

# LANXESS

## Q3 2005 Results

November 17, 2005

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## Agenda

- 1. Q3 2005 Review**
- 2. Q3 2005 Financials**
- 3. Restructuring and Portfolio Update**
- 4. Outlook and Guidance**

## Q3 2005 Review

### Business Update

- Overall good business momentum in Q3 2005 despite comparison to strong Q3 2004
- Risen raw material and energy costs were offset by selling price increases
- Additional selling price increases were announced for many products, effective beginning to end of October
- Production interruption of two sites in the U.S. due to hurricane "Rita" and back on stream in October
- Investments in China for compounding facility SCP and for technology centre in Wuxi

### Restructuring / Portfolio Update

- Ahead of plan with Phase I and Phase II restructuring - first €132 m of charges already taken in Q3 2005
- Negotiation finalized in STY (Tarragona, Spain) and in TRP (La Wantzenau, France)
- FIB: Sale of Dorlastan Fibers business to Asahi Kasei Fibers planned
- Target: finalize Paper transaction before year-end if the value is appropriate

### Financial Update

- Significant reduction of Net Financial Debt to €811 m
- Successful early refinancing of €1.25 bn syndicated credit facility
- Buyback of €200 m Mandatory Convertible Bond (June) and placement of underlying shares (July) led to increase in equity

Chart-No. 4



## Financial Highlights: Improved Performance and Sharply Reduced Net Debt

(€m)	Q3 2004	Q3 2005	Δ in %	
Sales	1,764	1,776	0.7%	– Strong sales -even compared to robust Q3 2004- with continued implementation of price before volume strategy
EBITDA pre except. Margin	105 6.0%	148 8.3%	41.0%	
Net Income	-5	-57	>100%	– Net income in Q3 burdened by restructuring charges
Net Financial Debt	1,135 <sup>1</sup>	811	-28.5%	– Net financial debt reduction due to: – convertible buyback
Capex	54	52	-3.7%	– improved operational Cash Flow
Employees	19,659 <sup>1</sup>	18,566	-5.6%	– tight working capital management

<sup>1</sup> per 12/31/2004

**Faster implementation of restructuring measures and continued strong pricing**

Chart-No. 5



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1. Q3 2005 Review
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Chart-No. 6



Chart-No. 7



## Q3 2005 Sales Variance by Segment (approximate numbers)

(€m)	Q3 2004	Price	Volume	Currency	Q3 2005
Performance Rubber	352	~ +23%	~ -6%	~ +1%	414
Engineering Plastics	443	~ +6%	~ -7%	~ +1%	441
Chem. Intermediates	416	~ +4%	~ -15%	~ +0%	373
Perf. Chemicals	491	~ +11%	~ -13%	~ +1%	489
LANXESS	1,764	~ +10%	~ -10%	~ +1%	1,776

### Volume decreases against the background of:

- Deliberate loss of weaker-margin business in Engineering Plastics, especially in STY
- Comparably strong volumes in Q3 2004, particularly in Chemical Intermediates, BAC
- Sale of Porofor business, weak volumes in textiles

Further price increases have already been announced for several products, including BUs BAC, STY, SCP and PAP as of October

Chart-No. 8



## Performance Rubber: All Businesses on Track

(€m)	Q3 2004	Q3 2005
Sales	352	414
EBIT	21	18
Depr. / Amort.	11	17
EBITDA	32	35
EBITDA pre except.	33	39
Margin	9.4%	9.4%
Capex	14	15

- All BUs contributed to increased sales on the basis of improved pricing with even higher volumes in BTR, overall fully offsetting increased raw material costs
- Lower volumes due to comparison with exceptionally strong quantities in Q3 2004 - this does not represent a weakening in underlying demand
- Despite strong pricing, only slight profit increase due to higher input costs (i.e. butadiene and energy), expenses for planned maintenance and minor impact from hurricane "Rita"

Sales by BU:



(approximate numbers)

Chart-No. 9



## Engineering Plastics: STY Back in Black

<b>Sales</b>	<b>443</b>	<b>441</b>
EBIT	0	3
Depr. / Amort.	13	11
EBITDA	13	14
<b>EBITDA pre except.</b>	<b>13</b>	<b>14</b>
Margin	2.9%	3.2%
<b>Capex</b>	<b>9</b>	<b>7</b>

- Improved pricing in STY and stronger volumes in SCP offset impact from weak FIB
- Only slightly improved results on the basis of sound development in STY with raised prices, supported by easing styrene input costs
- SCP somewhat burdened by costs for planned maintenance shutdown, however with solid contribution
- Restructuring is expected to further improve performance

Sales by BU:



Chart-No. 10

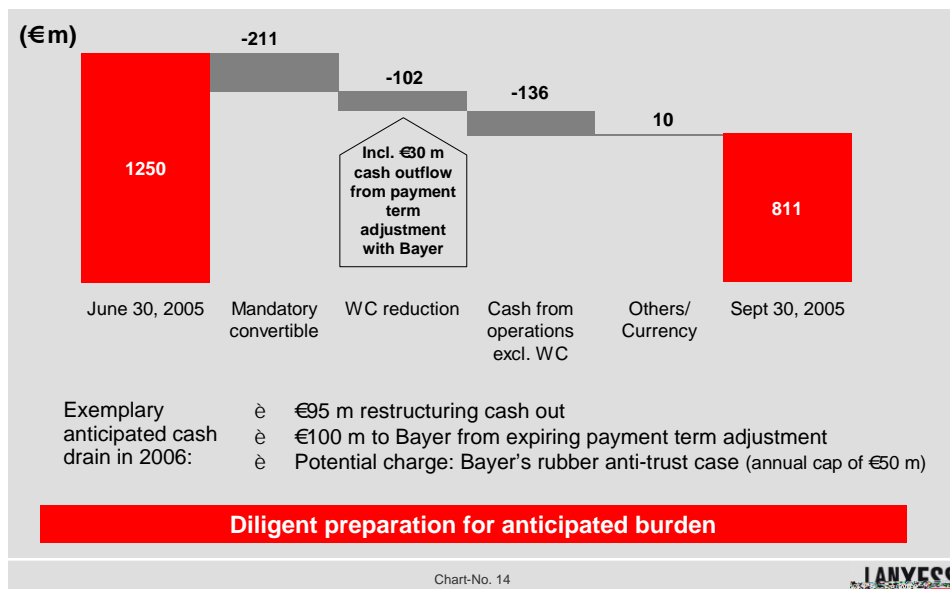


– Stable Sales due to lesser seasonality in performance chemicals (specialities)

Chart-No. 12



## With Substantial Improvement in Net Financial Debt in Q3 We Get Prepared for 2006



## Improved Cash Flow: Stronger Operating Results Combined with Improved Working Capital Management

<b>EBIT</b>	<b>76</b>	<b>139</b>	
Income Taxes	-52	-72	– Cashflow improved mainly on higher operating result
Depreciation & Amortization	249	217	
Change in Pension Provisions	-27	0	– Strong improvement in working capital, despite ~€30 million cash out for
Gain/ Loss from Sale of Assets	6	-2	
Change in Working Capital*	-300	-161	
Change in Other Net Current Assets	88	237	
<b>Cash provided by Operating Act.</b>	<b>40</b>	<b>358</b>	
<b>Capex</b>	<b>-158</b>	<b>-151</b>	
Cash Flow used in Investing Activities**	85	-140	
Cash Flow used in Financing Activities	-59	-162	
Cash at End of Period	80	127	

**Excess Cash has been used to reduce Net Financial Debt**

Chart-No. 15

**IANVESS**



## 2<sup>nd</sup> Half-Year Effects and Better Working Capital Management

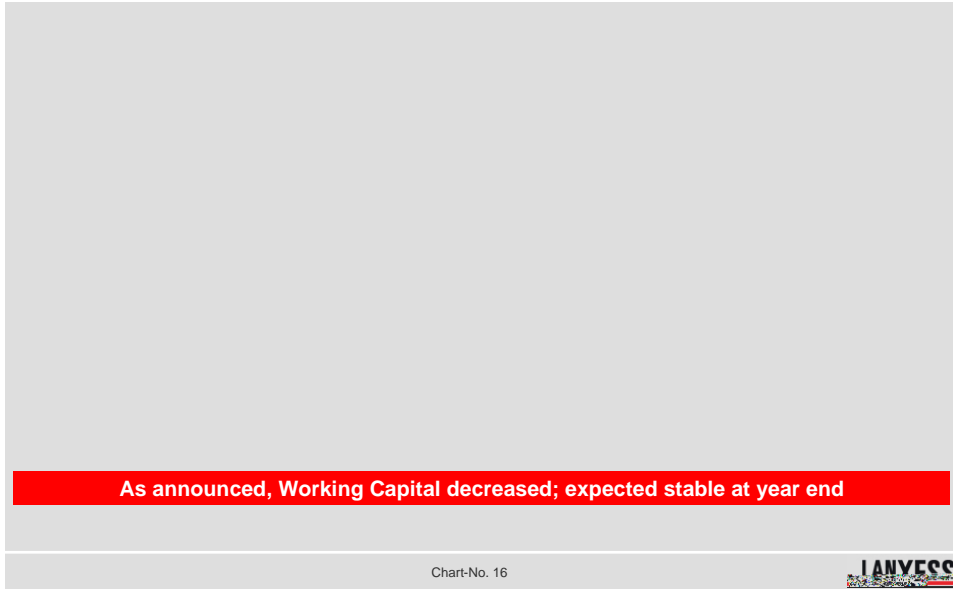


Chart-No. 16



**Phase I** (initiated June 2005)

**STY:**

- Agreement reached in STY, Tarragona:

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Chart-No. 18



## Fibers - First Adjustment to the Portfolio

### Cornerstones:

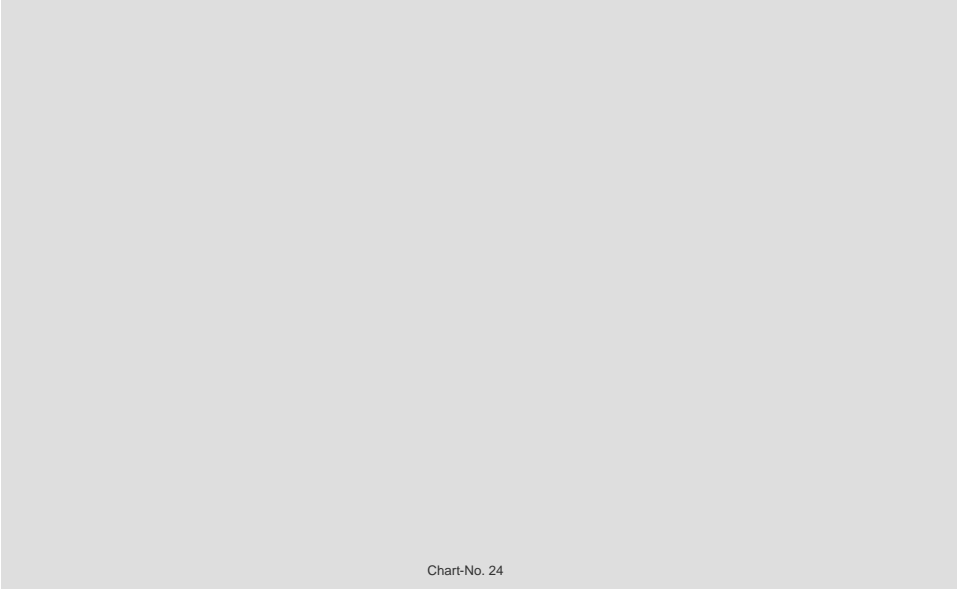
- Agreement is expected to be signed shortly; transaction subject to approval of authorities
- Purchase price not disclosed
- ~280 employees in Dormagen, Germany (thereof ~170 transferred to AKF)
- ~190 emKF)

Securing the future for the Fibers business with a strong partner

Chart-No. 20







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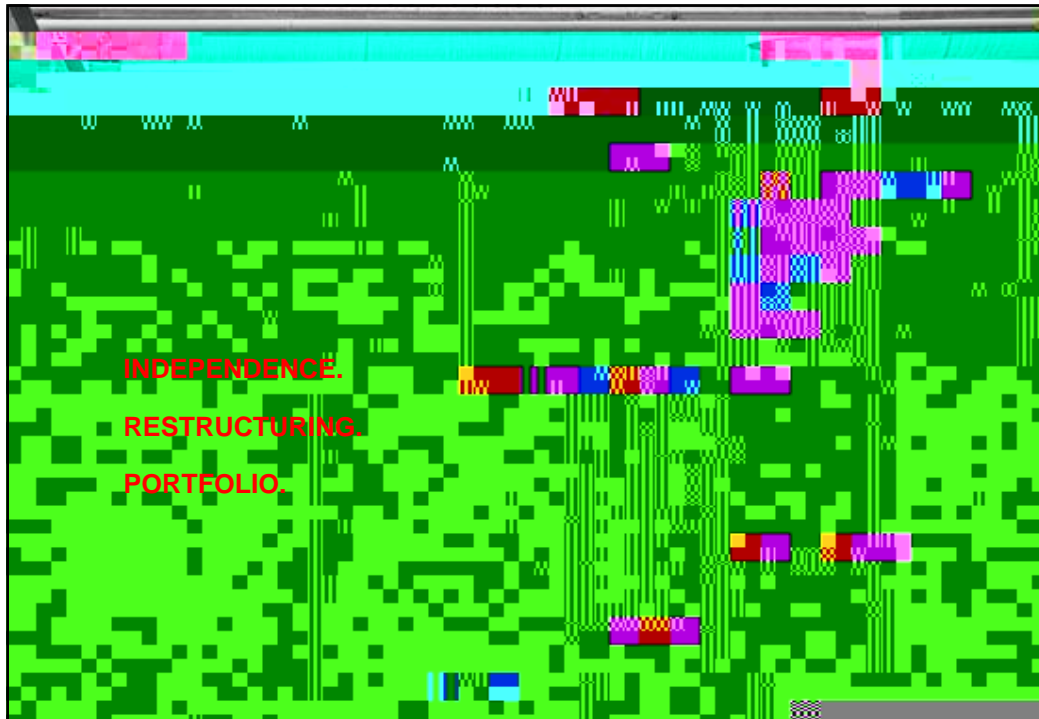
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Chart-No. 26





## Appendix

### Exceptional Items Incurred in Q3 2004 and 2005

	Q3 2004		Q3 2005		
	Exceptional	thereof D&A	Exceptional	thereof D&A	
Performance Rubber	1	0	4	0	– “Rubber” Litigation
Engin. Plastics	2	2	3	3	– Capex write-off and amendment to 2003 impairment in 2004
Chemical Intermediates	7	7	2	2	– Capex write-off
Performance Chemicals	40	0	1	0	– Majority: Environm. provision in 2004, “Rubber” litigation 2005
Reconciliation	0	0	132	4	– Phase I+II restructuring
<b>Total</b>	<b>50</b>	<b>9</b>	<b>142</b>	<b>9</b>	

## Update on Impacts due to U.S.-Hurricanes

- **No impact from hurricane „Katrina“**
- **Impacts from hurricane „Rita“ less significant than expected. By end of October, both sites were again fully operational**
- **Financial P&L impact: additional low single digit million expenses**
- **Continous high and volatile raw material prices due to tight supply expected in Q4**

Chart-No. 30





## LANXESS LTIP's on Board Level: Stock Performance Plan (SPP) and Economic Value Plan (EVP)

- **Condition to participation: Personal investment (40% of one annual fixed salary in three tranches)**
- **Stock Performance Plan (SPP)**
  - **Benchmark:** Outperformance of the DJ global STOXX 600 Chemicals index (index+10%:100% targeted payout, index+20%: cap and maximum payout)
  - **Targeted payout\*:** 90% of one total annual salary (fixed and variable)
  - **Vesting period:** 3 years, following 2 years of exercise period for each tranche
  - **Blackout periods:** surrounding earnings releases and AGM
  - **Grant price:** volume weighted average of first ten trading days (€15.01 for first tranche)
- **Economic Value Plan (EVP)**
  - **Benchmark:** Increase of Economic Value over three years ('04-'07, '05-'08, '06-'09) according to business plan  
Economic Value = EBITDA \* Multiplier, less net debt
  - **Targeted payout\*:** 40% of one total annual salary
  - **Vesting period:** 3 years, automatic exercise after 3 years
- **Accounting treatment:** Value calculated by option pricing model (Black-Scholes) will be expensed over three years for each tranche.

\* percentage applicable on Board level - lower percentage for first level below Board of Management

Chart-No. 32



## Quarterly Overview 2004/ 2005

		Q1		Q2		H1		Q3		9M		Q4	FY
		2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2004
<b>Sales</b>	Perf Rubber	326	392	368	432	694	824	352	414	1046	1238	385	1431
	Eng Plastics	407	414	431	448	838	862	443	441	1281	1303	441	1722
	ChemIntermed	366	389	320	406	686	795	416	373	1102	1168	385	1487
	Perf Chem	478	478	490	511	968	989	491	489	1459	1478	451	1910
	Recon	33	56	64	62	97	118	62	59	159	177	64	223
	Lanxess	1610	1729	1673	1859	3283	3588	1764	1776	5047	5364	1726	6773
<b>EBITDA pre exc.</b>	Perf Rubber	32	56	49	70	81	126	33	39	114	165	9	123
	Eng Plastics	21	35	8	14	29	49	13	14	42	63	7	49
	ChemIntermed	81	65	31	59	112	124	38	55	150	179	52	202
	Perf Chem	55	58	43	58	98	116	40	57	138	173	14	152
	Recon	-24	-33	-16	-38	-40	-71	-19	-17	-59	-88	-20	-79
	Lanxess	165	181	115	163	280	344	105	148	385	492	62	447

Chart-No. 33



## Sound Financing Structure

### Main Financing Components

€1,250 m      Revolving Credit Facility  
5-year maturity with two one-year extension options

Chart-No. 34

