



Transformation for value generation

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2nd LANXESS Capital Markets Day
London, September 17 / 18, 2007

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Key focus on value generation

Agenda



- **Cost structure transformation**



- Balance sheet transformation



- Comparison to peers

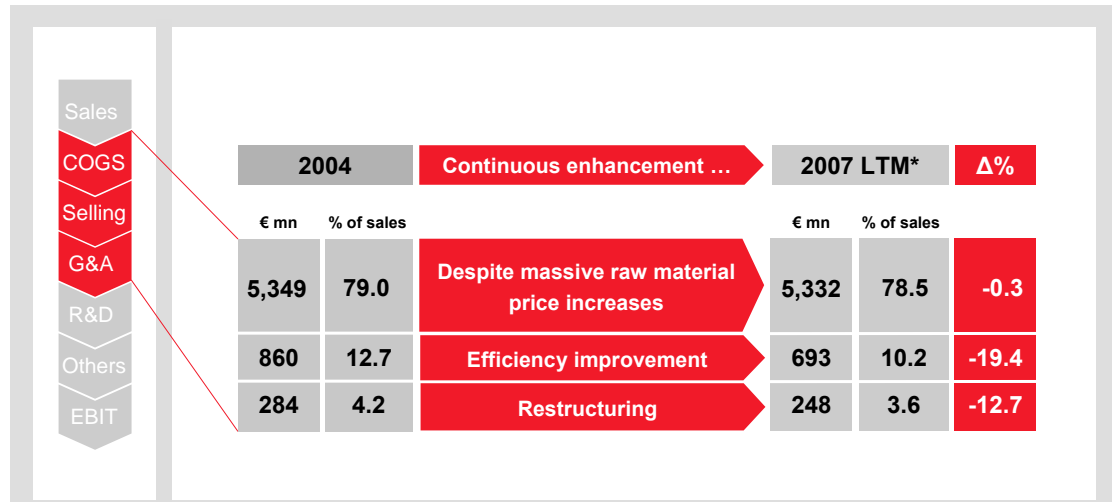


- Capital allocation for value generation



- ... thoughts on valuation

Significant cost structure improvements achieved

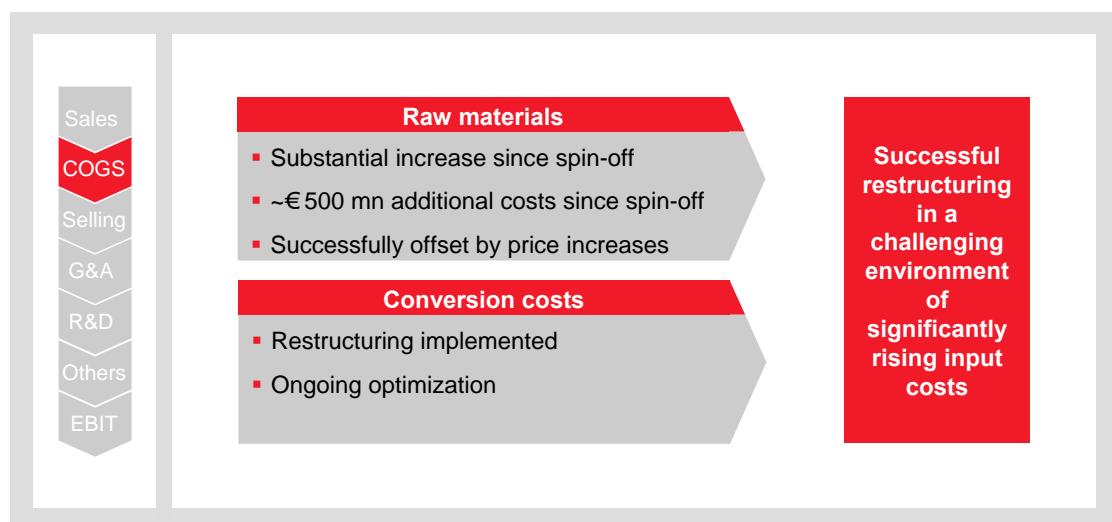


* Last twelve months as of 30.06.2007

4 2007-09-17 / 18

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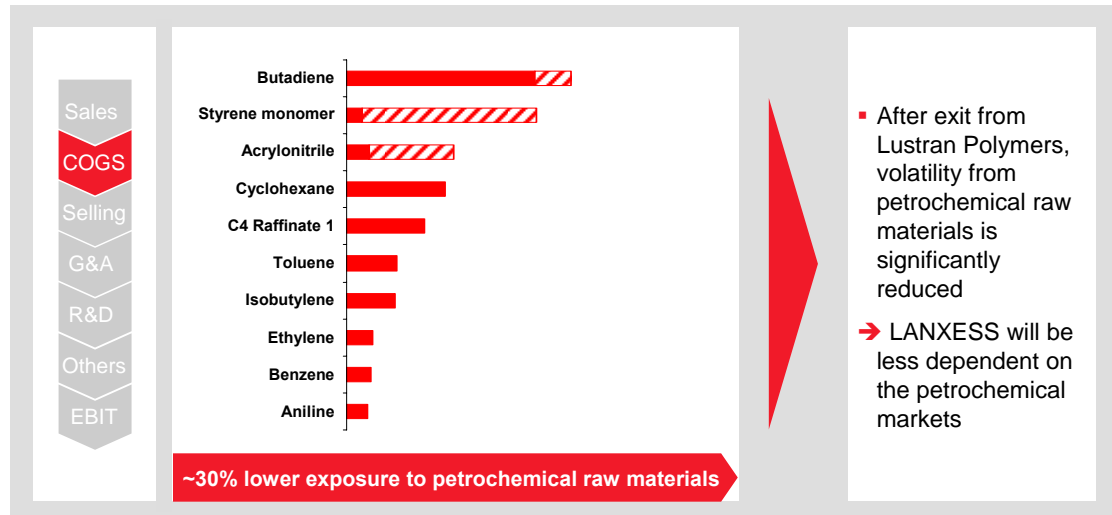
COGS were characterized by raw material price inflation



5 2007-09-17 / 18

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Reduced cyclical risk due to lower dependence on styrene and acrylonitrile mainly



6 2007-09-17 / 18

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A closer look at conversion costs demonstrates the improvements

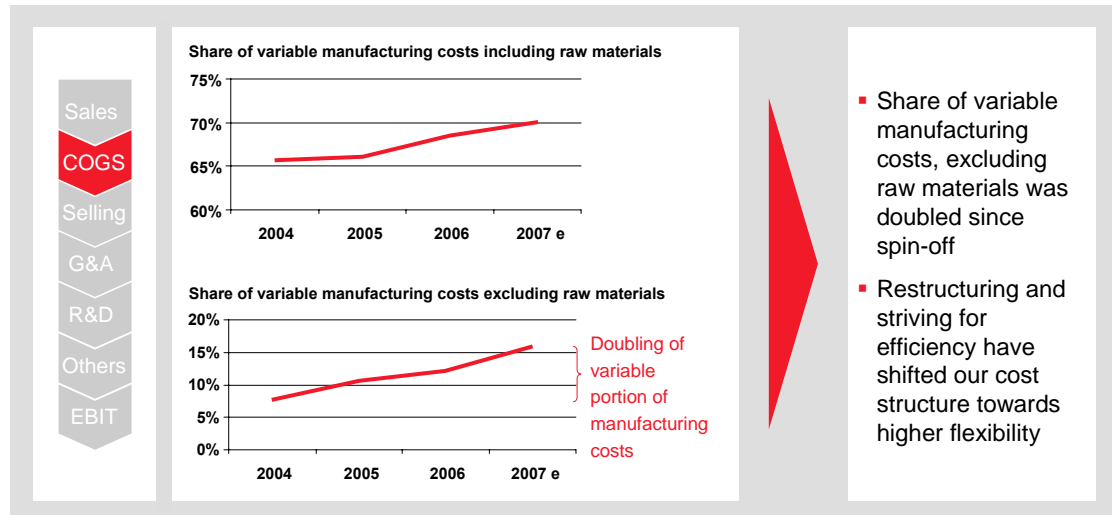
	In € mn	2004*	Continuous enhancement ...	2007 e	~Δ%
Personnel + Other		~800	Significant headcount reduction	~670	-16%
Energy		~380	Due to energy price increases	~480	+26%
D&A + Maintenance		~520	Increased Capex	~540	+4%
Logistics, Environm., Safety		~180		~190	+6%
Total		~1,880	Stable despite price inflation	~1,880	± 0%

* Comparable to 2007, adjusted for divestments

7 2007-09-17 / 18

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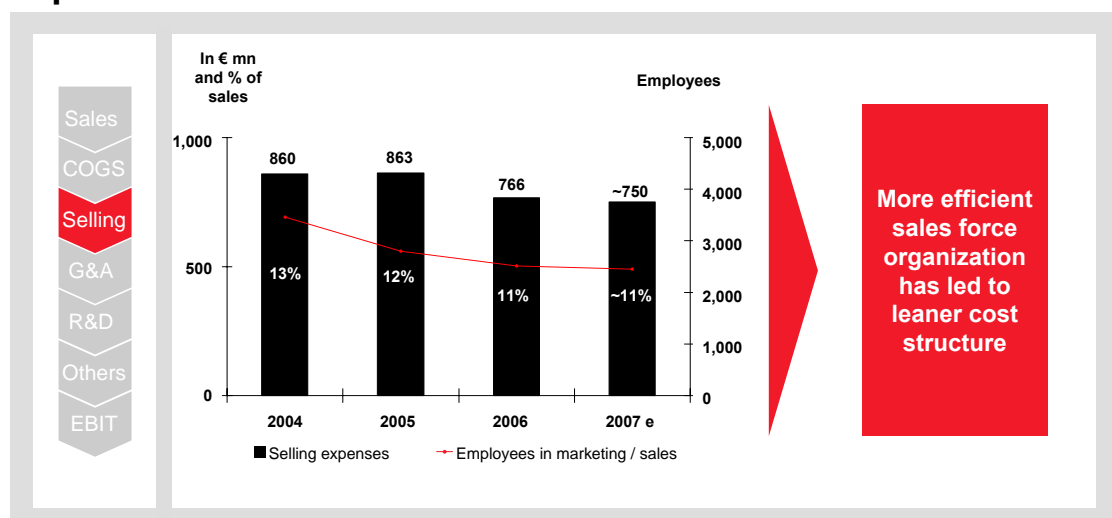
Effective margin protection by increased flexibility of costs



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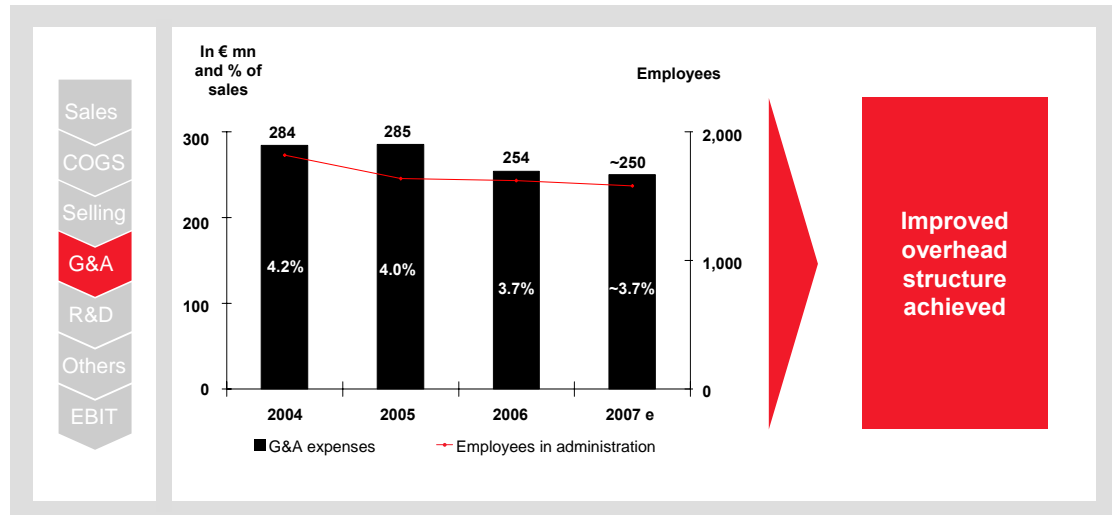
Organizational realignment has led to optimization of selling expenses



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Reduced general / administration results in lowered expenses



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Consistent efficiency enhancement and cost structure improvements

In € m	2003	2004	2005	2006	2007e	
COGS / Sales	82.5%	79.0%	77.4%	77.8%	stable	Flexibility
Variable COGS	~65%	65.6%	66.1%	68.5%	~70%	
Number of sites	53	53	53	50	47	Efficiency
SG&A / Sales	18.9%	16.9%	16.1%	14.7%	reduced	Strength
R&D / Sales	2.7%	1.8%	1.4%	1.3%	increased	

Ongoing improvement of value and stability

11 2007-09-17 / 18

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Our cost structure is healthy and supports value generation in every economic environment



Cost structure transformation

Flexibility

- Continuing increase in cost structure flexibility provides effective protection

Efficiency

- Striving for enhancements in the entire value chain is everyday life and has become an integral part of our culture

Strength

- We have proven the strength to turn this company around and will not stop where we are

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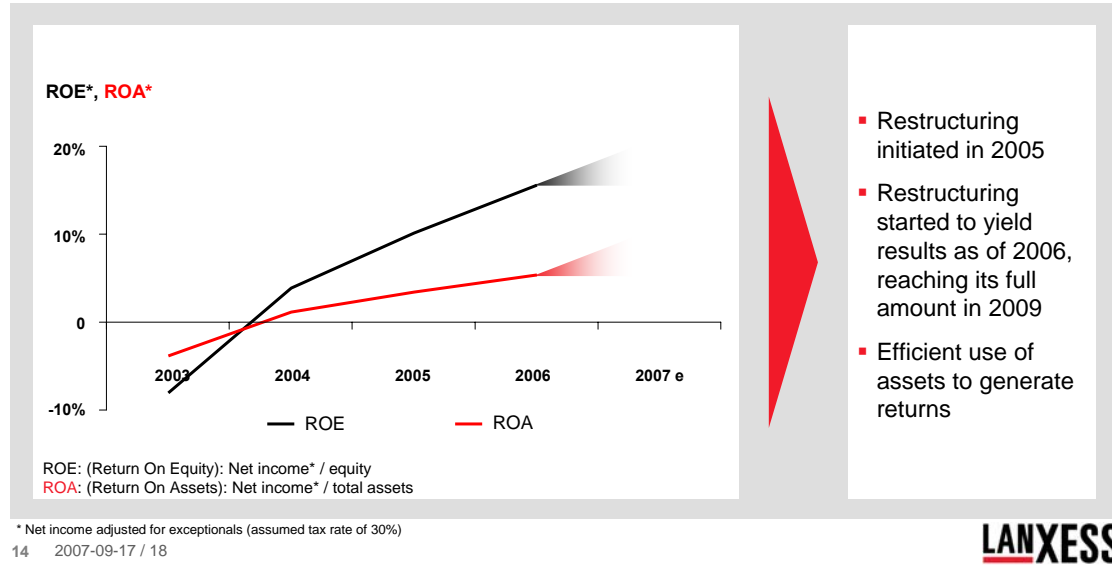


- Capital allocation for value generation

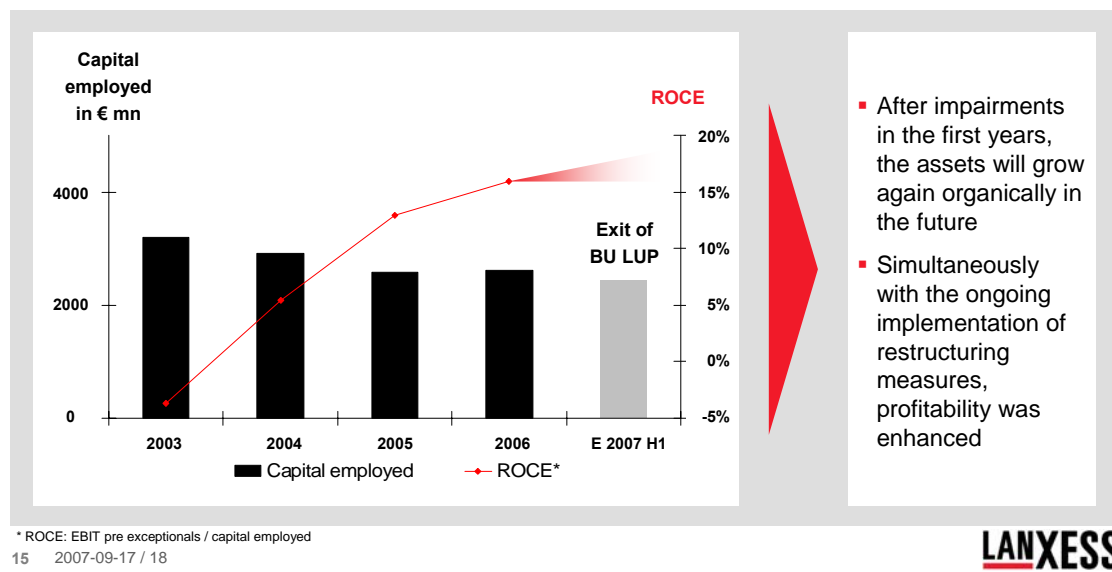


- ... thoughts on valuation

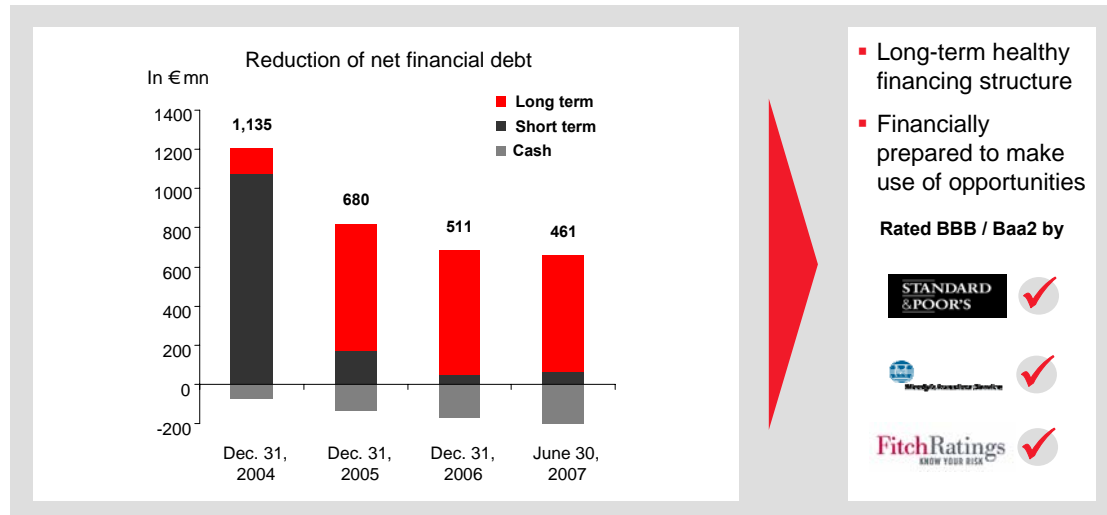
Increasing returns: Excellent deployment and further development of assets



Significant increase of return on the basis of a healthy balance sheet



Balance sheet successfully transformed which is helpful in turbulent financial markets



16 2007-09-17 / 18

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Financing with attractive conditions and long maturities up to 2011 and 2012

Instrument	Amount	Drawn**	Financial Covenant	Maturity
Eurobond	500	500	--	Jun 2012
Syndicated Credit Facility	1,250	0	Net Debt*/ EBITDA* < 3.5x	Oct 2011
Bilateral Credit Facilities	431	95	Net Debt*/ EBITDA* < 3.5x	mainly 2008
Leasing	67	67	--	diverse
Total**	2,248	662		

LANXESS has built a strong bank group in the past 3 years.

Financing based on solid ground

* As defined in LANXESS' credit documentation, where applicable; **as per 30.06.2007

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Solid financing foundation in place for future opportunities

In €mn	2004	2005	2006	2007e
Equity	1,120*	1,256	1,428	1,464**
Equity ratio	25.9%*	28.9%	34.0%	33.7%**
Net financial debt	1,135	680	511	stable
Interest result	-46	-41	-23	stable
Gearing***	101.3%*	54.1%	35.8%	31.5%**
Net financial debt / EBITDA	2.5x	1.2x	0.8x	~0.7x

Strength

Financial metrics substantially improved on the basis of sustainable cash generation

* 2004 comparable to 2005, i.e. incl. deferred tax adjustment; **as of 30.06.2007; *** net financial debt / equity

18 2007-09-17 / 18

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LANXESS' balance sheet is efficiently used to generate returns and documents reliability



19 2007-09-17 / 18

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- **Comparison to peers**

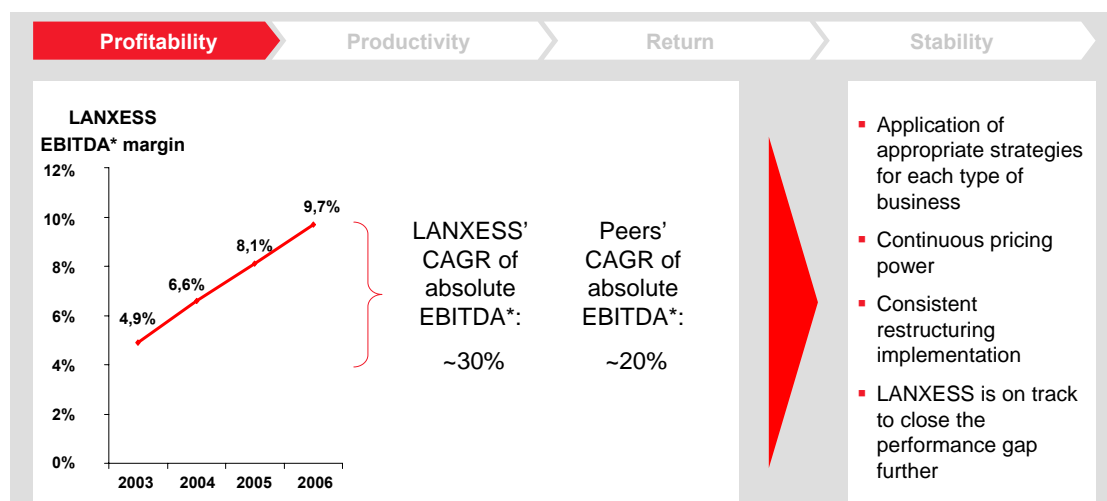


- Capital allocation for value generation



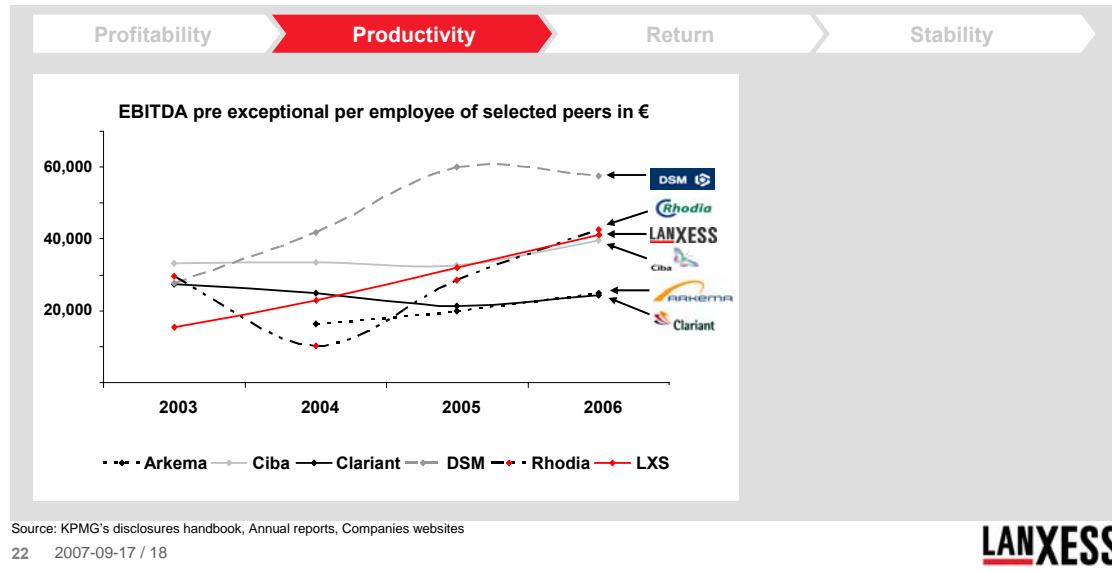
- ... thoughts on valuation

EBITDA improvement outpaces peers significantly

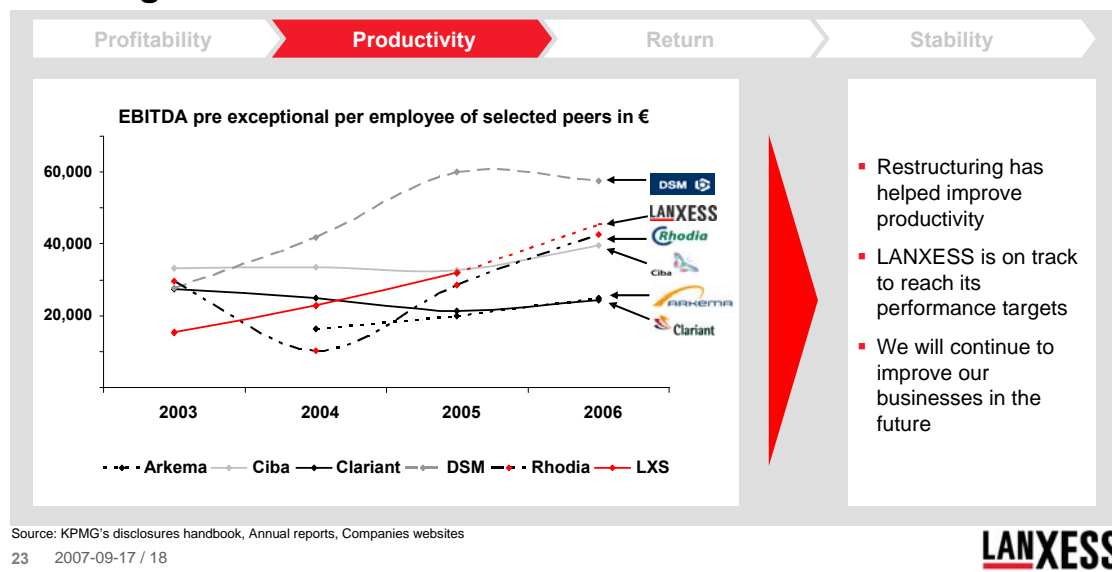


* Pre exceptionals; Peer group: Arkema, BASF, Ciba, Clariant, DSM, Huntsman, Rhodia; Source: KPMG's disclosures handbook, Annual reports, Company websites

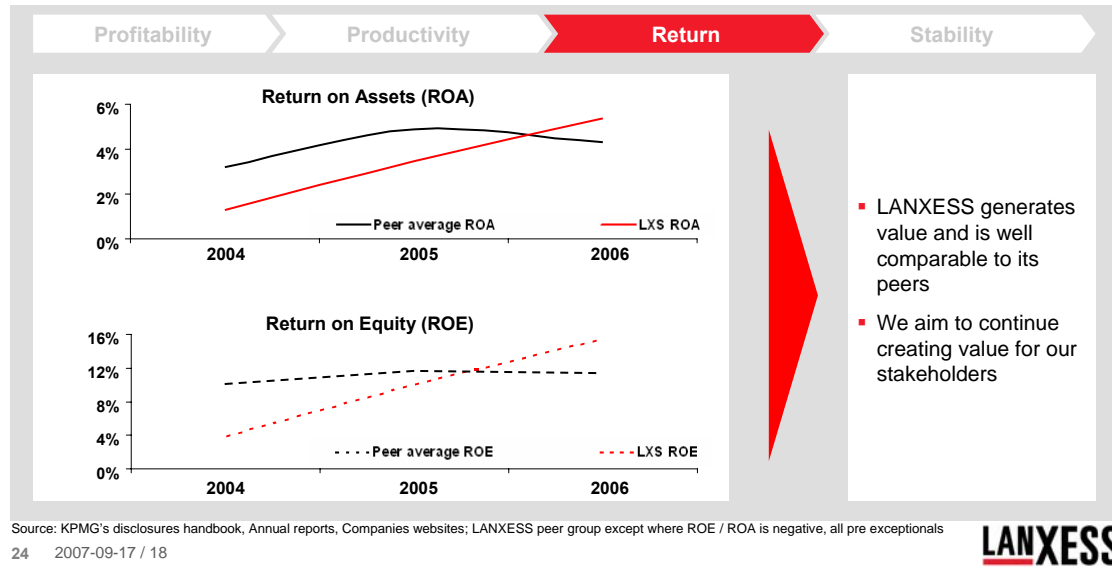
Productivity increases made visible: EBITDA / employee



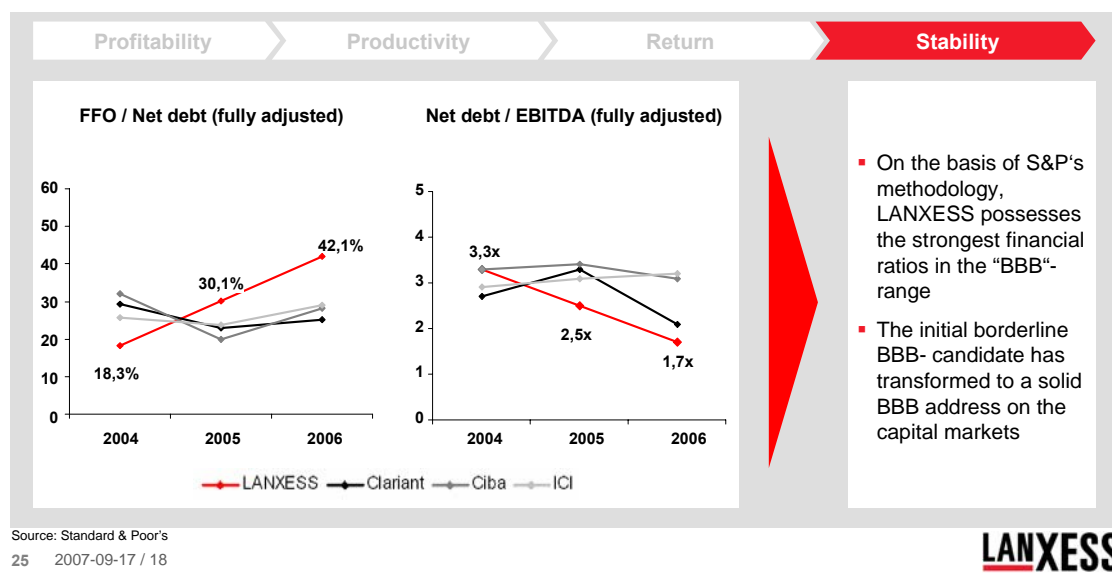
Productivity increases made visible: EBITDA / employee – even higher without LUP



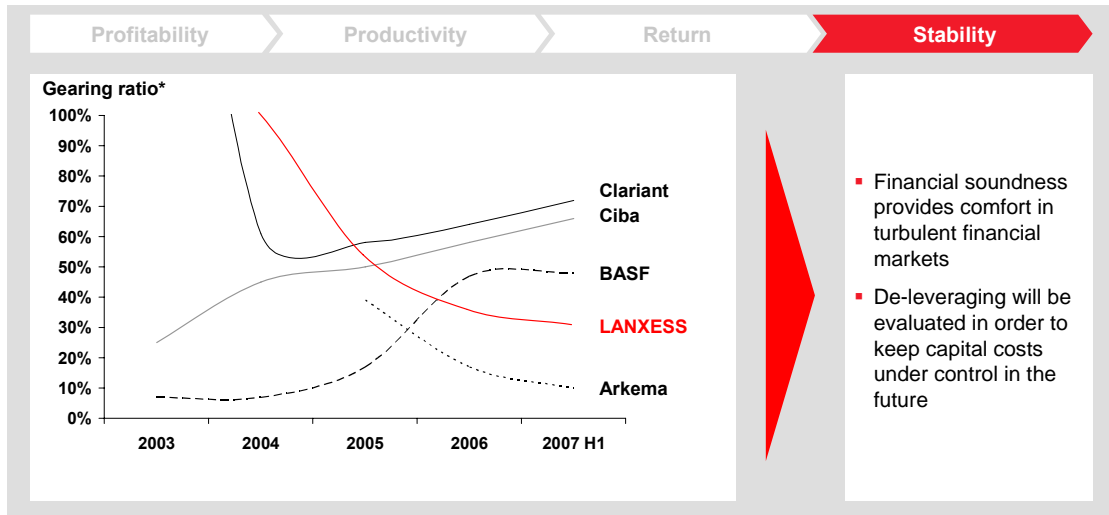
Rising returns have already reached the average peer level



Financial metrics clearly show LANXESS' transformation



Reduced gearing provides high level of comfort



- Financial soundness provides comfort in turbulent financial markets
- De-leveraging will be evaluated in order to keep capital costs under control in the future

* Net financial debt / equity; Source: Company reports
26 2007-09-17 / 18

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- **Capital allocation for value generation**

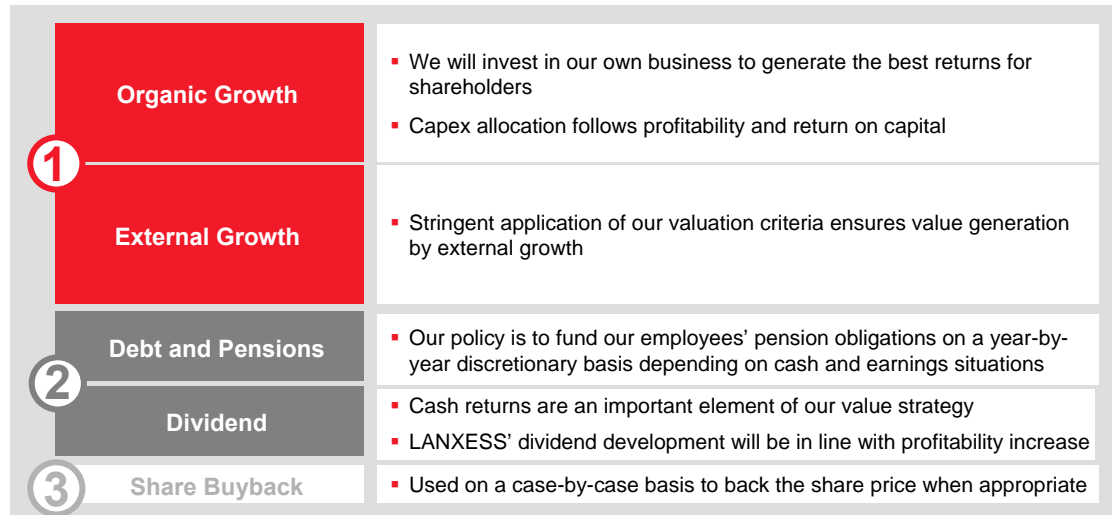


- ... thoughts on valuation

27 2007-09-17 / 18

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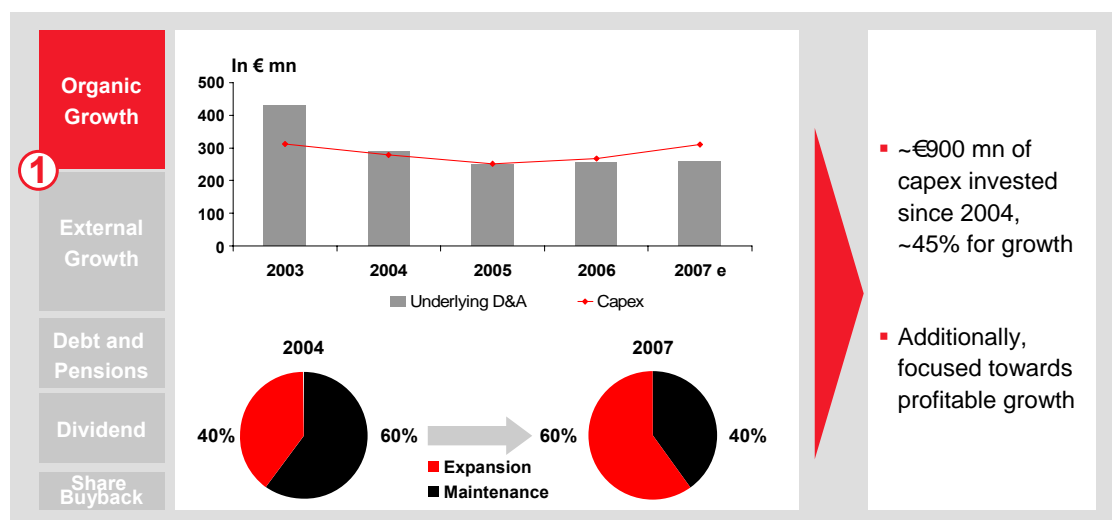
Further value creation sets the priorities for capital allocation



28 2007-09-17 / 18

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LANXESS' investments support organic growth



29 2007-09-17 / 18

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Financial criteria for internal resource allocation ensure excellent returns

1	Organic Growth	<p>Financial investment criteria for decision making on capex:</p> <ul style="list-style-type: none"> ▪ NPV calculation, applying company WACC <ul style="list-style-type: none"> - plus risk premium of ~1.5% - plus country-specific risk premium ▪ Ambitious payback-period required ▪ Every project should improve the total company's ROCE 	Every organic investment is carefully evaluated
	External Growth		
	Debt and Pensions		
	Dividend		
	Share Buyback		


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

1	Organic Growth	Financial evaluation	Conservative evaluation	Disciplined Process ✓
	External Growth	<ul style="list-style-type: none"> ▪ DCF model using LANXESS' own WACC (~7.7% after tax) plus risk premium ▪ Multiples pre and post synergies are calculated 		
	Debt and Pensions	Financial hurdles	Stringent application of performance hurdles	Value Generation ✓
	Dividend	<ul style="list-style-type: none"> ▪ EPS accretion after year 3 at the latest ▪ Earn its own cost of capital (if necessary after restructuring) 		
	Share Buyback	<ul style="list-style-type: none"> ▪ Lead to positive NPV 		


Prudent pension funding policy in place

Organic Growth	Pension funding policy: <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 data-bbox="1141 515 1332 840">Conservative pension funding reduces risk and enhances stability</div>
External Growth		
Debt and Pensions		
2 Dividend		
Share Buyback		

Main instrument for returns to shareholders will be increasing dividends

Organic Growth	Dividend strategy: <ul style="list-style-type: none">▪ Objective: to further increase dividend▪ LANXESS' dividend to be increased as profitability increases Share buyback strategy: <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 data-bbox="1141 1489 1332 1814">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		

LANXESS allocates capital according to projected value generation



Capital allocation for value generation






- Capital for growth
 - Internal and external profitable growth remain the top priorities
- Capital for stability
 - We act with foresight and have a conservative funding policy for pensions
- Capital for cash returns
 - We strive to increase cash returns to shareholders with increasing profitability

34 2007-09-17 / 18

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Key focus on value generation

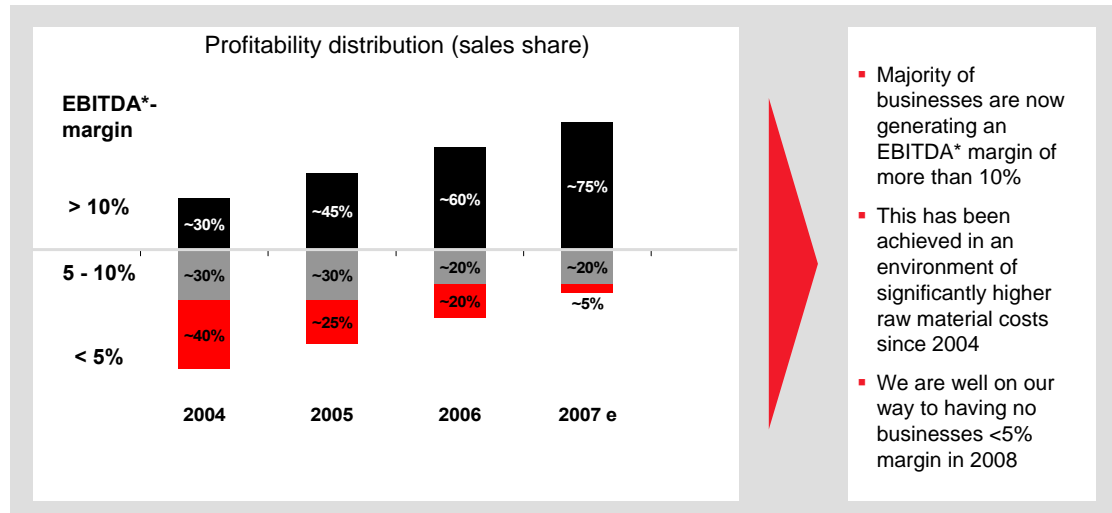
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-  Balance sheet transformation
-  Comparison to peers
-  Capital allocation for value generation
-  ... thoughts on valuation

35 2007-09-17 / 18

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Considerable transformation through portfolio management and restructuring

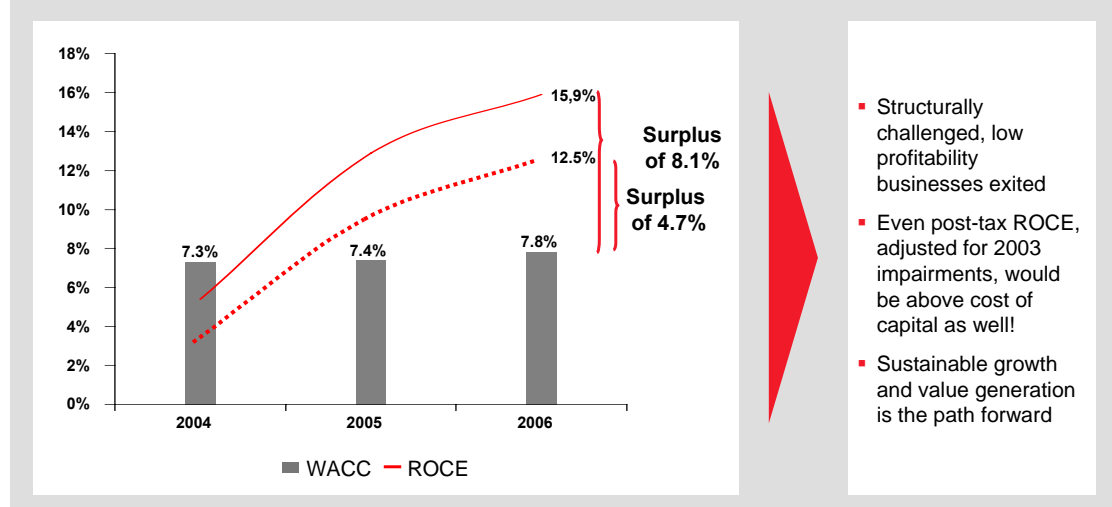


- Majority of businesses are now generating an EBITDA* margin of more than 10%
- This has been achieved in an environment of significantly higher raw material costs since 2004
- We are well on our way to having no businesses <5% margin in 2008

* Pre exceptionals, excluding LUP in 2007 e
36 2007-09-17 / 18



LANXESS earns a premium on its capital costs since 2005 ... even adjusted for impairments of 2003

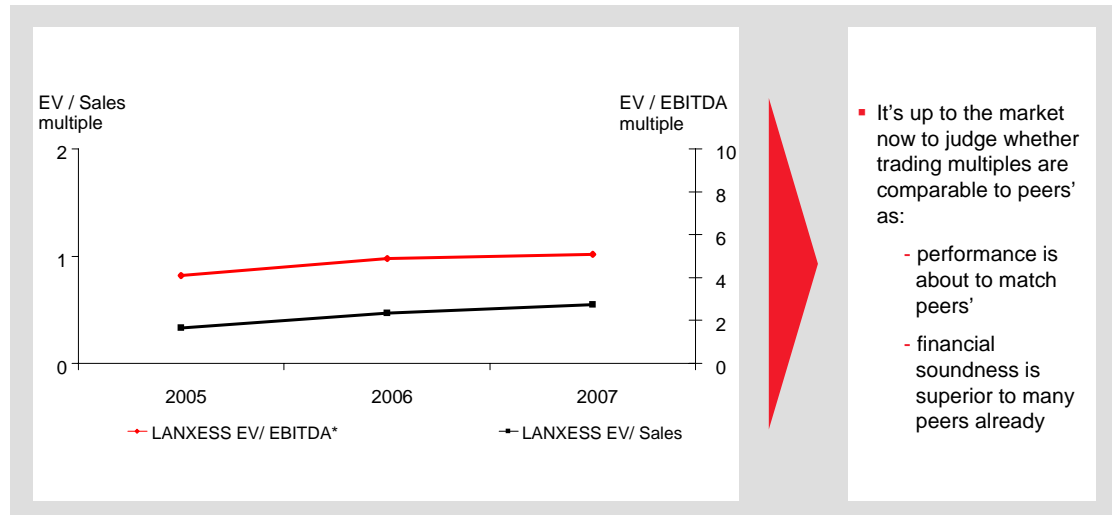


- Structurally challenged, low profitability businesses exited
- Even post-tax ROCE, adjusted for 2003 impairments, would be above cost of capital as well!
- Sustainable growth and value generation is the path forward

ROCE: EBIT pre exceptionals / Capital employed
37 2007-09-17 / 18



Valuation suggests additional upside

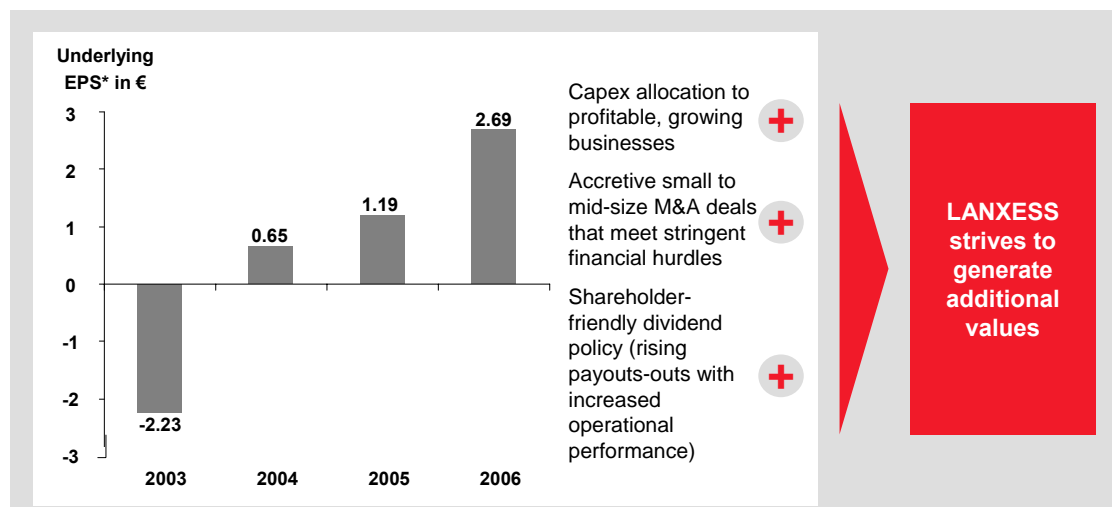


- It's up to the market now to judge whether trading multiples are comparable to peers' as:
 - performance is about to match peers'
 - financial soundness is superior to many peers already

* Pre exceptionals; source: Vara Research, Thomson Financial
38 2007-09-17 / 18



Value generation in every respect



- 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-outs with increased operational performance) +

LANXESS strives to generate additional values

* EPS pre exceptionals
39 2007-09-17 / 18



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Energizing Chemistry