LANXESS
Energizing Chemistry

Publication of the second quarter 2013 results

LANXESS AG
Contact: Daniel Smith
Financial and Business Media
51369 Leverkusen
Germany

Phone +49 214 30-75179
Fax +49 214 30-50691
daniel-alexander.smith@
lanxess.com

Speech

Dr. Axel C. Heitmann

Chairman of the Board of Management of
LANXESS AG
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MOVING FORWARD
ENERGIZED BY LANXESS

Ladies and gentlemen, I would also like to welcome you to our conference call accompanying the publication of the results for the second quarter of 2013.

Even when comparing our performance to the very strong prior-year quarter, it is clear that we are unable to operate independently of the negative developments in our most important markets and customer industries.

However, LANXESS has proven that it knows how to successfully deal with particular challenges. This time too, we are doing all in our power to substantially improve our results once again.

The steps we have already taken include:

- temporary plant shut-downs
- our proven flexible plant management
- strict cost discipline throughout the company
- reduction of the capital expenditure budget from between EUR 650 million and EUR 700 million to around EUR 600 million, and
- measures in the Rubber Chemicals business unit to make its international sites more competitive over the medium to long term.

In addition, we are working on an update of our company strategy and on other measures. These include:

- short-term and sustainable cost reductions,
- further efficiency improvements and also
- structural changes.

We will present details of these activities to you in September. The aim is to improve the long-term competitiveness of the entire LANXESS Group.

Ladies and gentlemen,
There is no indication that the economic situation will improve as the year progresses. The general consumption climate remains weak. In the European countries, for example, it is not just vehicle sales that are declining sharply. Overall transport volumes are down as well. Fewer truck journeys mean less tire wear and lower demand for replacement tires – resulting in lower demand for our rubber.

Private car use has also declined significantly in Europe.

Moreover, the weakness in the European markets is now also becoming evident in countries such as China and Brazil. The Chinese government, for example, has now lowered its growth target for 2013 to 7.5 percent - the lowest level in that country since 1991. The Brazilian economy is expected to grow by about 2.5 percent this year – compared with 7.5 percent in 2010.

For the automotive and tire industries, in particular, we do not expect any recovery in the weak market environment. Restrained demand is persisting in the end markets so it can be assumed that our customers, particularly in Asia, will continue to reduce inventories. The consumption climate remains weak and consumers are very sensitive to price trends.

A short-term improvement cannot be expected. The European automotive market is experiencing a massive crisis: in the first six months of 2013, the number of cars sold in Europe reached its lowest level in 20 years.

One ray of hope is the fact that the OEM business with high-tech plastics from the High Performance Materials business unit can build on a solid performance, despite a difficult environment.

The situation is quite different in the agrochemicals market, which is an important sector for us. Here we anticipate continuing good demand. We will be able to further grow our positions at a high level.

This business is increasingly becoming a solid stabilizer, but is unable to compensate for the declines in the large-volume polymers business.

The U.S. construction industry is expected to perform well because of demand for residential building. In many parts of Europe, however, the effects of the recession will negatively effect this sector.

In regional terms, the situation in Europe remains tense and – as I already mentioned – the growth expectations have worsened in key markets such as China and Brazil. In our estimation, a slight improvement looks probable only in the United States.

Assuming no recovery takes place, we now expect EBITDA pre exceptionals for the full year to be in the range of EUR 700 million to EUR 800 million, after EUR 372 million in the first six months. In this connection, earnings in the second half will likely be distributed equally among the two quarters, as we expect business to develop counter to the normal seasonal trend. This forecast does not take into account possible impairment losses on raw material inventories.

Ladies and gentlemen,
Given the still persistently weak demand and lack of recovery this year, we no longer consider achievement of our target EBITDA pre exceptionals for 2014 of EUR 1.4 billion to be realistic.

Let's return to the second quarter. The slight improvement in our businesses that we had anticipated did not materialize. The well-performing agrochemicals business once again proved to be a stabilizing factor, although it was unable to compensate for the poor results in the other areas.

Group sales fell by nearly 12 percent in a persistently difficult market environment, to EUR 2.1 billion. This was mainly attributable to a slight decline in volumes and a steep drop in selling prices due to factors such as lower raw material costs and generally declining market prices. This trend particularly affected the businesses that are closely linked with the automotive and tire industries.

The operating result – EBITDA pre exceptionals – decreased by 45 percent to EUR 198 million. This figure was in the middle of our forecast corridor of between EUR 174 million and EUR 220 million.

Earnings were diminished by price effects and lower volumes, as well as by rising manufacturing costs and higher energy prices in particular. Impairment losses were also recognized on inventories due to a decline in butadiene prices.

Our EBITDA margin pre exceptionals fell to 9.2 percent, compared with 14.9 percent in the second quarter of last year.

Net income dropped by 95 percent to EUR 9 million. A major factor here were special charges of approximately EUR 40 million, mainly in connection with efficiency improvement and plant consolidation measures at the Rubber Chemicals business unit's sites in Belgium and South Africa.

The Performance Polymers segment, with its high-performance rubbers and high-tech plastics, was once again particularly hard hit by the negative development in the second quarter. Sales receded by more than 17 percent compared with the strong prior-year level, to EUR 1.2 billion.

This was mainly attributable to a negative price effect of 16 percent that resulted from further declines in raw material prices and adjustments to our selling prices on account of decreasing market prices. Volumes fell slightly year on year, by 1 percent.

Demand trends in the segment's individual business units varied in the reporting period. For example, the Butyl Rubber and Performance Butadiene Rubbers business units – which are closely linked with tire production – registered declines, reflecting continued weak demand particularly in the European automotive and tire industries.

On the other hand, the High Performance Materials business unit – which achieves a major share of its sales with customers in the automotive and the electrical and electronics sectors – registered an increase in volumes.

EBITDA pre exceptionals of the segment fell substantially by more than 63 percent to EUR 94 million; this resulted in an EBITDA margin of 8.0 percent, compared with the very good level of 18.0 percent a year earlier.

Lower selling prices in all business units could not be fully offset by correspondingly lower raw material costs. Capacity utilization was down year on year due to the decline in demand and scheduled production shut-downs.

The picture is very different in the Advanced Intermediates segment, which posted second-quarter sales almost at the prior-year level, at EUR 393 million. EBITDA pre exceptionals was down more than 6 percent year on year, at EUR 74 million. The EBITDA margin was nearly level at a gratifying 18.8 percent.

Both of the segment's business units, Saltigo and Advanced Industrial Intermediates, benefited from the positive development of the agrochemical markets. Saltigo thus succeeded in compensating for the weaker volume demand for pharmaceutical intermediates. The good development of the agrochemicals business once again shows that the realignment of this business unit is the right thing.

There was pleasing development in demand from the agrochemical industry and from the fragrances and flavors industry for products from the Advanced Industrial Intermediates business unit's integrated aromatics production network. Demand for products for the automotive and coatings industries remained weak.

In recent years, we have developed this segment overall into a solid stabilizer alongside the fluctuating polymers business.

Sales of our third segment, Performance Chemicals, decreased by 4 percent to EUR 561 million. This was mainly attributable to a decline in volumes. The Leather business unit suffered in particular from supply bottlenecks for a production facility as well as from strike-related stoppages at its chrome mine in South Africa.

By contrast, pleasing developments were registered by the Liquid Purification Technologies business unit – with its water treatment products – and by the Inorganic Pigments business unit. Both achieved increases in volumes and selling prices. However, this positive effect at Inorganic Pigments was offset by negative currency developments.

EBITDA pre exceptionals of the Performance Chemicals segment was down 14 percent year on year in the reporting period, at EUR 67 million. As a result, the EBITDA margin fell from 13.3 percent a year ago to 11.9 percent.

I would like to make the following observations with regard to regional development. Over the years, we have expanded our positions in the BRICS countries and in other Asian, Latin American and Eastern European markets. At the present time, the BRICS countries account for 23 percent of our sales. The regions named contribute a total of around 37 percent of sales.

This strategic alignment also has a stabilizing effect on LANXESS, even though our established home markets are demonstrating weakness. Compared with the particularly strong prior-year quarter, sales were down overall. However, Asia and Latin America remain the main growth drivers.

Ladies and gentlemen,
Capital expenditures in the reporting period, at EUR 159 million, were up against the prior-year level of EUR 137 million. They related mainly to growth projects currently being implemented. Examples here in Germany include two projects in the Saltigo business unit and the expansion of cresol production for the Advanced Industrial Intermediates business unit at the Leverkusen site. With these measures, we are further expanding our business with agrochemicals.

As the agrochemicals market remains an innovative and profitable growth segment for us, we will continue to invest in these activities in the future - with expenditures through 2015 totaling EUR 100 million just at Saltigo in Leverkusen. In this way, we are strengthening this location as the main production site for our agrochemicals portfolio. This also includes the relocation of Saltigo's headquarters with some 100 employees to Leverkusen in September.

Ladies and gentlemen,

- The megatrends of mobility and agriculture in particular remain intact.
- We predict that the emerging economies – especially China, India and Brazil – will see better times once again.
- As the market and technology leader in our segments, we understand the markets and the needs of our customers.
- We focus on innovation and technology in all our activities.

That's why, despite the current weakness in demand, we are firmly convinced that our alignment basically remains the right course for us.

I announced at the beginning of my remarks that we are working on measures to sustainably increase our competitiveness. These measures will further strengthen LANXESS' position as a leading supplier of innovative solutions.

We therefore remain committed to our medium-term earnings target of EUR 1.8 billion in EBITDA pre exceptionals in 2018, although this target has become more ambitious in view of the challenging environment.

We have demonstrated in the past that we can successfully master even difficult challenges. And we will do so this time as well.

Thank you for your interest.