

Transformation for value generation

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Key focus on value generation

Agenda



§ **Cost structure transformation**



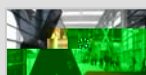
§ Balance sheet transformation



§ Comparison to peers

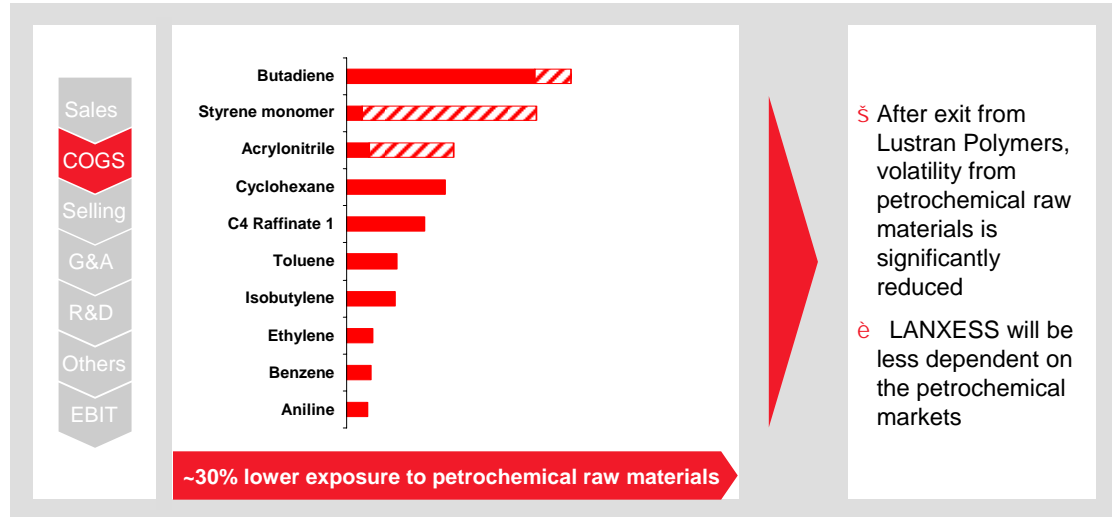


§ Capital allocation for value generation

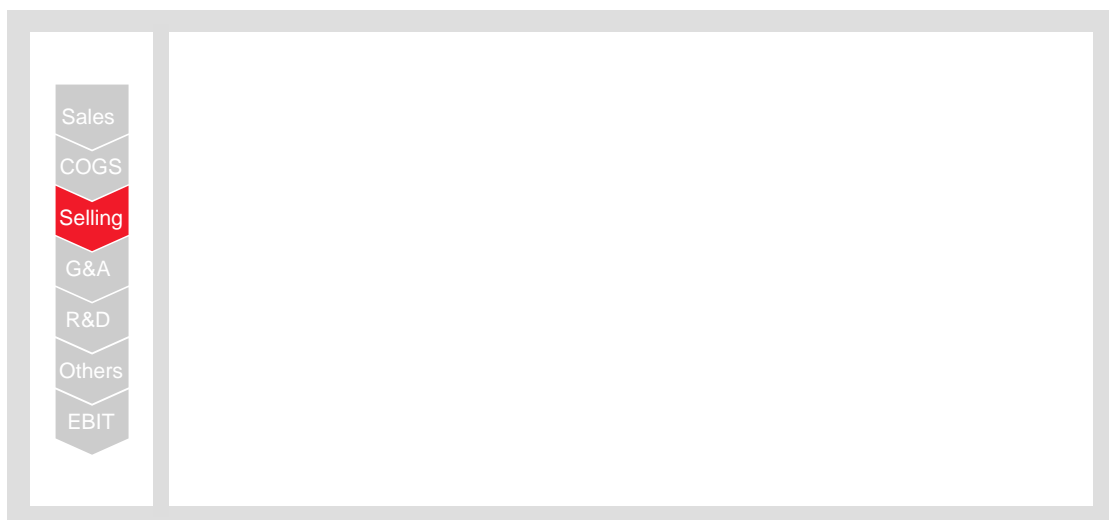
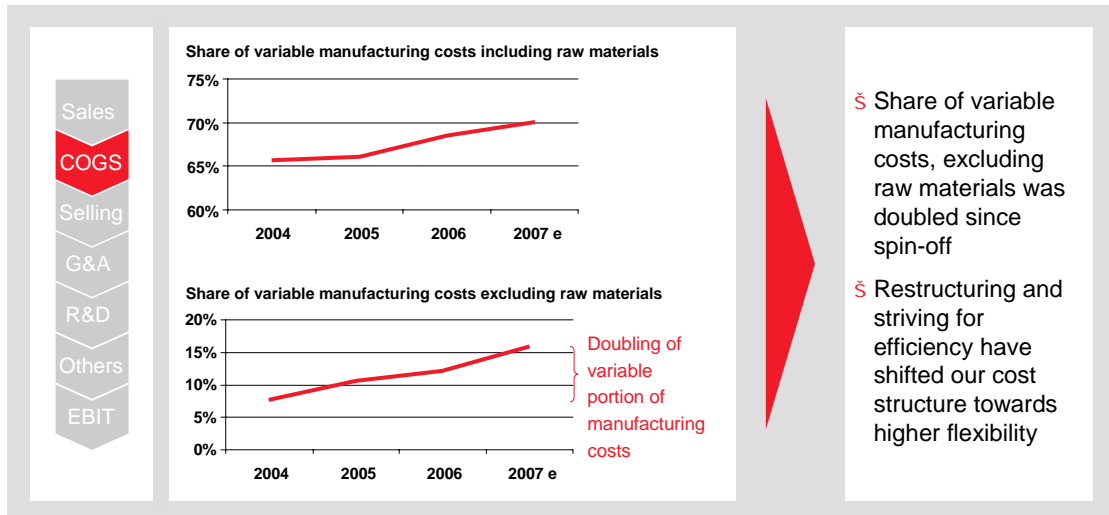


§ ... thoughts on valuation

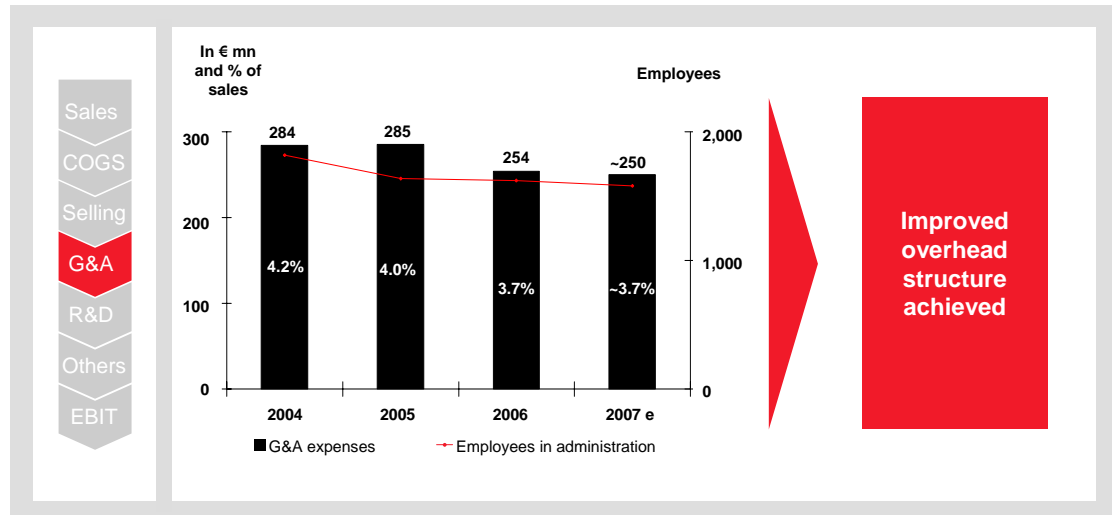
Reduced cyclical risk due to lower dependence on styrene and acrylonitrile mainly



Effective margin protection by increased flexibility of costs



Reduced general / administration results in lowered expenses



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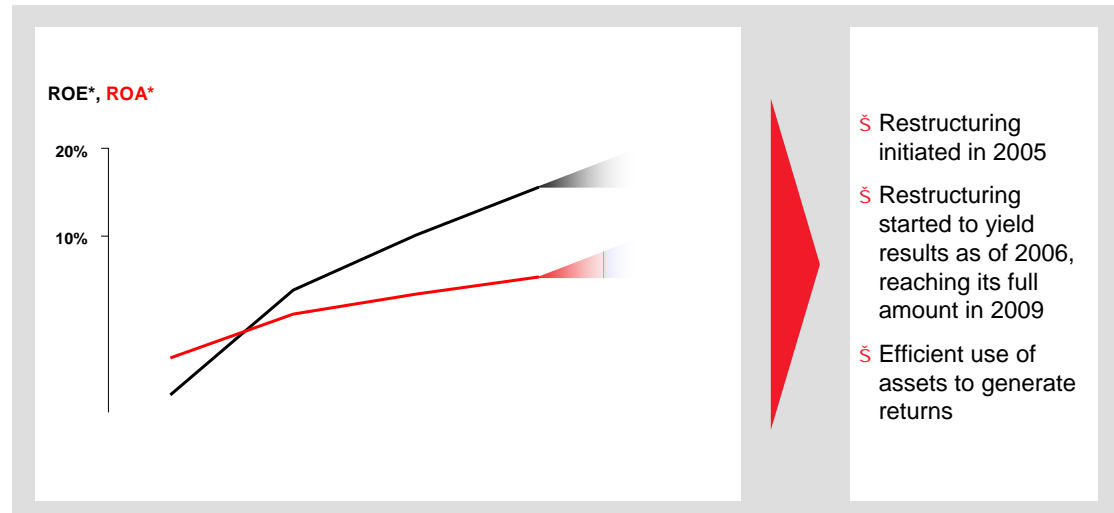
Consistent efficiency enhancement and cost structure improvements

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

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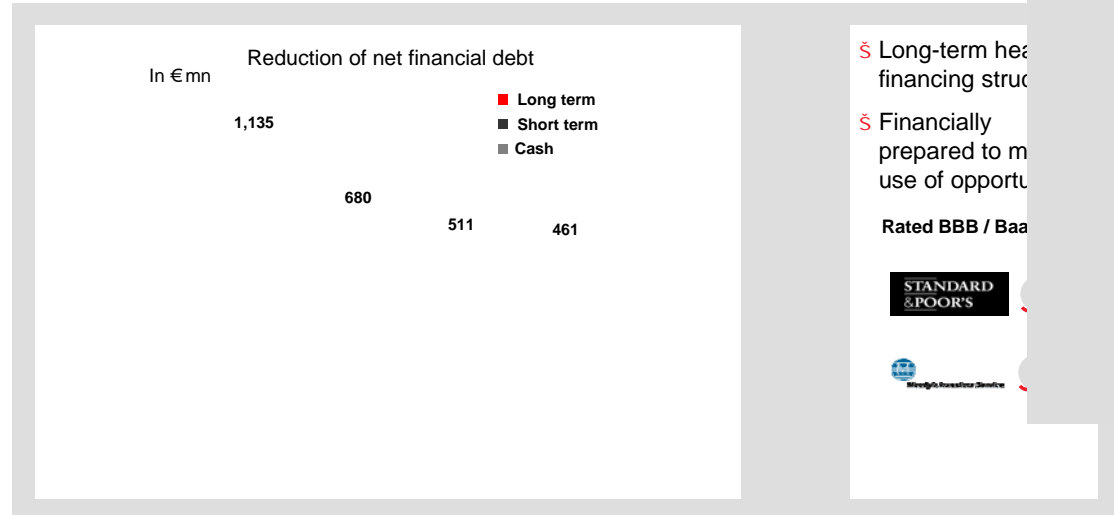
Increasing returns: Excellent deployment and further development of assets



* Net income adjusted for exceptionals (assumed tax rate of 30%)
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Balance sheet successfully transformed which is helpful in turbulent financial markets



Solid financing foundation in place for future opportunities

In €mn		2005
Equity	1,120*	1,256
Equity ratio	25.9%*	28.9%
Net financial debt	1,135	680
Interest result	-46	-41
Gearing***	2005-46	54.1%
Net financial debt / EBITDA		1.2x

Key focus on value generation

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§ Cost structure transformation



§ Balance sheet transformation



§ **Comparison to peers**



§ Capital allocation for value generation

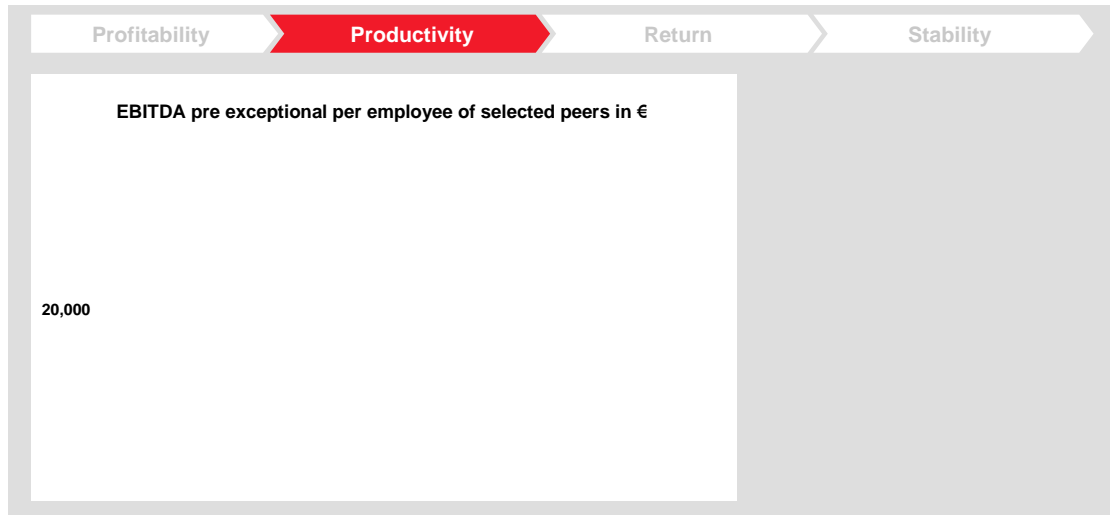


§ ... thoughts on valuation

EBITDA improvement outpaces peers significantly

§ Application of appropriate strategies

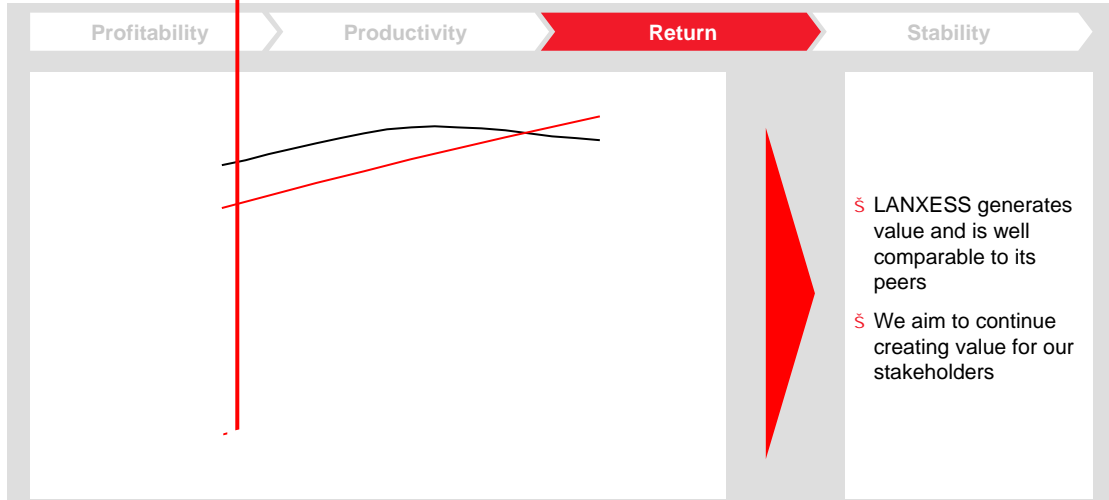
Productivity increases made visible: EBITDA / employee



Source: KPMG's disclosures handbook, Annual reports, Companies websites
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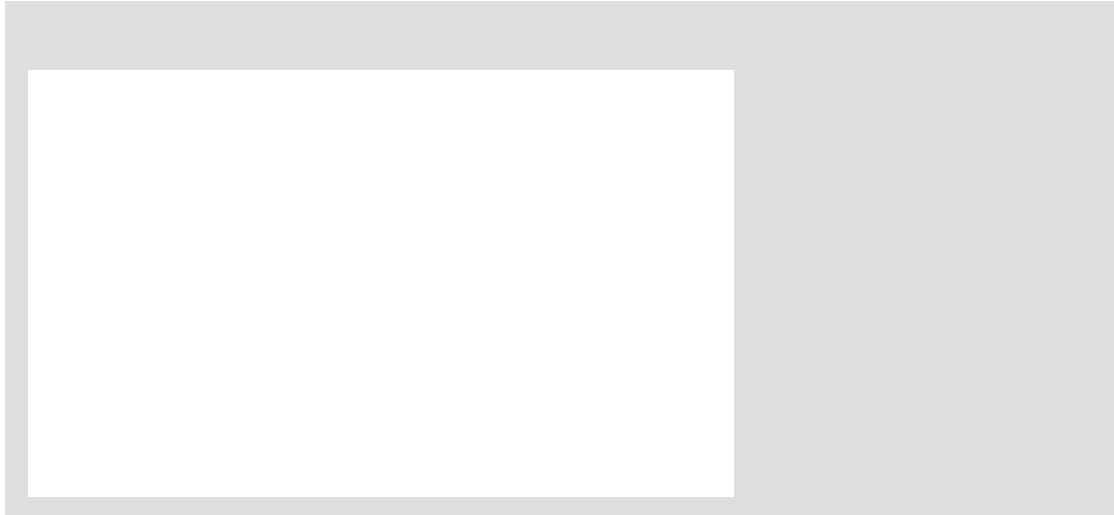


Rising returns have already reached the average peer level



Source: KPMG's disclosures handbook, Annual reports, Companies websites; LANXESS peer group except where ROE / ROA is negative, all pre exceptionals

Reduced gearing provides high level of comfort



Further value creation sets the priorities for capital allocation

§ We will invest in our own business to generate the best returns for shareholders

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§ Stringent application of our valuation criteria ensures value generation by external growth

§ Our policy is to fund our employees' pension obligations on a year-by-year discretionary basis depending on cash and earnings situations

§ Cash returns are an important element of our value strategy

§ LANXESS' dividend development will be in line with profitability increase

§ Used on a case-by-case basis to back the share price when appropriate

**Financial investment criteria for
decision making on capex:**

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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)	Conservative pension funding reduces risk and enhances stability
External Growth		
Debt and Pensions		
Dividend		
Share Buyback		

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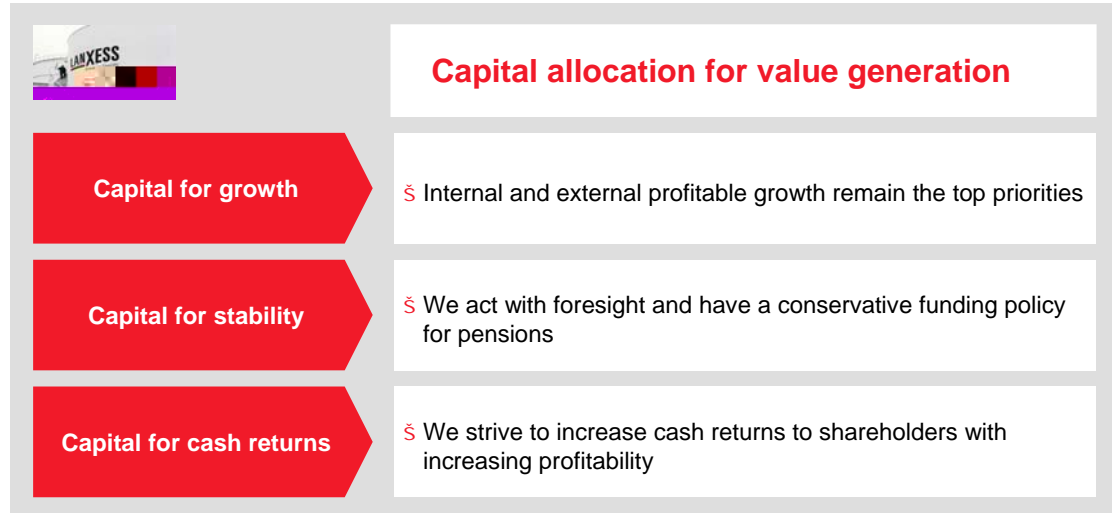
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	Dividend strategy: <ul style="list-style-type: none">§ Objective: to further increase dividend§ LANXESS' dividend to be increased as profitability increases Share buyback strategy: <ul style="list-style-type: none">§ Share buyback is considered an 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	Share buyback constitutes an
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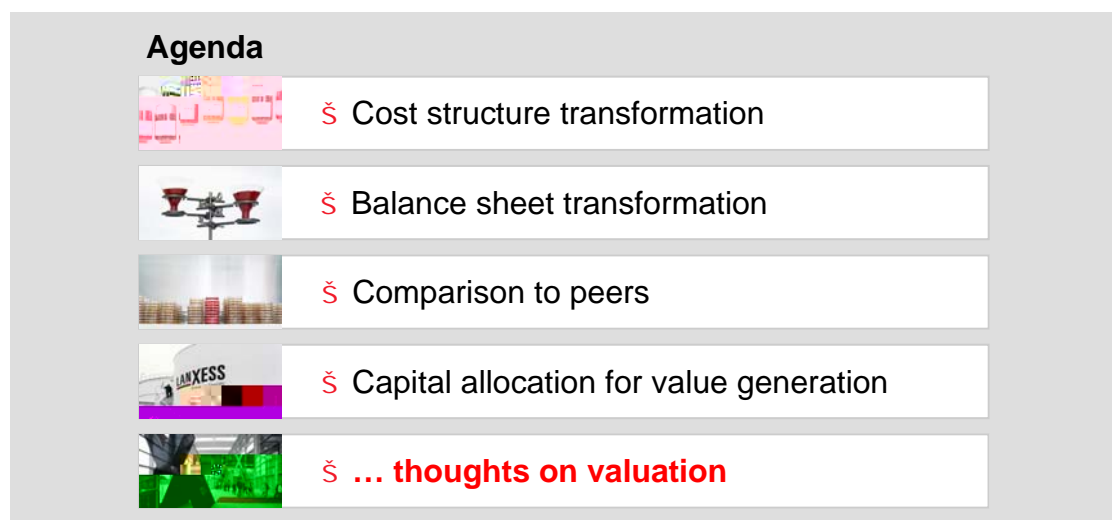
LANXESS allocates capital according to projected value generation



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Key focus on value generation



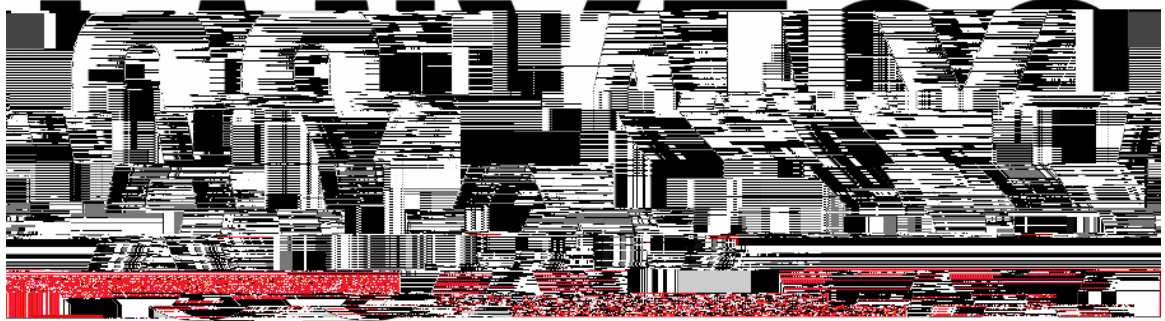
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§ It's up to the market now to judge whether trading multiples are comparable to peers' as:

- performance is about to match peers'
- financial soundness is superior to many peers already



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