



LANXESS AG

Executing on Strategy and Operations

Dresdner Kleinwort German Investment Seminar

New York, January 8th – 10th, 2007

Matthias Zachert, CFO

Safe harbour statement

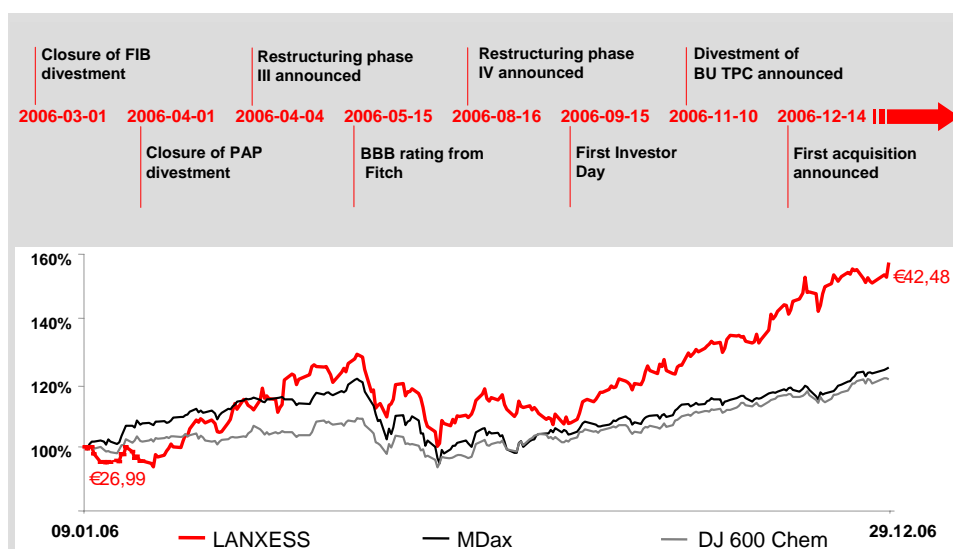
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Chart-No. 2

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The market mirrored our achievements in 2006



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Chart-No. 3

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Agenda

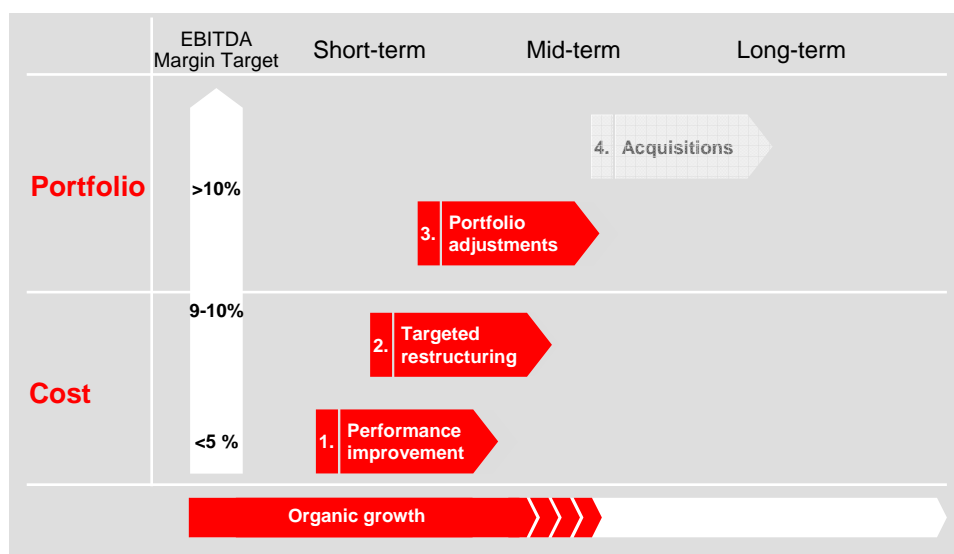
1. **Strategy implementation well under way**
2. **9M financials on track to achieve FY 2006 targets**
3. **Strategy update – getting ready for the future**
4. **New ambitious mid-term targets and 2006 guidance**

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Chart-No. 4

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Strategy implementation well under way



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Chart-No. 5

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From “Firefighting” to “Financial Scope” – financial metrics underpin the evolution

In € m	2004	2005	2006e	
EBITDA*	447	581	660-680	Profitability
EBITDA* margin	6.6%	8.1%	9-10%	
Equity ratio	24.5%**	28.9%	33.9%***	Stability
Net financial debt	1,135	680	503***	Strength
Net financial debt / EBITDA	2.5x	1.2x	<1	



* pre exceptionals; ** 2004 comparable to 2005, i.e. incl. deferred tax adjustment; ***as of September 30, 2006

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Chart-No. 6

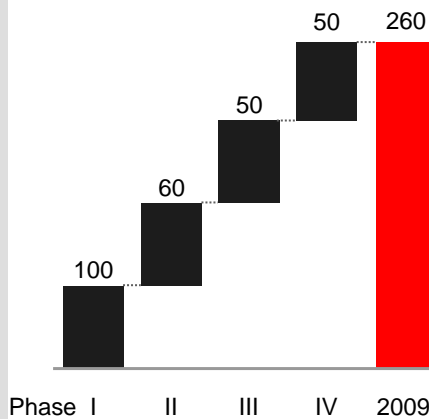
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Targeted restructuring results in €260 m cost savings

- Closure of several sites worldwide
- Closure and consolidation of plants
- Reduction of workforce
- Optimization of sites, plants and processes
- Optimization of internal services
- New business models for Saltigo and Lustran Polymers

Rigorous cost management

Restructuring phases: savings (€ m)



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Chart-No. 7

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Active portfolio management strengthens businesses

Non-core businesses were divested to strategic investors

Long-term perspective created for the divested businesses

Fair solutions achieved for employees



Fibers

- Strategic investor with growth concept



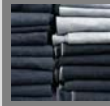
Paper Chemicals

- Globally active strategic investor with full product range



Parts of Business Units

- Strategic investors for iSL, SAN to supplement their product portfolios



Textile Processing Chemicals

- Successfully divested in 2006



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LANXESS is delivering on past promises ...

Good Start in 2004 – Realistic Short-term Targets

Media/Analyst Conference November 2004

	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

Analyst Conference LANXESS 2004-11-26 Chart-No. 10

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* EBITDA pre exceptionals

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Chart-No. 9

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Chart-No. 10

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9M 2006 financial overview: on track to achieve full year targets

(€m)	9M 2005	9M 2006	Δ in %	
Sales	5,364	5,278	-1.6%	<ul style="list-style-type: none"> – Sales decrease is attributable to portfolio changes (-3.4%) and slightly lower volumes (-2.6%), partly counteracted by favourable currency impact (+0.6%) and price increases (+3.8%) – Reduction of net financial debt to €503 m – Improved cost structures and continuous implementation of pricing strategy help increase profitability
EBITDA pre except. Margin	492 9.2%	570 10.8%	15.9%	
Net Income	37	195	>100%	
Net Financial Debt	680*	503	-26.0%	
Working Capital	1,439*	1,531	6.4%	
Capex	151	147	-2.6%	
Employees	18,282*	16,893	-7.6%	

*As per 31.12.

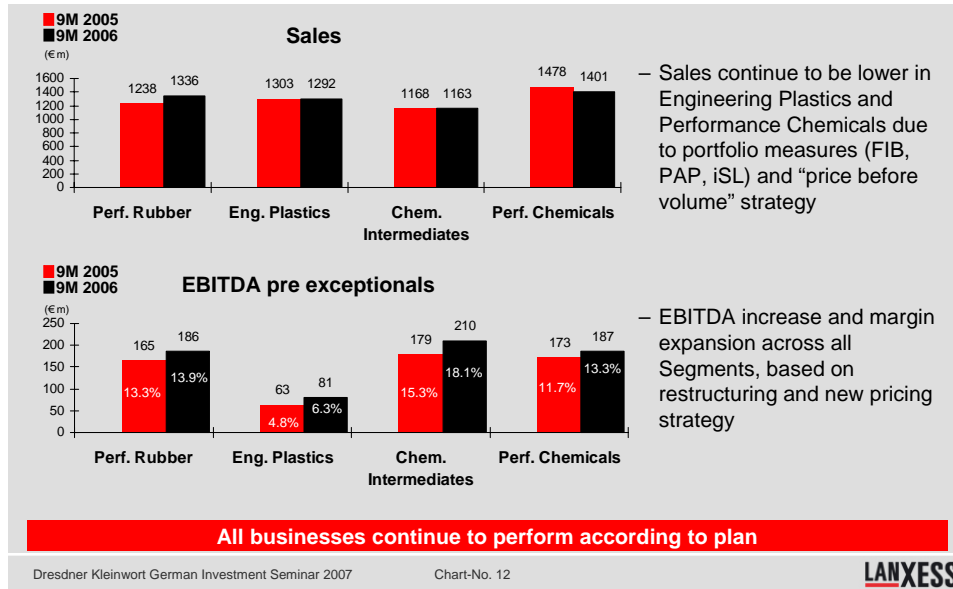
Restructuring success supports improvement in profitability

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Chart-No. 11

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Continued operational improvements



Powerful Balance Sheet: tidy and stable

(€m)	Dec 31, 2005	June 30, 2006	Sept 30, 2006	(€m)	Dec 31, 2005	June 30, 2006	Sept 30, 2006
Non-current Assets	1,835	1,730	1,712	Stockholders' Equity	1,256	1,411	1,433
Intangible assets	53	45	47	thereof minority interest	17	17	19
Property, plant & equipment	1,526	1,444	1,444	Non-current Liabilities	1,576	1,531	1,550
Equity investments	22	45	37	Pension & post empl. provisions	497	505	513
Other investments	4	4	6	Other provisions	302	289	295
Financial assets	48	38	20	Financial liabilities	644	618	620
Deferred taxes	103	71	73	Tax liabilities	26	26	36
Other non-current assets	79	83	85	Other liabilities	32	28	26
Current Assets	2,506	2,529	2,512	Deferred taxes	75	65	60
Inventories	1,068	1,098	1,099	Current Liabilities	1,509	1,317	1,241
Trade accounts receivable	1,065	1,029	984	Other provisions	401	370	363
Financial assets	37	44	44	Financial liabilities	172	107	65
Other current assets	200	223	203	Trade accounts payable	694	604	552
Liquid assets	136	135	182	Tax liabilities	27	52	56
Total Assets	4,341	4,259	4,224	Other liabilities	215	184	205
				Total Equity & Liabilities	4,341	4,259	4,224

Further reduction of net financial debt despite restructuring and rubber litigation payments

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Cash Flow: underlying operating cash flow again stronger

(€m)	9M 2005	9M 2006	
Profit before Tax	44	292	– Strong operating result
Depreciation & Amortization	217	188	– Working Capital increase 9M 2006 more normal. Previous year contained effect from first working capital initiatives
Income from investment in associate	-3	-7	
Gain/ Loss from Sale of Assets	-2	-1	
Financial Losses	61	17	
Cash tax payments	-25	-34	– Operating cash flow 2006 contains extraordinary pay-outs:
Changes in Working Capital	-161	-218	– –€60 m restructuring (+€10 m capex)
Changes in Other Assets and Liabilities	227	9	– –€30 m higher bonus vs. 9M' 05
Operating Cash Flow	358	246	– –€50 m rubber litigation
Investing Cash Flow	-145	-47	– Changes in other assets and liabilities contains contribution to 2005 restructuring provisions
thereof Capex	-151	-147	
Free Cash Flow	213	199	
Financing Cash Flow	-162	-150	– Investing Cash Flow incl. €108 m from sale of iSL, PAP and FIB

Significant share of capex and further restructuring cash outs to come in Q4

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Chart-No. 14

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Agenda

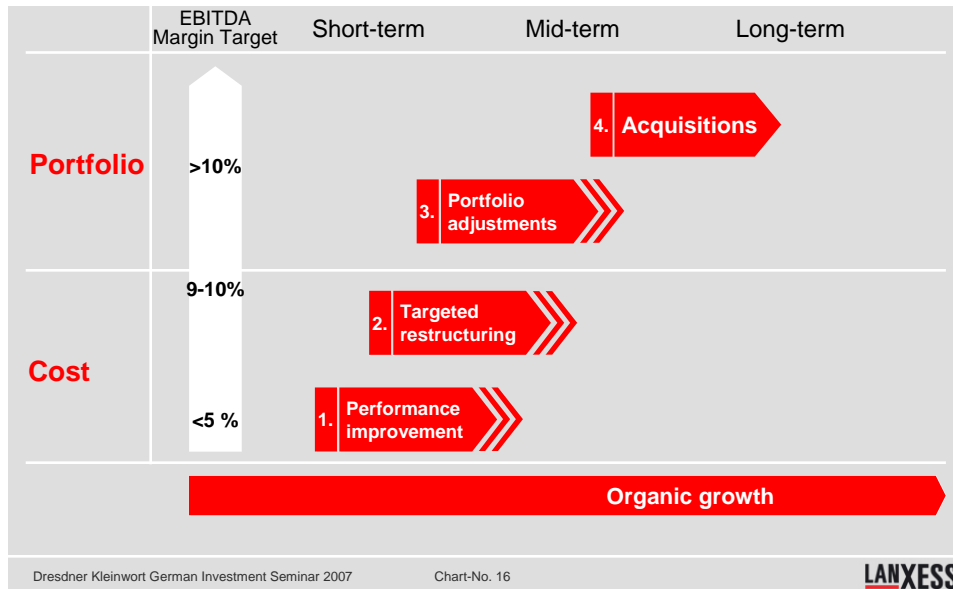
1. Strategy implementation well under way
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Chart-No. 15

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Strong foundations are in place – the future starts now




Close the profitability gap with competitors

Increasing Competition

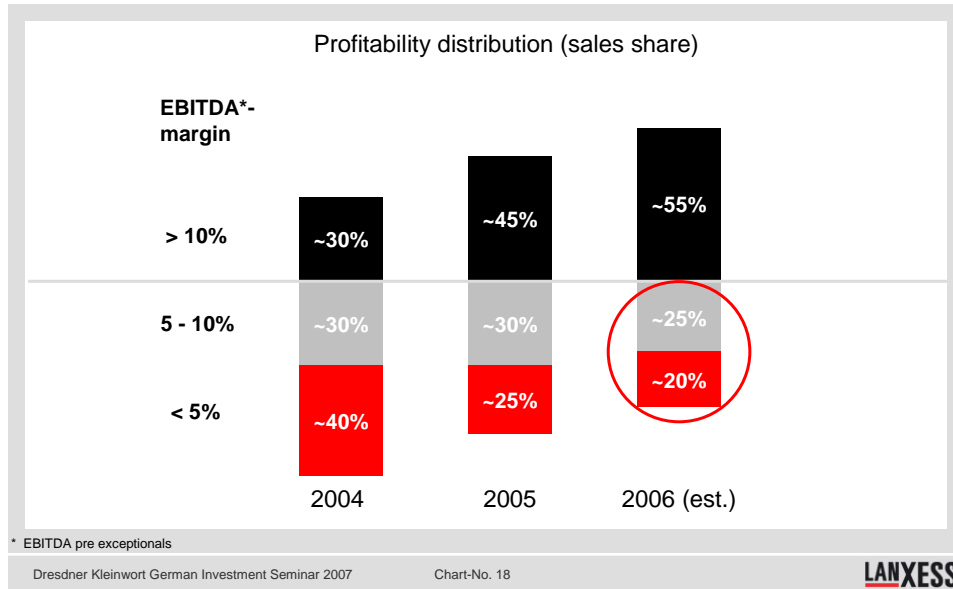
Continue aggressive efficiency improvement

- Consequent cost management lowers cost year by year
- Margin improvements through pricing excellence
- Return-oriented resource allocation



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Share of profitable sales almost doubled



Drive sustainable and profitable organic growth

Increasing Competition

Global Markets Change

Industry Fragmentation and Consolidation

Align businesses along market and industry trends

- Adaptation of business models
- Seizing opportunities in emerging markets
- Leveraging LANXESS' technology platform

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Build and strengthen portfolio of leadership businesses

Increasing Competition

Global Markets Change

Industry Fragmentation and Consolidation

Play active role in ongoing industry consolidation

- Continue active portfolio adjustment
- Targeted acquisitions to further strengthen existing businesses
- Targeted acquisitions to enter into new attractive businesses



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Chart-No. 20

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We see attractive opportunities ahead to generate more value

There are additional chances beyond our current portfolio

In leveraging

- our competencies
- our experience
- our portfolio platform
- our deep understanding of the chemical industry



In taking advantage of

- fragmentation and consolidation process of the chemical industry
- need for restructuring of chemical businesses

Creating additional value, strength and a long-term perspective for LANXESS



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Chart-No. 21

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We are looking for appropriate acquisition opportunities

- **Strengthen portfolio**
Small to mid-sized individual businesses to strengthen our leadership businesses
- **Complement portfolio**
Attractive mid-sized businesses to broaden our portfolio
- **Another turn-around opportunity**
A company or part of a conglomerate to boost under-managed businesses

- First small acquisition implemented in 2006



We know how to energize chemical businesses

Agenda

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4. **New ambitious mid-term targets and 2006 guidance**

... and LANXESS will deliver on new ambitious targets

LANXESS	EBITDA* margin: Peer group profitability in 2009 (currently 12-14%)	
Business	No business < 5 % EBITDA* margin in 2009	
Finance	Investment grade rating	

* EBITDA figures pre exceptionals; excluding acquisitions

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Outlook and guidance

Outlook

- We remain confident for the businesses in Q4 2006, however with the usual seasonal development
- Crude oil prices have eased but this is, as of now, not yet mirrored in our petrochemical derivative raw materials nor the underlying contract prices which still remain at high levels

2006 Guidance

- FY 2006 EBITDA pre exceptionals remains at €660 - €680 m
- Capex at upper end of €250 - €270 m range
- Operational Depreciation and Amortization ~€250 m
- FY P&L tax rate expected around 30%

FY 2006 EBITDA pre exceptionals guidance remains at €660-680 m

LANXESS is energizing the chemical industry

Strategy

Competitiveness

Restructure and build leadership businesses

Portfolio

Optimize portfolio permanently for performance

Value

Capitalize on industry trends and LANXESS competencies

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Chart-No. 26

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Energizing Chemistry

Broad supplier base

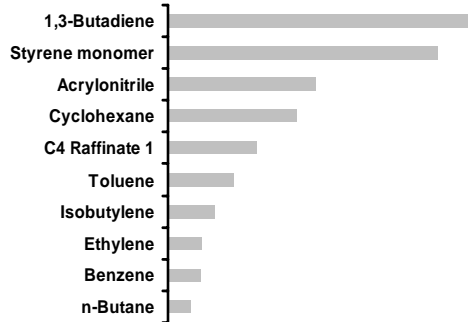
Suppliers

LANXESS uses a centrally managed global procurement organization to ensure a reliable supply of materials and services. About 30% of all items ordered are now handled through e-procurement.

Procuring petrochemical raw materials is a top priority at LANXESS. The biggest suppliers here in 2005 included BP, Chevron Phillips, Dow, Exxon Mobil, Huntsman, Ineos, Innovene, Lyondell, Shell Chemicals and Total. Other important suppliers of basic inorganic and organic chemicals are BASF, Bayer, Degussa and Rhodia.

- Total raw material costs in 2005 were approx. €2.6 bn
- Top10 petrochemical raw materials accounted for approx. €1.3 bn of costs in 2005

Top 10 Petrochemical Raw Materials 2005 in €million



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Chart-No. 28

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Q3 2006 financial overview: on track to achieve full year targets

(€m)	Q3 2005	Q3 2006	Δ in %	
Sales	1,776	1,691	-4.8%	– Sales decrease almost entirely due to portfolio changes
EBITDA pre except. Margin	148 8.3%	164 9.7%	10.8%	
Net Income	-57	36	n.m.	– Broad selling price increases amid robust demand in most end markets, again risen raw material and energy costs
Net Financial Debt	680*	503	-26.0%	
Working Capital	1,439*	1,531	6.4%	– Further reduction of net financial debt to €503 m
Capex	52	66	26.9%	– Seasonally higher working capital compares to exceptionally low level at year-end 2005
Employees	18,282*	16,893	-7.6%	

*As per 31.12.

Restructuring success supports improvement in profitability

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Chart-No. 29

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Q3 performance mirrors efficiency improvements and pricing power

(€m)	Q3 2005	Q3 2006	Δ in %	
Sales	1,776	1,691	-5%	– Sales decrease is attributable to portfolio changes (-4.6%), slightly lower volumes (-2.7%) and unfavourable currency impact (-2.3%), partly counteracted by price increases (+4.8%)
Cost of sales	-1,400	-1,329	-5%	
SG&A	-274	-240	-12%	
R&D	-24	-23	-4%	
Other op. income/ expense	-132	-14	-89%	
thereof exceptionals	-142	-17	-88%	
EBIT	-54	85	n.m.	– Improved cost structures and continuous implementation of pricing strategy help increase profitability
Net Income	-57	36	n.m.	
EBITDA	15	148	>100%	– Q3 exceptionals relate to restructuring and portfolio measures
thereof exceptionals	-133	-16	>100%	
EBITDA pre exceptionals	148	164	11%	

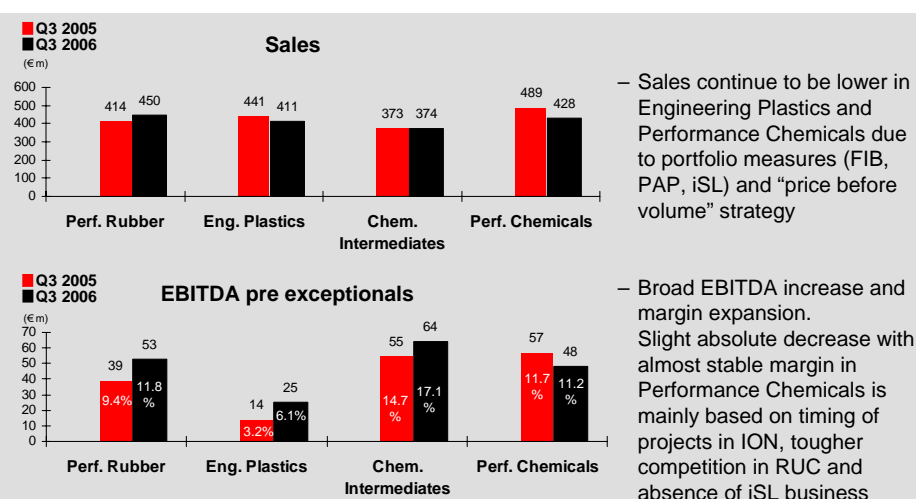
Sound performance in a generally softer summer quarter

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Chart-No. 30

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Continued operational improvements



All businesses continue to perform according to plan

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Chart-No. 31

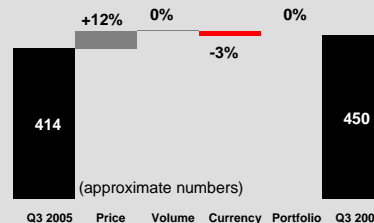
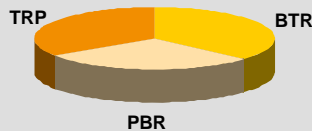
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Performance Rubber: overall simply a sound quarter with robust demand...as stated in Q2

(€m)	Q3 2005	Q3 2006
Sales	414	450
EBIT	18	36
Depr. / Amort.	17	17
EBITDA	35	53
EBITDA pre except.	39	53
Margin	9.4%	11.8%
Capex	15	22

- Sales growth driven by price increases in all BUs in an effort to offset higher raw material costs. Stable volumes compared to Q3 2005
- BTR counteracted risen raw material costs with improved cost structures and higher selling prices
- PBR back on track with higher prices and volumes. Asia helped to offset U.S. softness
- TRP shows restructuring results with efficiency improvements and good pricing

Sales by BU:



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Chart-No. 32

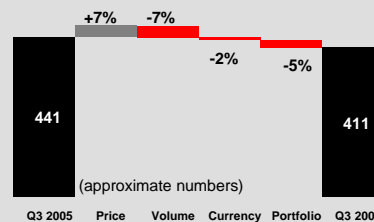
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Engineering Plastics: a pleasant quarter in underlying operations in both businesses

(€m)	Q3 2005	Q3 2006
Sales	441	411
EBIT	3	17
Depr. / Amort.	11	8
EBITDA	14	25
EBITDA pre except.	14	25
Margin	3.2%	6.1%
Capex	7	16

- Sales decline mainly due to divestiture of FIB and lower ABS volumes during the production shift from Dormagen to Tarragona as well as a fire at the Tarragona site
- LUP continues on the road of recovery with price increases to mitigate higher raw material and energy costs
- SCP with strong results based on raw-material-induced price increases supported by improved cost structures
- Absence of FIB-losses backs results as well

Sales by BU:



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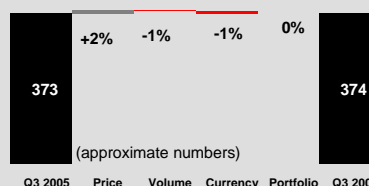
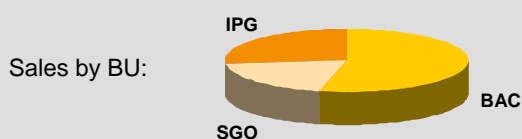
Chart-No. 33

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Chemical Intermediates: steadily strong BAC, exceptional IPG and SGO picking up

(€m)	Q3 2005	Q3 2006
Sales	373	374
EBIT	39	48
Depr. / Amort.	16	16
EBITDA	55	64
EBITDA pre except.	55	64
Margin	14.7%	17.1%
Capex	10	11

- Sales almost unchanged as price increases in all businesses offset lower volumes and unfavourable currency effect
- Softer agro business in BAC and SGO is accountable for somewhat lower volumes – in BAC overcompensated by price increases
- SGO on track in terms of performance improvement – well above last years result; good progress in pharma business
- IPG benefits from continuously strong demand especially in the construction industry and price increases in speciality applications for iron oxides



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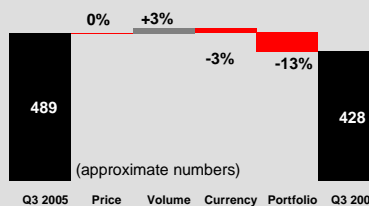
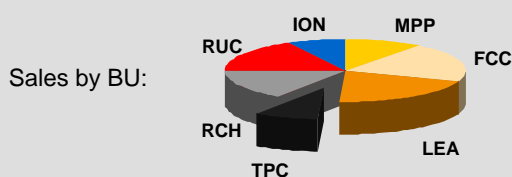
Chart-No. 34

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Performance Chemicals: mixed performance - strong MPP and LEA, lagging RUC and ION

(€m)	Q3 2005	Q3 2006
Sales	489	428
EBIT	38	34
Depr. / Amort.	18	14
EBITDA	56	48
EBITDA pre except.	57	48
Margin	11.7%	11.2%
Capex	19	11

- Sales decrease after divestment of PAP and iSL. Pricing on comparable level with overall higher volumes
- Improved EBITDA contribution mainly due to seasonally strong MPP, favourable pricing in LEA and improved cost structures in TPC
- RUC had to cope with increasing competitive pressure since Q1 and customers' production closures, leading to weaker performance
- Project business in ION compares to stronger Q3 2005. Performance gap only based on timing



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Chart-No. 35

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Exceptional items incurred in Q3 2005 and 2006

Exceptional items	Q3 2005		Q3 2006		Description
	Exceptional	thereof D&A	Exceptional	thereof D&A	
Performance Rubber	4	0	0	0	"Rubber" Litigation (TRP)
Engin. Plastics	3	3	0	0	Capex write-off (LUP) and Impairment (FIB)
Chemical Intermediates	2	2	0	0	Capex write-off (SGO)
Performance Chemicals	1	0	0	0	"Rubber" Litigation (RUC)
Reconciliation	132	4	17	1	Restructuring, M&A
Total	142	9	17	1	

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Chart-No. 36

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Update on total financial impact due to restructuring

Phase I+II+III+IV (€ m)	2005	2006e	2007e	2008e	2009e
P&L Expenses	-166	-55	-35	-25	-65*
Cash outs	-10	-155	-90	-50	-65*
Headcount reduction	~540	~610	~470	~40	0
Cost reduction vs. prior year	10	50	60	80	60*
Cost reduction cumulative	10	60	120	200	260*
EBITDA improvement vs. prior year	10	50	50	40	45*
EBITDA improvement cumulative	10	60	110	150	195*

* Phase IV not yet broken down by years - included in above table completely in 2009 (~€65 m P&L expenses, ~€50 m cost reduction, ~€40 m EBITDA improvement)

Restructuring is going to transform profitability substantially from 2006 onwards

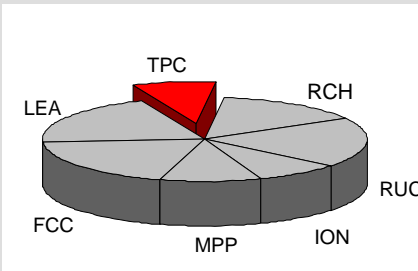
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Chart-No. 37

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Sale of the Textile Processing Chemicals business: fourth adjustment to the portfolio

Sales of ~€150 million in 2005. All but the North American assets are purchased by **EGERIA** and BU management, the North American assets (sales of ~€20 m) were subsequently divested to StarChem LLC.



Key Business Items:

- Positive margin contribution after successful realignment in recent years (e.g. streamlining of sales organization, adjustment of product portfolio)
- Approx. 380 employees are affected, production sites in Leverkusen (GER), Ede (NL) and Wellford (U.S.) and Montreal (CAN).

Transaction Cornerstones:

- Purchase price of €54 million for all but the North American assets (Enterprise value)
- Remnant costs of ~€10 million in 2007 and ~€5 million in 2008

Divestment at value enhancing multiples

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Chart-No. 38

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The basis for new mid-term financial targets is prepared...

€ m	Company	2005	2006e	2007e	2008e	2009e	Resulting Margin*
	Fixed cost savings					260	
	Phase 1-4 EBITDA improvement cum.	10	60	110	150	195**	Up to ~11%

€ m	Portfolio adjustment	Effects	Resulting Margin*
	FIB	-100 sales, -10 EBITDA loss	Up to ~12%
	PAP	-240 sales, negligible EBITDA	
	iSL	-20 sales	
	TPC	-150 sales, - high single digit EBITDA	

Resulting EBITDA* margin improvement to ~ 12% builds the basis for new financial targets

* using FY 2005 EBITDA pre exceptionals margin of 8.1% as basis; ** €40 m of phase 4 not yet broken down by years

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Chart-No. 39

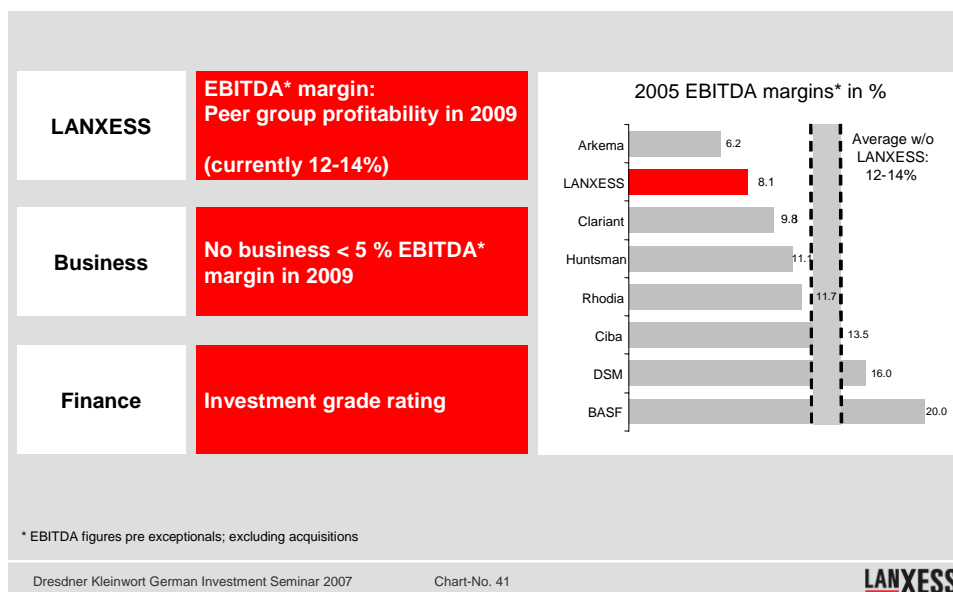
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Prudent financing policy for the future

Policy	Food for thought
<ul style="list-style-type: none"> ▪ Rating policy: Remain investment-grade within longer-term corridor of BBB- and BBB ▪ Organic growth: strive not to have rating deterioration for a longer period of time ▪ External growth: under certain circumstances, a temporary rating deterioration into non-investment grade "BB+/BB" would seem acceptable with the clear target to re-enter investment grade status after integration of an acquisition 	<ul style="list-style-type: none"> ▪ Current financing structure ▪ Existing back up facilities ▪ Current rating ratios offer room to maneuver ▪ Acquisitions in-line with the new financing policy

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...and LANXESS will deliver on new ambitious targets



Financial Calendar 2006/2007

Financial Calendar

FY Results 2006	March 20, 2007
Q1 Results 2007	May 09, 2007
Annual Stockholders' Meeting	May 31, 2007
Q2 Results 2007	August 16, 2007
Q3 Results 2007	November 14, 2007

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Chart-No. 42

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Abbreviations

Performance Rubber

BTR	Butyl Rubber
PBR	Polybutadiene Rubber
TRP	Technical Rubber Products

Chemical Intermediates

BAC	Basic Chemicals
SGO	Saltigo
IPG	Inorganic Pigments

Engineering Plastics

LUP	Lustran Polymers
SCP	Semi-Crystalline Products

Performance Chemicals

MPP	Material Protection Products
FCC	Functional Chemicals
LEA	Leather
TPC	Textile Processing Chemicals
RCH	Rhein Chemie
RUC	Rubber Chemicals
ION	Ion Exchange Resins

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Chart-No. 43

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