LANXESS - Energizing Chemistry
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Agenda

1. LANXESS - Energizing Chemistry
2. Q1 2005 Financials
3. Strategy and Restructuring
4. Outlook & Guidance

LANXESS - Built on Polymers and Chemicals

LANXESS
Energizing Chemistry

Performance Rubber	Engineering Plastics	Chemical Intermediates	Performance Chemicals
			
Sales*: € 1.4 bn	Sales*: € 1.7 bn	Sales*: € 1.5 bn	Sales*: € 1.9 bn

Independence. Cost Reduction. Portfolio Management.

*All figures based on combined financial statements 2004

17 Entrepreneurial Business Units secure Transparency, Responsibility and Flexibility

Board of Management

Performance Rubber
- Butyl Rubber
- Polybutadiene Rubber
- Technical Rubber Products

Engineering Plastics
- Styrenic Resins
- Semi-Crystalline Products
- Fibers

Chemical Intermediates
- Basic Chemicals
- Fine Chemicals
- Inorganic Pigments

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

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

Step-by-Step Approach to Creating Value

EBITDA Margin | Short-term | Medium-term | Long-term

Portfolio

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

> 10%

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

LANXESS 2005
“Walking the Talk”

Independence

– Strategy change in PBR -from pure volume to profitability strategy- yields results
– Strategy change in STY - regional centers produce and deliver for regional markets
– Selling prices increased for many products amid supportive market environment

Cost Reduction / Restructuring

– Hydrazinhydrat plant disassembled and shipped to China; Porofor plant sold to Chinese partner
– Additional restructuring plans for STY and FCH announced

Portfolio

– Paper: Preparations finalized by Q2 (data room, businessplan, etc.), interested parties will be contacted from Q3 onward, target: to finalize PAP transaction by year-end if the value is appropriate

Financial Update

– Listing of “LXS” on the German Stock Exchange
– Second rating as “investment grade company” by Moody`s (in addition to Standard & Poors)
– Buy-back and placement of convertible bond
– Placement of € 500 m Eurobond
– Joining German index MDAX since 20 June 2005

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The Year Started Reasonably Well

(€ m)	Q1 2004	Q1 2005	Δ absolut	Δ in %
Sales	**1,610**	**1,729**	**119**	7%
Cost of goods sold	-1,241	-1,287	46	4%
SG&A	-265	-282	17	6%
R&D	-35	-26	-9	-26%
Other op. income/ expense	1	-18	-19	n.m.
EBIT	**70**	**116**	**46**	**66%**
thereof exceptionals	**0**	**-5**	**-5**	**n.m.**
Net Income	**26**	**70**	**44**	**>100%**
EBITDA	165	181	16	10%
thereof exceptionals	0	0	0	0%
EBITDA pre exceptionals	**165**	**181**	**16**	10%

- Sales increase mainly due to higher selling prices
- Improved profitability due to price-passthrough in a quarter that should usually be the strongest quarter
- Capex write-offs in FCH and STY of €5 million

n.m.: not meaningful

Q1 2005 Sales Variance by Segment (approximate numbers)

(€ m)	Q1 2004	Price	Volume	Currency	Q1 2005
Performance Rubber	**326**	~ +15%	~ +6%	~ -1%	**392**
Engineering Plastics	**407**	~ +15%	~ -12%	~ -1%	**414**
Chem. Intermediates	**366**	~ +6%	~ +1%	~ -1%	**389**
Perf. Chemicals	**478**	~ +2%	~ -1%	~ -1%	**478**
LANXESS	**1,610**	~ +9%	~ -1%	~ -1%	**1,729**

Independence

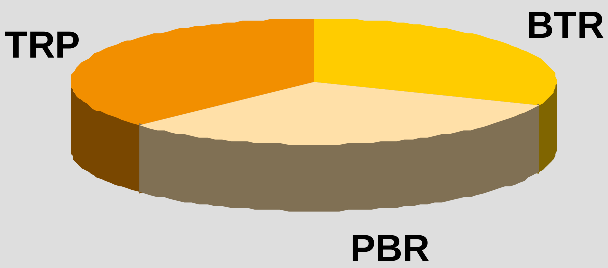
- supports re-positioning of businesses on the market
- enables implementation of new pricing strategies
  - improve margin to acceptable level
  - don't go for every volume at any price

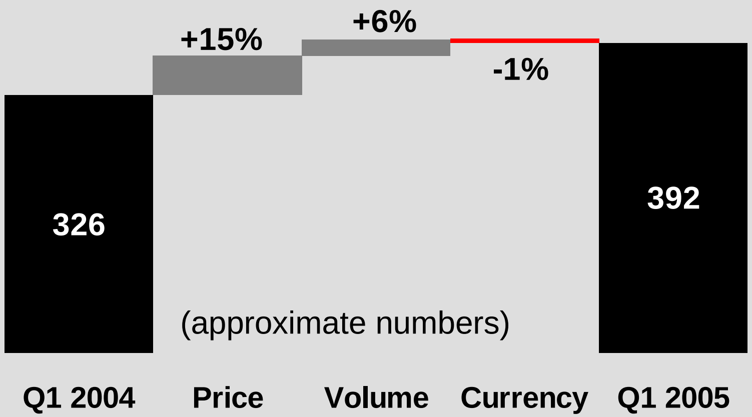
Performance Rubber: Improved Results Due To New Strategy and Supportive Environment

(€ m)	Q1 2004	Q1 2005
Sales	**326**	**392**
EBIT	12	41
Depr. / Amort.	20	15
EBITDA	32	56
EBITDA pre except.	**32**	**56**
Margin	9.8%	$\boxed{14.3\%}$
Capex	**11**	**9**

- Increased selling prices mainly in PBR and BTR as well as higher volumes in TRP and PBR lead to higher sales and further performance improvement
- Turnaround achieved in PBR due to a new business approach and a more favorable product mix
- TRP with still moderate Q1 performance compared to BTR and PBR

Sales by BU:



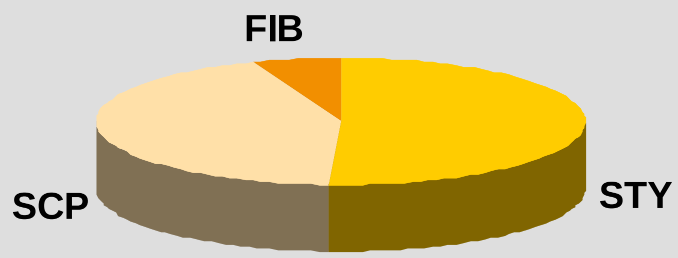


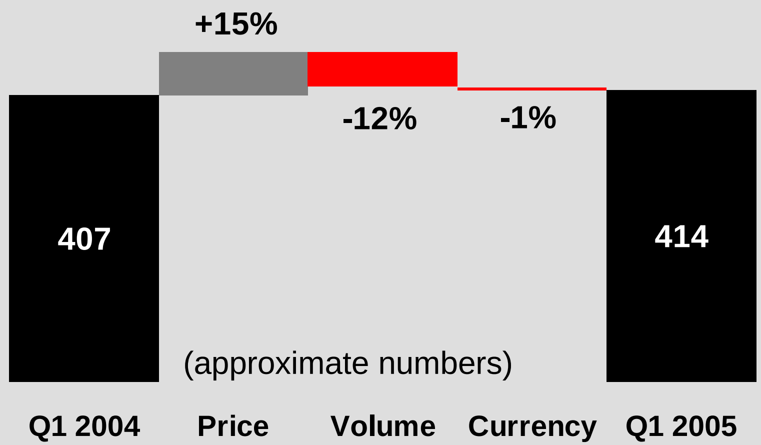
Engineering Plastics: Still Dark but First Light Visible at the End of the Tunnel

(€ m)	Q1 2004	Q1 2005
Sales	**407**	**414**
EBIT	3	24
Depr. / Amort.	18	11
EBITDA	21	35
EBITDA pre except.	**21**	**35**
Margin	5.2%	8.4%
Capex	**9**	**5**

- Only slightly higher sales as clear focus remains on performance improvement
- Voluntary loss of unprofitable sales volume mainly in STY; relatively weak business in FIB
- Strong first quarter in SCP primarily due to selling price improvement and easing raw material prices (basically cyclohexane)
- Exceptionals of €2 million due to Capex write-offs in STY

Sales by BU:





LANXESS

Chemical Intermediates: Overall Good Results with Highly Differential BU Performance

(€ m)	Q1 2004	Q1 2005
Sales	**366**	**389**
EBIT	48	47
Depr. / Amort.	33	18
EBITDA	81	65
EBITDA pre except.	**81**	**65**
Margin	22.1%	16.7%
Capex	**10**	**9**

– Sales growth driven by higher prices and volumes in BAC which continued to perform very well

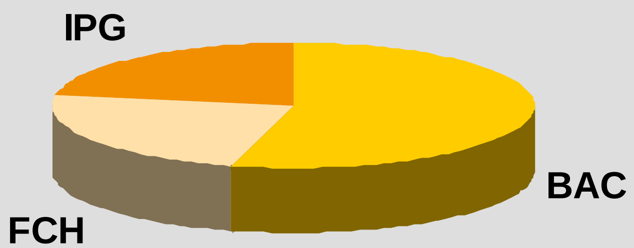
– Slight volume decrease in IPG mainly due to a strong winter impacting demand in construction industry

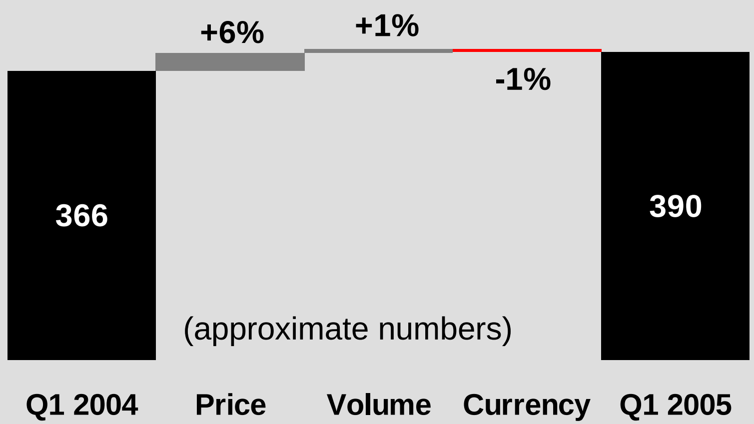
– Weighted down mainly by the downward trend in FCH, EBITDA pre exceptionals showed a year-on-year decline

– Q1 2004 contained positive single digit one-offs (reversal of accrual)

– Exceptionals of €3 million due to Capex write-offs in FCH

Sales by BU:





Performance Chemicals: Improvement on the Basis of Cost Reduction and Price Increases

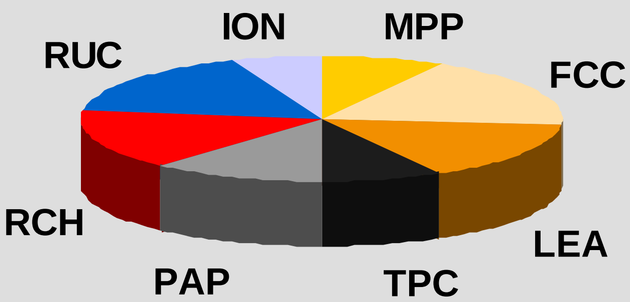
(€ m)	Q1 2004	Q1 2005
Sales	**478**	**478**
EBIT	33	43
Depr. / Amort.	22	15
EBITDA	55	58
EBITDA pre except.	**55**	**58**
Margin	11.5%	12.1%
Capex	**11**	**12**

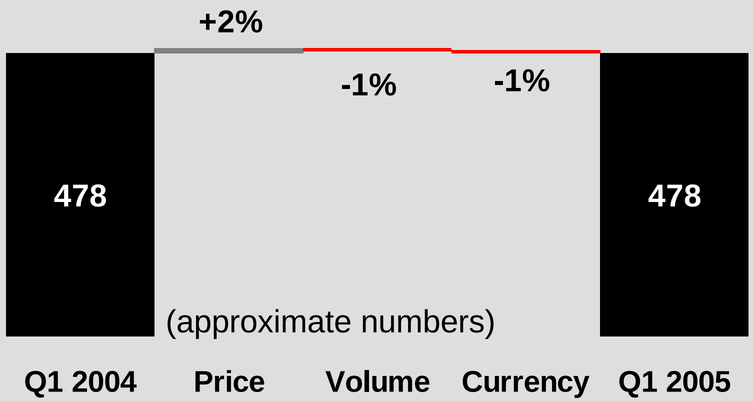
– Total sales remained flat with price increases mainly in RUC and FCC, partly offset by weaker pricing primarily in ION and TPC

– Volume increases mainly in ION and PAP were likewise more than offset by lower volumes in FCC and TPC

– EBITDA pre exceptionals improved due to better RUC results and to some extend reduced costs in virtually all operating cost accounts

Sales by BU:





Condensed Consolidated Balance Sheet

(€ m)	Dec 31, 2004	Mar 31, 2005
Non-current Assets		
Intangible assets	65	62
Property, plant & equipment	1,521	1,518
Investments	85	87
Current Assets		
Inventories	1,151	1,279
Trade receivables	1,137	1,191
Other receivables & assets	363	404
Cash & cash equivalents	72	130
Deferred taxes	172	34
Deferred charges	11	12
Total assets	4,577	4,717

(€ m)	Dec 31, 2004	Mar 31, 2005
Shareholders' equity	1,351	1,171
Minority stockholders' interest	14	14
Provisions		
Pension & post empl. provisions	418	431
Other provisions	481	548
Liabilities		
Financial obligations	1,207	1,364
thereof Mandatory Convertible	200	200
Trade accounts payable	820	756
Misc. liabilities	190	210
Deferred taxes	55	174
Deferred income	41	49
Total Liabilities & Equity	4,577	4,717

New Investment Grade Rating by Moody's: Baa3

Further improvement of LANXESS Capital Structure Convertible and Corporate Bond Placement

Convertible Bond

- On 6 June 6, LANXESS bought back the €200m mandatory convertible bond (MCB) it issued to Bayer in September 2004
- LXS re-sold the MCB to Morgan Stanley immediately, placing the underlying shares through an accelerated bookbuilt
- Additional equity of > €200 million is created through early conversion of MCB
- Credit ratios are enhanced, as an equity-like instrument is replaced with pure equity
- Interest expenses reduced by €12 million p.a. from 2006 onwards
- Overhang in LANXESS stock eliminated and trading liquidity is increased

Corporate Bond

- On June 14, 2005, LANXESS placed ist €500m debut Eurobond with 4.125 coupon
- Spread of 118 basis points above mid-swaps
- Maturity of seven years (due in June 2012)
- Proceeds of the issue will be used to repay bank debt

Improved Operating Cash Flow Remains Weak - Predominantly due to Working Capital

(€ m)	Q1 2004	Q1 2005
EBIT	**70**	**116**
Taxes Paid	-17	-24
Depreciation & Amortization	95	65
Change in Pension Accrual	7	0
Gain/ Loss from Sale of Assets	4	-1
Change in Working Capital*	-225	-236
Change in other net current assets	-1	70
Cash provided by operating act.	**-67**	**-10**
Capex	**-50**	**-51**
Cash Flow used in investing activities**	-52	-48
Cash Flow used in financing activities	126	116
Cash at End of Period	20	130

- Cash effect from higher EBIT did not offset increase in working capital
- D&A in 2005 lower due to absence of goodwill amortization and technical effect in 2004
- Working Capital increases due to higher business volume and higher raw material prices
- €20 million cash out in Q1 for rubber anti-trust
- Capex again below level of depreciation

Restructuring expected to impact cash flow in 2005/2006

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

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Energizing Chemistry

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Step-by-Step Approach to Creating Value
Step 2: Targeted Restructuring

	EBITDA Margin	Short-term	Medium-term	Long-term
Portfolio	> 10%			
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 %			

Selective organic growth in profitable businesses

Step 2: Targeted Restructuring
Agreement reached to realigne the BUs STY and FCH

Savings package consists of personnel cost savings and consolidation of production plants

- **Personell savings: Socially responsible elimination of 960 jobs by 2007 in Germany**
  - thereof ~300 employees in STY,~500 employees in FCH, and ~160 employees of employment-pool
  - Headcount reduction of ~200 employees in 2005, and approximately 400 each in the following two years
  - natural fluctuation, retirements, partial retirement and active outplacement assistance

- **Consolidation of production plants:**
  - **STY**:
    - Facilities at Dormagen and Tarragona to be realigned
    - Focus on speciality grades and capacity expansion in Tarragona
    - Dormagen: Future production dedicated solely to BMS on reduced capacity, employees reduced by 2/3
  - **FCH**:
    - FCH will become an independent entity
    - Closure of unprofitable plants on the Leverkusen site
    - Focus on profitable agro- and pharma businesses
    - Total investments of €50 million until 2007

Step 2: Targeted Restructuring
Agreement reached to realign the BUs STY and FCH (cont.)

"Solidarity" agreement by German workers council /employees to support realignment of the group

- "Solidarity" agreement applies from July 1, 2005 through the end of 2007
- Reduction of working hours to 35 h/week associated with reduced wages of 6,7%
- Reduction of bonus payments throughout the whole organization up to Board level

Cornerstones of the agreement

- Headcount reduction of 960 employees by 2007
- One time costs currently estimated to be approx. €150 million

  ➔This will be partly counterbalanced by "Soli" of ~ €60 million within the next 2,5 years
- Overall headcount reduction and synergies by asset consolidation will lead to savings of ~ €100 million by 2008
- As capacity in STY and FCH will be reduced by 2007/08 certain sales volume and corresponding profit will be lost on purpose (~ €30 million bottom line profit)

  ➔ By this reduction of capacity, we prepare STY for a future downturn in the chemical cycle thereby improving the supply/demand ratio

Breakthrough in negotiations to support realignment for the Business Units STY and FCH

Step-by-Step Approach to Creating Value

	EBITDA Margin	Short-term	Medium-term	Long-term
Portfolio	> 10%	**3.** Portfolio adjustments		
Cost	9-10%			
	< 5 %			

- Portfolio adjustments form the third stage of the program for sustainable competitiveness
- LANXESS open to discussions
- Search for a partner for PAP

Selective organic growth in profitable businesses

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Outlook and Guidance

Underlying assumptions

- Exchange rate €1.0 = ~USD1.30
- Economic environment satisfactory, moderate growth in H2 2005
- LANXESS tends to have a better mix of higher-margin BUs in first half of any year

2005 Guidance based on above assumptions

- Some sales growth year over year with H2 2005 only moderate (if at all) due to comparison to strong H2 2004
- FY 2005 EBITDA pre exceptionals expected to be >10% above FY 2004
- Q2 2005 EBITDA pre exceptionals is expected to be again a good quarter vs. previous year's Q2 - normally the second strongest quarter on a full year basis
- Capex ~€250-270 million
- Depreciation and Amortization ~€250 million


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

Appendix

Summary:
Good First Quarter - A Further Step Towards Our Targets

(€ m)	Q1 2004	Q1 2005	Δ in %
Sales	**1,610**	**1,729**	**7.4%**
EBITDA pre except. Margin	**165** 10.2%	**181** 10.5%	**9.7%**
EBIT	**70**	**116**	**65.7%**
Net Income	**26**	**70**	**>100%**
Net Financial Debt	**1,135**[1]	**1,234**	**8.7%**
Capex	**50**	**51**	**2.0%**
Employees	**19,659**[2]	**18,799**[3]	**-1.4%**

- Q1 2005 expected to remain strongest quarter
- Sales growth on the basis of strong pricing
- Price increases supported by economic environment
- Reduced D&A after impairments in Q4 2003 (still high D&A in Q1 2004)
- Working Capital increase mainly due to seasonal Q1 effects and stronger sales
- Continuing prudent capex management

[1] per 12/31/2004
[2] per 12/31/2004; including 600 agency employees
[3] excluding 600 agency employees who were not transferred to Lanxess

Good Q1 - temporary relief from raw material cost increase and higher selling prices