Lanxess pressing ahead with realignment, consolidating business units

Lanxess is pressing ahead systematically with its realignment and has defined a three-phase programme "Let’s Lanxess again”, divided into the following three areas: Business & Administration structure competitiveness, Operations Competitiveness, Portfolio Competitiveness.

The Group-wide restructuring programme initiated by the Board of Management on 24 July 2014 will initially focus on the first area – the Business & Administration structure competitiveness. Preparations for the following phases have already begun.

Effective 1 January 2015, **Lanxess** will merge certain business units, reducing their number from 14 to 10. In addition, the company is streamlining its global administration by reducing the workforce on a cross-functional basis and consolidating specific areas of activity. This more efficient organisational structure is designed to enhance Lanxess' market and customer focus and reduce costs. Lanxess is also aiming for savings on all cost types.

"We have been working at full steam over the past few months to create the foundation for our realignment. We, as a team, will significantly improve our competitiveness by systematically implementing our programme. We have started talks with the employee representatives on the implementation process, and we expect to quickly reach constructive solutions," said **Matthias Zachert,** Chairman of the Board of Management of Lanxess AG.

Lanxess will present further details on the restructuring at a Media and Capital Markets Day on 6 November 2014.

More efficient business unit structure

Lanxess will combine the Butyl Rubber (BTR) and Performance Butadiene Rubbers (PBR) business units to form the Tire & Specialty Rubbers (TSR) business unit. This takes account of the overlapping customer and regional structures in the established markets, as well as complementary strengths in the emerging economies. The future head of this business unit is **Jorge Nogueira.**

In addition, Lanxess will recombine the High Performance Elastomers (HPE) and Keltan Elastomers (KEL) business units under the name High Performance Elastomers (HPE). This, too, is prompted mainly by overlaps in the customer structure. **Jan Paul de Vries** will head the new business unit.

The Rubber Chemicals (RUC) business unit's specialty chemicals product line, the Functional Chemicals (FCC) business unit and the **Rhein Chemie** (RCH) business unit will be combined to form the new Rhein Chemie Additives (ADD) business unit. Bundling the additives businesses will open up new markets and attract new customers for Lanxess. The head of this new business unit will be **Anno Borkowsky.**

As announced in September 2013, Lanxess is examining strategic options for the RUC business unit's antioxidants and accelerators business lines. At the same time, the company is considering merging these product lines and placing them into the Advanced Industrial Intermediates business unit (AII). A decision in favour of one of these options will be made by the end of the third quarter of 2014 at the latest.

Leaner administration

Lanxess will combine the group functions Aliseca (ASC), Industrial & Environmental Affairs (IEA) and Innovation & Technology (INN) into the new group function Production, Technology, Safety & Environment (PTSE). **Par Singh** will head the group function. Some maintenance tasks will be delegated to the business units in the future, eliminating a number of interfaces and thus raising efficiency.

The group function Internal Auditing (IA) and the Corporate Security unit will be integrated into the group function Law and Intellectual Property (LIP). The new group function Legal & Compliance (LEX) will be headed by **Jochen Schroer.**

Claus Zemke, current head of Corporate Communications at the machine tool manufacturer **Trumpf GmbH + Co. KG** in Ditzingen, will become head of Lanxess’ group function Corporate Communications (COM) no later than 1 January 2015.

Further action initiated as part of the realignment

The second phase – Operations Competitiveness – will involve an “operational excellence initiative” to examine all production facilities with respect to market requirements and synergy potential. Par Singh will lead this initiative. A "marketing and sales excellence initiative" – led by **Torsten Derr** – will evaluate the effectiveness and efficiency of Lanxess' international distribution structures.

Lanxess has already taken first steps in the third area – Portfolio Competitiveness. The company will provide information on a regular basis about the implementation of the realignment, in addition to the restructuring, as of 2015.

Earnings improve in the second quarter of 2014

Business development in the second quarter of 2014 was marked by good demand for agrochemicals and a positive impetus from the construction industry, but also by a persistently difficult competitive situation for synthetic rubbers and negative currency effects. Lanxess registered year-on-year volume gains in all regions except Latin America. Volumes for the Group as a whole increased by 2 %, which did not fully offset the 5 % decline in selling prices. Overall, sales of the Lanxess Group declined by 5.7 % to approximately EUR 2 billion.

EBITDA pre exceptionals came in ahead of the prior-year quarter, climbing by 20.7 % to EUR 239 million. This development was attributable to higher volumes, increased utilization of production capacities and savings from the efficiency programme "Advance". The operating result was thus at the upper end of the forecasted range of between EUR 220 million and EUR 240 million. The EBITDA margin pre exceptionals rose to 11.8 %, compared to 9.2 % in the prior-year period.

"The continuing low earnings level and increasing competition show the need for further action to improve competitiveness," said Zachert.

Net income improved substantially to EUR 55 million, compared to EUR 9 million for the same period of last year. This was partly due to an improved financial result and lower exceptional charges. In the prior year, EUR 40 million had been incurred for restructuring in the Performance Chemicals segment.

Financial data

Net financial liabilities fell from roughly EUR 1.7 billion on 31 December 2013, to about EUR 1.5 billion on 30 June 2014, mainly due to the successful capital increase in May 2014. Operating cash flow increased substantially to EUR 178 million due to the improved business performance and lower bonus payments for fiscal 2013.

Performance by segment

Sales in the Performance Polymers segment declined by 12.1 % to roughly EUR 1 billion in a persistently difficult market environment. The decrease was mainly due to the continuing low level of selling prices in all the rubber businesses. EBITDA pre exceptionals in the segment advanced by EUR 28 million to EUR 122 million, mainly as a result of higher capacity utilisation.

Thanks to continuing strong demand for agrochemicals and products from the aromatics network, sales in the Advanced Intermediates segment rose by 2.5 % to EUR 403 million. The **Saltigo** business unit benefited from new projects in the agrochemical industry. EBITDA pre exceptionals of the segment held nearly steady year on year, at EUR 73 million.

Sales in the Performance Chemicals segment advanced by 1.4 % to EUR 569 million mainly due to higher volumes. Businesses providing positive impetus included material protection products, leather chemicals and pigments. EBITDA pre exceptionals, at EUR 86 million, was a substantial 28.4 % above the EUR 67 million posted in the prior-year period.

Guidance narrowed

Lanxess continues to expect the global economy to show a slight recovery during the remainder of the year. For the businesses with synthetic rubber, which are closely linked with the automotive and tire industries, the company continues to foresee a challenging competitive environment with the associated pressure on prices. Lanxess expects demand in the agrochemicals business to continue developing well for the rest of the year. The forecasted growth in the construction industry will provide further positive impetus for the pigments business in the Performance Chemicals segment.

The company continues to anticipate higher earnings in 2014 compared to the previous year, taking into account the start-up costs of about EUR 10 million for the EPDM rubber plant in China in the fourth quarter, as well as maintenance shutdowns.

"We are narrowing our original earnings guidance of between EUR 770 million and EUR 830 million, and now expect to achieve EBITDA pre exceptionals in 2014 of between EUR 780 million and EUR 820 million," said Zachert.

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