



LANXESS – Focus on value generation

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Matthias Zachert, CFO

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Focus on value generation

Agenda



- Business transformation



- Core competence



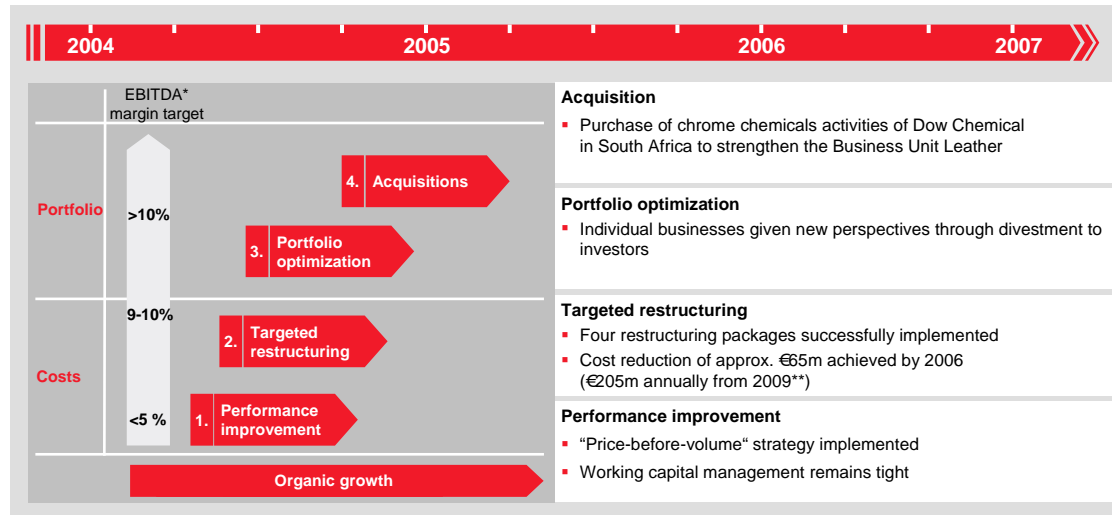
- Capital allocation



- Ambition

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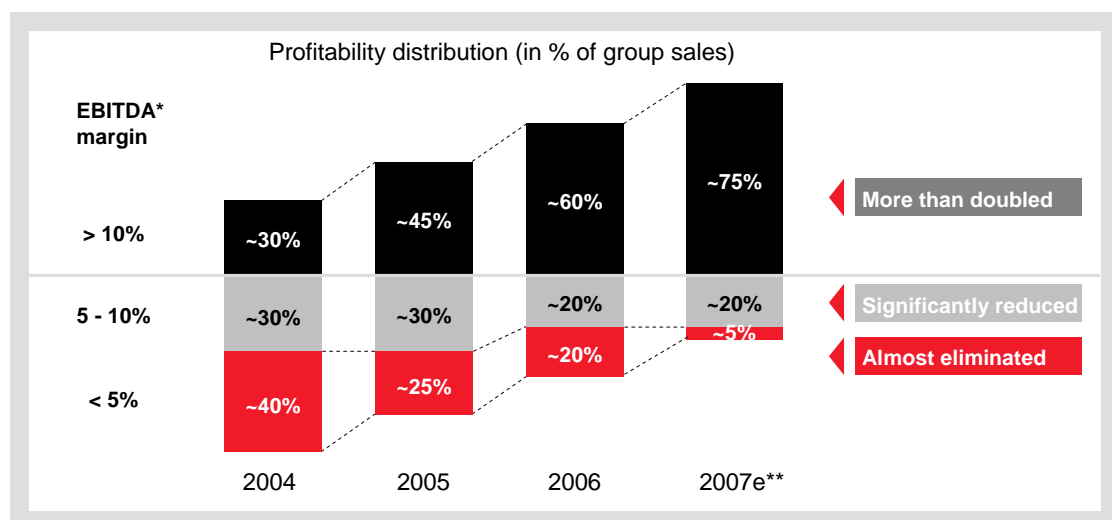
Consistent improvement as four-phase strategy is being implemented



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

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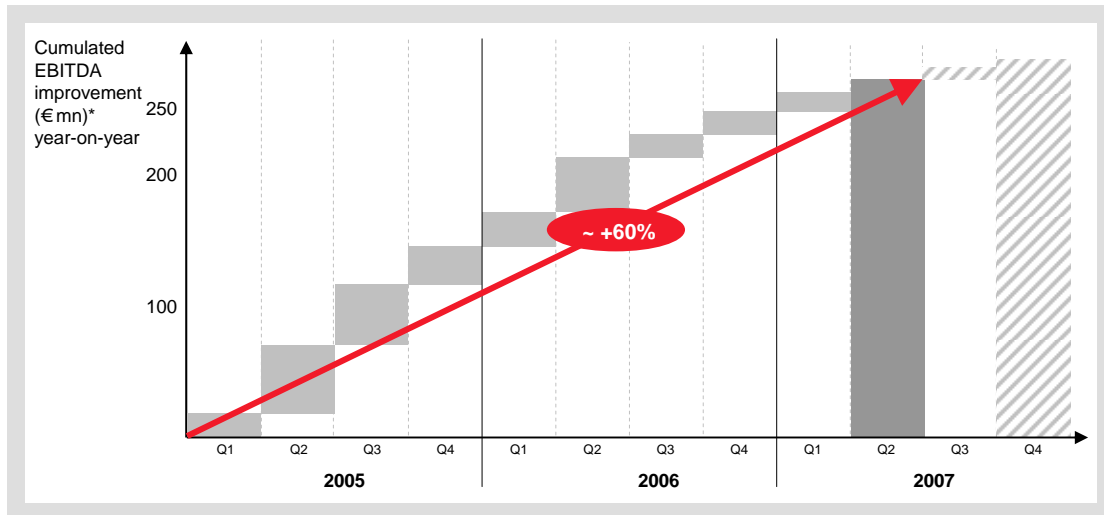
Structural improvements across the entire company



* EBITDA pre exceptionals; ** excl. BU LUP Q4/2007

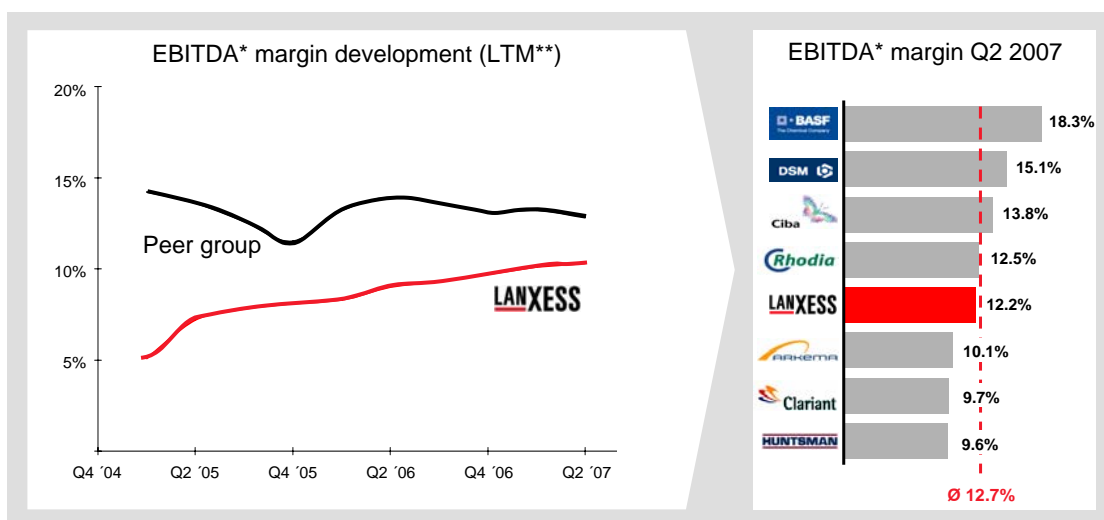
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Ten successive quarters of EBITDA improvement



* EBITDA pre exceptionals
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LANXESS is closing the profitability gap to peers

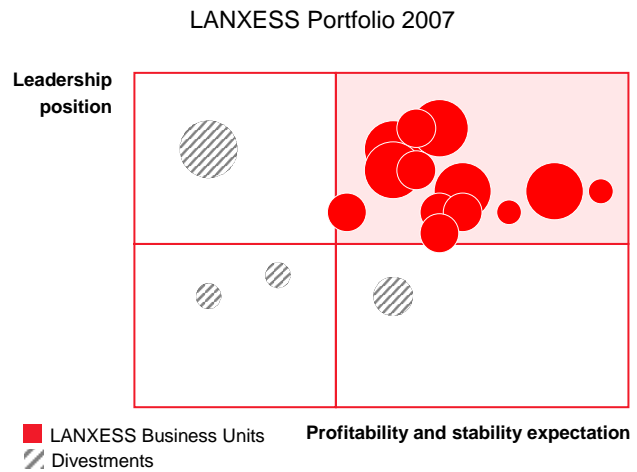


* EBITDA pre exceptionals; ** Last twelve months

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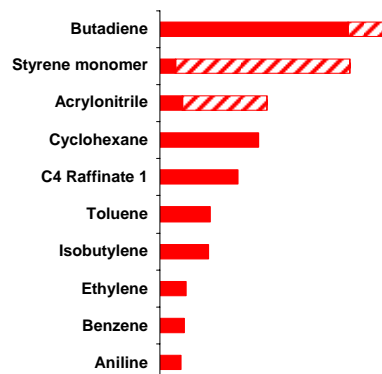
Building a strong portfolio with leadership businesses

- 13 Business Units seriously restructured and repositioned
- BUs moving into leadership positions in their markets
- Strategic divestments of four Business Units:
 - Fibers
 - Paper
 - Textile Processing Chemicals
 - Lustran Polymers



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Reduced cyclical risk due to lower dependence on styrene and acrylonitrile



~30% lower exposure to petrochemical raw materials

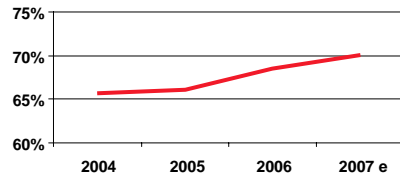
- After exit from Lustran Polymers, volatility from petrochemical raw materials is significantly reduced

→ LANXESS will be less dependent on the petrochemical markets

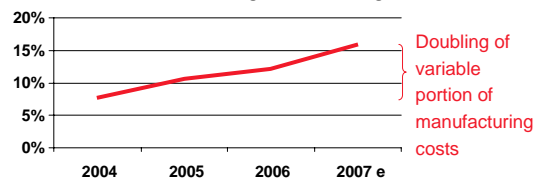
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Effective margin protection through increased flexibility of costs

Share of variable manufacturing costs including raw materials



Share of variable manufacturing costs excluding raw materials

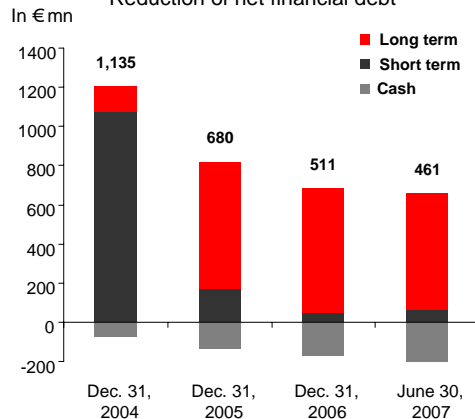


- Share of variable manufacturing costs, excluding raw materials was doubled since spin-off
- Restructuring and striving for efficiency have shifted our cost structure towards higher flexibility

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Successfully transformed balance sheet helpful in turbulent financial markets

Reduction of net financial debt



- Long-term healthy financing structure
- Financially prepared to make use of opportunities
Rated BBB / Baa2 by



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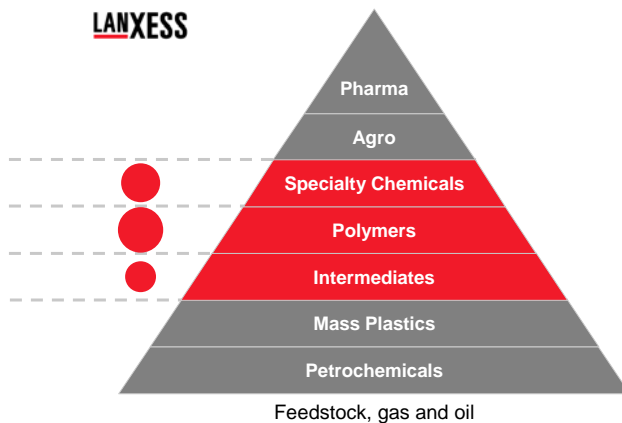
- Ambition

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LANXESS focuses on the core of the chemical industry

Segmentation of the chemical industry

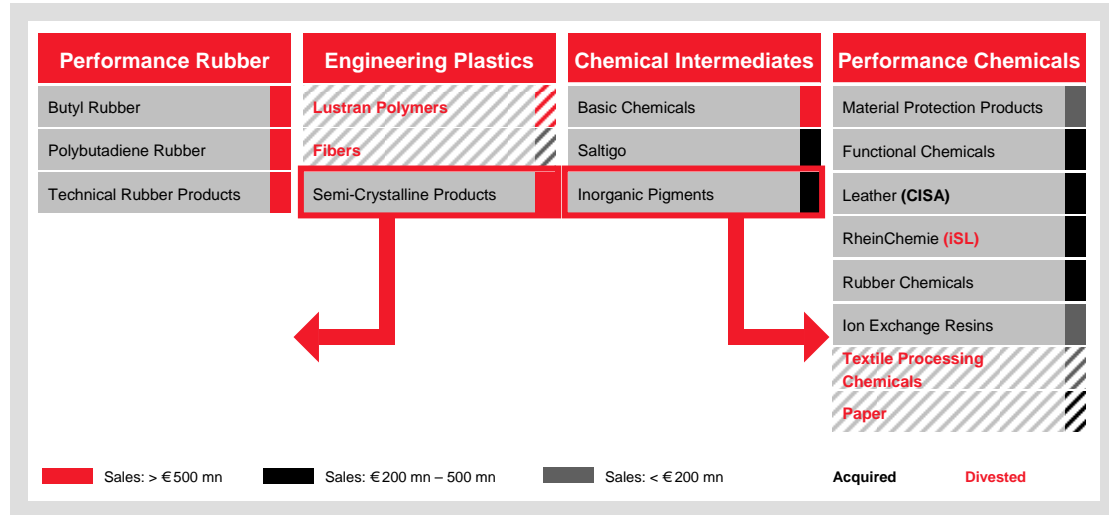
LANXESS



- Here we can perfectly leverage our competencies in chemical and application know-how
- We have excellent and long standing customer relations
- We see a lot of room for maneuver in these three segments
- Our balanced portfolio in these segments lowers volatility

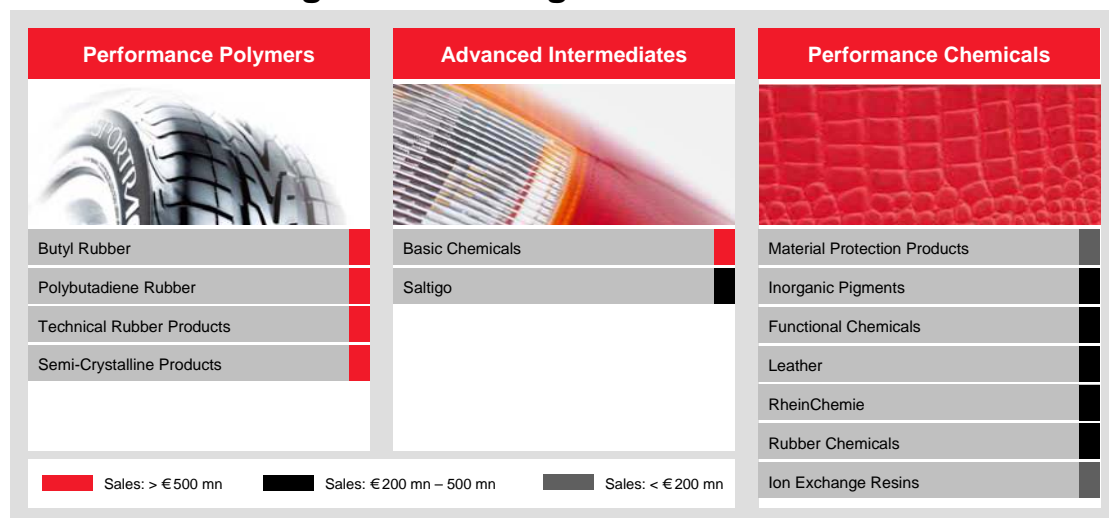
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Portfolio management allows for regrouping of LANXESS businesses along chemical segmentation



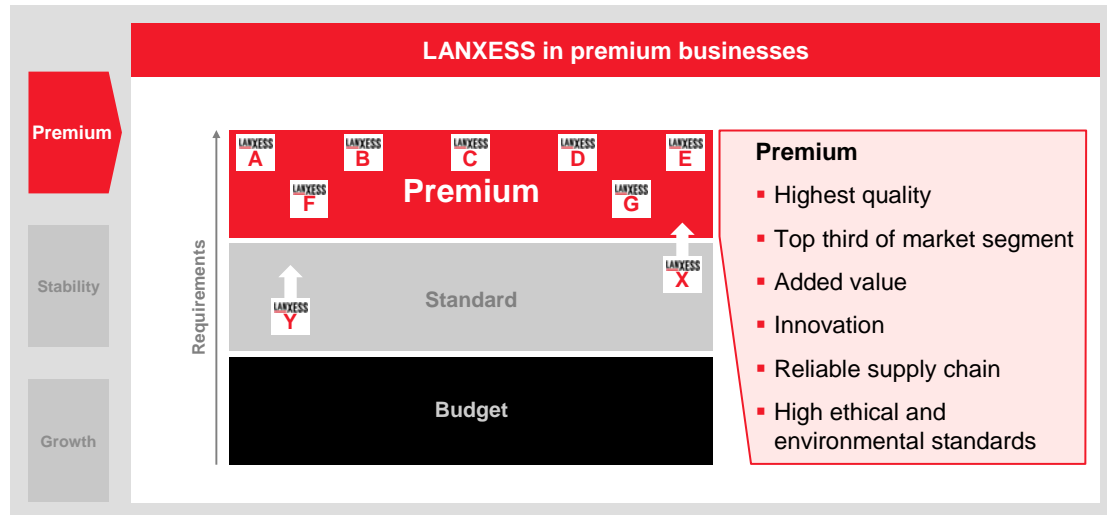
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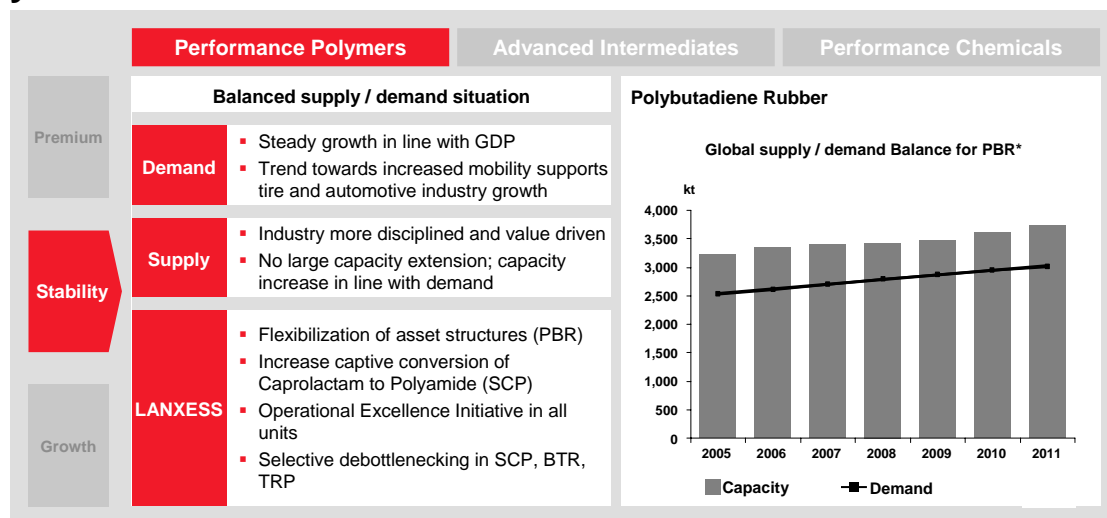
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LANXESS serves demanding customer needs



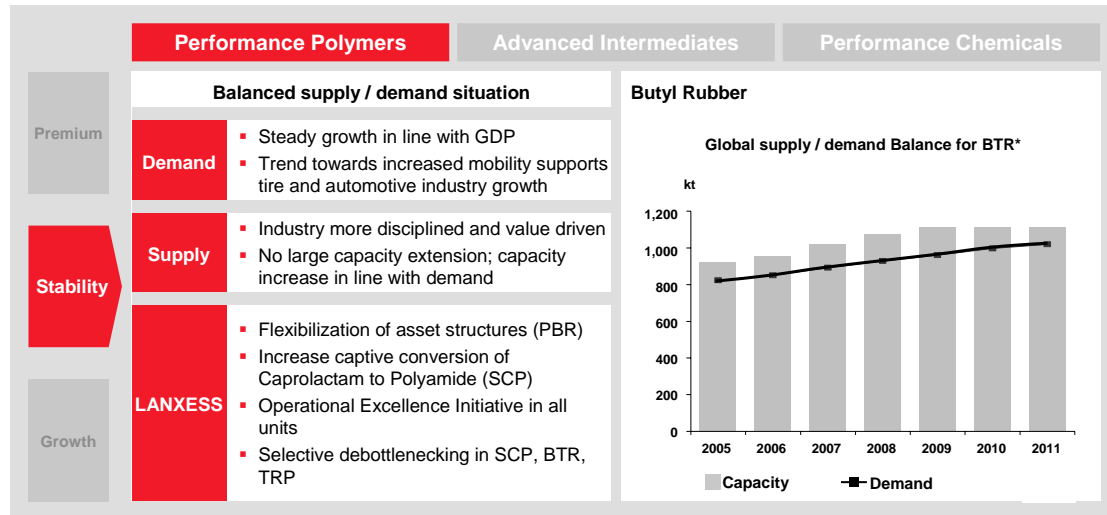
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Performance Polymers with favorable supply / demand for years



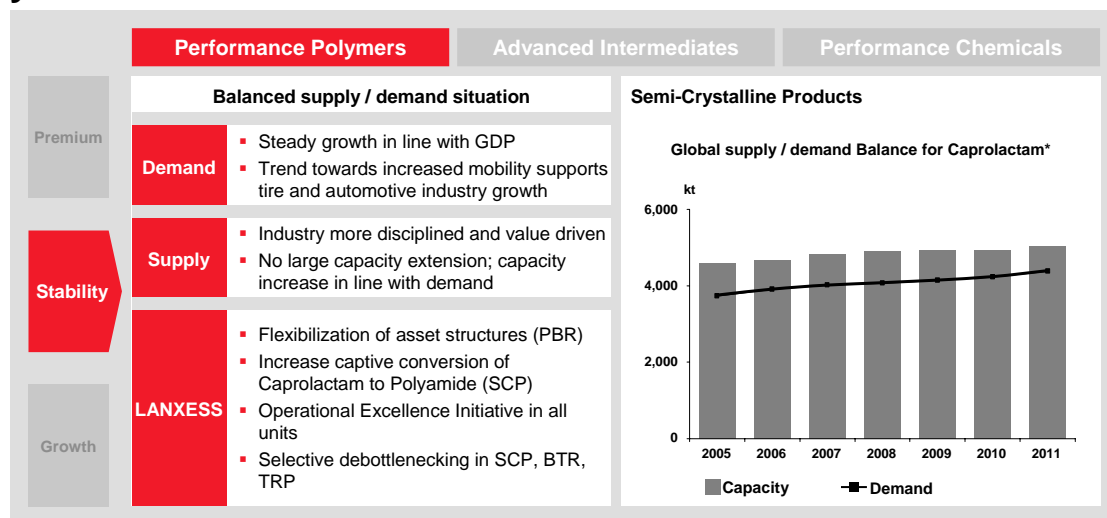
* Source: CMAI
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Performance Polymers with favorable supply / demand for years



* Source: CMAI
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Performance Polymers with favorable supply / demand for years



* Source: CMAI
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Advanced Intermediates are well positioned and will not face significant cyclicality

	Performance Polymers	Advanced Intermediates	Performance Chemicals
Premium	Competitive Verbund structures and niche markets		Basic Chemicals
Stability	Demand	<ul style="list-style-type: none"> Diversified and attractive niche markets Trend for outsourcing of chemical production 	<ul style="list-style-type: none"> Basic Chemicals sells 80% of its products in diversified niche markets and realizes cost advantages through Verbund structures, e.g. the unique "Aromatenverbund"
	Supply	<ul style="list-style-type: none"> Consolidation in Americas and Europe Emerging players with escalating costs due to increasing environmental and tax regulations 	
Growth	LANXESS		"Aromatenverbund"
		<ul style="list-style-type: none"> World scale plants, competitive "Verbund" structures on integrated sites Continuous productivity increase Process improvements and automatization Optimize market position through profitable volume gains 	

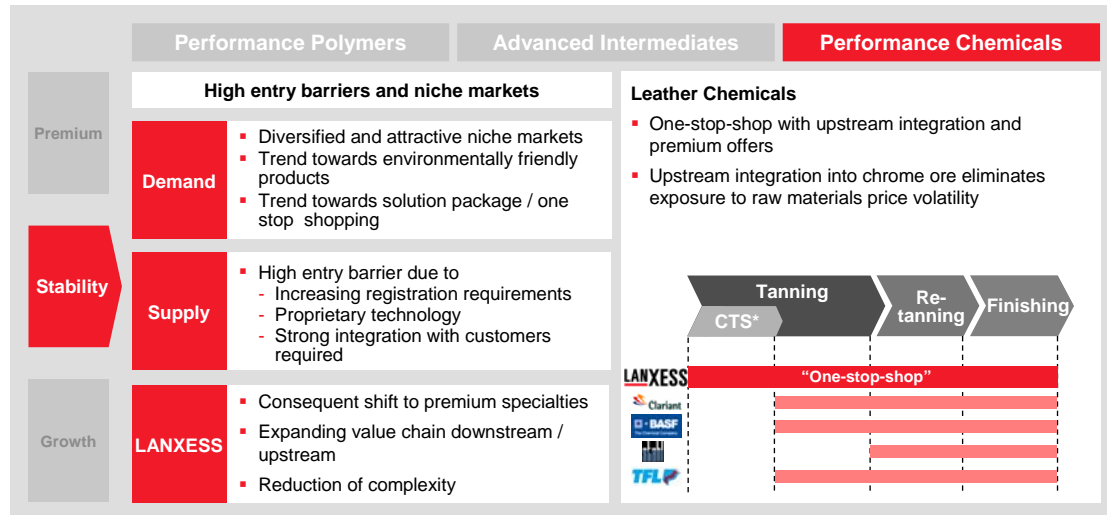
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Performance Chemicals with highly stable positions due to technology, registration and upstream integration

	Performance Polymers	Advanced Intermediates	Performance Chemicals
Premium	High entry barriers and niche markets		Material Protection Products
Stability	Demand	<ul style="list-style-type: none"> Diversified and attractive niche markets Trend towards environmentally friendly products Trend towards solution package / one stop shopping 	<ul style="list-style-type: none"> Comprehensive portfolio of intellectual property of next generation biocides, active ingredients and formulations Strong competence in registration in increasingly regulated global markets
	Supply	<ul style="list-style-type: none"> High entry barrier due to <ul style="list-style-type: none"> - Increasing registration requirements - Proprietary technology - Strong integration with customers required 	
Growth	LANXESS		Three layer business model
		<ul style="list-style-type: none"> Consequent shift to premium specialties Expanding value chain downstream / upstream Reduction of complexity 	

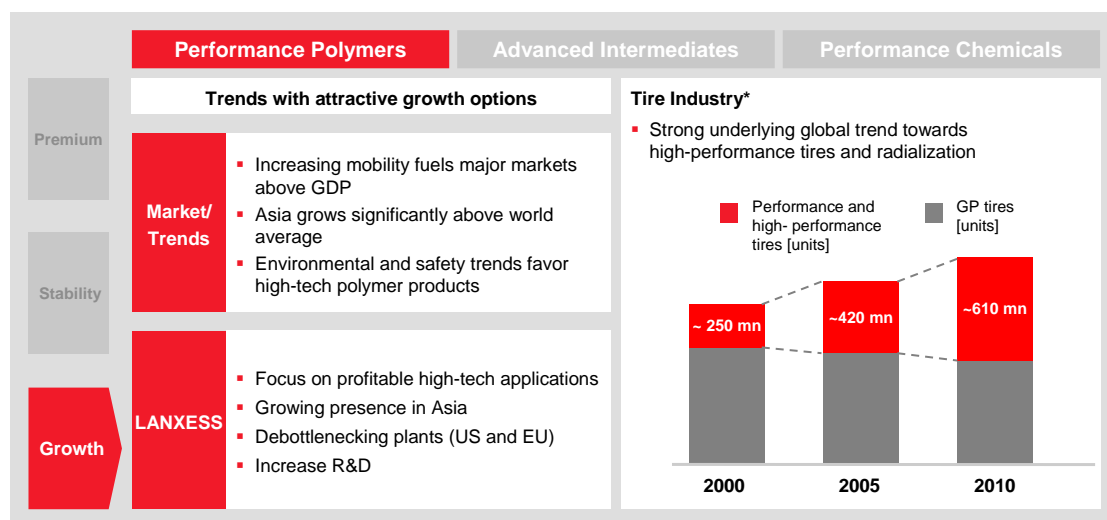
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Performance Chemicals with highly stable positions due to technology, registration and upstream integration



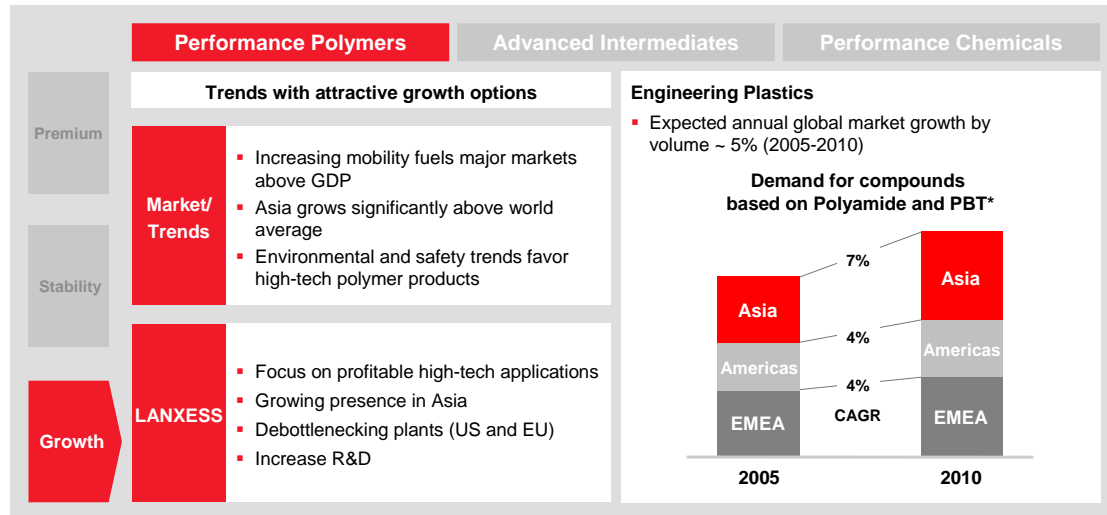
* CTS: Chrome Tanning Salts
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LANXESS utilizes trends towards high performance polymers



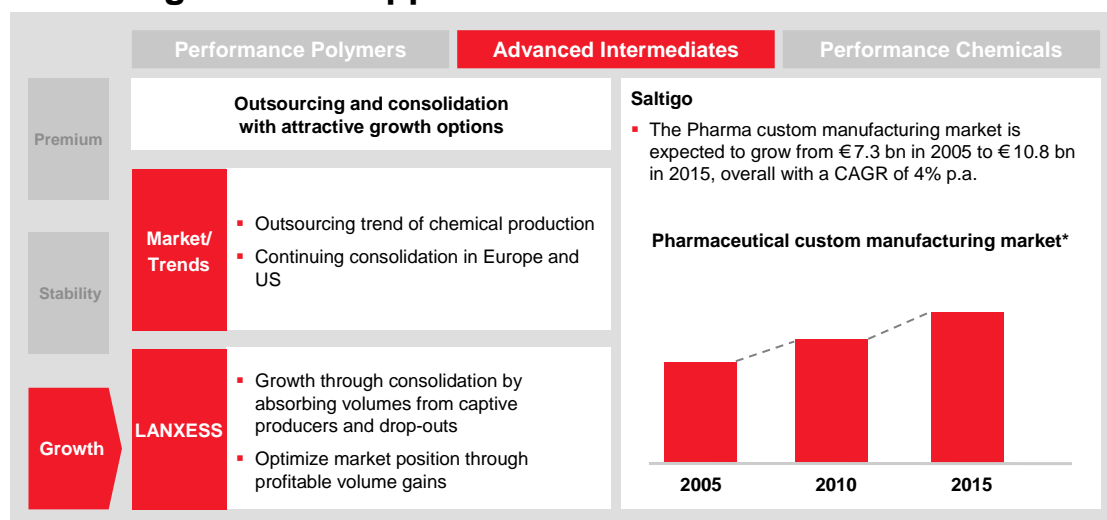
* Source: Michelin fact book 2005; GP=General Purpose
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LANXESS utilizes trends towards high performance polymers




* Source: PCI 2005, Top right 2005
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Advanced Intermediates aim at market share increases by becoming favorite supplier



* Source: LANXESS estimates
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Performance Chemicals will profit from mega trends like water treatment and rise of environmental standards

	Performance Polymers	Advanced Intermediates	Performance Chemicals
	Mega trends with attractive growth options		Functional Chemicals <ul style="list-style-type: none"> Ecological plasticizers demand driven by regulations and environmental awareness LANXESS offers leading ecological plasticizers with unique characteristics and FDA approval New Ion Exchange Resins plant in Asia <ul style="list-style-type: none"> Mega trend "clean water" ensures long-term growth for ION ION invests €30 mn in growth markets through new plant in India 
Premium	Market/Trends <ul style="list-style-type: none"> Mega trends like water scarcity and rise of environmental standards gain importance Trend in Asia towards higher quality products 		
Stability	LANXESS <ul style="list-style-type: none"> Leverage trend towards sustainable products like Velcorin®, modern wood protection products (MPP); halogene-free flame retardants, phthalate-free additives (FCC) and formaldehyde free resin retanning agent (LEA) Establishment of production capacities for additives in China (RUC, RCH, FCC) and India (RCH, RUC) 		
Growth			

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LANXESS focuses on premium, stable and growing businesses

Premium	Focusing on premium businesses in all three segments
Stability	Positioned to succeed in a highly competitive environment
Growth	Growing profitably in line with global GDP*

*Volume growth
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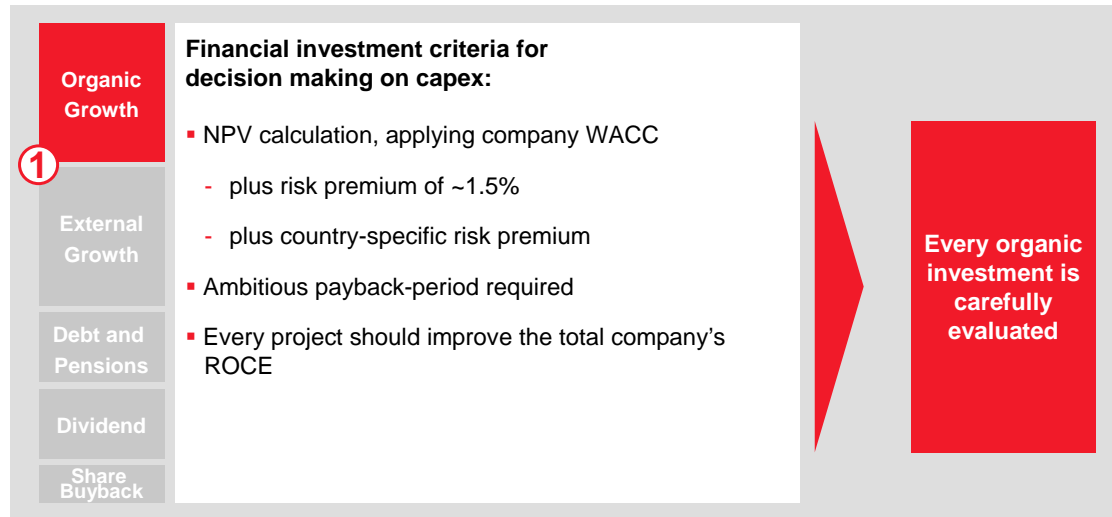
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Further value creation sets the priorities for capital allocation

1 Organic Growth	<ul style="list-style-type: none"> ▪ We will invest in our own business to generate the best returns for shareholders ▪ Capex allocation follows profitability and return on capital
2 External Growth	<ul style="list-style-type: none"> ▪ Stringent application of our valuation criteria ensures value generation by external growth
3 Debt and Pensions	<ul style="list-style-type: none"> ▪ Our policy is to fund our employees' pension obligations on a year-by-year discretionary basis depending on cash and earnings situations
4 Dividend	<ul style="list-style-type: none"> ▪ Cash returns are an important element of our value strategy ▪ LANXESS' dividend development will be in line with profitability increase
5 Share Buyback	<ul style="list-style-type: none"> ▪ Used on a case-by-case basis to back the share price when appropriate

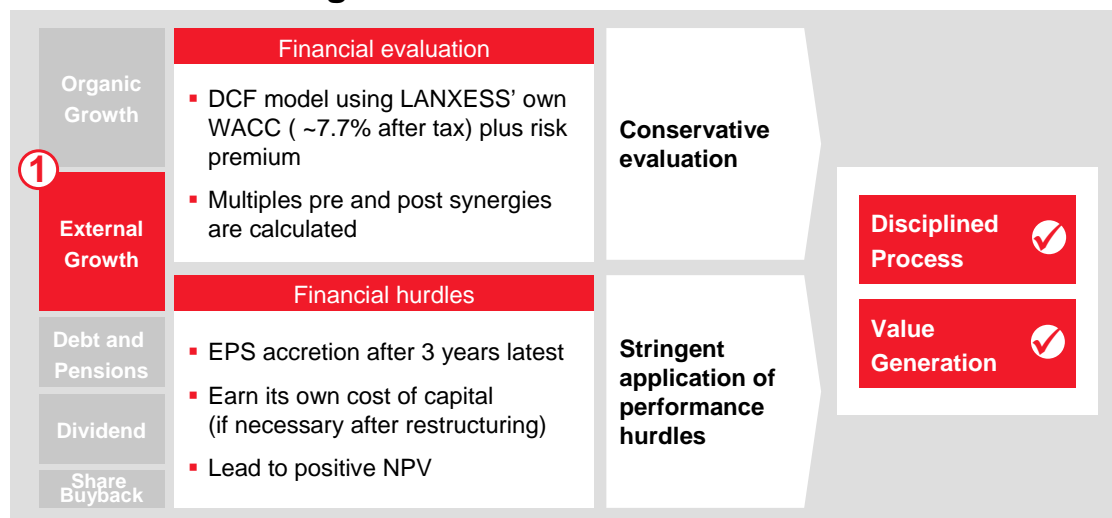
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Financial criteria for internal resource allocation ensures excellent returns



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Financially prudent evaluation of external growth opportunities, focused on value generation



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Prudent pension funding policy in place

Organic Growth	<p>Pension funding policy:</p> <ul style="list-style-type: none"> ▪ Future cash risks are limited Based on a recently conducted actuarial study, the peak in future cash-outs for pensions is not seen before the year 2025 / 2030 ▪ Preserving the current level of pension provisions We aim to keep a level of ~€ 500 - € 550 mn of pension provisions on our balance sheet ▪ Voluntary funding of pensions We target an annual cash contribution of € 20 - € 40 mn into our German CTA (depending on cash / profitability situation) 	<div style="background-color: red; color: white; padding: 10px; text-align: center;"> Conservative pension funding reduces risk and enhances stability </div>
External Growth		
Debt and Pensions		
② Dividend		
Share Buyback		

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Main instrument for returns to shareholders will be increasing dividend

Organic Growth	<p>Dividend strategy:</p> <ul style="list-style-type: none"> ▪ Objective: to further increase dividend ▪ LANXESS' dividend to be increased as profitability increases <p>Share buyback strategy:</p> <ul style="list-style-type: none"> ▪ Share buyback is considered an instrument of low priority ▪ Preferred value generating options are internal and external growth ▪ Share buyback to set a signal and back the share price. LANXESS will utilize a share buyback without regular occurrence 	<div style="background-color: red; color: white; padding: 10px; text-align: center;"> Share buyback constitutes an additional instrument for cash return to shareholders with low priority </div>
External Growth		
Debt and Pensions		
② Dividend		
③ Share Buyback		

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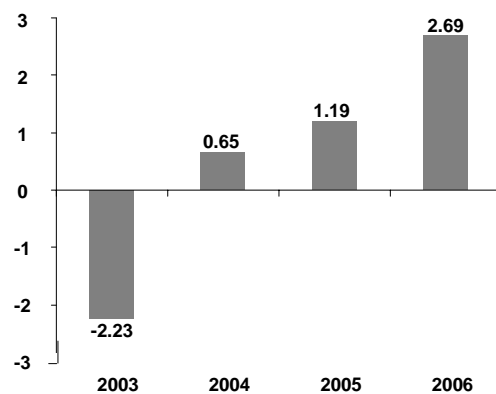


- **Ambition**

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Value generation in every respect

Underlying
EPS* in €



Capex allocation to profitable, growing businesses +

Accretive small to mid-size M&A deals that meet stringent financial hurdles +


Shareholder-friendly dividend policy (rising payouts with increased operational performance) +

**LANXESS
strives to
generate
additional
values**

* EPS pre exceptionals

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LANXESS will meet its ambitious targets faster than planned

EBITDA* margin: Peer group profitability	2008 2009	
No business < 5% EBITDA* margin	2008 2009	
Investment grade rating	Ongoing	

* EBITDA figures pre exceptionals; excluding acquisitions
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LANXESS

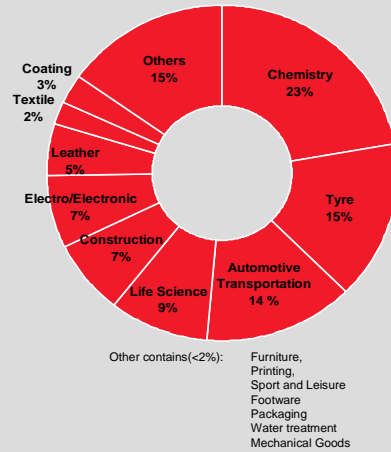
Energizing Chemistry

Diversified customer base and industry portfolio

Customers

The LANXESS Group's top five customers accounted for about 11% of all sales in fiscal 2006. 14 customers account for sales of between €20 million and €50 million. About 24,000 LANXESS customers contribute sales of up to €100,000. The number of customers varies widely by segment.

The Performance Rubber segment has some 2,000 customers, Engineering Plastics has about 4,000, Chemical Intermediates has around 8,000, and Performance Chemicals has about 17,000. However, one customer may do business with more than one segment. Each segment includes all customer groups and sales volumes.



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Exceptional items incurred in Q2 2006 and 2007

	Q2 2006		Q2 2007		
	Exceptional	thereof D&A	Exceptional	thereof D&A	
Performance Rubber	0	0	0	0	
Engineering Plastics	0	0	186	44	BU LUP
Chemical Intermediates	0	0	0	0	
Performance Chemicals	0	0	0	0	
Reconciliation	11	0	9	0	Restructuring / M&A
Total	11	0	195	44	

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Delta-View: carve out of future Lustran Polymers savings

Phase* I+II+III+IV (€ m)	2005	2006	2007e	2008e	2009e
P&L Expenses	0	0	-15	-15	-10
Cash outs	0	0	-20	-20	-10
Headcount reduction	0	0	-100	0	0
Cost reduction vs. prior year	0	0	-15	-20	-10
Cost reduction cumulative	0	0	-15	-35	-45
EBITDA improvement vs. prior year	0	0	-15	-15	-5
EBITDA improvement cumulative	0	0	-15	-30	-35

Restructuring implementation continues according to plan

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H1 2007 financial overview: strong EBITDA performance in mostly benign business environment

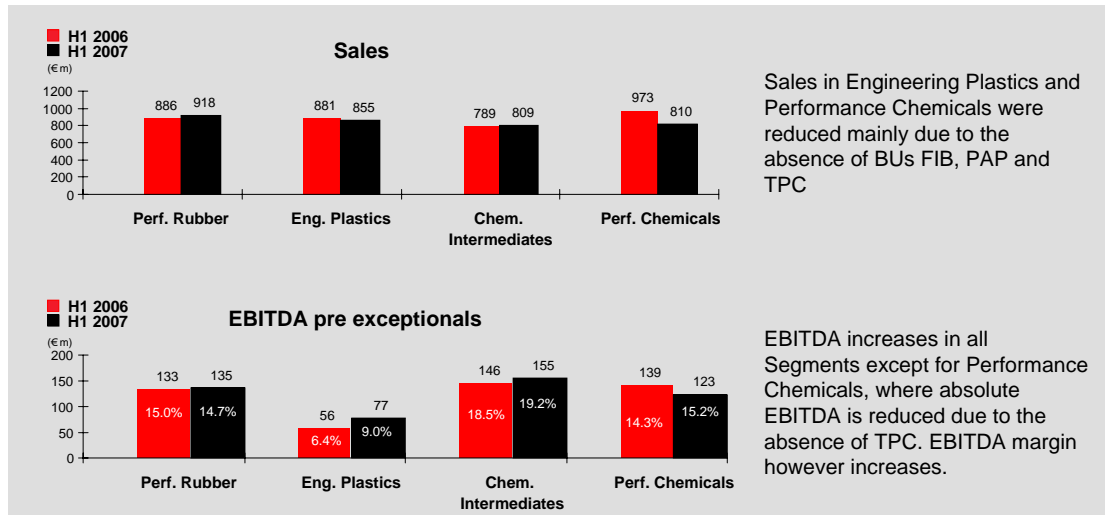
(€m)	H1 2006	H1 2007	Δ in %	
Sales	3,587	3,438	-4.2%	– Sales decrease due to portfolio changes and unfavourable currency effects
EBITDA pre except. margin	406 11.3%	430 12.5%	5.9%	
Net Income	159	32	-79.9%	– Net income is distorted by exceptional write-offs in LUP and restructuring expenses
Net Financial Debt	511*	461	-9.8%	– Capex rises on investments mainly for additional capacities in BTR, SCP and SGO
Working Capital	1,523	1,470	-3.5%	
Capex	81	111	37.0%	– Headcount reduction continues on track due to restructuring, slightly offset by hirings mainly for Asia
Employees	16,481*	16,400	-0.5%	

* as per Dec. 31, 2006

Strategically very successful quarter, operationally firm

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Good margins maintained or improved



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Contact details

Michael Pontzen (Head of IR)

Tel.: +49-214 30 43804
 Fax.: +49-214 30 959 43804
 Mobile: +49-175 30 43804
 Email: Michael.Pontzen@lanxess.com

Oliver Stratmann

+49-214 30 49611
 +49-214 30 959 49611
 +49-175 30 49611
 Oliver.Stratmann@lanxess.com

Tanja Satzer

Tel.: +49-214 30 43801
 Fax.: +49-214 30 959 43801
 Mobile: +49-175 30 43801
 Email: Tanja.Satzer@lanxess.com

Dr. Gerd Zelesny

+49-214 30 71416
 +49-214 30 959 71416
 +49-175 30 71416
 Gerd.Zelesny@lanxess.com

Please visit our website at: www.lanxess.com

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