LANXESS

Energizing Chemistry

Pan European Small and Mid Cap Conference

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Content

LANXESS
Energizing Chemistry

1. Built on Strong Foundation
2. Roadmap for Value Creation
3. Financials and Targets

A Performance Driven Setup: Entrepreneurial and Experienced Board Directly Connected to BUs

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

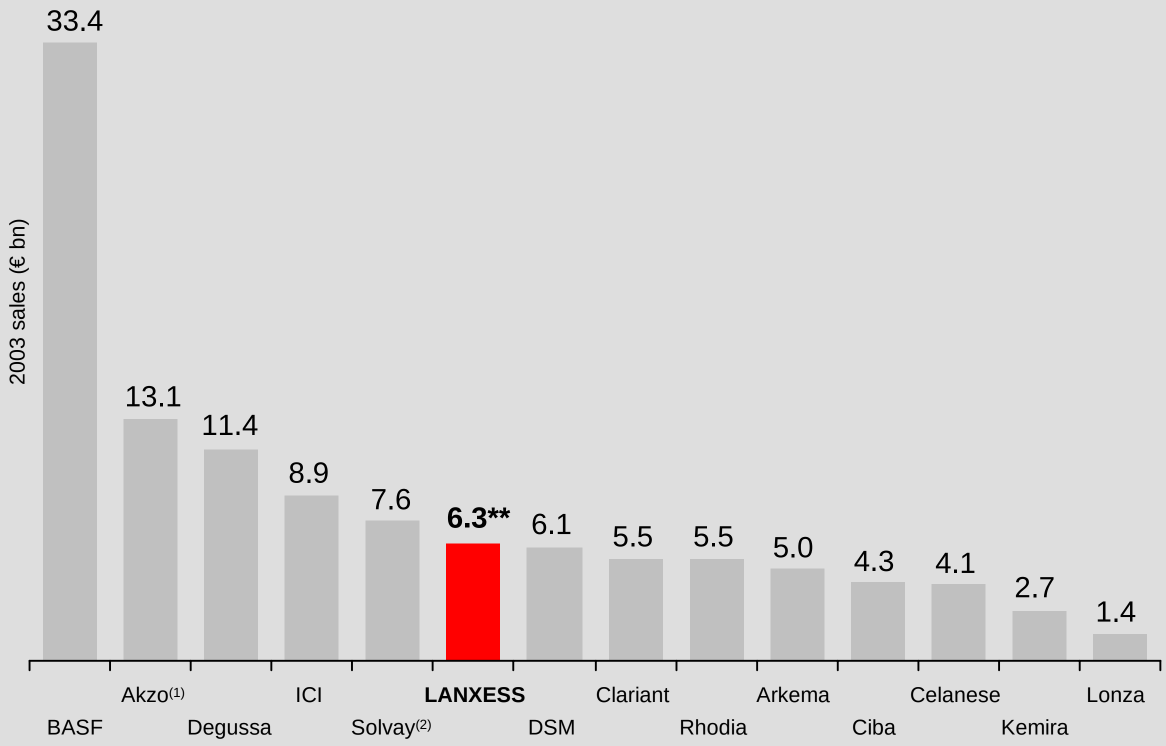
* Sales based on 2003 combined financial statements
** in 70% of sales

Board of Management

LANXESS, a Significant Player*

Size Benefits

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

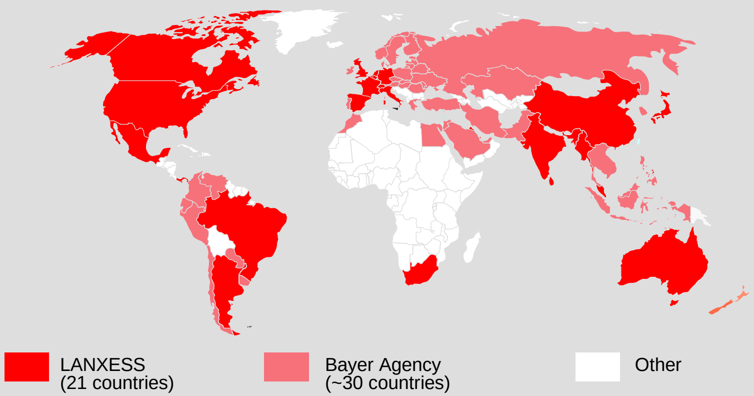


(1) Sales including € 3.6 bn Pharma (2) Sales including € 1.8 bn Pharma Source: Deutsche Bank

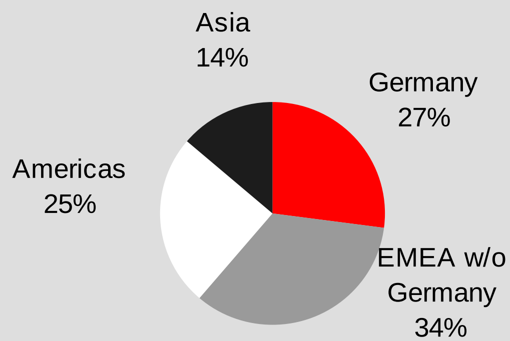
* Among European listed companies
** Sales based on 2003 combined financial statements

Global Presence

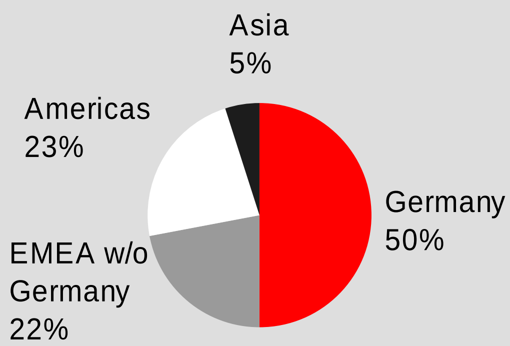
World Coverage



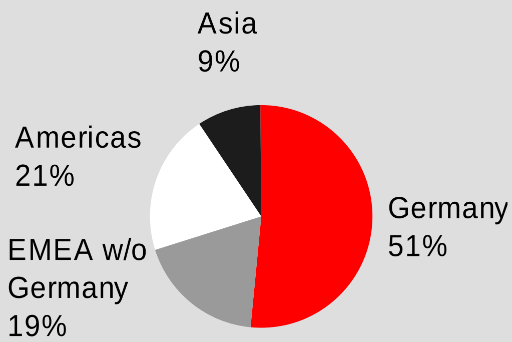
Sales by Region



Assets by Region



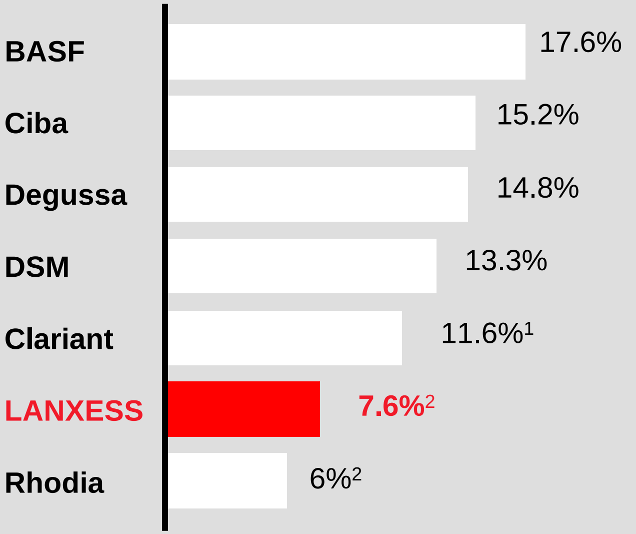
Employees by Region



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

Strong Foundation,
but Unsatisfactory Profitability

Profit Margin 1-9 2004*

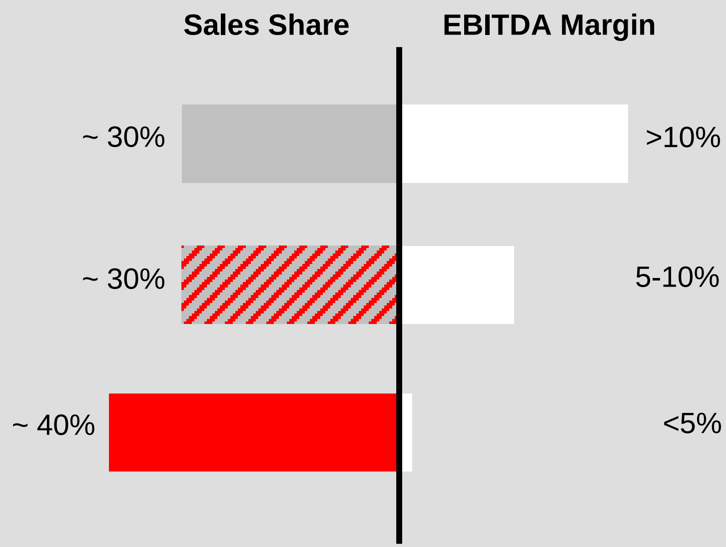


*EBITDA in % of sales 1-9 2004; Source: Quarterly reports

[1] before restructuring costs

[2] excluding exceptionals

Profitability Distribution LANXESS**



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

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1. Built on Strong Foundation
2. **Roadmap for Value Creation**
3. Financials and Targets

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

1. Performance improvement — Jump starts the operational performance to immediately generate cash

< 5 %

Selective organic growth in profitable businesses

Step 2. Our Situation Demands Targeted Restructuring

Constraints

Cash flow flexibility low

Debt situation

“General Works Agreement to Safeguard Sites and Employment III” (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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LANXESS
Energizing Chemistry

1. Built on Strong Foundation
2. Roadmap for Value Creation
3. **Financials and Targets**

Nature of “Combined Financial Statements” (CFS)

– CFS reflect LANXESS’ historical financial performance as if spin-off had occurred on January 1, 2002 whereas discontinuing operations (“DO”) figures present LANXESS as integral part of the Bayer Group

– CFS also differ from “pro forma financials”, as historical CFS figures **do not reflect** the business as if LANXESS had been independent in the past (e.g. no adjustment for historical transfer prices)

– **Major assumptions*** have been made regarding
  – Net debt and interest expense
  – Purchase of real estate
  – LANXESS’ 40% stake in Bayer Industry Services GmbH&Co OHG
  – Income taxes / Deferred taxes
  – LANXESS Corporate Center

The absence of historical unity and independence of LANXESS limits the informative value of the CFS.

9M 2004 financials are reviewed but not audited.

*actual figures may differ from assumptions

Differences between “DO” (Bayer reporting) and “CFS” (LANXESS reporting) will remain for full year 2004

9 Months Already Show an Improvement (CFS)

(€ m)	9M 2003	9M 2004	Abs. chg.	Chg. in %
Sales	**4,828**	**5,047**	**219**	~5%
Cost of goods sold	-3,919	-3,937	-18	0%
SG&A	-845	-834	11	-1%
R&D	-118	-95	23	-19%
Other op. Result	-23	-105	-82	>100%
EBIT	**-77**	**76**	**153**	n.m.
Net Income	**-113**	**-8**	**105**	93%
EBITDA*	300	325	25	8%
Exceptional Items**	-25	-60	-35	>100%
EBITDA excl. exceptionals	**325**	**385**	**60**	18%

n.m.: not meaningful
* EBITDA equals EBIT plus depreciation and amortisation
** excluding exceptional depreciation and amortisation of €17 million in 9M 2003 and €21 million in 9M 2004.

Performance Rubber: EBIT Improvement Despite Exceptionals

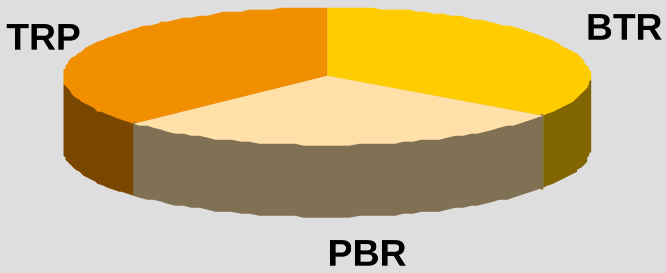
(€ m)	9M 2003	9M 2004
Sales	1,038	1,046
EBIT	-51	42
EBIT Margin	-4.9%	4.0%
Depr. / Amort.	88	55
EBITDA	37	97
EBITDA Margin	3.6%	9.3%
Capex	48	43

– Unfavourable currency effects on sales were offset by price and volume increases. Rise in TRP volume over-compensated decreased volume in PBR

– EBIT positively influenced by above mentioned price and volume increases as well as reduced depreciation after impairments in 2003

– Provisions in connection with settlement of antitrust investigations of €12 m mainly in TRP negatively affected 9M 2004 EBIT and EBITDA

Sales by BU:

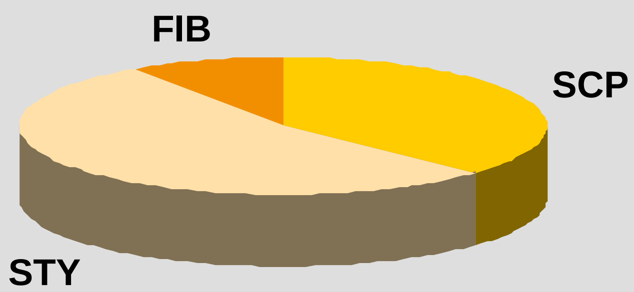


Engineering Plastics: Volume Growth and EBIT Improvement - However Operationally Still Unsatisfactory

(€ m)	9M 2003	9M 2004
Sales	1,060	1,281
EBIT	-57	16
EBIT Margin	-5.4%	1.2%
Depr. / Amort.	89	22
EBITDA	32	38
EBITDA Margin	3.0%	3.0%
Capex	53	26

- Overall increased volumes and prices drive sales growth
- Sales increases in STY as well as positive volume- and price-driven sales performance of SCP more than offset slight sales decline in FIB
- Despite higher raw material prices, EBIT increased on
  - higher volumes
  - €13 million asset write-backs in STY
  - lower depreciation

Sales by BU:



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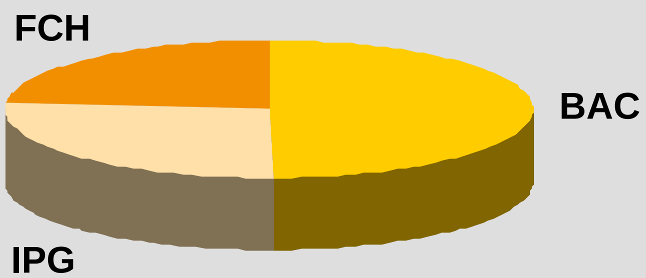
Chemical Intermediates: EBIT Improvement Driven by Higher Market Demand

(€ m)	9M 2003	9M 2004
Sales	1,080	1,102
EBIT	33	46
EBIT Margin	3.1%	4.2%
Depr. / Amort.	106	86
EBITDA	139	132
EBITDA Margin	12.9%	12.0%
Capex	49	53

- Strong sales in BAC offset decrease in sales in other business units – especially FCH which had to cope with ongoing difficult market conditions
- Impairment charges of €13 million were incurred relating to FCH
- Lower depreciation base in the segment following the impairment charges incurred at the end of 2003

Sales by BU:

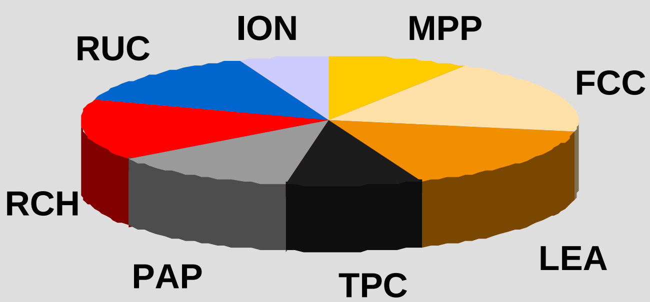


Performance Chemicals: Strong Performance by Majority of BUs Offset by Exceptionals and RUC

(€ m)	9M 2003	9M 2004
Sales	1,501	1,459
EBIT	51	-8
EBIT Margin	3.4%	-0.5%
Depr. / Amort.	80	76
EBITDA	131	68
EBITDA Margin	8.7%	4.7%
Capex	39	33

- Sales decrease mainly on unfavourable currency effects in all business units
- EBIT hit by exceptionals of €68 million:
  - goodwill impairment of €20 million incurred in RCH
  - an increase of provisions of €8 million relating to the settlement of antitrust investigations at RUC
  - a €40 million increase in provisions for environmental matters

Sales by BU:



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Condensed Consolidated Balance Sheet

(€ m)	Dec 31, 2003	Sep 30, 2004
Non-current Assets		
Intangible assets	99	69
Property, plant & equ.	1,551	1,510
Investments	40	96
Current Assets		
Inventories	1,096	1,204
Trade receivables	990	1,217
Loan to Bayer	256	0
Other receivables & assets	298	351
Cash & cash equivalents	13	80
Deferred taxes	170	143
Deferred charges	18	13
Total assets	4,531	4,683

(€ m)	Dec 31, 2003	Sep 30, 2004
Shareholders' equity	1,358	1,366
Minority stockholders' interest	43	34
Provisions		
Pension & post empl. provisions	408	412
Other provisions	405	512
Liabilities		
Financial obligations	1,442	1,395
thereof Mandatory Convertible	-	200
Trade accounts payable	574	652
Misc. liabilities	187	240
Deferred taxes	57	28
Deferred income	56	44
Total Liabilities & Equity	4,531	4,683

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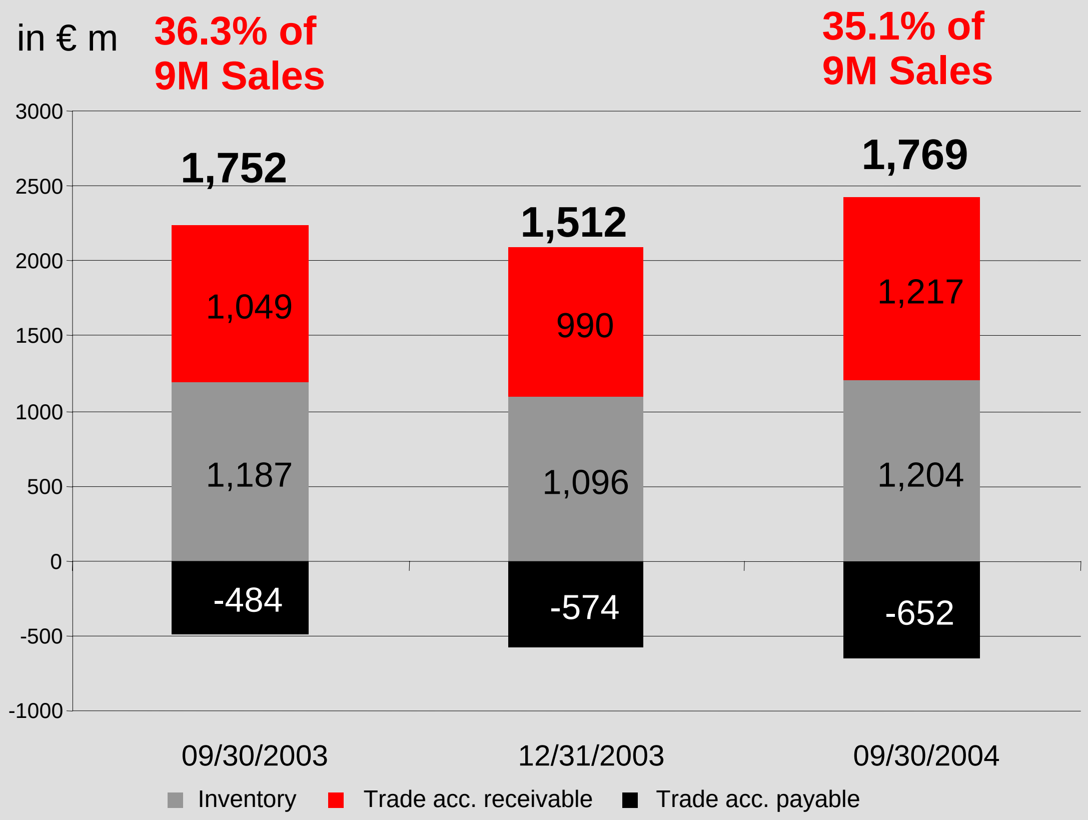
Working Capital* Status is Unsatisfactory



- Inventory: Planned maintenance shutdowns in 9M 2004 and price increases as well as system migration in the US impact inventory
- Receivables: Higher sales especially in Q3 2004 result in increased trade receivables
- Payables: Increased raw material prices and higher volumes impact payables

Working Capital reduction is a target, but major changes will take time

* Working Capital : Inventory plus trade accounts receivable less trade accounts payable

Capital Structure

Improved payment terms negotiated with Bayer lead to €130 million Net Working Capital Reduction per 31.12.2004

Inventories and receivables per 31.12.2004 are expected to end above prior year level mainly due to:

- **Increased Sales**
- **Higher raw material prices**
- **Higher inventory due to scheduled plant maintenance**
- **System migration (e.g. SAP in USA)**

Such temporary increase has been countered by a payment term prolongation negotiated with our largest supplier- Bayer. This prolongation will be phased-out until the third quarter 2006 (€30 million in Q3 2005, €50 million in Q2 2006, €50 million in Q3 2006) when we expect to be back to a normalised level of inventories and receivables.

Contingent Liabilities: Arrangement between Bayer and LANXESS

Environmental Liabilities

– LANXESS is liable for real estate listed in annex of the master agreement
– Liability up to €350 million for liabilities caused prior to spin-off date
– Generally, the liability cap relates to remedial action ordered, agreed upon or actually carried out before the end of 2009
– Current provisions are €85 million as of 09/30/2004

Product Liabilities

– LANXESS is liable for all products that have been put in circulation by LANXESS
– In addition, LANXESS is liable for certain other specified products

Antitrust Matters

– General rule: LANXESS is liable for anti-trust violations committed by LANXESS
– With regard to certain antitrust matters of Bayer's former Rubber segment, LANXESS will bear 30% of liability. Bayer will bear 70%. LANXESS' cap for these antitrust liabilities is €100 million, with an annual cap of €50 million
– The Company considers it possible that the €100 million cap will be fully used up

We Start with Realistic 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

Preliminary Figures for Fiscal 2004 - LANXESS Sales and Earnings as Planned

In € m	Q4 2003	Q4 2004	Change in %	FY 2003	FY 2004	Change in %
Sales	1,487	1,726	16.1	6,315	6,773	7.3
EBIT	(1,220)	(17)	n.m.	(1,297)	59	n.m.
EBIT pre exceptionals	(84)	1	n.m.	(119)	158	n.m.
EBITDA	(120)	62	n.m.	180	387	115
EBITDA pre exceptionals	(14)	62	n.m.	311	447	43.7

Guidance Given in the Past for 2004

We are in line with targets and expectations

- **FY 2004 EBITDA pre exceptionals:**
  - Guidance: ~€450 million or ~7% of sales
  - Achievement: €447 million, 6.6% of sales

- **Year-end 2004 Net Financial Debt**
  - Guidance: ~€1.1 bn
  - Achievement: : around €1.1 bn

LANXESS


INDEPENDENT. SOVEREIGN. AUTONOMOUS.
PERFORMANCE DRIVEN SET-UP.
SIGNIFICANT GLOBAL PLAYER.
CLEAR STRATEGY FOR VALUE GENERATION.
DISCIPLINED CASH MANAGEMENT.

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Tank you very much for your attention!