



# **LANXESS – Acquisition of Petroflex**

**Conference Call on December 13, 2007**

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# Agenda

- 1. Transaction highlights**
- 2. Strategic rationale**
- 3. Introduction of Petroflex**
- 4. Transaction financials**

# A compelling strategic rationale

## Overview of acquisition target

- Petroflex is a major player in synthetic rubber in Latin America
- 2006 sales of ~€500 million with 1,300 employees (incl. contractors)
- Solution (PBR, SSBR) and emulsion (NBR, ESBR) rubber
- Three manufacturing sites in Brazil with total capacity of ~400 kt

## Strategic rationale

- Strengthens LANXESS' position in the synthetic rubber market globally
- Reflects the strongly growing Latin American market for synthetic rubber
- Potential for synergies after integration

## Shareholder value creation

- EPS accretive in first year after closing
- Investment in profitable growth markets, where the products are expected to grow above GDP

# Transaction overview

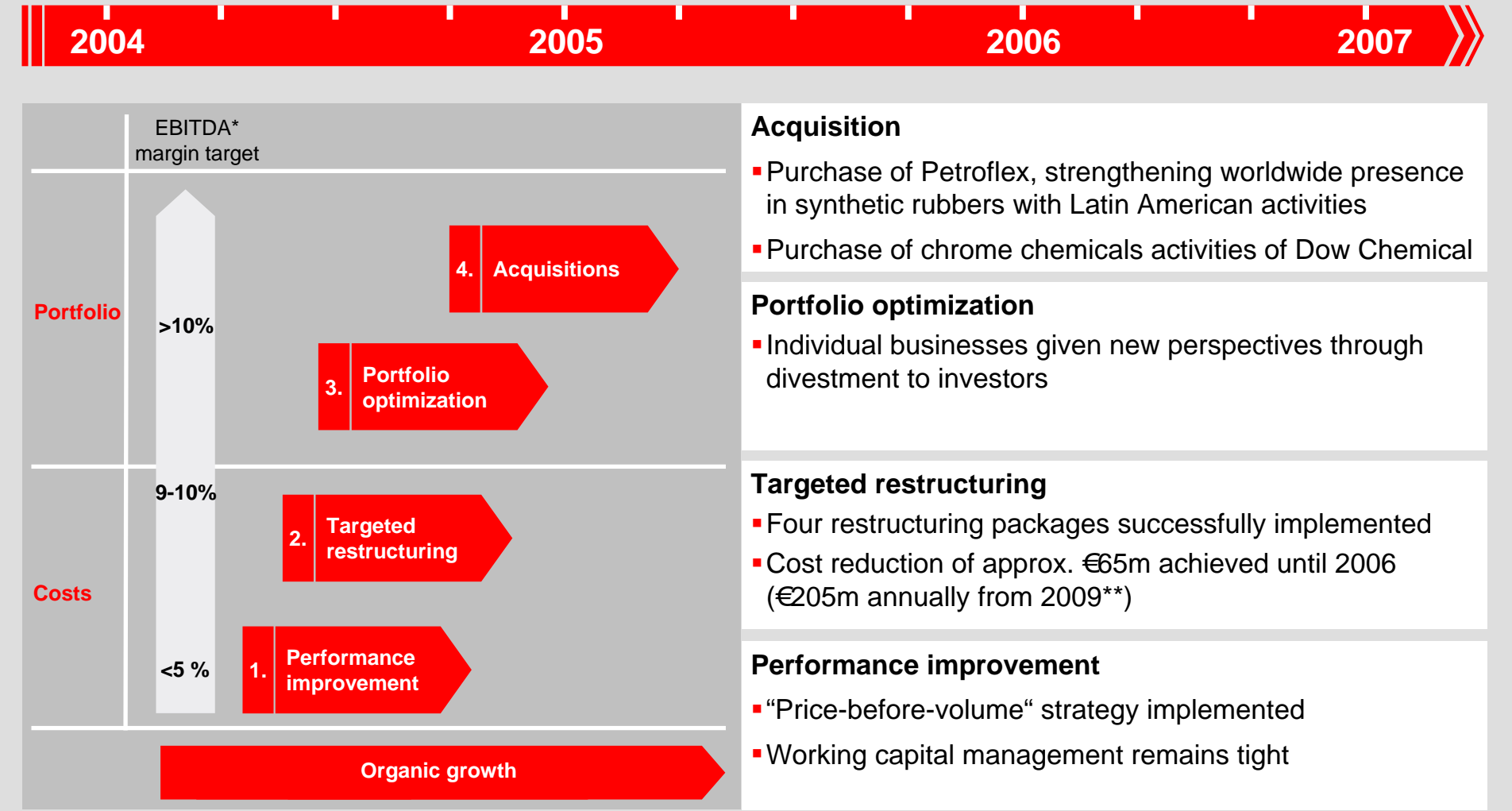
- Petroflex is a publicly listed company on the Brazilian stock exchange
  - Selling shareholder group consists of Braskem, UNIPAR and certain other shareholders
  - Purchase of shares representing 69.68% of the share capital of Petroflex Comércio e Indústria S.A. (“Petroflex”)
- Key financial terms (subject to price adjustment mechanism)
  - Purchase price of ~ €198 m\* for ~70%
  - Plus assumed net debt (~ €109 m as per Q3 statements\*)
- Transaction to be financed out of cash and bank loans
- Transaction is subject to approval by antitrust authorities in Brazil, Germany, the U.S. and other countries
- Mandatory tender offer must be launched upon closing, expected in Q2 2008
- Petroflex will be fully consolidated upon closing

\* Exchange rate as of September 30, 2007

# Agenda

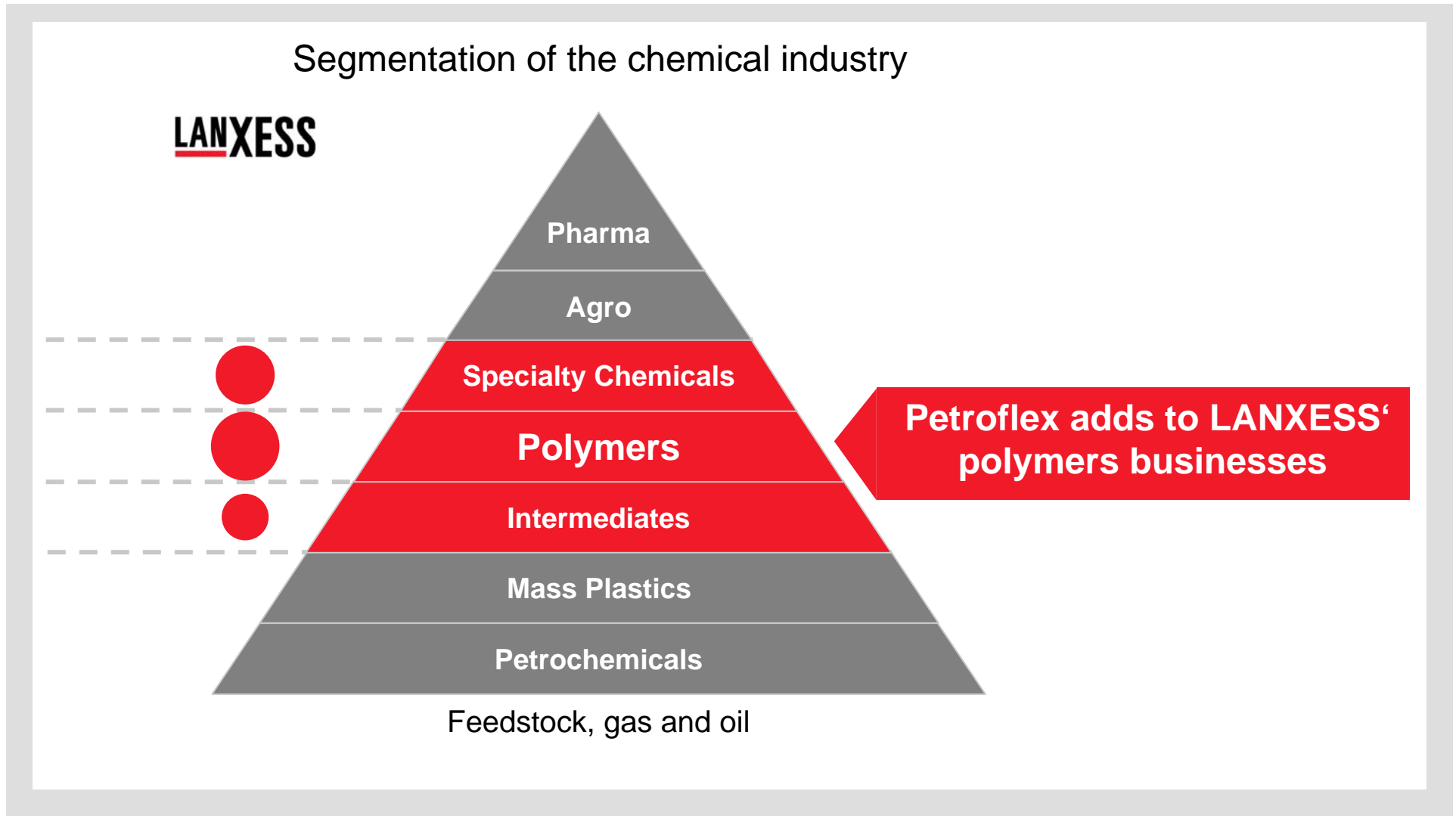
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# Consistent delivery as four-phase strategy is implemented



\* pre exceptionals \*\* adjusted for impact of Lustran Polymers exit

# Acquisition of Petroflex strengthens our portfolio in the core of the chemical industry





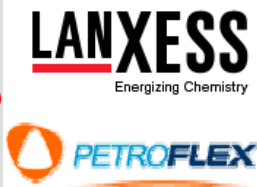
# Acquisition of Petroflex fits perfectly into our strategy

## Premium



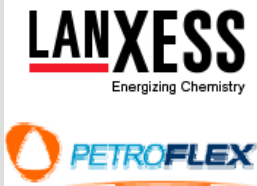
- Focus on high performance tire market
- Technology upgrade to next generation premium products provided by LANXESS

## Stability



- Strengthening worldwide presence
- Enhancing profile as synthetic rubber producer
- Strengthening global manufacturing network

## Growth



- Participation in market growth by
  - Investment in BRIC countries
  - Relocation of US tire manufacturing to Latin America

# Acquisition of Petroflex fuels growth in LANXESS synthetic rubber

- Reinforces a core business for LANXESS
- Adds to LANXESS' position in the synthetic rubber market globally
  - Solution rubber (Nd-BR, SSBR, Li-BR)
  - Emulsion rubber (NBR, ESBR)
- Expands in strongly growing Latin American countries
- Accompanies key customers in the tire industry, who are increasing their capacities in Latin America
- Gives LANXESS a production base in a low cost BRIC country
- Strengthens the global manufacturing network
- Provides opportunities for cost savings and technology upgrades

## Performance Polymers



Butyl Rubber

Polybutadiene Rubber

**Petroflex**

Technical Rubber Products

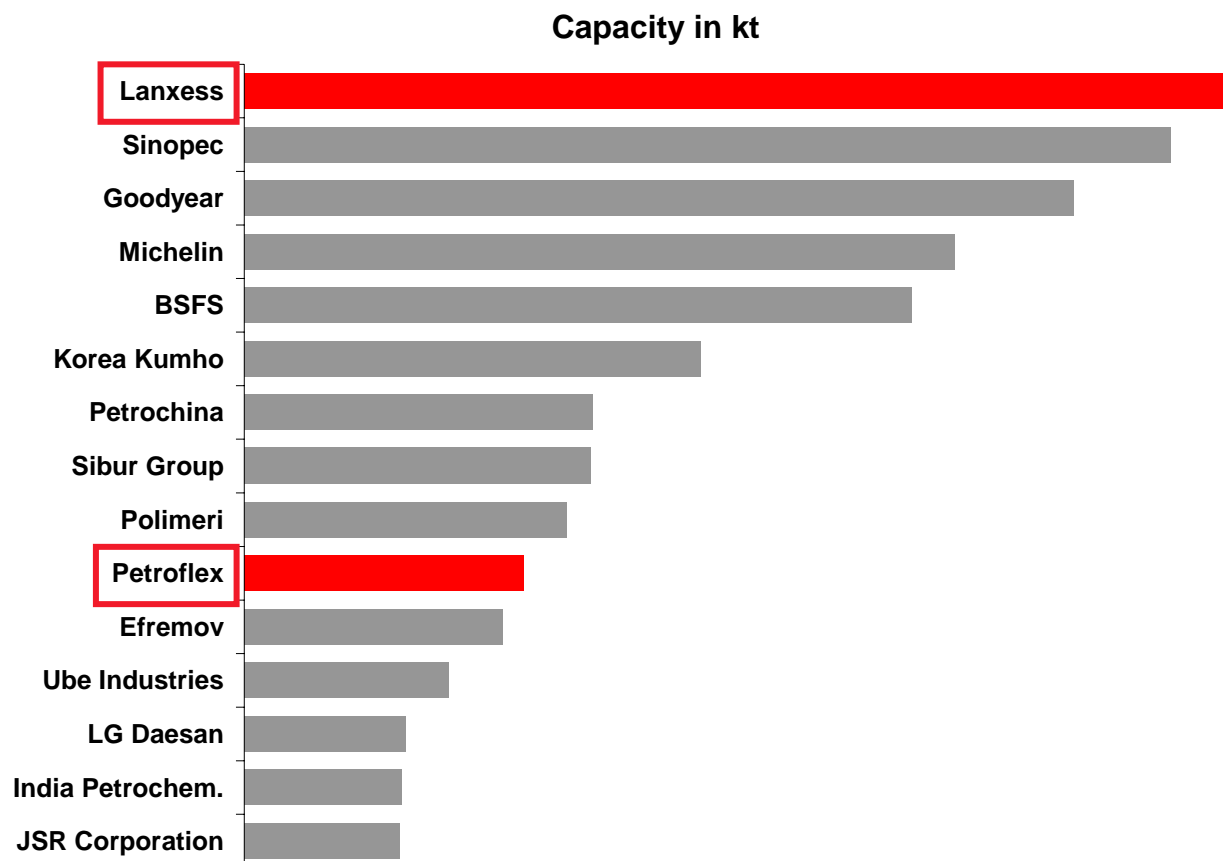
Semi-Crystalline Products

# LANXESS and Petroflex team up for a real global BR / SSBR supplier

## LANXESS solution rubber

- With its production sites in Germany (Dormagen), France (Port Jerome) and the US (Orange) PBR serves above all the technology oriented markets in Europe und North America
- LATAM is benefitting from relocation of high performance tire production from North America

## Top 15 BR / SSBR producers 2007



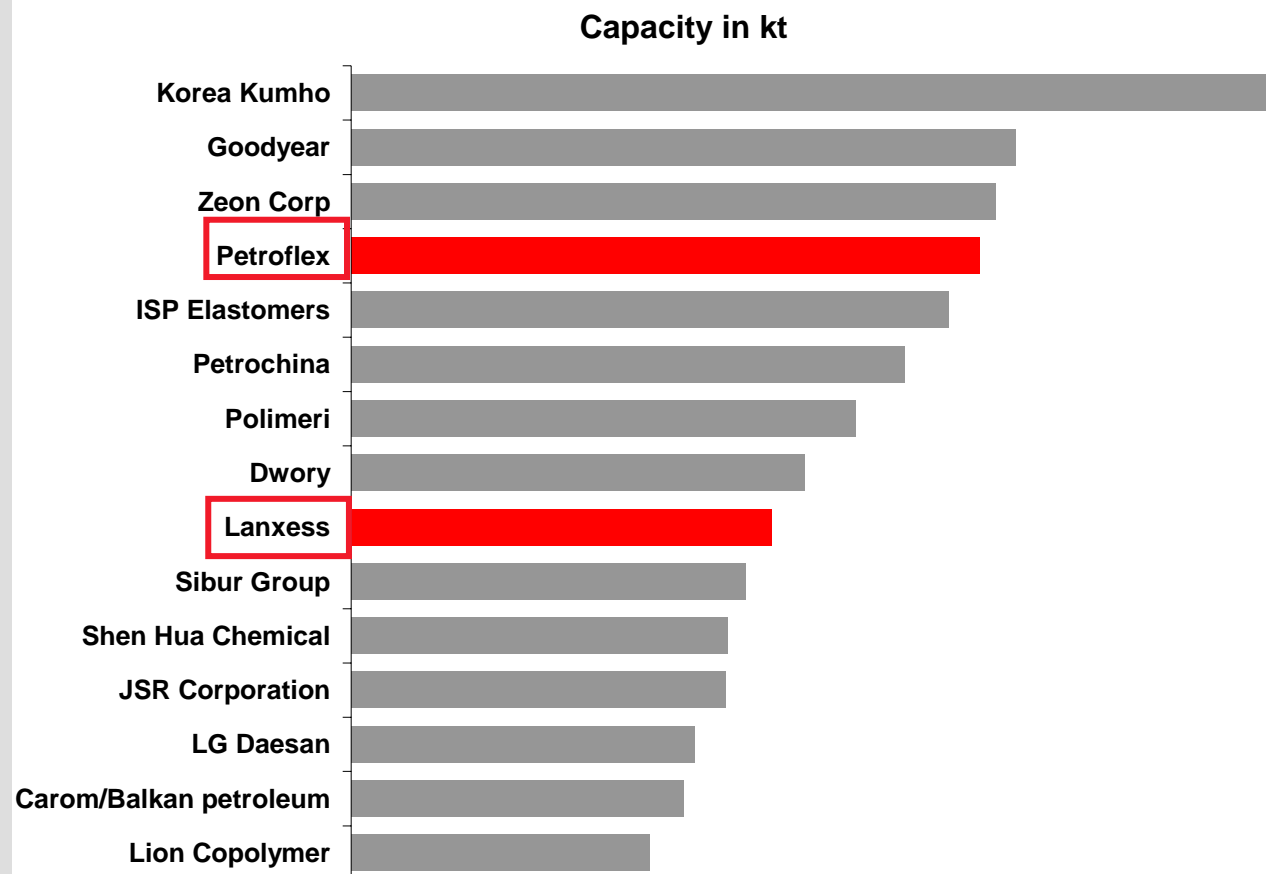
Source: IISRP (International institute of synthetic rubber producers, Inc)

# LANXESS will benefit from Petroflex' additional emulsion rubber assets

## LANXESS emulsion rubber

- The NBR production in France (La Wantzenau) has the highest capacity globally and serves the markets in Europe and Asia
- The production in Canada (Sarnia) serves the North American market
- As a general rule emulsion rubbers can be produced in the same lines
- Many of the market players combine NBR and ESBR in their portfolio

## Top 15 NBR / ESBR producers 2007



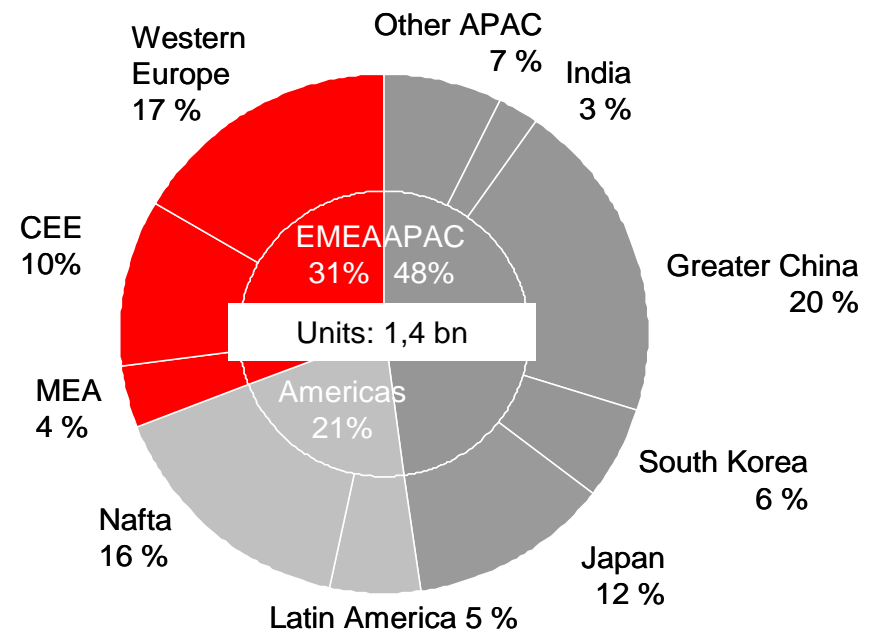
Source: IISRP (International institute of synthetic rubber producers, Inc)

# Tire industry relocation to low cost countries continues, LANXESS to supply customers globally

## Comments

- Tire production evenly split between western and eastern hemisphere
- Strong growth rates in BRIC countries
- Tire industry with 4% growth globally expected in 2008
- Tire industry with 7% growth rate in Latin America expected in 2008
- Major tire producers have announced capacity expansions in Brazil in the amount of US\$ 1 billion

## 2007 Tire production by region



Source: LMC World Tire Forecast 2007

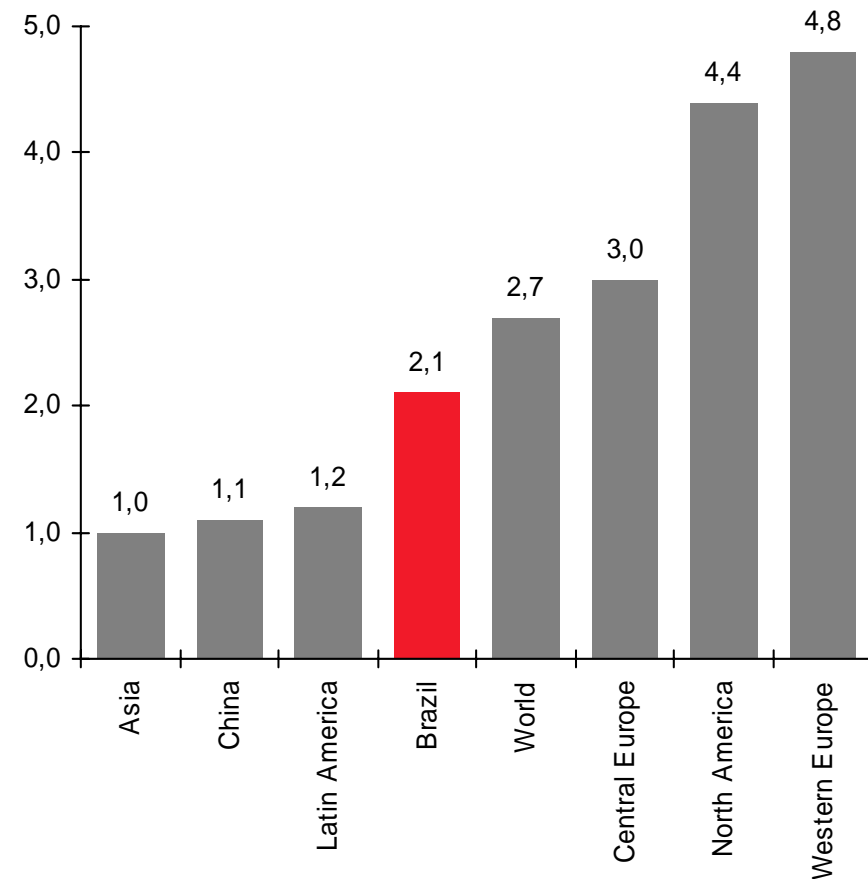
# Brazil is a region with attractive growth potential

## Comments

- Above average economic growth in Latin America, especially Brazil leads to good growth projections for rubber
- Growth of Brazilian tire rubbers industry is around 5.5% per year
- GDP growth\* Brazil 2007: 4.0%, 2009: 4.5%
- Usage of rubber is still significantly below the developed countries and world wide average

\* Source: Global Insight

## Consumption per capita of synthetic rubber



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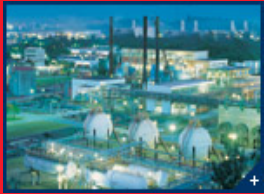
# Petroflex operates 3 sites in Brazil with total capacities of approximately 400 kt

## Cabo



- Production of solution rubber
- ~ 400 employees (incl. contractors)
- Total capacity: 125 kt for PBR and SSBR

## Duque de Caxias

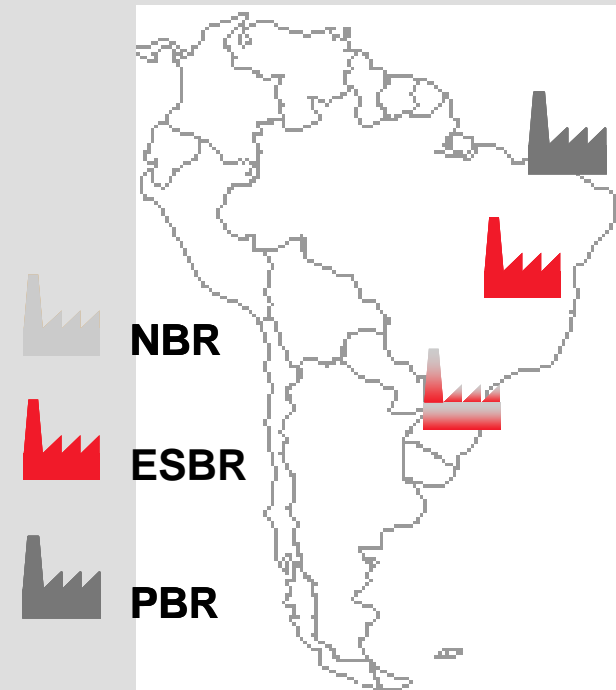


- Biggest plant and location of head office
- ~ 720 employees (incl. contractors)
- Total capacity: 210 kt ESBR

## Triunfo



- Newest plant
- ~ 170 employees (incl. contractors)
- Total capacity: 76 kt ESBR and NBR



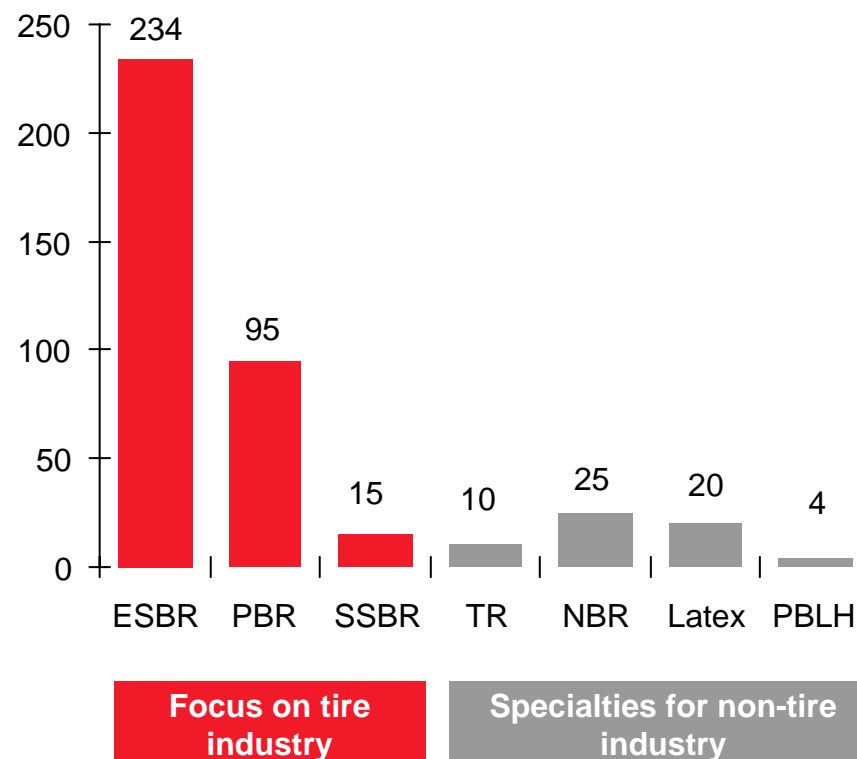


# Petroflex comprises a broad product range for tire and non-tire industries

## Highlights

- Public company listed on the Brazilian Stock Exchange (Bovespa)
- Largest synthetic rubber producer in Latin America
  - Sole producer of PBR/SSBR in LATAM
  - Well diversified product portfolio with over 70 different grades
- Operates three strategically located plants, situated close to ports
- Offices in Rio de Janeiro, Uruguay, Newark (USA) and Rotterdam (Holland)
- Distribution centres in Italy and USA
- Potential for technical upgrade

## 2006 production capacity (thousand tons)



# Petroflex' financials leave room for improvement

## Financial overview (US\$)\*

	2004	2005	2006	9M 2007
Sales	445	560	629	530
% growth		26%	12%	N/M
EBITDA	67	80	47	57
% margin	15%	14%	7%	11%
EBIT	62	73	36	47
% margin	14%	13%	6%	9%

## Financial overview (€m)\*

	2004	2005	2006	9M 2007
Sales	359	452	499	396
% growth		26%	11%	N/M
EBITDA	54	64	37	43
% margin	15%	14%	7%	11%
EBIT	50	59	29	35
% margin	14%	13%	6%	9%

**Market expects FY 2007 EBITDA of €50–55 m**

\* Exchange rates applied as per Lanxess Annual report: 2004: 0.81 €/€, 2005: 0.81 €/€, 2006: 0.80 €/€, 9M 2007: 0.74 €/€ (YTD average)

## Comments on the financial performance

- **2004:** Petroflex increases production capacities and starts focussing on higher margin products, which leads to an improved EBITDA margin
- **2005:** Additional volumes could be placed in the domestic market leading to strongly improved sales as well as EBITDA
- **2006:** Volume strategy and significant increase in raw material cost lead to a decrease in EBITDA. Furthermore, Petroflex ran a restructuring programme causing one-off cost in 2006, but leading to improved cost situation in 2007
- **2007:** Strong focus on growth in high-margin domestic business in combination with cost savings and export business at increased prices, lead to further growth in sales and recovery of EBITDA

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# Financially attractive deal structure

## Financial assessment and background info

- Transaction detail:
  - Purchase price of ~€198 m for the acquired shares (~70% of outstanding shares)
  - Final total purchase price depends on acceptance level for mandatory public offer and is subject to a price adjustment mechanism
- Transaction is expected to be EPS accretive in first year
- Transaction has a positive net present value based on a discount rate of 12.5%
- Sales multiple ~ 0.7x
- EBITDA multiple on the basis of 2007 estimates ~ 7.5x



# Financing of transaction will be absorbed by strong balance sheet

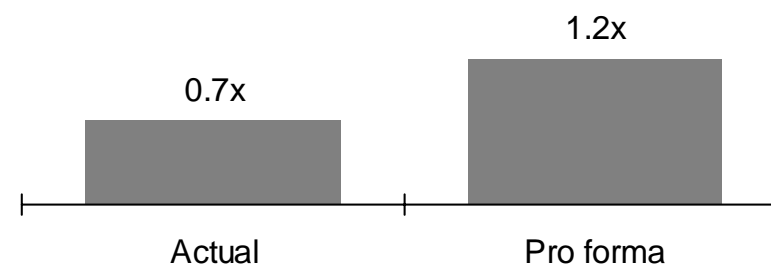
## Comments

- LANXESS will finance the acquisition by available liquidity and debt (initial financing through existing facilities)
- Long-term financing through mix of Group and local debt
  - Together with currency hedging, will moderate investment risk
- LANXESS will meet all covenant ratios and internal financial targets after the transaction
- Ratings are expected to remain unchanged

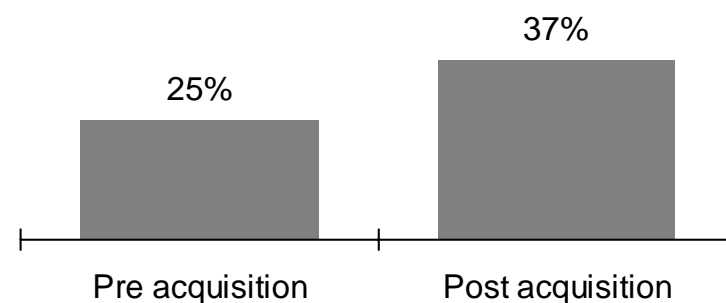
\* Excludes underfunded pension liabilities

\*\* Net debt/(Equity+Net debt)


## Net financial debt / EBITDA 2007\*



## Debt / capital\*\*



# Closing expected for Q2 2008

- **Phase I due diligence:** usual pre-signing review
    - Dataroom, Q&A
    - Sessions with management, Plant visits
  - **Signing**
  - **Confirmatory due diligence:** focused on defined topics  
(environmental, contracts, covenants, reps & warranties)
  - **Confirmation**
  - **Closing:** expected in Q2 2008
- 

## **LANXESS must launch a mandatory public offer after the closing of the transaction**

- D-0: Closing of the transaction and disclosure of notice of material event
- D+30: LANXESS to file with local regulatory agency (CVM) within 30 days as of closing
- D+31-D+70: Discussions between Lanxess and CVM to finalise offer
- D+120: LANXESS shall publish the press release of the offer
- D+135: Qualified shareholders shall accept the offer
- D+152: LANXESS shall communicate CVM results of the offer

# Summary of the striking acquisition logic

## Strategic fit

Targeted acquisition, enhancing regional coverage and product portfolio



## Growth

Participation in opportunities on fast growing markets, strengthening leadership businesses



## Shareholder value

Earnings accretive, delivering on strategy





# **Q&A - LANXESS**

**Conference Call on the acquisition of Petroflex**

**December 13, 2007**



**LANXESS**

Energizing Chemistry



# Appendix

# Glossary

## Abbreviations

BR High CIS	Polybutadiene produced with high cis configuration
ESBR	Styrene-butadiene rubber from polymerization in emulsion
HIPS	High-impact polystyrene
Li-PBR	Polybutadiene rubber from lithium-initiated polymerization
NBR	Nitrile rubber
Nd-PBR	Polybutadiene rubber from neodymium catalyzed polymerization
PBLH	Hydroxyl-terminated polybutadiene
PBR	Business Unit Polybutadiene Rubber (PBR+SSBR)
SBS	Styrene-butadiene-styrene block copolymers
SIS	Styrene-isoprene-styrene block copolymers
SSBR	Styrene and butadiene rubber from polymerization in solution
TR	Thermoplastic rubber composed of styrene and butadiene by solution polymerization process
TRP	Business Unit Technical Rubber Products