LANXESS AG

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Matthias Zachert (CFO)

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Agenda

1. Company Overview
2. Strategy and Restructuring
3. Q2 Financials
4. Outlook and Summary

Built on Polymers and Chemicals

LANXESS
Energizing Chemistry

Performance Rubber	Engineering Plastics	Chemical Intermediates	Performance Chemicals




Independence. Cost Reduction. Portfolio Management.

Entrepreneurial and Experienced Board Directly Connected to BUs

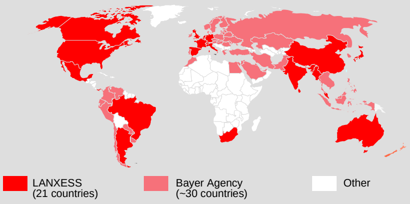
Board of Management

Performance Rubber	Engineering Plastics	Chemical Intermediates	Performance Chemicals
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

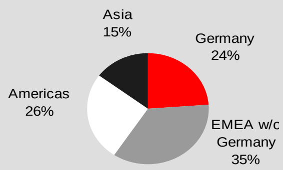
Sales: > € 500 m   Sales: € 200 m – 500 m   Sales: < € 200 m

Global Presence

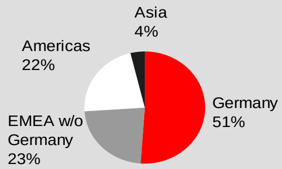
World Coverage



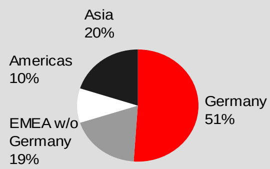
Sales by Region



Assets by Region



Employees by Region

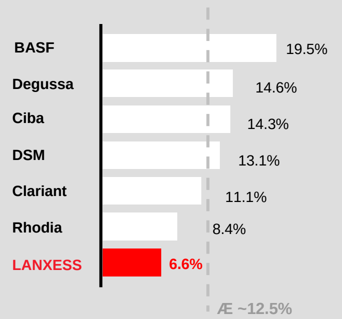


All figures based on combined financial statements 2004

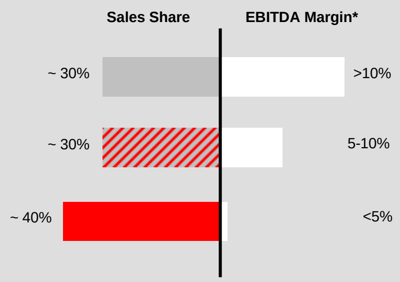
Chart-No. 6 LANXESS

Strong Foundation, but Unsatisfactory Profitability in 2004

EBITDA Margin* 2004



Profitability Distribution LANXESS



*EBITDA pre exceptionals in % of sales
Source: annual reports

Chart-No. 7 LANXESS

Agenda

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2. **Strategy and Restructuring**
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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	
	< 5 %	**1. Performance improvement**	Jump starts the operational performance to immediately generate cash	

Selective organic growth in profitable businesses

* EBITDA pre exceptionals

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Restructuring 1st Phase

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1st Phase: €100 m Savings with €150 m One-Time Costs

1st Phase: Characteristics

- Restructuring with focus on Germany and Spain
- Headcount reduction of 960
- FCH: Implementation of new business model and asset consolidation
- STY: Realignment of Dormagen and Tarragona sites
- Solidarity agreement supports implementation of measures

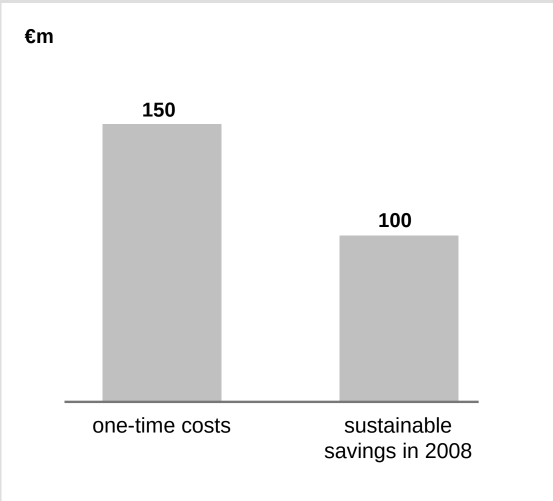

Chart-No. 11

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Immediate Action Taken for FCH and STY

- **Agreement with works representatives / unions settled**
- **Implementation started**

Fine Chemicals

- Independent legal entity
- Closure of two unprofitable plants already finalized
- Consolidation of several plants
- Investments to achieve competitiveness

Styrenic Resins

- Realignment of Dormagen and Tarragona sites
- Capacity adjustments in Tarragona and focus on profitable specialties
- Capacity reduction in Dormagen and focus on exclusive production for BayerMaterialScience
- New regional management in place

Restructuring 2nd Phase

2nd Phase: Aggressive Restructuring to be Continued

Asset Consolidation

- Site consolidation or closure
- Plant consolidation or closure
- Facility consolidation or closure

Process Optimization

- Rationalization
- In-Sourcing / Out-Sourcing
- Efficiency gains

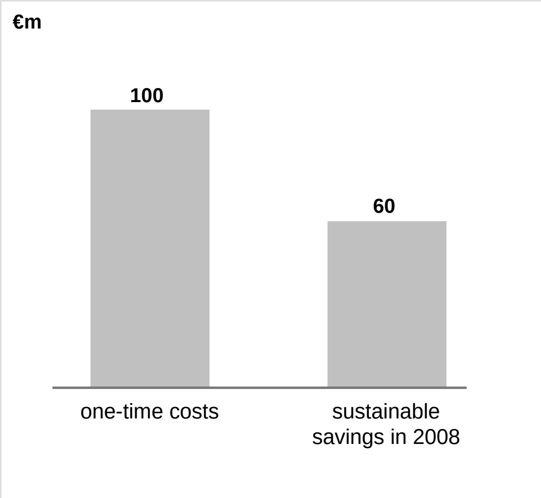
Adjustment Product Portfolio

- Eliminate unprofitable products
- Concentration on core businesses

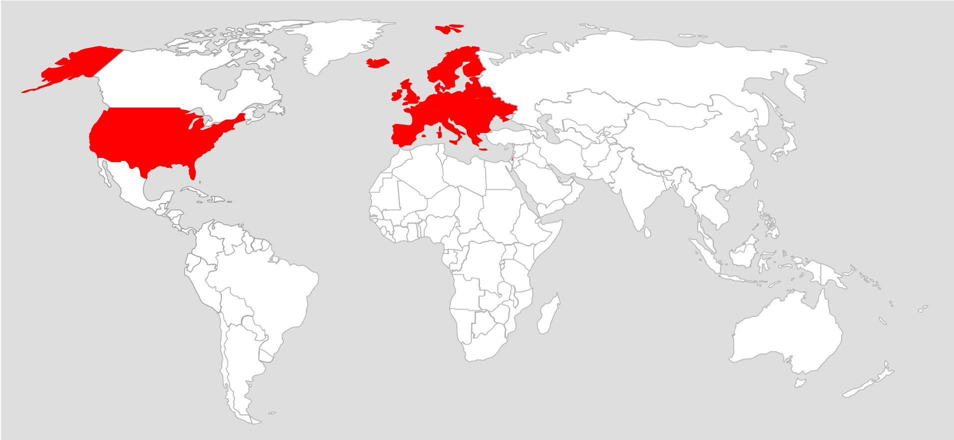
2nd Phase: €60 m Savings with €100 m One-time Costs

2nd Phase: Characteristics

- Program consists of:
  - Five BUs are effected:
    RCH, IPG, TPC, TRP, LEA
- Headcount reduction of approx. 450
- Negotiation with works representatives started



2nd Phase Restructuring in U.S. and Europe



USA

Focus on Asset Consolidation

Europe

Focus on Process Optimization

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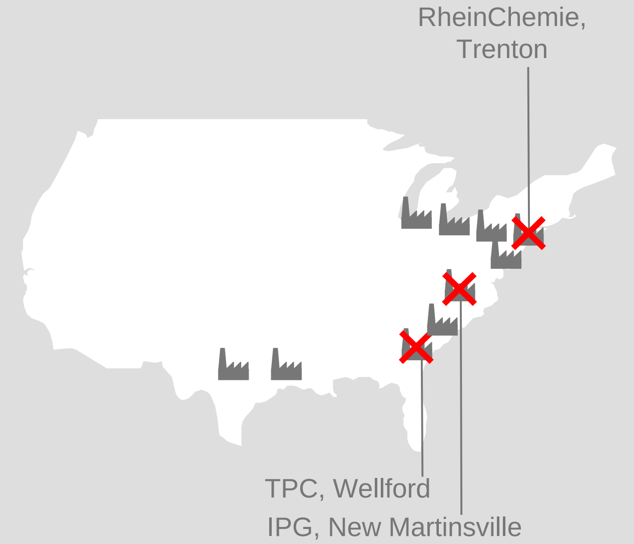
Small U.S. Production Sites to be Closed

Asset Consolidation

– Approx. 20% of LANXESS sales are in the U.S. market

– Some production sites of under-critical size with unfavourable cost structure

– Closure of three out of ten production sites



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Technical Rubber Products: Process Optimization and Aggressive Cost-Cutting

La Wantzenau; TRP

– NBR-business has been unprofitable for 10 years

– Despite investments of €150 m, losses of €200 m were incurred

– Double-digit million euro saving is necessary to ensure sustainable profitability

Leather: Closure of Outdated Plant and Shift of Production to Other Facilities

Uerdingen; LEA

– Eroding European market

– Outdated plant design

– Capacities underutilized

– Plant closure and shift to other facilities improves profitability

For More than Half of all BUs Significant Restructuring and Portfolio Initiatives Underway

Board

Performance Rubber	Engineering Plastics	Chemical Intermediates	Performance Chemicals
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

Restructuring   Portfolio / Partnering

Chart-No. 20

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Restructuring Financials

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Major Restructuring initiated - despite given constraints

Phase I+II (€ m)	**2005**	**2006**	**2007**	**2008**
P&L Expenses	-145	-35	-30	-15
Cash outs	-40	-95	-75	-40
Cost reduction		**40**	**90**	**160**
EBITDA improvement		**40**	**85**	**120**
Headcount reduction	~340	~670	~400	

Key Take-Aways:

– €225 m total P&L expense

– €250 m total cash costs

– €160 m annual savings as of 2008 with EBITDA improvement of ~€120 m

– Majority of expense already in 2005

– Total Headcount reduction: ~1,400

➡ **“Solidarity agreement” on top of above numbers give positive “one-time” effect of €60 m (€15 m, €20+ m and €20+ m in 2005 to 2007)**

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Financial Highlights: Necessary Performance Improvement Achieved

(€ m)	Q2 2004	Q2 2005	Δ in %
Sales	**1,673**	**1,859**	**11.1%**
EBITDA pre except. Margin	**115** 6.9%	**163** 8.8%	**41.7%**
EBIT	**10**	**77**	**>100%**
Net Income	**-29**	**24**	**n.m.**
Net Financial Debt	**1,135**[1]	**1,250**	**10.1%**
Capex	**54**	**48**	**-11.1%**
Employees	**19,659**[2]	**18,725**[3]	**-4.8%**

- Sales growth on the basis of strong pricing (+8%) and risen volumes (+4%)
- Strategy changes and improving cost structures yielding results
- Margin expansion despite high raw material costs
- Net financial debt increased mainly on higher business volume and risen working capital, however on stable level versus Q1 2005

[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

Q2 constitutes important building block for targeted full year performance

Chart-No. 24

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On Track to Start Closing the Gap

(€ m)	Q2 2004	Q2 2005	Δ absolut	Δ in %
Sales	**1,673**	$\boxed{\textbf{1,859}}$	**186**	$\boxed{11\%}$
Cost of goods sold	-1,301	-1,419	118	9%
SG&A	-290	-292	2	1%
R&D	-31	-28	-3	-10%
Other op. expense	-41	-43	2	5%
EBIT	**10**	**77**	**67**	**>100%**
thereof exceptionals	-31	$\boxed{-23}$	-8	26%
Net Income	**-29**	**24**	**53**	**n.m.**
EBITDA	97	160	63	65%
thereof exceptionals	-18	-3	-15	83%
EBITDA pre exceptionals	**115**	$\boxed{\textbf{163}}$	**48**	$\boxed{42\%}$

- Sales increase mainly due to higher selling prices and strong volumes
- COGS increase under-proportional to rising sales
- Over-proportional EBITDA increase versus sales growth

•n.m.: not meaningful
•Exceptionals in Q2 2004 include: €21m RHC goodwill impairment, €18 m anti-trust litigation, €14 m Net reversal of STY impairment, €2 m Capex write-off and €4 m impairment in FCH
•Q2 2004 based on Combined Financial Steements

Chart-No. 25

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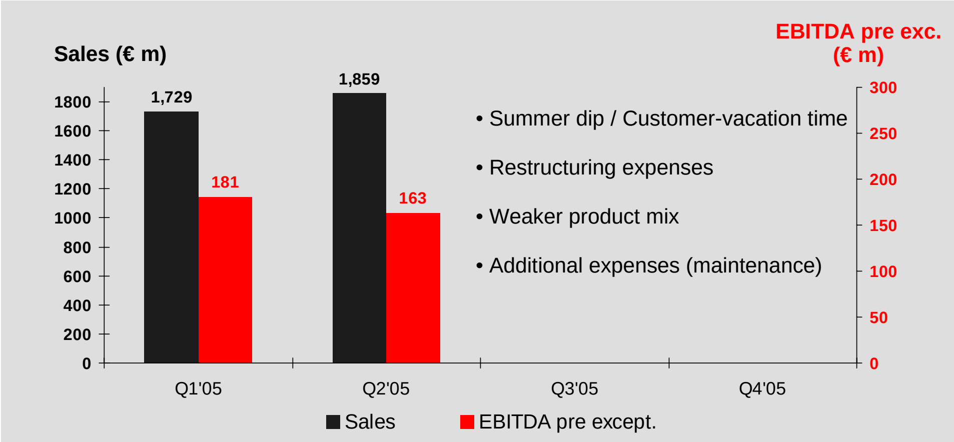
Earnings Fluctuation - Items to Bear in Mind



Certain earnings fluctuation with relatively constant sales

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Condensed Consolidated Balance Sheet

(€ m)	Dec 31, 2004	Mar 31, 2005	June 30, 2005
Non-current Assets			
Intangible assets	65	62	60
Property, plant & equipment	1,521	1,518	1,517
Investments	85	87	90
Current Assets			
Inventories	1,151	1,279	1,319
Trade receivables	1,137	1,191	1,212
Other receivables & assets	363	404	395
Liquid assets	72	130	178
Deferred taxes	172	34	18
Deferred charges	11	12	18
Total assets	4,577	4,717	4,807

(€ m)	Dec 31, 2004	Mar 31, 2005	June 30, 2005
Stockholders' equity	1,365	1,185	1,225
thereof Minority interest	14	14	15
Provisions			
Pension & post empl. provisions	418	431	449
Other provisions	481	548	583
Liabilities			
Financial obligations	1,207	1,364	1,428
thereof Mandatory Convertible	200	200	211
Trade accounts payable	820	756	735
Other liabilities	190	210	189
Deferred taxes	55	174	152
Deferred income	41	49	46
Total Liabilities & Equity	4,577	4,717	4,807

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

(€ m)	H1 2004	H1 2005
EBIT	**80**	**193**
Income Taxes	-37	-39
Depreciation & Amortization	182	148
Change in Pension Provision	-16	6
Gain/ Loss from Sale of Assets	4	-1
Change in Working Capital*	-189	-263
Change in Other Net Current Assets	-19	76
Cash provided by Operating Act.	**5**	**120**
Capex	**-104**	**-99**
Cash Flow used in Investing Activities**	-112	-91
Cash Flow used in Financing Activities	162	72
Cash at End of Period	69	178

– Cash flow improved mainly on higher operating result

– Strong improvement of operating Cash flow

– Capex on comparable level

– Working Capital increase due to planned maintenance shutdowns

– ~€30 m cash out expected in Q3 for earlier payment term adjustment with Bayer

Restructuring expected to impact cash flow from Q3 onwards

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

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Outlook

Underlying assumptions

– Exchange rate €1.0 = ~USD1.25
– Continuous supportive economic environment
– Q3 somewhat weaker versus Q2 due to summer vacation in customer industries („summer dip“)
– Restructuring expenses expected predominantly in Q3 2005

2005 Guidance based on above assumptions

– Moderate sales growth in H2 2005 vs. previous year
– FY 2005 EBITDA pre exceptionals expected €550 - €560 m
– Capex at lower end of €250 - 270 m range
– Depreciation and Amortization ~€250 m
– P&L tax rate for full year 2005 expected below 30%

LANXESS - Promise and Delivery

Status and Way Forward

Independence	- Clear roles and responsibilities and committed management - Price-before-Volume Strategy with positive results - Strengthened finance structure
Restructuring	- 1st Phase: Immediate action taken for largest loss makers - 2nd Phase: Continued Restructuring in U.S. and Europe - EBITDA improvement of €120 m by 2008 p.a.
Portfolio	- BU Paper: Structured process underway - BU Fibers: Negotiations ongoing

Contact Details

Michael Pontzen (Head of IR)
Tel.: +49-214 30 43804
Fax.: +49-214 30 959 43804
Mobile: +49-175 30 43804

Oliver Stratmann
+49-214 30 49611
+49-214 30 959 49611
+49-175 30 49611

Tanja Satzer
Tel.: +49-214 30 43801
Fax.: +49-214 30 959 43801
Mobile: +49-175 30 43801

Dr. Gerd Zelesny
+49-214 30 71416
+49-214 30 959 71416
+49-175 30 71416

Please visit our website at: www.lanxess.com