LANXESS – Q1 2006 Results

Transformation on Track

May 18, 2006

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LANXESS

Agenda

1. **Business Highlights Q1 2006**
2. **Financials Q1 2006**
3. **Outlook and Guidance**

Business Update Q1 2006

2006

- Economic environment remains supportive with healthy demand
- Operationally a solid first quarter
- Continued broad price push-through in light of strong increase in raw materials and energy
- Restructuring continues and yields first results, fully on track
- First portfolio measures completed
- Financials in line with our targets
- Laying the foundation for FY targets

Transformation of the company continues

Portfolio Adjustment as Part of Transformation

Performance Rubber	Engineering Plastics	Chemical Intermediates	Performance Chemicals
Butyl Rubber	Styrenic Resins	Basic Chemicals	Material Protection Products
Polybutadiene Rubber	Semi-Crystalline Products	Saltigo / Fine Chemicals	Functional Chemicals
Technical Rubber Products	Fibers	Inorganic Pigments	Leather
			Textile Processing Chemicals
			Paper
			RheinChemie / iSL
			Rubber Chemicals
			Ion Exchange Resins

Financial effects from portfolio measures:

Profit and Loss:
- iSL out as of Nov 30, 2005, PAP and FIB (2 months) still in Q1 2006

Cash Flow:
- €32 m cash received in Q1 2006
- further cash-in of ~€60 m in Q2 2006

Balance Sheet:
- related assets and liabilities de-consolidated

Reduction of ~720 employees

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

Q1 2006 Financial Highlights: Improving Profitability While Balance Sheet Remains Solid

(€ m)	Q1 2005	Q1 2006	∆ in %
Sales	**1,729**	**1,836**	**6.2%**
EBITDA pre except.	**181**	**205**	**13.3%**
Margin	10.5%	11.2%	
Net Income	**70**	**82**	**17.1%**
Net Financial Debt	**680***	**647**	**-4.9%**
Working Capital	**1,439***	**1,464**	**1.7%**
Capex	**51**	**37**	**-27.5%**
Employees	**18,282***	**17,180**	**-6.0%**

*As per 31.12.

- Selling price increases amid continuous good demand and risen input costs for raw materials and energy
- Further reduction of net financial debt on the basis of good operating results
- Majority of FY capex will be spent during the next three quarters, guidance remains unchanged

Improving financials while transforming the company

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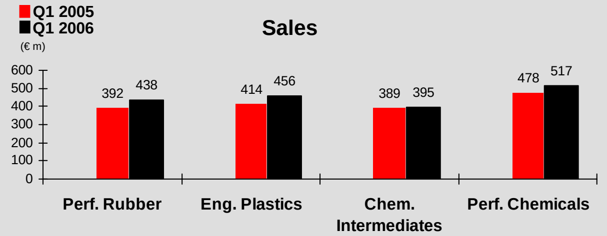
Q1 Performance Improvement Shows Ability to Accomplish 2006 Targets

(€ m)	Q1 2005	Q1 2006	Δ in %
Sales	**1,729**	**1,836**	**6%**
Cost of sales	-1,287	-1,399	9%
SG&A	-282	-265	-6%
R&D	-26	-22	-15%
Other op. income/ expense	-18	-25	39%
thereof exceptionals	-5	-18	>100%
EBIT	**116**	**125**	**8%**
Net Income	**70**	**82**	**17%**
EBITDA	181	187	3%
thereof exceptionals	-	-18	n.m.
EBITDA pre exceptionals	**181**	**205**	**13%**

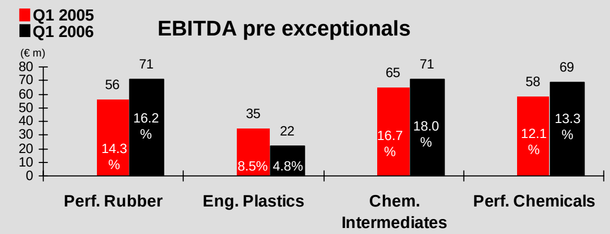
- Price increases (+4.5%) and stronger U.S. Dollar offset slightly lower volumes (-2.1%)
- Profitability increase mirrors success of restructuring efforts and improvement of cost structures despite risen raw material costs
- Immediate capex write-off in STY and SGO ended
- Exceptionals relate mainly to restructuring and M&A

Cost reductions taking effect, markets remain solid

A Solid Start Into 2006



- Increased sales mainly due to improved pricing in light of risen raw material costs but also supported by strengthened U.S. Dollar



- Overall EBITDA increase and margin expansion especially compared to a very strong Q1 2005

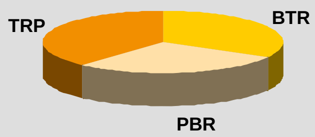
LANXESS is on track!

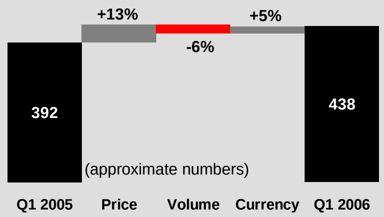
Performance Rubber: Margin Improvement Based on Even Broader Shoulders

(€ m)	Q1 2005	Q1 2006
Sales	**392**	**438**
EBIT	41	54
Depr. / Amort.	15	16
EBITDA	56	70
EBITDA pre except.	**56**	**71**
Margin	14.3%	16.2%
Capex	**9**	**10**

- Sales growth driven by price increases across all BUs to compensate for higher raw material costs
- Profitability improvements in each BU. BTR effect from supplier outage will primarily come in Q2
- Remarkable improvement in TRP on the basis of price increases and restructuring
- Continuously strong PBR. Expected lower volumes in the weakening U.S. market were counteracted by production streamlining which led to improved cost structures

Sales by BU:



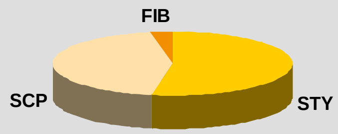


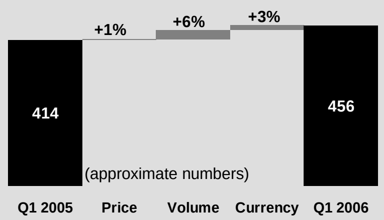
Engineering Plastics: FIB Drags Down for the Last Time – STY However Fully on Track

(€ m)	Q1 2005	Q1 2006
Sales	**414**	**456**
EBIT	24	14
Depr. / Amort.	11	8
EBITDA	35	22
EBITDA pre except.	**35**	**22**
Margin	8.5%	4.8%
Capex	**5**	**5**

- Sales growth due to risen volume in STY and SCP. FIB deteriorated in volume and price
- STY with good improvement despite higher raw material costs (acrylonitrile) on the basis of selling price and volume increases
- SCP with improved volumes and stable pricing not fully compensating significantly higher raw material prices. In addition comparison to exceptionally strong Q1 2005
- Loss making FIB left LANXESS

Sales by BU:



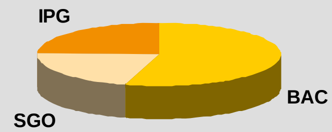


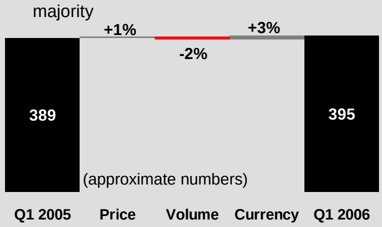
Chemical Intermediates: Strong Performance Further Supported by Improved SGO

(€ m)	Q1 2005	Q1 2006
Sales	**389**	**395**
EBIT	47	55
Depr. / Amort.	18	16
EBITDA	65	71
EBITDA pre except.	**65**	**71**
Margin	16.7%	18.0%
Capex	**9**	**9**

- Almost stable sales across all BUs. In profitability terms, Q1 is usually the strongest quarter
- BAC with robust performance on high level had to cope with risen toluene input costs
- Saltigo (SGO) with slight sales decrease due to somewhat weaker agro volumes but with increased profitability due to robust pharma sector and restructuring
- All segments contribute to profitability increase with SGO accounting for the majority

Sales by BU:



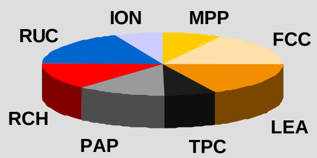


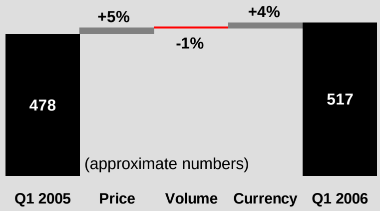
Performance Chemicals: RUC and LEA Continue Delivering, Now Supported by Other BUs

(€ m)	Q1 2005	Q1 2006
Sales	**478**	**517**
EBIT	43	51
Depr. / Amort.	15	17
EBITDA	58	68
EBITDA pre except.	**58**	**69**
Margin	12.1%	13.3%
Capex	**12**	**12**

- Risen Sales on the basis of price increases in almost all BUs. Volume decreases mainly in TPC and RCH (as iSL business was divested) offset increases in other BUs
- EBITDA increased mainly due to strong results in LEA and RUC with improved pricing and volumes. However RUC is facing tougher competitive environment
- TPC with continued reduction of volumes caused by the "WTO effect"
- PAP leaves LANXESS after losses in Q1 but remnant costs remain (in '06 and '07)

Sales by BU:





Balance Sheet Remains Solid

(€ m)	Dec 31, 2005	Mar 31, 2006
Non-current Assets	**1,835**	**1,783**
Intangible assets	53	50
Property, plant & equipment	1,526	1,478
Equity investments	22	31
Other investments	4	4
Financial assets	48	45
Deferred taxes	103	96
Other non-current assets	79	79
Current Assets	**2,506**	**2,486**
Inventories	1,068	1,040
Trade accounts receivable	1,065	1,042
Financial assets	37	26
Other current assets	200	290
Liquid assets	136	88
Total Assets	**4,341**	**4,269**

(€ m)	Dec 31, 2005	Mar 31, 2006
Stockholders' Equity	**1,256**	**1,337**
thereof minority interest	17	18
Non-current Liabilities	**1,576**	**1,548**
Pension & post empl. provisions	497	499
Other provisions	302	283
Financial liabilities	644	639
Tax liabilities	26	26
Other liabilities	32	30
Deferred taxes	75	71
Current Liabilities	**1,509**	**1,384**
Other provisions	401	443
Financial liabilities	172	96
Trade accounts payable	694	618
Tax liabilities	27	41
Other liabilities	215	186
Total Equity & Liabilities	**4,341**	**4,269**

BUs Paper and Fibers de-consolidated

Increasing Trust and Stability

Investment grade rating improved

New rating by Fitch: BBB (stable outlook) as unsolicited rating

„The ratings reflect Lanxess' solid capital structure and satisfactory coverage ratios…"

"This is the result of restructuring programmes, price-before-volume strategy and a reorganisation of its financing arrangements…"

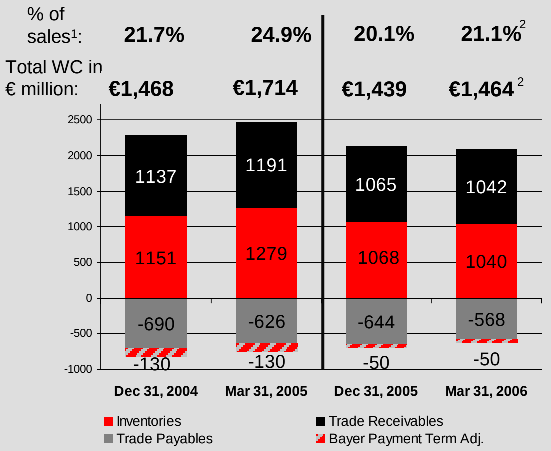
"Fitch has also positively taken into account management's continued restructuring efforts, initial success on portfolio adjustments and its commitment to a conservative financial profile."

– October 2004: BBB- (stable outlook) by Standard & Poor's

– May 2005: Baa3 (stable outlook) by Moody's

First BBB rating with stable outlook underpins transformation success

Working Capital Management Remains Tight



- **Working Capital in Q1 2006 excludes FIB and PAP (sold within Q1) – underlying developments:**
- Receivables: operationally slightly higher due to increased sales
- Inventories: operationally slight increase due to higher raw material costs and seasonal effects
- Payables: decrease due to timing of payments
- Even after adding back FIB and PAP businesses, Working Capital would still be significantly below prior year Q1

[1] As % of sales on the basis of last 4 quarters' sales
[2] Without Working Capital and sales of PAP and FIB (after the sale of those businesses)

Working capital under control

Improved Cash Flow: Stronger Operating Results

(€ m)	Q1 2005	Q1 2006
Profit before Tax	**94**	**115**
Depreciation & Amortization	65	62
Equity earnings	-5	-9
Gain/ Loss from Sale of Assets	-1	0
Financial Losses	9	7
Cash tax payments	-24	-9
Changes in Working Capital	-236	-129
Changes in Other Assets and Liabilities	88	-1
Operating Cash Flow	**-10**	**36**
Investing Cash Flow	**-48**	**-2**
thereof Capex	-51	-37
Free Cash Flow	**-58**	**34**
Financing Cash Flow	**116**	**-82**

- Improved operating result led to corresponding increase in operating Cash Flow
- Improved Working Capital management compared to Q1 2005
- Operating Cash Flow includes €24 m of cash out for restructuring
- Investing Cash Flow includes €32 m from sale of iSL, PAP and FIB

Majority of extraordinary cash outs (restructuring, anti-trust) to come in forthcoming quarters

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Outlook and Guidance

Underlying assumptions

– We remain confident for the economic environment in 2006

– Raw materials volatile on high level

– Exchange rate €1.0 = ~USD1.25

2006 Guidance based on above assumptions

– FY 2006 EBITDA pre exceptionals expected in a range of €640 - €680 m, which is in the upper half of the former 9-10% margin guidance on the basis of 2004 sales

– Capex at upper end of €250 - €270 m range

– Operational Depreciation and Amortization ~€250 m

– FY P&L tax rate expected around 30%

– Restructuring: expenses of ~€55 m and cash-outs of ~€155 m expected in 2006

We delivered on our guidance in 2005 and expect to do so in 2006 as well

LANXESS on Track in Another Year of Transformation

Set the pace	Further profitability increase
Create value	Active portfolio management
Lay foundations	First quarter 2006 with good results
Build confidence	Continued delivery of promises

LANXESS
Energizing Chemistry

Appendix

Exceptional Items Incurred in Q1 2005 and 2006

(€ m)	Q1 2005		Q1 2006		
	Exceptional	thereof D&A	Exceptional	thereof D&A	
Performance Rubber	0	0	1	0	"Rubber" Litigation (TRP)
Engin. Plastics	2	2	0	0	Capex write-off (STY)
Chemical Intermediates	3	3	0	0	Capex write-off (FCH)
Performance Chemicals	0	0	1	0	"Rubber" Litigation (RUC)
Reconciliation	0	0	16	0	~ €9 m Restructuring, ~ €7 m M&A
Total	**5**	**5**	**18**	**0**	

May, 2006 Q1 2006 Results Chart-No. 22 LANXESS

Update on Total Financial Impact due to Restructuring

Phase I+II+III (€ m)	2005	2006e	2007e	2008e	2009e
P&L Expenses	-166	-55	-35	-25	0
Cash outs	-10	-155	-90	-50	0
Headcount reduction	~540	~610	~470	~40	0
Cost reduction vs. prior year	**10**	**35**	**75**	**80**	**10**
Cost reduction cumulative	10	45	120	200	210
EBITDA improvement vs. prior year	**10**	**35**	**65**	**40**	**5**
EBITDA improvement cumulative	10	45	110	150	155

– €115 m total remaining P&L expenses; €295 m remaining total cash costs
– €210 m annual savings as of 2009 with EBITDA improvement of ~€155 m

"Solidarity agreement" on top of above figures give positive one-time" effect of €20+ m in '06 and '07

Restructuring is going to transform profitability substantially from 2007 onwards

May, 2006 Q1 2006 Results Roadshow Chart-No. 23 LANXESS

Financial Calendar 2006

Annual Stockholders' Meeting	May 31, 2006
Q2 Results 2006	August 16, 2006
Investor Conference	September 14 / 15, 2006
Q3 Results 2006	November 15, 2006

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