



# **LANXESS – Q3 2009 Results Conference Call**

**Improved demand and effective self-help measures**

**Matthias Zachert, Chief Financial Officer**

Leverkusen, November 12, 2009

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Chart 2

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## Agenda

- Highlights and market update Q3 2009
- Business and financial review Q3 2009
- Outlook/Guidance

Chart 3

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## Improved demand in combination with flexible asset and cost management deliver results in challenging environment

<b>Business</b>	<ul style="list-style-type: none"><li>▪ Demand decline mitigated by flexible asset and cost management</li><li>▪ Challenge09-12 implementation ahead of plan (€30 m)</li><li>▪ Acquisition of Gwalior and Jiangsu Polyols closed</li><li>▪ INEOS ABS (49%) fully divested</li><li>▪ Pre-buying and selective customer restocking supportive</li></ul>
<b>Financials</b>	<ul style="list-style-type: none"><li>▪ EBITDA sequentially improved</li><li>▪ Working capital tightly managed</li><li>▪ Management of financial maturities</li></ul>

Chart 4

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Chart 5

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## Q3 2009 financial overview: sequential earnings improvement

[€ m]	Q3 2008	Q2 2009	Q3 2009	yoy in %	
Sales	1,814	1,238	1,373	-24.3%	<ul style="list-style-type: none"> <li>Sales increased 11% vs. Q2 driven by Asian momentum (China), but remain 24% below previous year</li> <li>EBITDA sequentially improved, flexible asset and cost management deliver margin around 2008 level</li> </ul>
EBITDA pre except. margin	192 10.6%	112 9.0%	143 10.4%	-25.5%	
Net Income	56	17	23	-58.9%	
Capex*	69	57	52	-24.6%	<ul style="list-style-type: none"> <li>Capex under strict control</li> <li>Net debt slightly up due to acquisitions</li> <li>Working capital stable</li> </ul>
[€ m]	31.12.2008	30.06.2009	30.09.2009	% vs. FY	
Net Financial Debt	864	719	779	-9.8%	
Net Working Capital	1,289	1,109	1,134	-12.0%	
Employees	14,797	14,335	14,604	-1.3%	

**Continuous tight management of businesses delivers improved metrics**

\* Net of projects financed by customers and finance lease

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Chart 6

## Price before volume intact – input cost pass-through with slight time lag

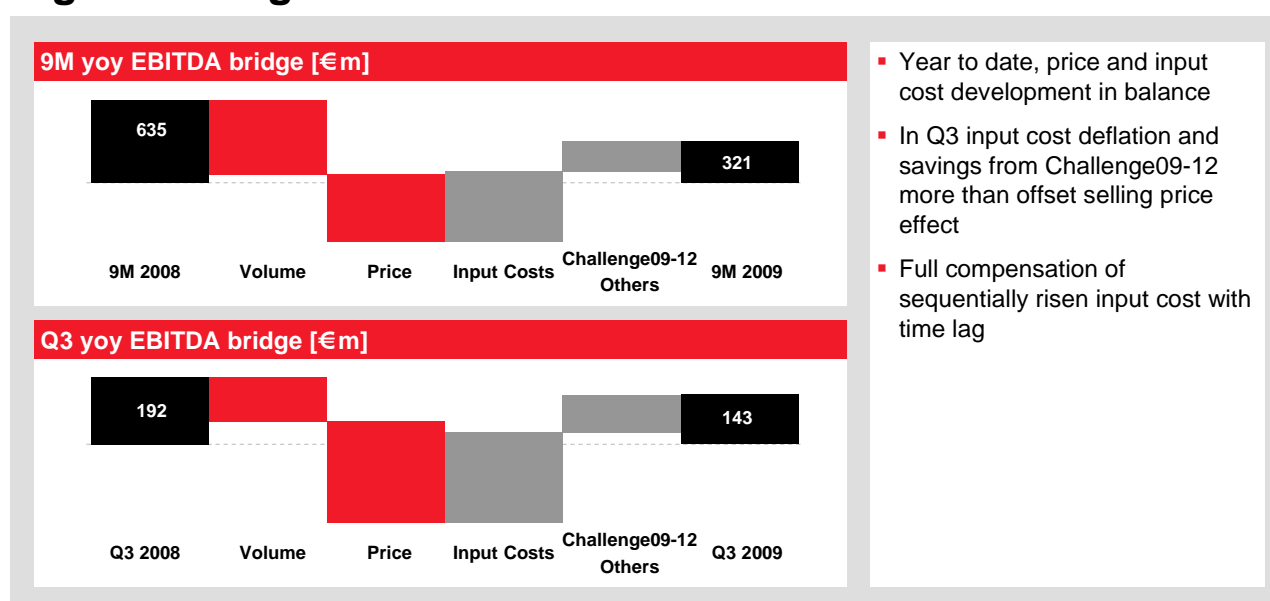


Chart 7

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## Asian business substantially expanding in 2009

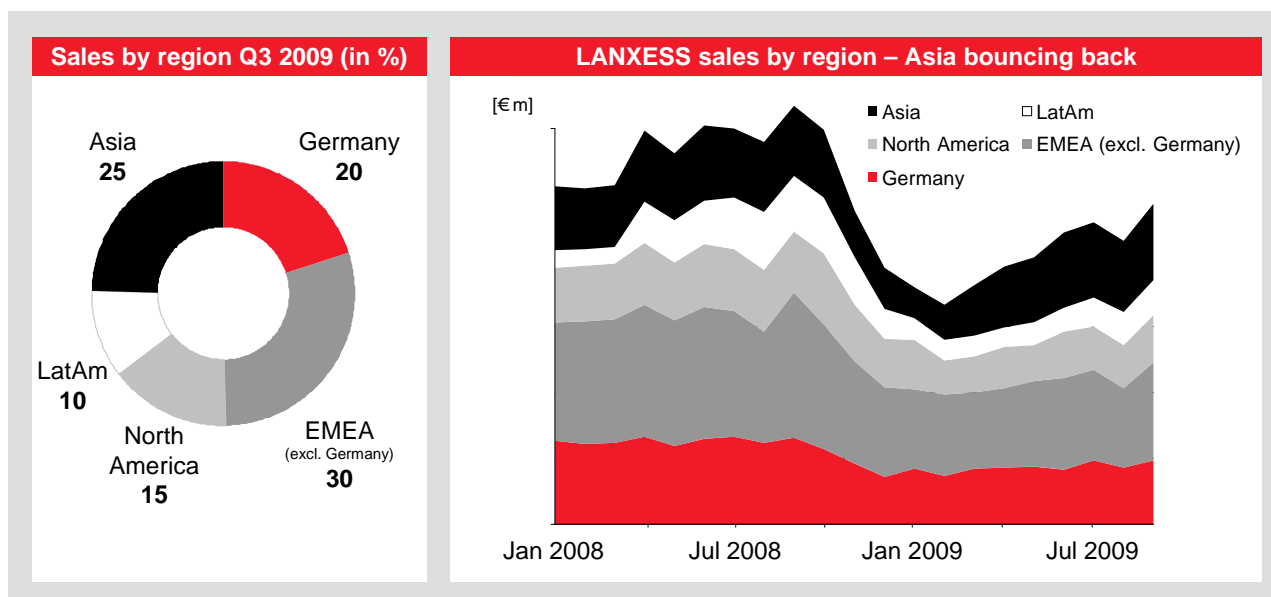


Chart 8

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## Cost structure fully aligned to current demand level

[€ m]	Q3 2008	Q3 2009	yoy in %	
<b>Sales</b>	<b>1,814 (100%)</b>	<b>1,373 (100%)</b>	<b>-24%</b>	<ul style="list-style-type: none"> <li>Sales decline yoy on lower prices (-16%) due to easing input costs and volume impact (-11%), slightly offset by currency effects (+3%)</li> </ul>
Cost of sales	-1,409 (78%)	-1,050 (76%)	-25%	
Selling	-180 (10%)	-135 (10%)	-25%	
G&A	-69 (4%)	-57 (4%)	-17%	<ul style="list-style-type: none"> <li>Cost of sales, selling and G&amp;A expenses clearly show effects of flexible asset and cost management with accelerated implementation of restructuring and Challenge programs</li> </ul>
R&D	-25 (1%)	-26 (2%)	+4%	
<b>EBIT</b>	<b>108 (6%)</b>	<b>64 (5%)</b>	<b>-41%</b>	<ul style="list-style-type: none"> <li>Sequential EBITDA* improvement against typical seasonal pattern</li> </ul>
<b>Net Income</b>	<b>56 (3%)</b>	<b>23 (2%)</b>	<b>-59%</b>	
<b>EPS</b>	<b>0.67 (0%)</b>	<b>0.28 (0%)</b>	<b>-58%</b>	
EBITDA	183 (10%)	130 (9%)	-29%	
thereof exceptionals	-9 (0%)	-13 (1%)	+44%	
<b>EBITDA pre exceptionals</b>	<b>192 (11%)</b>	<b>143 (10%)</b>	<b>-26%</b>	
<b>Continued sequential improvement</b>				

2008 data adjusted for change in pension accounting  
\* Pre exceptionals

Chart 9

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## Performance Polymers: volume and price increase in tandem highlights strength of businesses

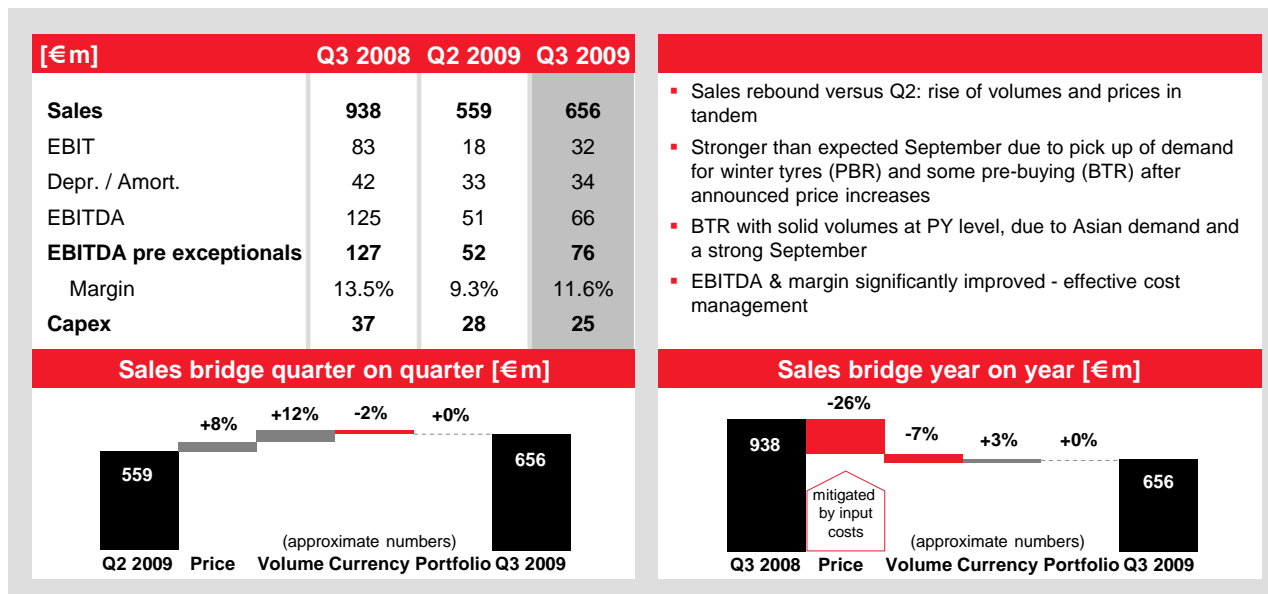
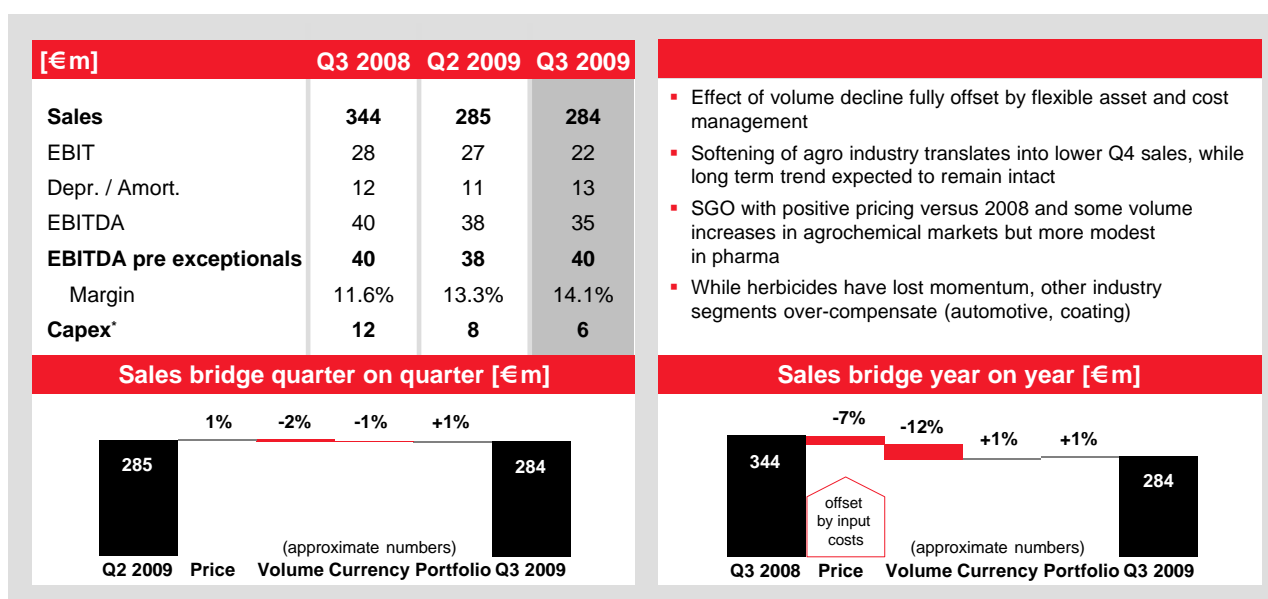


Chart 10

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## Advanced Intermediates: stable performance



\* Net of projects financed by customers

Chart 11

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## Performance Chemicals: earnings above previous year

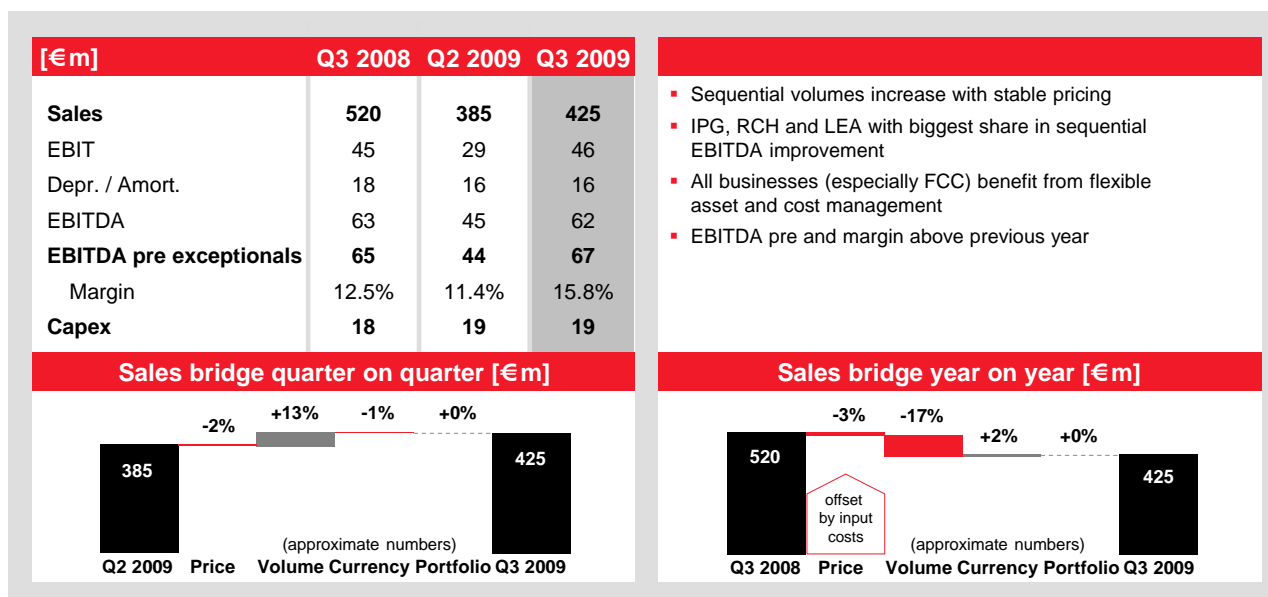


Chart 12

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## Solid financing and good working capital management

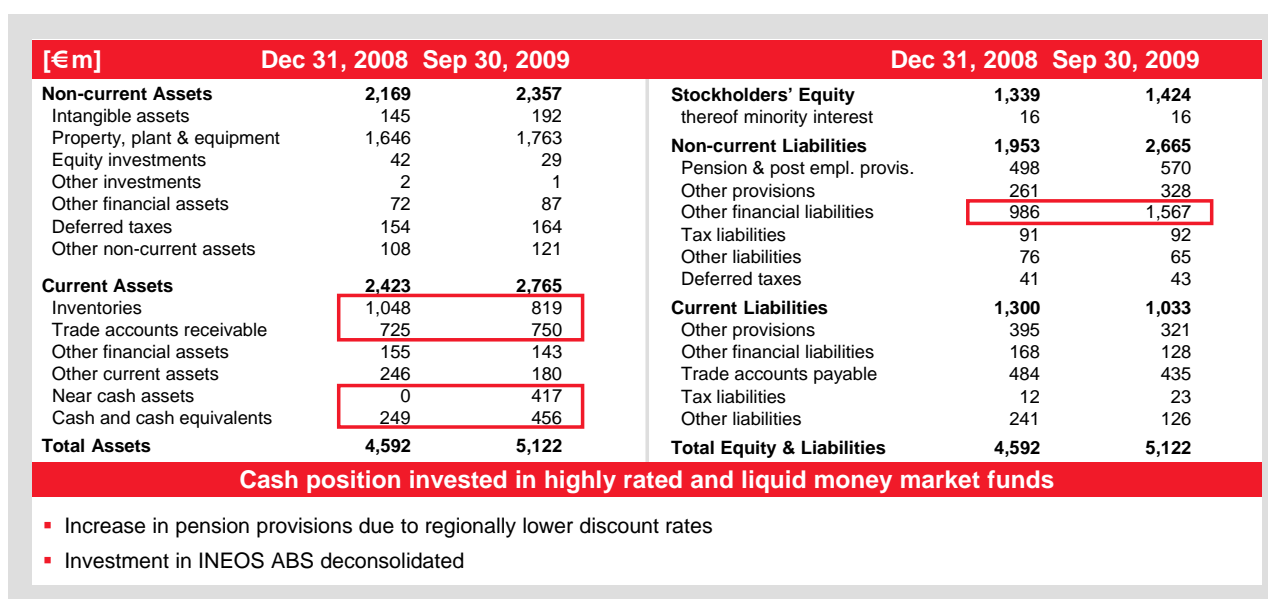


Chart 13

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## Strong operating cash flow above 2008

[(€ m)]	9M 2008	9M 2009	
<b>Profit before Tax*</b>	<b>303</b>	<b>33</b>	
Depreciation & amortization	203	194	
Gain from sale of assets	-13	-18	
Result from equity investments*	-18	-12	
Financial (gains) losses	56	49	
Cash tax payments / refunds	-78	53	
Changes in other assets and liabilities*	92	-54	
<b>Operating Cash Flow before changes in WC</b>	<b>545</b>	<b>245</b>	
Changes in Working Capital	-236	187	
<b>Operating Cash Flow</b>	<b>309</b>	<b>432</b>	
<b>Investing Cash Flow</b>	<b>-345</b>	<b>-651</b>	
thereof Capex**	-169	-161	
<b>Financing Cash Flow</b>	<b>91</b>	<b>415</b>	

- Healthy cash inflow driven by working capital management
- Cash tax refunds due to collection of pre-paid taxes
- Other assets and liabilities reflect restructuring cash-out in 2009 (expenses in 2008) and higher payments for personnel commitments
- Investing cash flow 2009 incl. investment in near cash assets
- Financing cash flow 2009 reflects €500 m 2014 bond

**Professional working capital management delivers strong operating cash flow**

\* 2008 restated, change in pension accounting

\*\* 2008 restated, net of projects financed by customers and finance lease

Chart 14

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Chart 15

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## Macro view: signs of economic improvement with risk of setbacks

### View on LANXESS group level

- Global markets have stabilized, growth momentum mainly in Asia (especially China)
- Other regions are expected to continue slow recovery over a longer period of time
- Customers will manage inventories tightly in Q4
- Some pre-buying in Q3 potentially burdening Q4
- Seasonal earnings pattern affects Q4
- Flexible asset and cost management effective to mitigate lower utilization

Risk of setback remains



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Chart 16

## FY guidance reflects better Q3 performance and LANXESS self-help measures

### Guidance for FY 2009

Based on previously mentioned assumptions, LANXESS expects FY EBITDApre of €400 m - €420 m

### Additional financial expectations for 2009

- Capex\*: ~€300 m
- D&A: ~€270 – €280 m
- Tax rate: sustainable at ~25%
- Working Capital: moderate cash inflow for FY 2009
- Exceptionals: ~€40 m for FY 2009
- FX: FY avg. U.S. dollar at 1.35-1.40 USD / EUR
- Hedging: ~50% at 1.30-1.40 USD / EUR



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\* Without projects financed by customers

Chart 17

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Energizing Chemistry



**Appendix**

## Challenge09 proceeding ahead of plan, €30 m savings accelerated from 2010

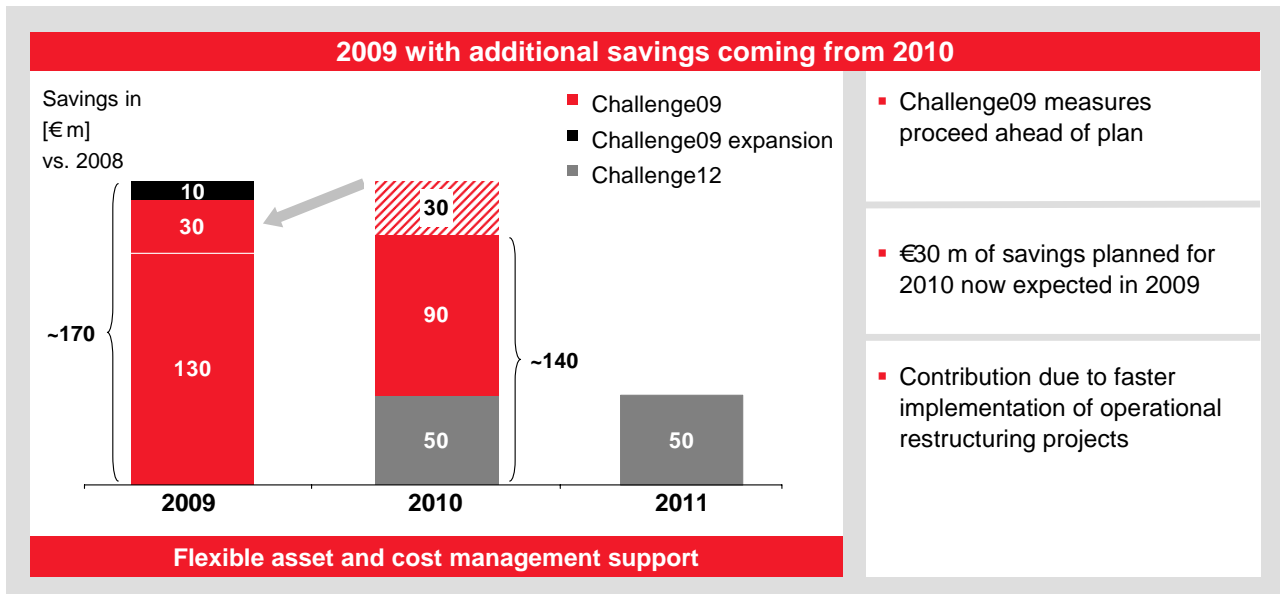
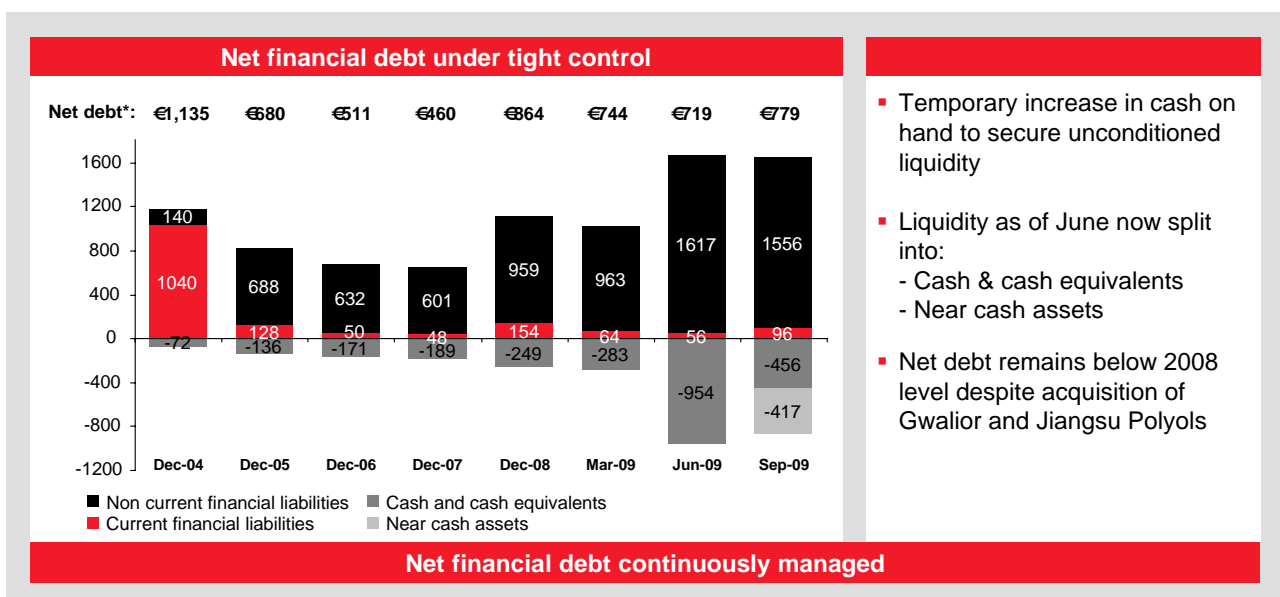


Chart 20

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## Net financial debt increased due to financing of acquisitions



\* Adjusted for liabilities for accrued interest and specific exchange hedging of financial liabilities; in Sep-2009, non current financial liabilities adjusted by €11 m and current financial liabilities adjusted by €32 m

Chart 21

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## Price before volume intact – input cost pass-through with slight time lag

Q3 qoq sales variances	Price	Volume	Currency	Portf.	Total
Performance Polymers	8%	12%	-2%	0%	18%
Advanced Intermediates	1%	-2%	0%	1%	0%
Performance Chemicals	-2%	13%	-1%	0%	10%
<b>LANXESS</b>	<b>4%</b>	<b>9%</b>	<b>-2%</b>	<b>0%</b>	<b>11%</b>

Q3 yoy sales variances	Price	Volume	Currency	Portf.	Total
Performance Polymers	-26%	-7%	3%	0%	-30%
Advanced Intermediates	-7%	-12%	1%	1%	-17%
Performance Chemicals	-3%	-17%	2%	0%	-18%
<b>LANXESS</b>	<b>-16%</b>	<b>-11%</b>	<b>3%</b>	<b>0%</b>	<b>-24%</b>

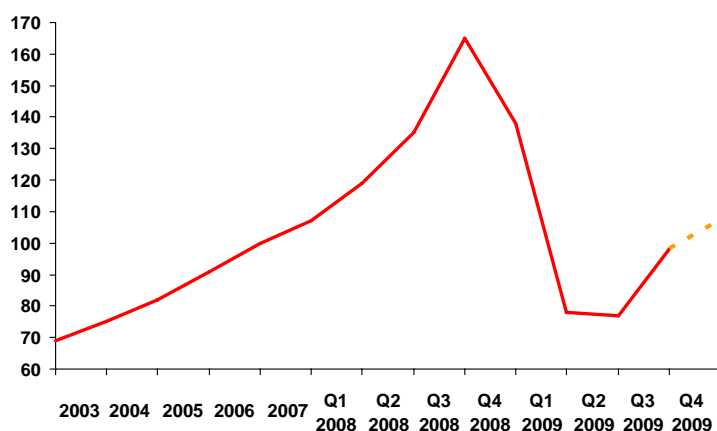
- Sequentially, strong volume increase and good pricing momentum are only slightly mitigated by negative currency effects, year on year prices and volumes remain lower
- As raw material prices rise, pricing is adjusted upwards in Q3 vs. Q2 after raw material deflation in Q1
- Performance Polymers proves premium character of businesses: simultaneous improvement in prices and volumes

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Chart 22

## Raw materials are expected to rise again as of Q3

Global raw materials index\* [%]



- In Q1 2009, raw materials decreased, lag-effect helped keeping selling prices stable
- In Q2 2009, raw materials stabilized at very low level as selling prices came down, following raw materials price decline in Q1
- In Q3 2009, raw material prices rose, sequentially selling prices were increased

**Price pass-through with typical time-lag**

\* Source: LANXESS, average 2006 = 100%

Chart 23

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## 9M 2009 financial overview: Successful through the economic downturn

[€ m]	9M 2008	9M 2009	yoy in %	
Sales	5,114	3,665	-28.3%	<ul style="list-style-type: none"> <li>▪ Currency and portfolio effects mitigate negative impact from lower volumes and raw material driven selling price declines, leading to sales decrease of 28%</li> <li>▪ Solid EBITDA and margin prove resilience of businesses and tight cost management</li> </ul>
EBITDA pre except. margin	635 12.4%	321 8.8%	-49.4%	
Net Income	215	26	-87.9%	
Capex*	169	161	-4.7%	
[€ m]	31.12.2008	30.09.2009	yoy in %	
Net Financial Debt	864	779	-9.8%	<ul style="list-style-type: none"> <li>▪ Net income positive despite very low level of underlying demand</li> <li>▪ Net debt still below level of FY 2008 despite acquisitions</li> <li>▪ Incl. acquisitions, headcount reduced by ~200 versus FY 08</li> </ul>
Net Working Capital	1,289	1,134	-12.0%	
Employees	14,797	14,604	-1.3%	
<b>Financial metrics robust in recessionary environment</b>				

\* Net of projects financed by customers and finance lease

Chart 24

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## Cost base tightly managed

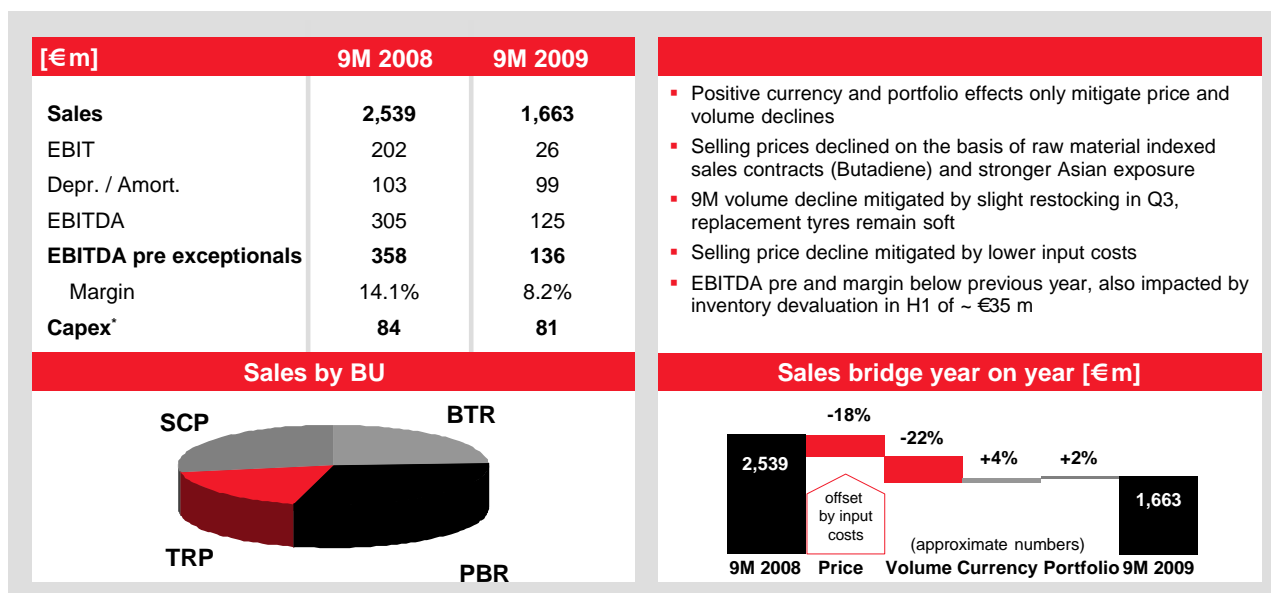
[€ m]	9M 2008	9M 2009	yoy in %	
Sales	5,114	3,665	-28%	<ul style="list-style-type: none"> <li>▪ Positive currency (+3%) and portfolio (+1%) effects only mitigate severe decline in price (-10%) and volume (-22%)</li> </ul>
Cost of sales	-3,910	-2,884	-26%	
SG&A	-704	-557	-21%	<ul style="list-style-type: none"> <li>▪ Costs of sales contain ~ €45 m inventory devaluation</li> </ul>
R&D	-75	-75	0%	
Other op. income/expense	-56	-43	-23%	<ul style="list-style-type: none"> <li>▪ R&amp;D kept at high PY level, deviations in other expense line items reflect cost saving efforts and lower business activity</li> </ul>
thereof exceptionals	+69	+24	-65%	
EBIT	369	106	-71%	<ul style="list-style-type: none"> <li>▪ EBITDA lower than in 2008, but resilient in light of world-wide recession, inventory devaluation and destocking effects</li> </ul>
Net Income	215	26	-88%	
EPS	2.58	0.31	-88%	
EBITDA	572	300	-48%	
thereof exceptionals	-63	-21	-67%	
EBITDA pre exceptionals	635	321	-49%	
<b>Resilient through the recession</b>				

2008 data adjusted for change in pension accounting

Chart 25

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## Performance Polymers: year on year comparison starts to ease

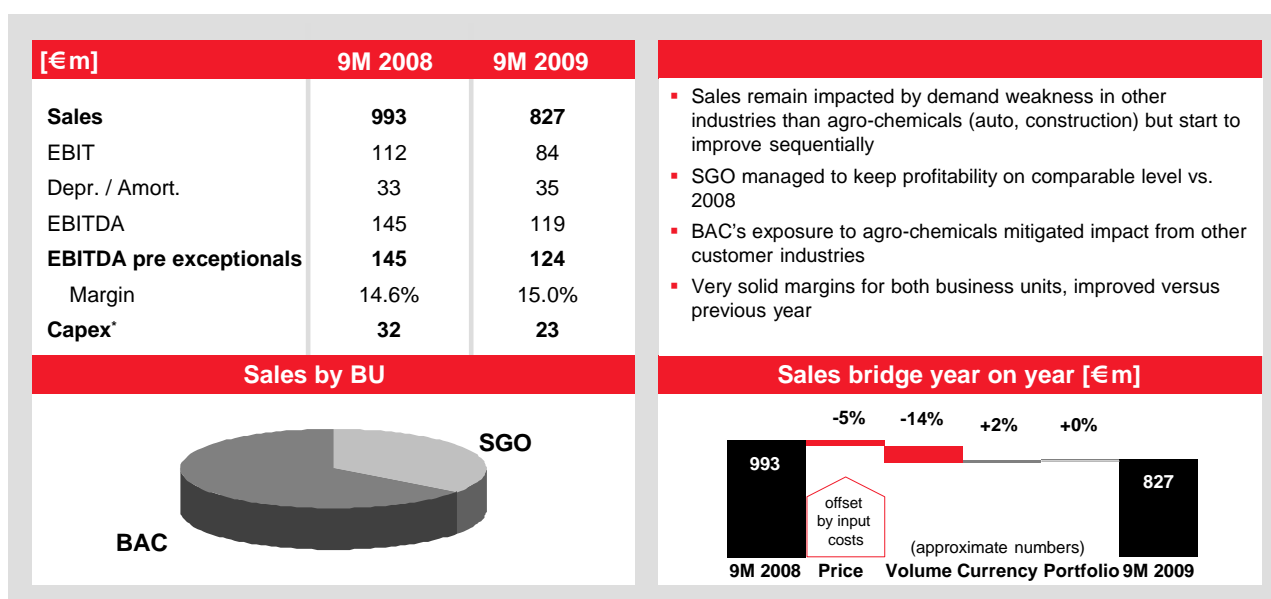


\* Net of finance lease

Chart 26

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## Advanced Intermediates: nine months of evidence of resilience under difficult economic circumstances



\* Net of projects financed by customers

Chart 27

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## Performance Chemicals: Diversified portfolio provides stability across the cycle

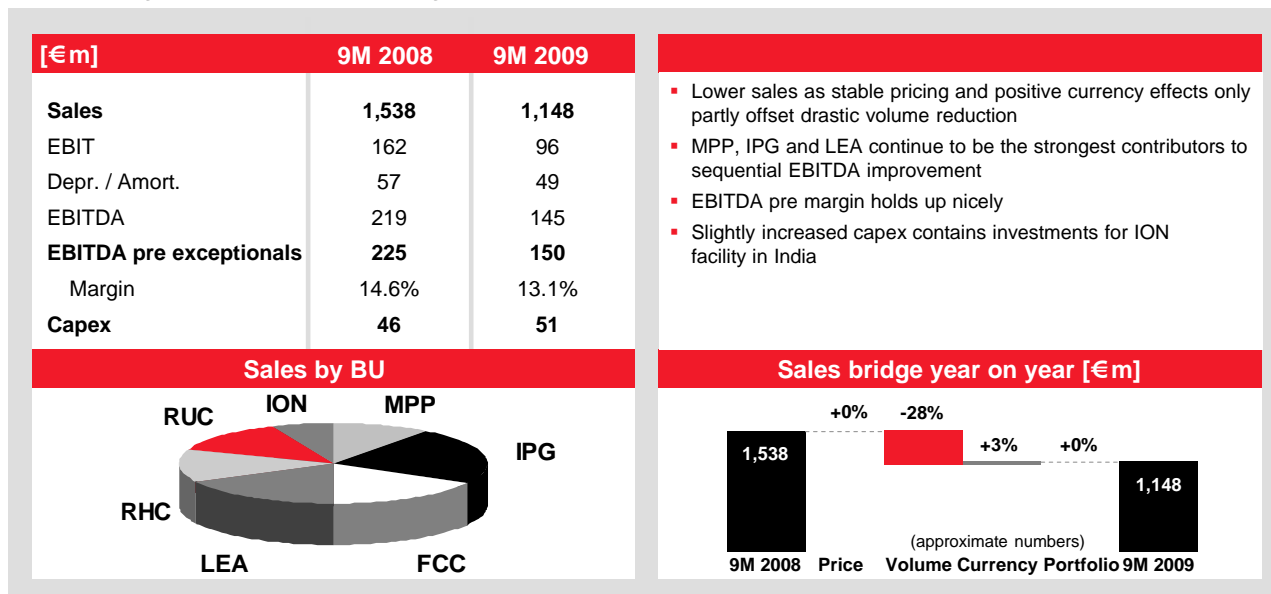


Chart 28

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## Strong operating cash flow

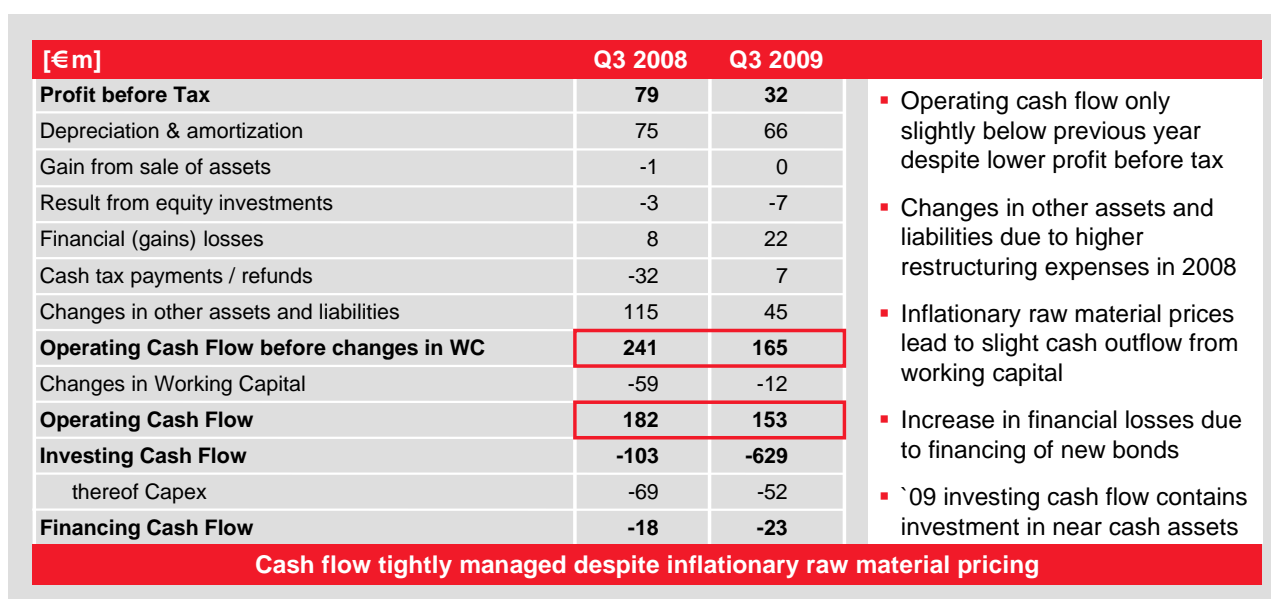


Chart 29

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## Exceptional items incurred in Q3 2008 and Q3 2009

[€ m]	Q3 2008		Q3 2009	
	Exceptional	thereof D&A	Exceptional	thereof D&A
Performance Polymers	5	3	10	0
Advanced Intermediates	0	0	5	0
Performance Chemicals	2	0	5	0
Reconciliation	5	0	-7	0
<b>Total</b>	<b>12</b>	<b>3</b>	<b>13</b>	<b>0</b>

Chart 30

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## Exceptional items incurred in 9M 2008 and 9M 2009

[€ m]	9M 2008		9M 2009	
	Exceptional	thereof D&A	Exceptional	thereof D&A
Performance Polymers	59	6	11	0
Advanced Intermediates	0	0	5	0
Performance Chemicals	7	1	5	0
Reconciliation	3	-1	3	3
<b>Total</b>	<b>69</b>	<b>6</b>	<b>24</b>	<b>3</b>

Chart 31

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# Abbreviations

<b>Performance Polymers</b>	<b>Advanced Intermediates</b>
<ul style="list-style-type: none"> <li>▪ BTR Butyl Rubber</li> <li>▪ PBR Performance Butadiene Rubbers</li> <li>▪ TRP Technical Rubber Products</li> <li>▪ SCP Semi-Crystalline Products</li> </ul>	<ul style="list-style-type: none"> <li>▪ BAC Basic Chemicals</li> <li>▪ SGO Saltigo</li> </ul>
<b>Performance Chemicals</b>	
<ul style="list-style-type: none"> <li>▪ MPP Material Protection Products</li> <li>▪ IPG Inorganic Pigments</li> <li>▪ FCC Functional Chemicals</li> <li>▪ LEA Leather</li> <li>▪ RCH Rhein Chemie</li> <li>▪ RUC Rubber Chemicals</li> <li>▪ ION Ion Exchange Resins</li> </ul>	

Chart 32



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