LANXESS
Energizing Chemistry

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Publication of the third quarter 2013 results

Speech

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Chairman of the Board of Management of
LANXESS AG
(Conference call on November 12, 2013)

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MOVING FORWARD
ENERGIZED BY LANXESS

Ladies and gentlemen,

I would also like to welcome you to our conference call following the publication of our results for the third quarter of 2013.

The persistently challenging market environment hampered our business performance again in this reporting period. As expected, our most important customer industries – the automotive and tire sectors – have not yet seen a substantial improvement in their economic development, especially in Europe. This affected LANXESS, too, as we predicted at our Media Day in September.

But our businesses are stabilizing. All three segments saw an increase in volumes compared with both the preceding quarter and the prior-year period – and quite a substantial increase in the case of Performance Polymers. On the other hand, sales were restrained by the continued decline in selling prices and by negative currency effects.

The agrochemicals business of the Advanced Intermediates segment once again proved to be a stabilizing factor.

Group sales fell by 5 percent overall in the third quarter compared with the same period of last year, to just under EUR 2.1 billion. Volumes advanced by more than 9 percent, partly because some of our customers began rebuilding their inventories. In our view, however, it is still too early to speak of a fundamental recovery in our businesses.

The increase in volumes was not sufficient to offset the 11 percent decline in selling prices that resulted from lower raw material costs and a general drop in market prices, among other factors. This trend in turn particularly affected the businesses that are closely linked with the automotive and tire industries – with the exception of the High Performance Materials business unit.

Negative currency effects also diminished sales by roughly 4 percent.

Our operational earnings – EBITDA pre exceptionals – decreased by more than 26 percent to EUR 187 million. This was attributable to lower selling prices, especially for synthetic rubber, and negative currency effects. Earnings were also held back by inventory devaluations of approximately EUR 10 million. The EBITDA margin pre exceptionals came in at 9.1 percent, against 11.8 percent a year ago.

Net income fell substantially to EUR 11 million. This was not only due to the operational effects I just mentioned, but also to higher depreciation and amortization, along with special charges of approximately EUR 20 million for the efficiency improvement program "Advance".

The nearly 4 percent decline in third-quarter capital expenditures, to EUR 146 million, reflects the reduction in the full-year capital spending budget to approximately EUR 600 million. Net financial liabilities decreased compared to the end of the preceding quarter, to around EUR 1.8 billion, thanks to our strict working capital management. We should see a further decline by the end of the year.

The Performance Polymers segment, with its high-performance rubbers and high-tech plastics, saw volumes rise by a substantial 14 percent year on year in the third quarter. This improvement reflected inventory rebuilding by customers.

On the other hand, there was a significant 19 percent decline in selling prices that resulted from lower procurement prices for raw materials, especially butadiene. Currency effects also had a negative impact. Sales of the segment therefore came in a good 8 percent below the prior-year period, at EUR 1.1 billion.

EBITDA pre exceptionals for the Performance Polymers segment fell substantially by nearly 45 percent to EUR 84 million, giving an EBITDA margin of 7.7 percent compared with 12.8 percent a year earlier.

In most of its business units, positive volume development did not offset declining selling prices. Earnings were also hampered by inventory devaluations, our targeted destocking and negative currency effects.

A pleasing aspect of this segment's development was that higher volumes in the High Performance Materials business unit more than offset the decline in selling prices. The importance of this business unit's high-tech plastics continues to increase. They are used partly as lightweight construction materials for the automotive industry.

Three major projects are ongoing in this business unit in response to this trend:

- In Antwerp, Belgium, we are currently building a world-scale facility for polyamide plastics with an annual capacity of about 90,000 metric tons, which is scheduled for completion next year.

- In Porto Feliz, Brazil, LANXESS plans to complete the construction of a new compounding facility for high-tech engineering thermoplastics before the end of this year.

- Finally, Bond-Laminates GmbH, which is part of this business unit, will expand its production capacities for innovative lightweight plastics in Brilon, Germany, by about 75 percent by the summer of 2014.

Ladies and gentlemen,
The positive feedback we received last month from our customers and numerous interested visitors to "K 2013" – the world's biggest trade fair for plastics and rubber – gives us grounds for optimism. It shows that our strategy of focusing on the long-term megatrend of mobility – and especially "green mobility" – is the right one.

Our practical test with heavy trucks that we presented a few days ago is further evidence of this. The test vividly illustrates that "green tires" with reduced rolling resistance lower the fuel consumption of trucks by nearly 10 percent.

For shipping and logistics companies, these tires could bring annual cost savings of several million euros. The environment would also benefit from "green tires" produced with our high-performance rubbers, because they reduce CO_2 emissions.

Sales in the Advanced Intermediates segment were flat with the prior-year period at EUR 403 million. Volumes rose by nearly 5 percent, mainly due to strong demand for agrochemicals, while raw-material-related price adjustments and currency effects diminished sales by a similar amount.

EBITDA pre exceptionals was only slightly below the prior-year quarter, at EUR 71 million. The margin came in at a pleasing 17.6 percent.

Both of the segment's business units, Saltigo and Advanced Industrial Intermediates, benefited from good development in demand for products used by the agrochemicals and the flavors and fragrances industries. The segment's regional growth drivers were North America and EMEA excluding Germany.

Sales of our third segment, Performance Chemicals, were down by just under 2 percent to EUR 546 million. Higher volumes raised sales by nearly 3 percent, while selling prices were virtually flat with the prior-year quarter. Currency effects, however, diminished sales by around 5 percent.

EBITDA pre exceptionals for the segment came in at EUR 72 million, which was 4 percent below the prior-year period. As a result, the margin edged down by 0.3 percentage points to 13.2 percent.

In this segment, business with water treatment products, rubber chemicals and material protection products for the paints and coatings industry developed well.

From a regional perspective, the strengthening of our positions in recent years, especially in the Asian markets, is now paying off. Sales in the Asia-Pacific region advanced by about 5 percent in the third quarter, to EUR 515 million. Business development in China was particularly encouraging, with sales rising by around 21 percent to around EUR 260 million.

In the EMEA (excluding Germany) region, sales came in roughly level with the prior-year period. By contrast, development in our home market of Germany and in the North and Latin America regions was weaker year on year.

Ladies and gentlemen,
The economy has shown limited growth momentum so far in the current fourth quarter. Only modest impetus is apparent in the emerging economies, for example. We believe China will achieve roughly its planned rate of growth for the year.

In Europe, although the situation should ease to some extent, there is no sign of lasting stability at present. And finally, growth in the United States is expected to remain moderate due to the continuing uncertainty about the federal budget.

Our appraisal is confirmed by the German Chemical Industry Association, the VCI, which said last week that the global economic recovery is not yet on a really firm footing. According to the VCI, growth momentum in the chemical industry remains low, and the potential for setbacks is considerable.

We believe developments in our different customer industries will vary. We anticipate only a modest recovery in automobile and tire production, particularly in Europe. One bright spot for me just recently was the news that volumes in the German auto industry rose in October by more than 2 percent year on year. And the U.S. market is actually in much better shape than that, with the number of new light-vehicle registrations rising by almost 11 percent against the prior-year month.

We anticipate continuing good demand for agrochemicals in the current quarter. Finally, as far as the construction industry is concerned, China and the U.S. are likely to develop more favorably, while European construction should bottom out.

Against this background, we expect the sluggish trend in demand to continue in the fourth quarter. We are therefore narrowing our most recent earnings forecast, which was for EUR 700 million to EUR 800 million in EBITDA pre exceptionals. We now expect the figure to be between EUR 710 million and EUR 760 million. This forecast does not reflect any further possible inventory devaluations, as these are difficult to predict.

In September we announced the efficiency improvement program "Advance", which we are implementing to address the current economic challenges. The measures we have launched comprise cost savings along with a global headcount reduction of about 1,000 by 2015 and some portfolio adjustments. The "Advance" program is designed to achieve annual savings of about EUR 100 million from 2015 onward.

Ladies and gentlemen,
I would like to touch on an issue that needs to be quickly and fully resolved, because it will greatly affect the future competitiveness of LANXESS and the entire German chemical industry: and that is Germany's policy shift toward renewable energies and the resulting dramatic rise in energy costs.

Let me say quite clearly that we have reached the limit in this respect, and we are losing ground, especially to our competitors in the United

States. The large-scale extraction of shale gas in the U.S. has led to a sharp decline in natural gas prices there. Today, natural gas costs nearly three times as much in Europe as in the U.S.

The German chemical industry is the number one in Europe and number four in the world. We stimulate innovation everywhere with our materials, chemical intermediates, ideas and applications know-how.

This must remain so in the future. And that means we need the right economic framework. Otherwise, future investment in Germany as a center of the chemical industry will be jeopardized. We must not allow this to happen. Hundreds of thousands of jobs are at stake, ladies and gentlemen. We are competing every day against international companies that are not burdened with such high energy costs as we are.

What is essential now is to thoroughly reform Germany's energy situation, and in particular to make fundamental changes to the German Renewable Energies Act so as to ensure a reliable, clean and affordable energy supply. There is an urgent need for political action on this matter.

Energy-intensive industries must continue to be exempted from the additional burdens imposed by the Renewable Energies Act. Otherwise, LANXESS alone will face additional costs of hundreds of millions of euros a year in the future. You are all familiar with our numbers, so I think you will take my point.

However, I am counting on the coalition talks in Berlin producing an outcome on this issue that will safeguard the future of the German chemical industry.

Ladies and gentlemen,
The task at hand is for LANXESS to restore its former earnings strength as quickly as possible. We have shown in the past that we

can successfully overcome major challenges. And we will do so again this time.

Thank you for your interest.

Forward-Looking Statements.
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