Calculated as (EBITDA pre – capex) / EBITDA pre

# Expected effects of the U.S. tax reform

| Tax change in the U.S. | Corporate income tax | Mandatory repatriation tax |
| --- | --- | --- |
| Characteristics and effects of tax measure on LANXESS | ▪ Decrease of corporate income tax rate from 35% to 21%<br>▪ Positive P&L and cash effect for every future year | ▪ 8% / 15.5% tax rate on accumulated post-1986 foreign earnings<br>▪ Exceptional tax expense of ~€50 m on reported net income / EPS in Q4 2017*, cash-out in next 8 years<br>▪ No impact on EPS pre<br>▪ No impact on cash in 2017 |
| Results for LANXESS | ▪ Net positive cash effect of mandatory repatriation and lower corporate income tax<br>▪ Tax guidance: Adjustment of expectation to the lower end of the mid-term 30-35% tax rate for New LANXESS | |

* Based on current knowledge and interpretation



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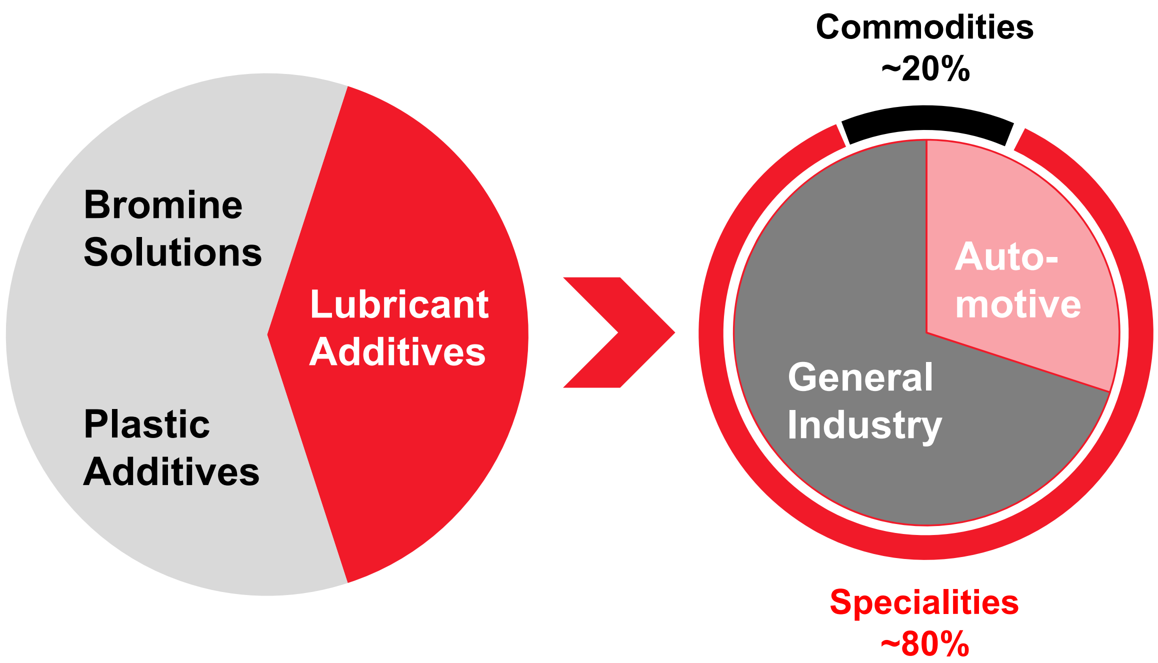
# Business Unit Additives with strong focus on high value-add industrial lubricant solutions

## Well diversified and specialized lubricants portfolio

**Sales of Business Unit Additives - *illustrative***

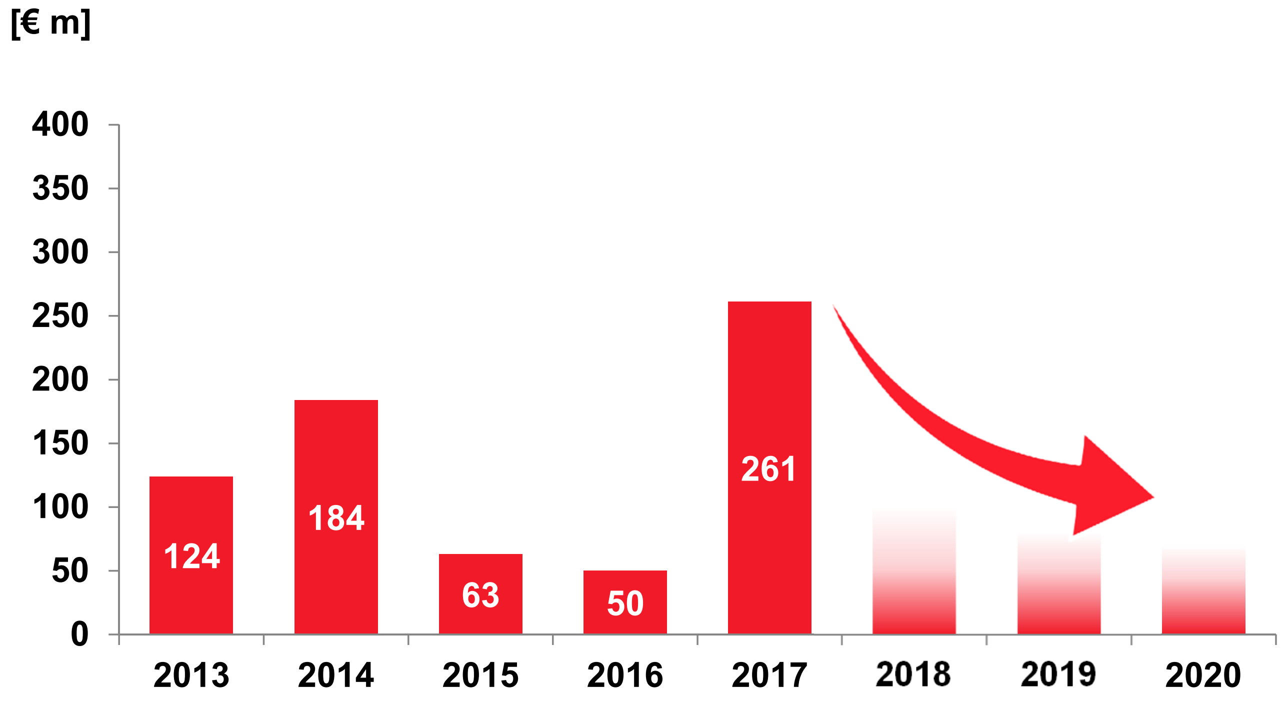


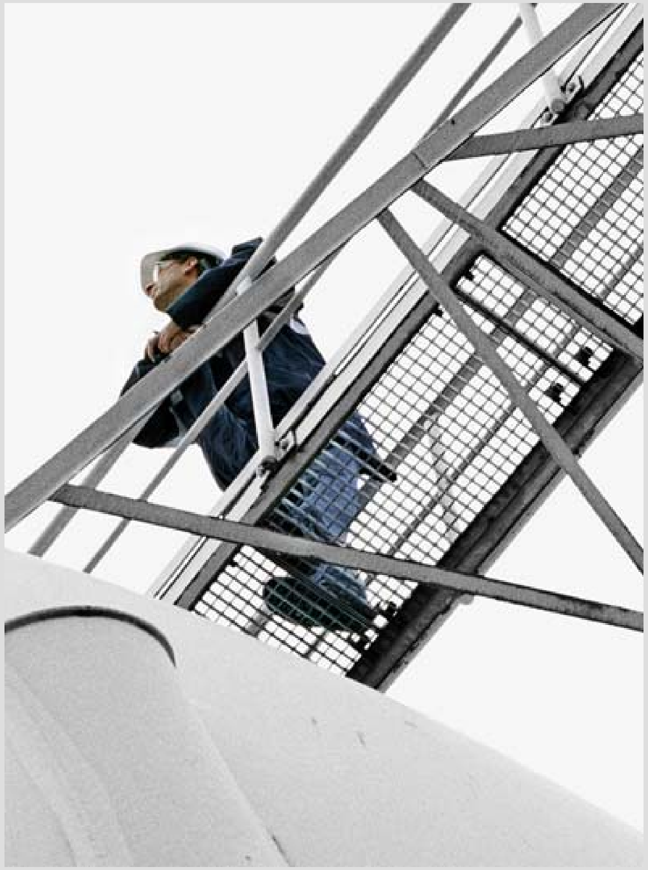

## A leading specialties player

- Highly diversified end-market split with focus on industrial lubricants
- Strong expertise in high value-add specialty lubricants
- Leading positions in mid-sized and niche markets
- Automotive exposure well balanced with additives and base stocks only for high grade specialty engine oils (highest category 4 & 5)

# Majority of exceptionals for realignment and Chemtura integration already digested

## EBIT-exceptionals* significantly decrease in the future



* excluding impairment charges/reversals



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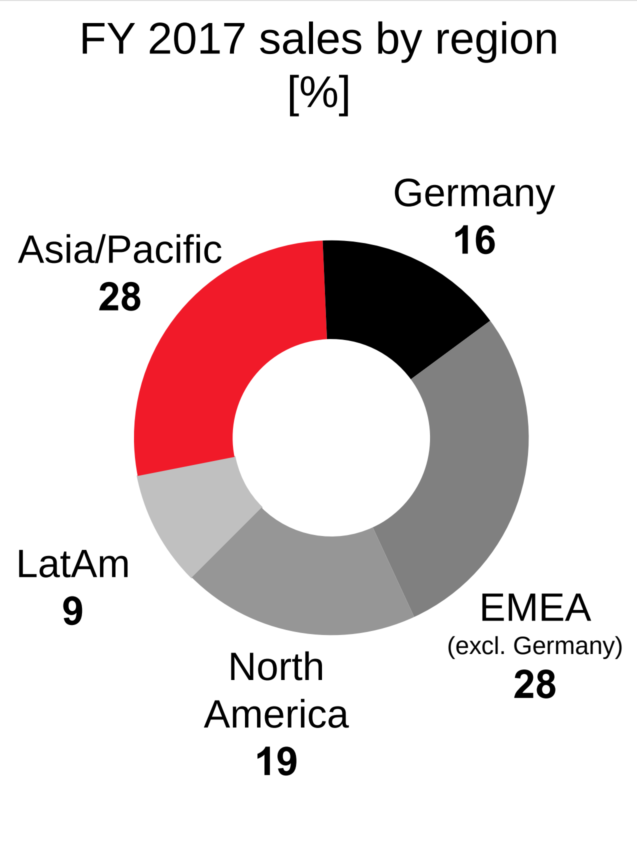
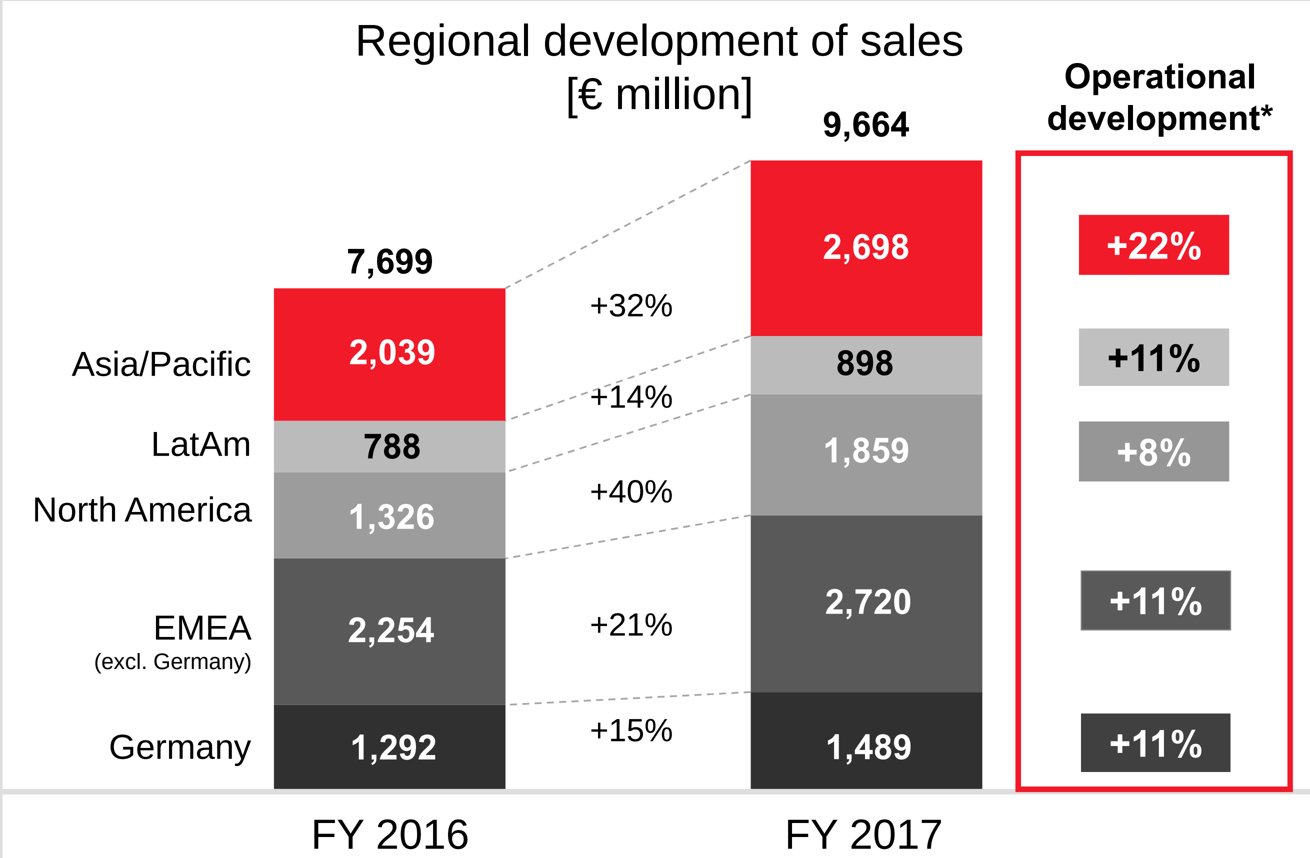
# Backup – FY 2017 details

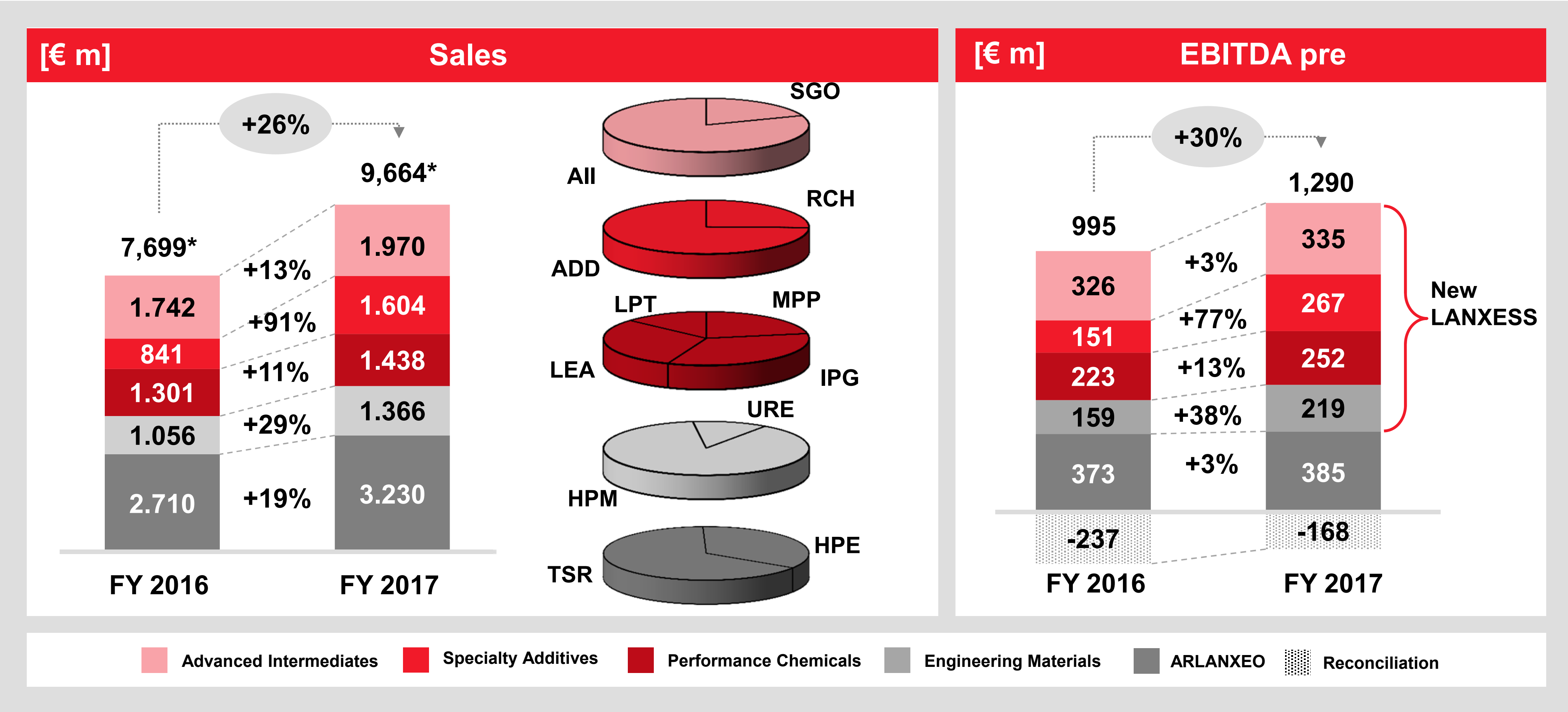
# FY 2017: Strong operational development in all regions in addition to portfolio effect of Chemtura acquisition




* Currency and portfolio adjusted

# FY 2017: Increasing top line and profitability




* Total group sales including reconciliation



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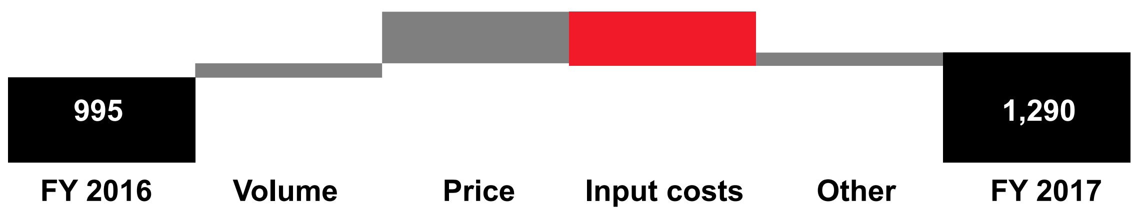
# FY 2017: A year of organic and external growth

| FY yoy sales variances | Price | Volume | FX | Portfolio | Total |
|---|---|---|---|---|---|
| Advanced Intermediates | +5% | +3% | -1% | +6% | +13% |
| Specialty Additives | +0% | +6% | -1% | +86% | +91% |
| Performance Chemicals | +3% | +4% | -2% | +5% | +11% |
| Engineering Materials | +8% | +7% | -1% | +16% | +29% |
| ARLANXEO | +15% | +6% | -1% | +0% | +19% |
| LANXESS | +8% | +5% | -1% | +14% | +26% |

- Sales increase driven by the acquisition of Chemtura in April 2017
- Higher selling prices reflect higher level of input costs
- Strong volume momentum especially in H1 in all segments

**FY yoy EBITDA pre bridge [€ m]**




- Price/input costs balanced
- Volume increase and portfolio effect drive EBITDA growth
- “Other” includes portfolio, partly offset by negative currency effect



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# FY 2017 financial overview: KPIs reflect sound business performance and Chemtura acquisition

| | FY 2016 | FY 2017 | yoy in % |
|---|---|---|---|
| **Sales** | **7,699** | **9,664** | **26%** |
| **EBITDA pre** | **995** | **1,290** | **30%** |
| margin | 12.9% | 13.3% | |
| EPS | 2.10 | 0.95 | -55% |
| EPS pre* | 2.69 | 4.14 | 54% |
| Capex | 439 | 547 | 25% |
| **[€ m]** | **31.12.2016** | **31.12.2017** | **Δ %** |
| Net financial debt** | 269 | 2,252 | >100% |
| Net working capital | 1,628 | 1,948 | 20% |
| ROCE*** | 6.9% | 9.3% | |

- Chemtura acquisition, higher volumes and better utilization drive significant sales and EBITDA growth
- Profitability improved despite inflationary raw material environment
- EPS impacted by exceptionals (integration costs, U.S. tax reform)
- Net financial debt increase due to Chemtura acquisition, mitigated by good free cash flow
- ROCE improvement due to investment of cash for acquisition

* Net of exceptionals and amortization of intangible assets as well as attributable tax effects as well as non-recurring earnings effects of the U.S. tax reform
** After deduction of current financial assets
*** 2017 incl. Chemtura EBITpre since Closing on 21. April 2017



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# FY 2017: Chemtura acquisition and strong operating performance drive all line items

| [€ m] | FY 2016 | | FY 2017 | | yoy in % |
|---|---|---|---|---|---|
| Sales | 7,699 | (100%) | 9,664 | (100%) | 26% |
| Cost of sales | -5,945 | (-77%) | -7,519 | (-78%) | -26% |
| Selling | -781 | (-10%) | -953 | (-10%) | -22% |
| G&A | -303 | (-4%) | -382 | (-4%) | -26% |
| R&D | -131 | (-2%) | -145 | (-2%) | -11% |
| **EBIT** | **464** | **(6%)** | **434** | **(4%)** | **-6%** |
| Non-controlling interests | 3 | (0%) | 37 | (0%) | >100% |
| **Net Income** | **192** | **(2%)** | **87** | **(1%)** | **-55%** |
| **EPS pre*** | **2.69** | | **4.14** | | **54%** |
| EBITDA | 945 | (12%) | 1,072 | (11%) | 13% |
| thereof exceptionals | 50 | (1%) | 218 | (2%) | >100% |
| **EBITDA pre exceptionals** | **995** | **(12.9%)** | **1,290** | **(13.3%)** | **30%** |

- Strong sales increase due to Chemtura acquisition and higher volumes
- Cost of sales driven by portfolio effects, raws and energy costs
- Non-controlling interests reflect ARLANXEO result
- EBIT and net income impacted by Chemtura integration and realignment expenses
- Peak exceptionals due to Chemtura integration, realization of synergies and restructuring (BU LEA, BU ADD)

**Successful year 2017**

* Net of exceptionals and amortization of intangible assets as well as attributable tax effects as well as non-recurring earnings effects of the U.S. tax reform



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# FY 2017: Strong operating cash flow

| [€ m] | FY 2016 | FY 2017 |
|---|---|---|
| **Profit before tax** | **339** | **325** |
| Depreciation & amortization | 481 | 638 |
| Financial (gain) losses | 56 | 39 |
| Cash tax payments/refunds | -184 | -183 |
| Changes in other assets and liabilities | 44 | 121 |
| **Operating cash flow before changes in WC** | **736** | **940** |
| Changes in working capital | -47 | -72 |
| **Operating cash flow** | **689** | **868** |
| **Investing cash flow** | **-2,879** | **-167** |
| Thereof capex | -439 | -547 |
| Thereof M&A | -198 | -1,803 |
| Thereof cash inflows from/cash outlows for financial assets | -2,059 | 2,116 |
| Thereof CTA funding & Chemours C&D acquisition | -200 | 0 |
| **Financing cash flow** | **2,173** | **-508** |

- Profit before tax burdened by exceptional items
- D&A higher due to risen asset base (Chemtura acquisition)
- Changes in other assets and liabilities driven by provision for variable compensation and restructuring
- Investing cash flow contains effects from Chemtura acquist.
- Financing cash flow in 2016 includes cash-in from Aramco and Chemtura acquisition financing; 2017 reflects early redemption of Chemtura bond



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# Chemtura synergies confirmed. Phasing of synergies, OTCs and cash outs brought forward

## Implementation of synergies on track

| [€ m] | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| **Synergies** | ~30 | ~30 | ~30 | ~10 | **~100** |
| **Expense (one-time costs)*** | ~80 | ~30 | ~20 | ~10 | **~140** |
| **Cash out** | ~40 | ~50 | ~40 | ~10 | **~140** |
| **Capex** | ~20 | ~20 | ~10 | | **~50** |

## Key Messages

- **Synergies confirmed**
  - €100 m of "hard" costs
  - Earlier realization
  - Top line synergies not included
- OTCs and Cash Outs confirmed, but incur earlier than scheduled
- Capex confirmed, mainly related to Manufacturing Excellence

* Does not include ~€65 m PPA charges from inventory step-up in opening balance sheet. Transaction related charges were recognized in opening balance sheet



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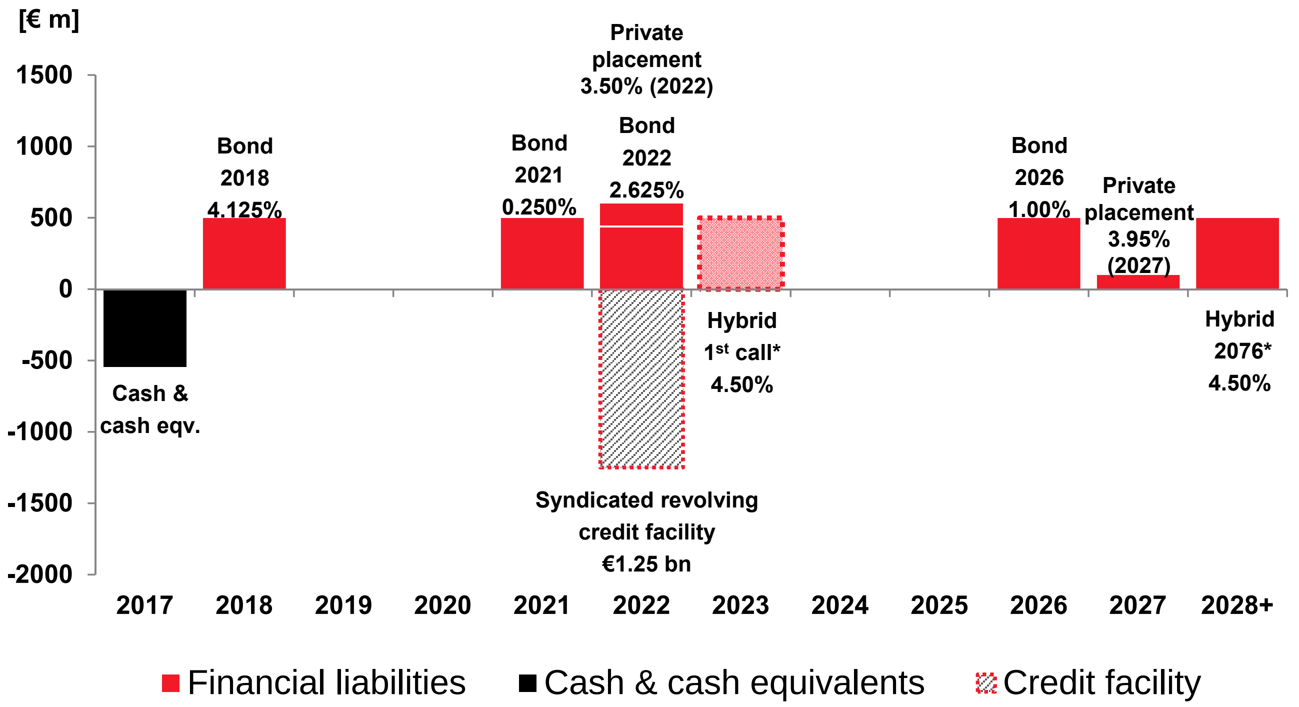
# Maturity profile actively managed and well balanced

## Long-term financing secured

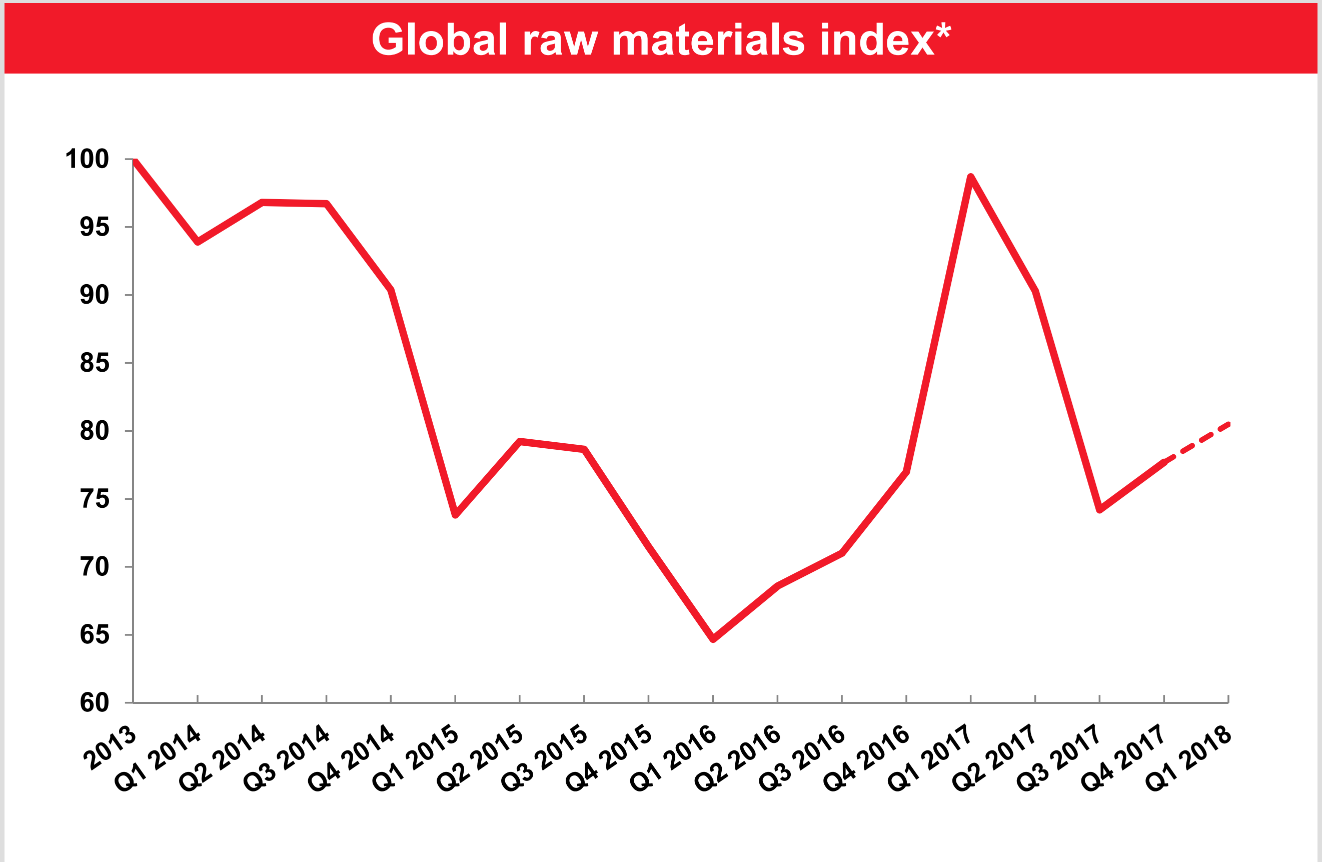
- Diversified financing sources
  - Bonds & private placements
  - Syndicated credit facility
- Chemtura bond redeemed on 15 July 2017
- Average interest rate of financial liabilities <3%
- All group financing executed without financial covenants

## Liquidity and maturity profile as per December 2017




* Hybrid bond with contractual maturity date in 2076 has a first optional call date in 2023.

# High volatility in raw material prices




- 2016 with an upward trend that accelerated during Q4
- 2017 started with a spike in raw material prices which reversed in Q2 and Q3
- Raw Material costs moved gradually higher in Q4 2017 on the back of a rising oil price
- We expect the slight upward trend to continue during Q1 2018

* LANXESS excluding Chemtura businesses, average 2013 = 100%,



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# Overview exceptional items Q4 and FY 2017

| [€ m] | Q4 2016 | | Q4 2017 | | FY 2016 | | FY 2017 | |
|---|---|---|---|---|---|---|---|---|
| | Excep. | Thereof D&A | Excep. | Thereof D&A | Excep. | Thereof D&A | Excep. | Thereof D&A |
| Advanced Intermediates | -2 | 0 | 4 | 0 | -2 | 0 | 7 | 0 |
| Specialty Additives | 0 | 0 | 8 | 1 | 0 | 0 | 111 | 36 |
| Performance Chemicals | 3 | 0 | -2 | 0 | 3 | 0 | 68 | 6 |
| Engineering Materials | 0 | 0 | 0 | 0 | 0 | 0 | 13 | 1 |
| ARLANXEO | -2 | 0 | 0 | 0 | -2 | 0 | -1 | 0 |
| Reconciliation | 22 | 0 | 25 | 0 | 51 | 0 | 63 | 0 |
| **Total** | **21** | **0** | **35** | **1** | **50** | **0** | **261** | **43** |



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# Housekeeping items – New LANXESS (excluding ARLANXEO)

**New LANXESS financial expectations**

| | |
|---|---|
| ▪ Capex 2018: | €430 m - €470 m |
| ▪ Operational D&A 2018: | ~€400 m |
| ▪ Reconciliation 2018: | around previous year level (~€150 m) |
| ▪ Tax rate: | lower end of 30% - 35% |
| ▪ FX sensitivity: | one cent change of USD/EUR ~€7 m EBITDA pre impact before hedging |
| ▪ LLA -Phase II savings: | around €20 m in 2018 and 2019 each |

- As of Q2 2018: ARLANXEO as "discontinued operations" with a restatement of 2017 and 2018 YTD figures
- As of Q2 2019: ARLANXEO accounted for "at equity"
- IFRS 15 will be applied from January 1st 2018 onwards, no material impact on results expected



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# Backup – ARLANXEO discontinued operations

# Details on accounting for discontinued operations of ARL

| Q1 2018 | Q2 2018 – Q1 2019 | Q2 2019 onwards |
|---|---|---|
| 100% consolidation | Discontinued operations | @ equity |
| Restatement to dis. operations | | |

**Q1 2018: legally reported as usual**

- Further indication about key financial figures of the New LANXESS will be distributed*

**Q2 2018: ARLANXEO will switch to discontinued operations**

- Net income from discontinued operations will be the only ARLANXEO line item in P&L
- ARLANXEO assets will not be depreciated but accounted for lower of carrying amount and fair value
- Discontinued operations accounting also to be retroactively applied to YTD 2018 as of Q2
- ARLANXEO assets & liabilities will be reflected in balance sheet in one line item each
- ARLANXEO income statement as well as cash flow will be shown in the notes in annual report 2018

**Q2 2019: ARLANXEO will be accounted for as at equity and shown within the financial result**

* The final value will only be available for Q2 2018 reporting



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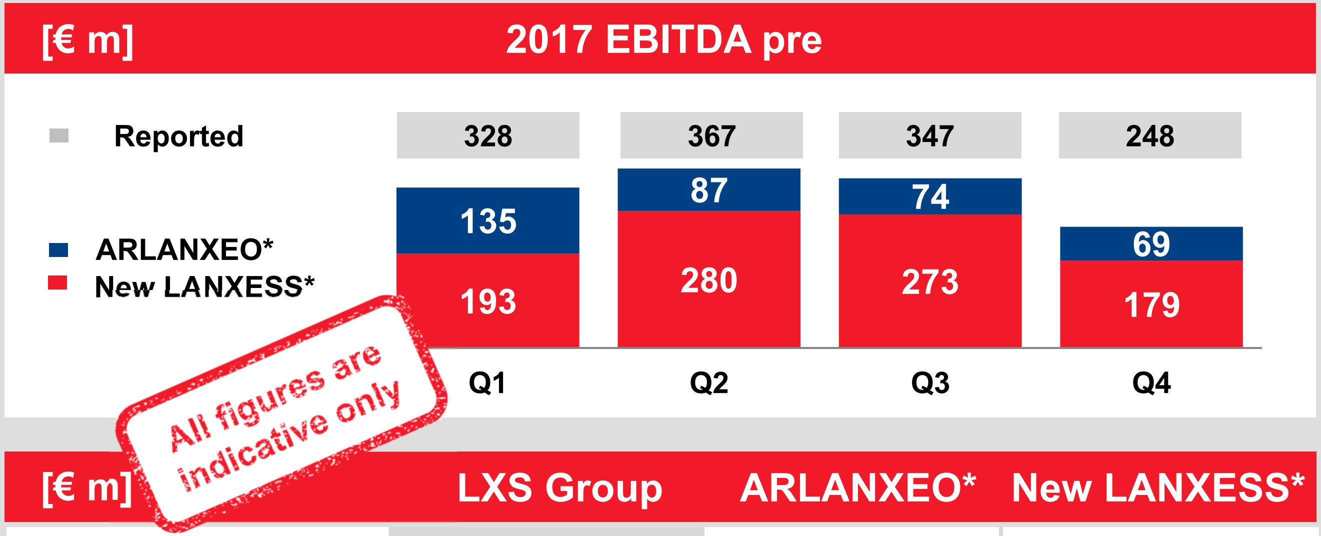
# Stripping out ARLANXEO improves FY 2017 core performance data




| [€ m] | LXS Group | ARLANXEO* | New LANXESS* |
|---|---|---|---|
| **Sales** | **9,664** | **3,244** | **6,420** |
| **EBITDA pre** | **1,290** | **365** | **925** |
| margin | 13.3% | 11.3% | 14.4% |
| Capex | 547 | 149 | 398 |
| ROCE** | 9.3% | ~5% | ~11% |

- ARLANXEO discontinued operations has a substantial positive effect on financial key indicators:
  - New LANXESS has higher margin
  - Lower asset intensity:
    - ➢ ARLANXEO historically accounted for majority of capex
    - ➢ Substantial higher ROCE

* Indicative / unaudited. Reporting of discontinued operations may lead to different disclosure
** Based on Chemtura EBIT contribution since 21 April 2017



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# Details on accounting for discontinued operations of ARLANXEO and on New LANXESS (starting Q2 2018)

## Income Statement

- A discontinued operation is reported as income separate from continued operations
- EPS from discontinued, continuing & total to be reported
- Restatement of previous years' figures

## Balance Sheet

- Line items "Assets and liabilities held for sale and discontinued operations" will be shown under "current assets" and "current liabilities" respectively
- No restatement of previous years' figures

## Cash Flow Statement

- Presentation of cash flows only from continuing operations
- Breakdown between the three categories (operating, investing and financing) of discontinuing operations only shown in the notes
- Restatement of previous years' figures

## ROCE

- ROCE definition will be adjusted for "continuing operations"



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# Upcoming events 2018

## Proactive capital market communication

| | | |
|---|---|---|
| Goldman Sachs 7th Annual European Chemicals Conference | March 16 | London |
| MainFirst Corporate Conference | March 22 | Copenhagen |
| **Q1 2018 results** | **May 4** | |
| **Annual General Meeting 2018** | **May 15** | **Cologne** |
| Commerzbank Northern European Conference | May 17 | Boston |
| mBank Chemicals Day 2018 | June 5 | Warsaw |
| dbAccess Berlin Conference | June 6/7 | Berlin |
| Morgan Stanley Cannon Ball Run | June 26 | Cologne |
| **Q2 2018 results** | **August 2** | |
| **Analyst Roundtable** | **September 20** | |
| **Q3 2018 results** | **November 12** | |



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# Abbreviations

## Advanced Intermediates

- AII Advanced Industrial Intermediates
- SGO Saltigo

## Performance Chemicals

- IPG Inorganic Pigments
- LEA Leather
- MPP Material Protection Products
- LPT Liquid Purification Technologies

## Specialty Additives

- ADD Additives
- RCH Rhein Chemie

## Engineering Materials

- HPM High Performance Materials
- URE Urethane Systems

## ARLANXEO*

- TSR Tire & Specialty Rubbers
- HPE High Performance Elastomers

* ARLANXEO will be accounted for as discontinued operations from April 1, 2018 onwards



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