Evonik.
Power to create.

Morgan Stanley Investor Visit

Dr. Ulrich Küsthardt, Chief Innovation Officer
Dr. Hans Henning Wenk, Head of R&D Biobased Materials
Tim Lange, Head of Investor Relations

29 June, 2016

Agenda

Morgan Stanley Cannonball Run		
9.00 – 9.15	***Arrival and registration***	
9.15 – 9.45	**R&D @ Evonik: How we strengthen our innovative power** *Q&A session*	**Dr. Ulrich Küsthardt** Chief Innovation Officer
9.45 – 10.10	**Biosurfactants: How nature inspires us to make cleaning and care more sustainable** *Q&A session*	**Dr. Hans Henning Wenk** Head of R&D Biobased Materials
10.10 – 10.45	**Acquisition of APD PM: Creating a global leader in Specialty & Coating Additives** *Q&A session*	**Tim Lange** Head of Investor Relations

How we strengthen our innovative power

Dr. Ulrich Küsthardt, Chief Innovation Officer
21. Juni 2016, Essen

We make our innovation power measurable

Innovation KPIs:

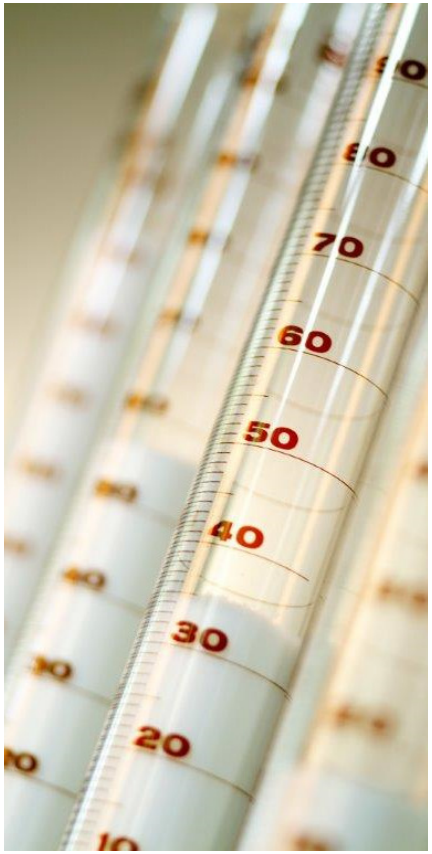
What do we invest, what are the returns (KPIs)

Innovation excellence:

How do we achieve it (processes, best practices)

Innovation reputation:

How are we perceived (opinion survey)



Innovation KPIs at a glance

57%
patent-driven sales

€500 m
increase in value of innovation pipeline

2,700
employees

3.2%
R&D rate

€434 m
R&D expenditure

10%
sales from new products and applications[1]

1) Younger than 5 years

Innovation KPIs:
Our goals

Our goals

R&D rate
Continue to exceed **3 percent mark** in the medium term

Innovation pipeline
Continuous increase in value

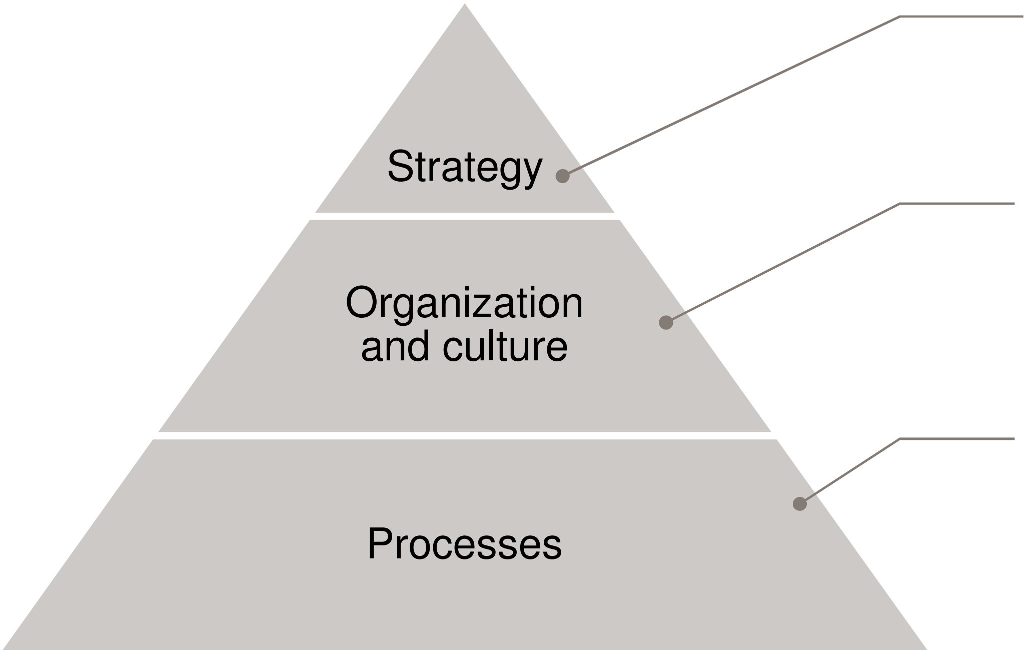
Evonik growth fields
€1 billion additional turnover by 2025

R&D expenditure
€4 billion in the next ten years (from 2015)

Products/applications younger than five years
16 percent share of overall sales (medium term)

Innovation excellence:
Our roadmap

Innovation excellence



Examples of activities

- Definition of innovation goals
- **Definition of Evonik growth fields**
- Definition of strategic target portfolio

- Strategic research (Creavis)
- **Project houses**
- Innovation and Entrepreneurship Award
- Culture initiatives for error and learning culture

- Corporate Foresight
- Ideation Jams
- I2P Process
- Active portfolio management
- **IP management**

Source: A.T. Kearney

Innovation excellence:
Evonik growth field example

Megatrends

Health & Nutrition	Resource Efficiency	Globalization

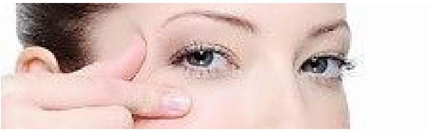
Evonik Growth Fields

Sustainable Nutrition

Advanced Food Ingredients

Healthcare Solutions

Cosmetic Solutions



Membranes

Smart Materials

Additional contribution to sales of more than €1 billion by 2025

Evonik Technology Competence Fields

Polymer Design	Inorganic Particle Design	Interfacial Technologies	Coating & Bonding Technologies	Catalytic Processes	Biotechnology

The Evonik Growth Fields serve highly attractive markets combined with our core competencies

Sustainable Nutrition	**Main trends and drivers:** • Resource consumption/ emissions • Food chain safety and quality • Animal wellbeing
Healthcare Solutions	**Main trends and drivers:** • Drug delivery for biopharmaceuticals • Personalized therapies and improved patient compliance • Drug eluting medical devices
Advanced Food Ingredients	**Main trends and drivers:** • Delivery systems for food ingredients • Modern life style
Cosmetic Solutions	**Main trends and drivers:** • Smart delivery systems • Natural extracts • Sustainability
Membranes	**Main trends and drivers:** • Energy-efficient gas and liquid separation • Compact and cost efficient membrane systems
Smart Materials	**Main trends and drivers:** • Functional materials for the digital world (special polymers, system solutions) • Thermal insulation systems • Resource efficient solutions

Innovation excellence:
Project house example

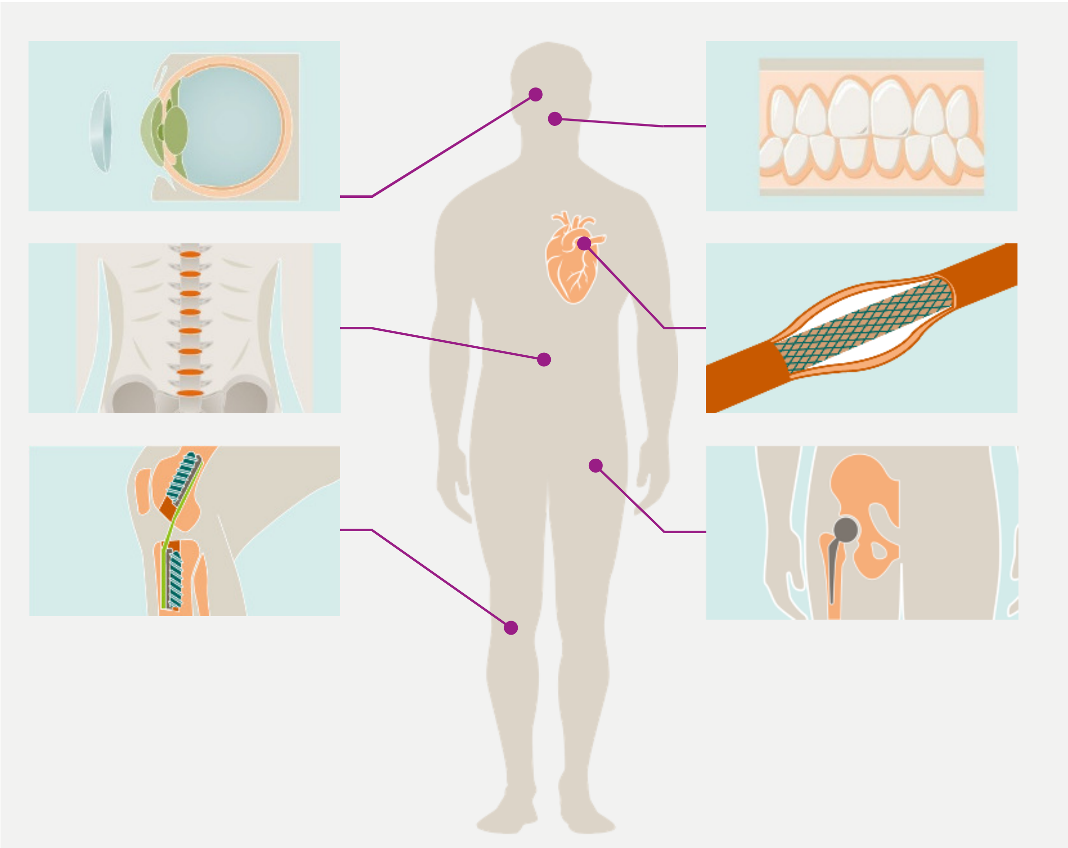
The setting

- Wide-ranging expertise (internal/external)
- One location, one innovation topic
- 50:50 financing between segments and Creavis
- 3-year period

The aims

- Close collaboration with partners along the value chain
- Promote the internationalization of research and development
- Develop new competencies

Medical devices – increasing therapeutic needs of aging population



Therapeutic needs:

- Product lifetime corresponds to required function
- Physiological properties
- Patient-specific solutions
- Avoiding further surger

Today: reparative medicine:

- Treatment of symptoms
- Permanent medical devices

Vision: regeneratice medicine:

- Replace, produce, or regenerate cells, tissues, and organs
- Restore normal bodily functions

Application: coronary heart disease

Need

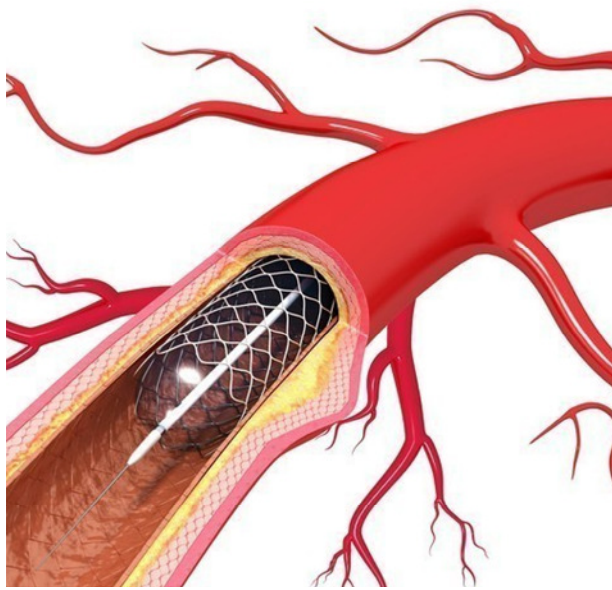
- Over two million stents are used throughout the world each year for the treatment of coronary heart disease - most of these are made of metal

Problem

- Five percent of patients experience a thrombosis or restenosis within 5 years of receiving a metal stent
- Treating the patient again with another stent is not an option because the old metal stent is still in place
- Roughly 4 percent of biodegradable stents rupture when inserted

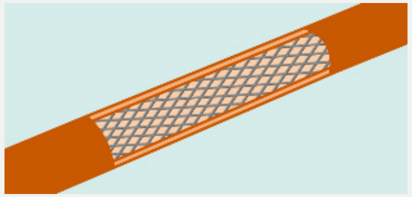
Goals

- Improved material flow properties without sacrificing mechanical stability
- System solution using different biodegradable polymers and specific additives



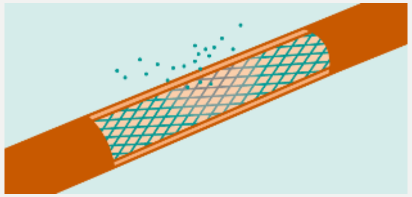
Evolution of stent technology

Normal metal stent



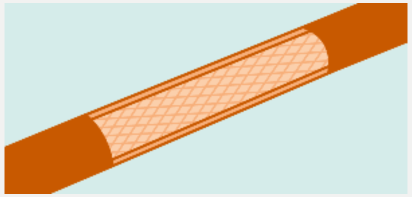
Risk of complications:
Renewed vascular occlusion

Metal stent that releases an active agent



A coating based on RESOMER® that releases an active agent aimed at reducing the risk of restenosis

Biodegradable stent

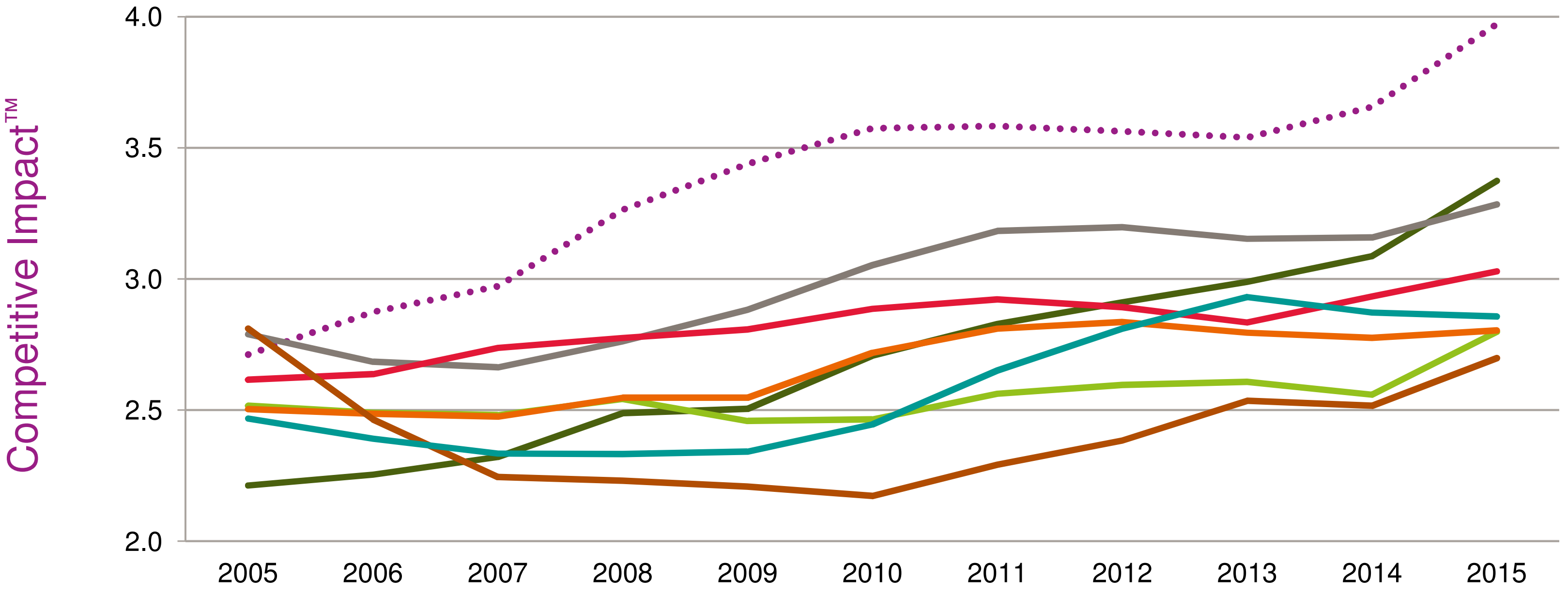


Stent made of RESOMER® that breaks down after 6 to 12 months

Risk of complications:
Available materials are very brittle and can lead to the development of thrombosis

Need:
Materials for improved biodegradable stents

Innovation excellence:
Patent quality example



Evonik   Peer group Arkema, BASF, Clariant, DSM, DuPont, Lanxess, Solvay

Source: PatentSight, April 15, 2016

Key strategic objectives

Focus the innovation portfolio

- Fewer but therefore larger projects
- Larger share of mid- to long-term projects
- Collaborations along the value chain

+

Strengthen the innovation culture

- Ideation Jams
- Entrepreneurship competition
- Culture initiatives for the learning culture
- Open Innovation

Measure success

Increase the innovation pipeline by €0.5 billion

Vision

Evonik is one of the most innovative companies in the world

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How nature inspires us to make cleaning and care more sustainable

Dr. Hans Henning Wenk

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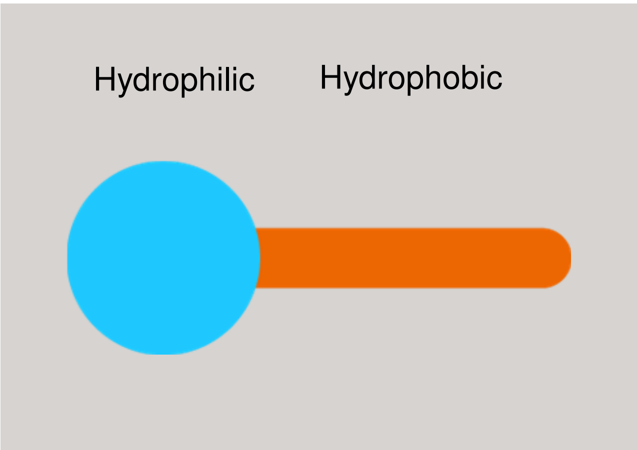
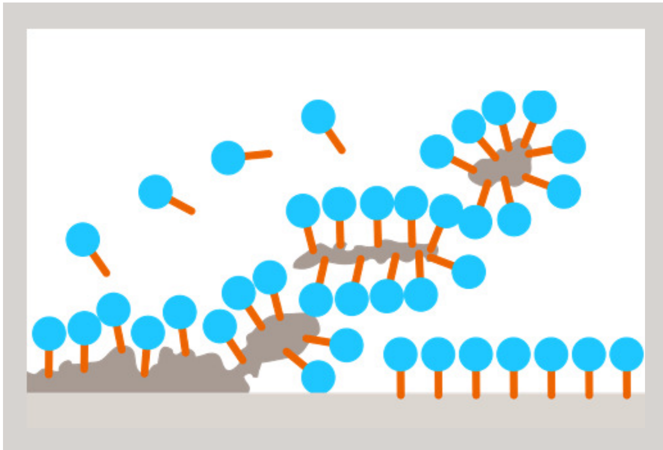
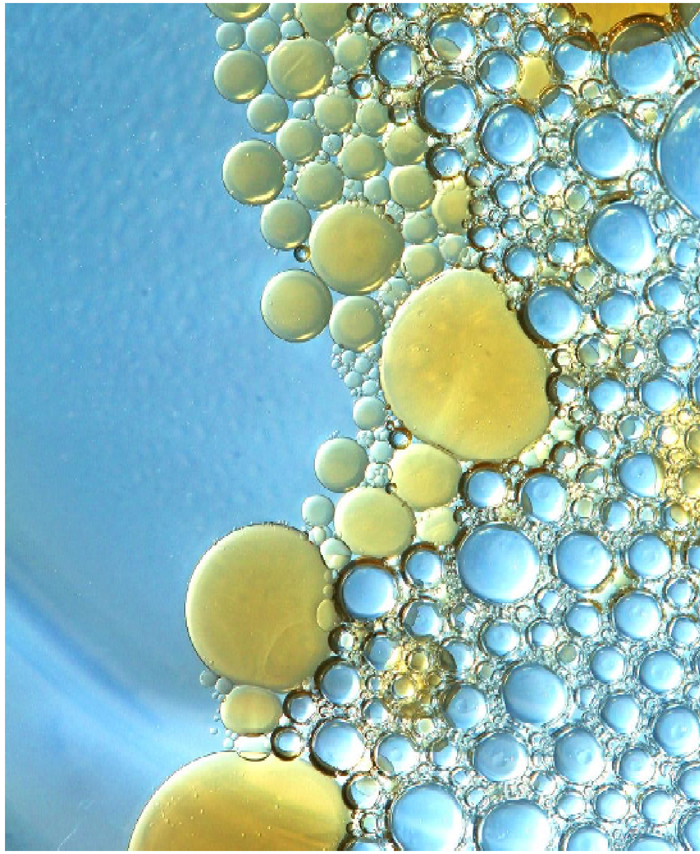
Surfactants –
The chemistry behind cleanliness and hygiene

- Oils and fats do not mix with water
- Surfactants enable water and oil to mix:
  - “hydrophilic” head – mixes with water
  - “hydrophobic” tail – mixes with oil
- Surfactants enable grease stains to be removed using water







Surfactants in personal care and cleaning products

The most important ingredient, for example, in

- shower gels
- liquid soaps
- shampoos
- dishwashing detergents
- laundry detergents
- household cleaners

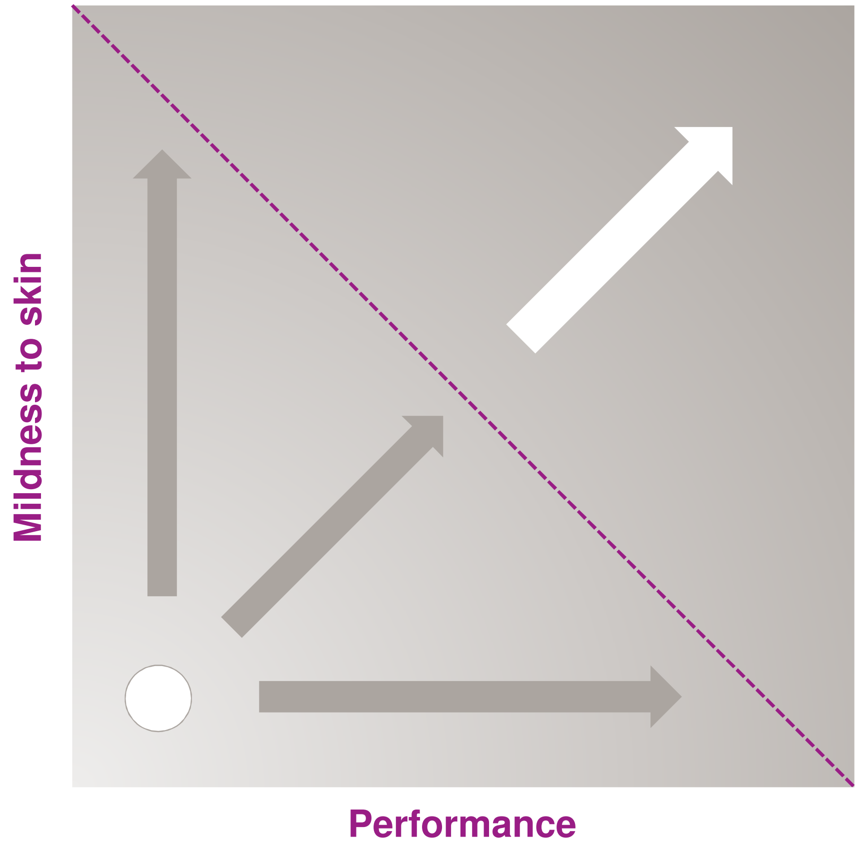
A world without surfactants:

The next generation of surfactants – Example: mildness

The most familiar surfactant:

- Not very mild to skin (pH)
- Low performance
- Sensitive to water hardness

Performance and mildness are still a compromise



The next generation of surfactants – Example: foam

- Foam is a signal for cleansing and care for the consumer
- Completely bio-based surfactants so far have insufficient foam properties
- Achieving stable foam with hard water has proved especially difficult

Volume and texture	Foam stability	Foam structure
		

The next generation of surfactants – Raw materials

Palm kernel oil

Coconut oil

Petrochemicals

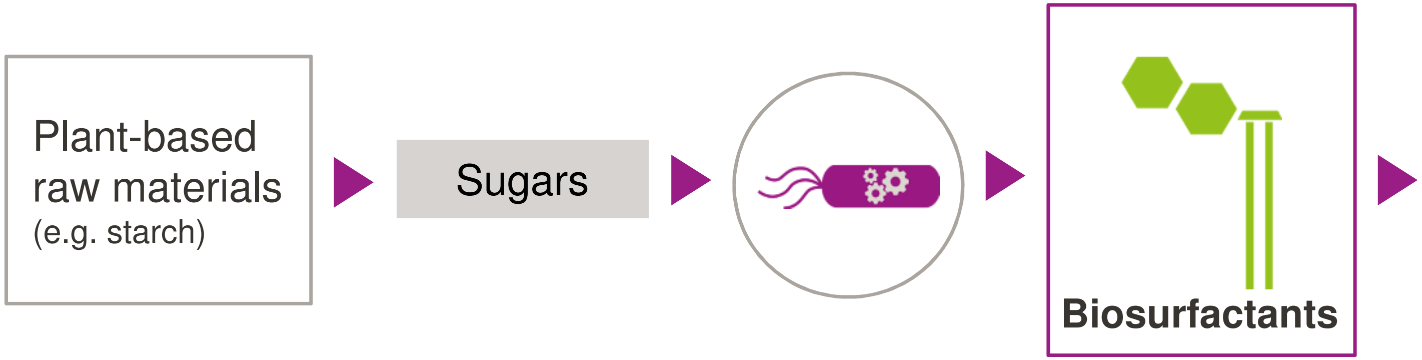
▶ Intermediate products ▶ **Surfactants** ▶

Future challenges

- Increase flexibility of the raw material base
- 100% Renewable Carbon Index (RCI)

Biosurfactants –
Natural surfactants from microorganisms

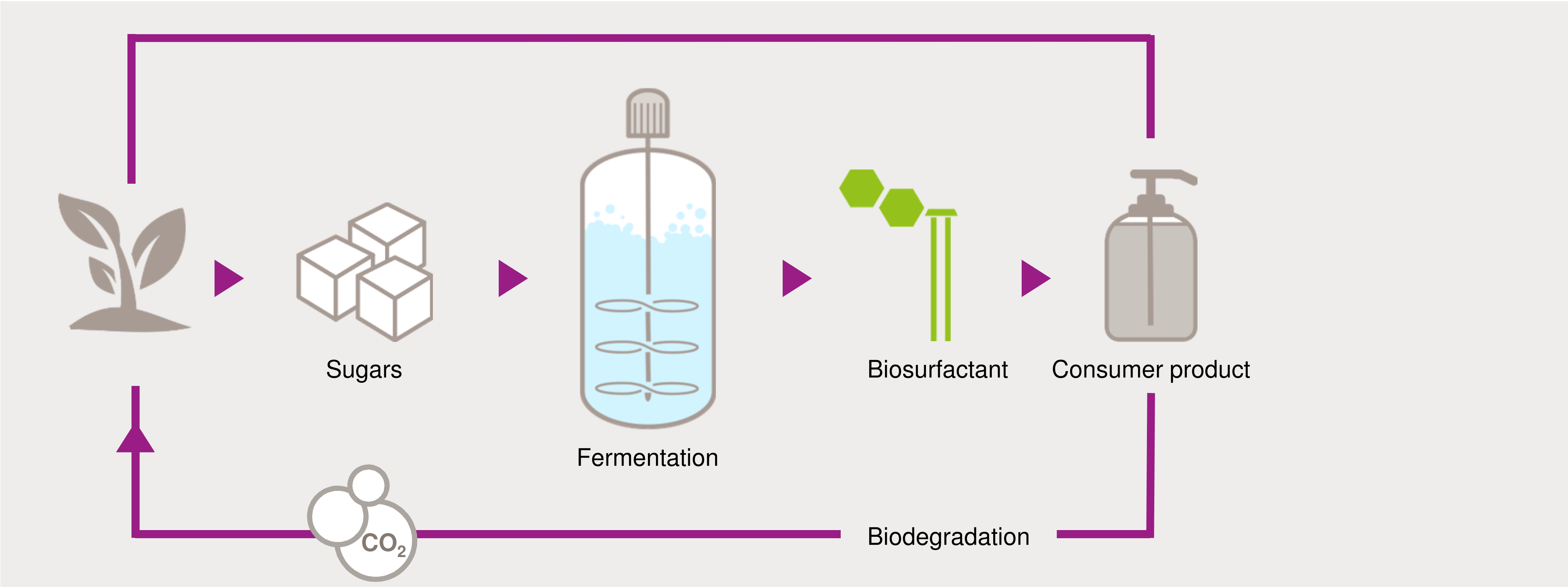
- Many microorganisms produce surfactants
- Natural purpose e.g. solubilization of oils as nutrients
- Principle already used to clean oil-contaminated beaches



Cleanliness and care – Inspired by nature

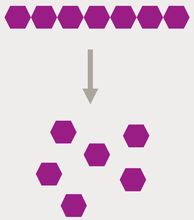
Surfactants from renewable raw materials

The carbon cycle

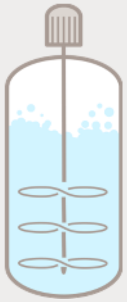


Industrial production of biosurfactants

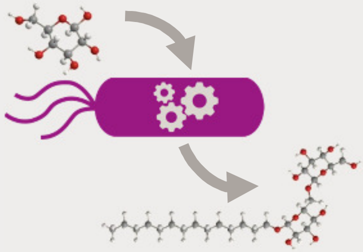
1. Starch from plants is processed into simple sugars



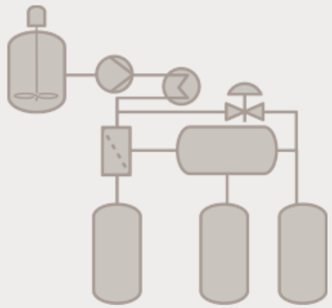
2. Special microorganisms are grown in a fermenter and fed with sugar



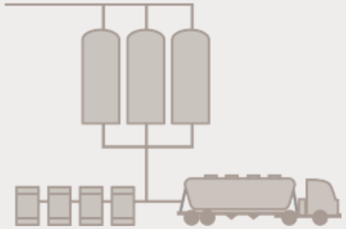
3. Microorganisms convert sugar into biosurfactants



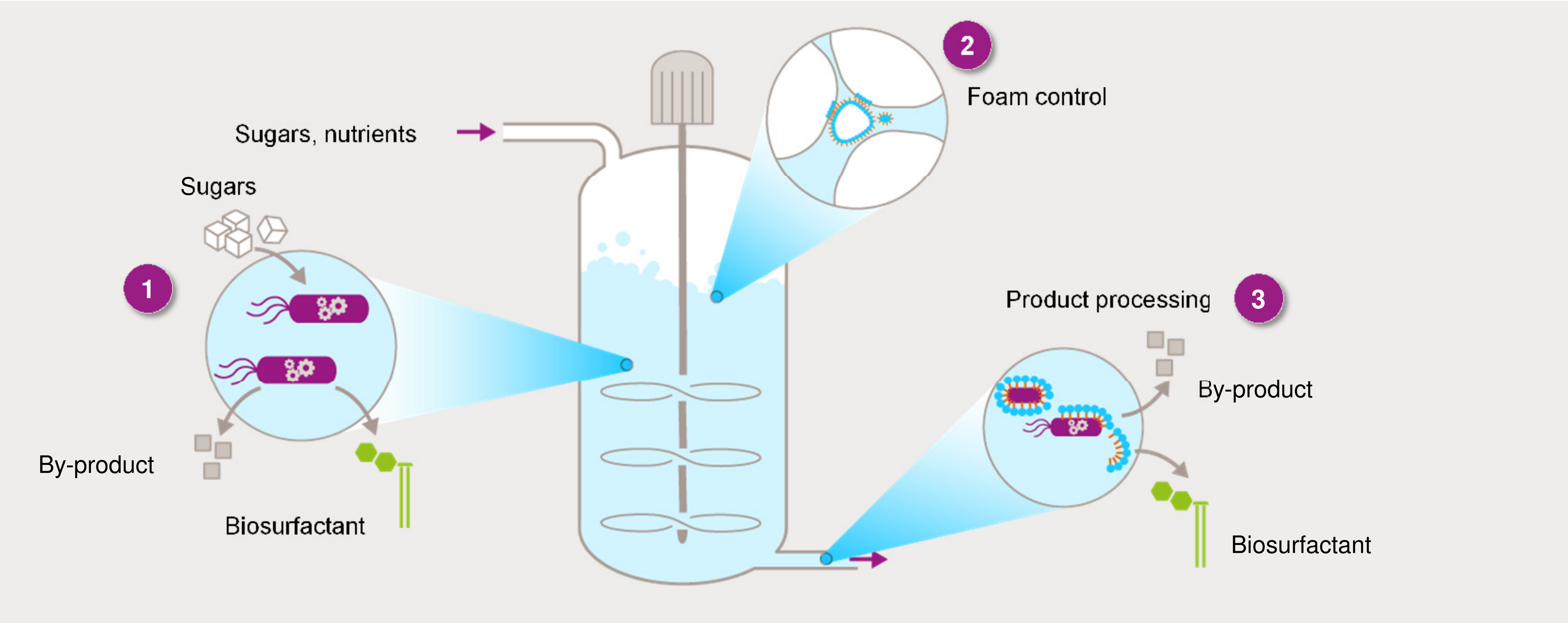
4. Separation of cells and by-products with a special purification process



5. Storage, filling and transport



Challenges for industrial manufacture



A classic chicken and egg problem calls for the courage to innovate

No material for tests

No process development

High manufacturing costs

No investments in "economy of scale"

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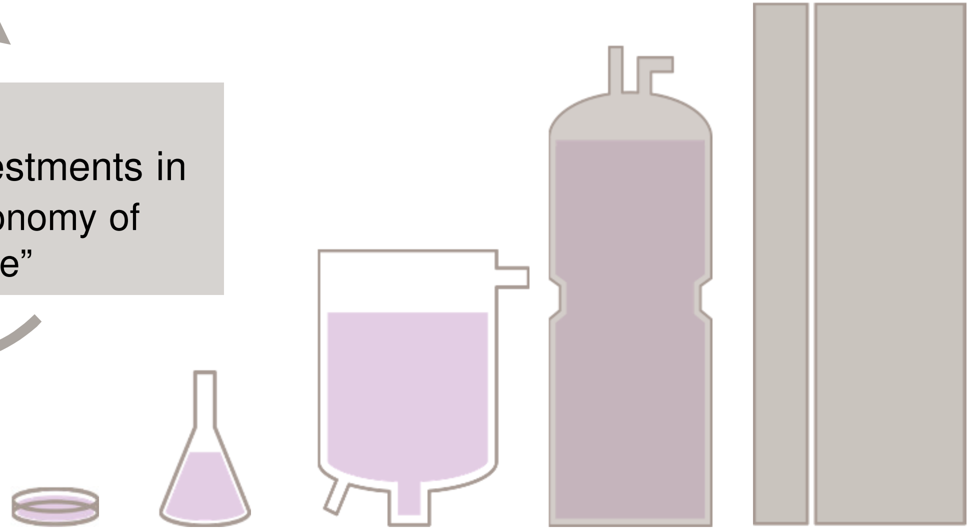
- Development of a robust biosurfactant producer
- Development of a scalable process
- Manufacture of large sample quantities
- Formulation development and product testing
- Initial scale-up on a larger scale



0.1 liter ☑

1 to 10 liters ☑

10 to 100 liters ☑

1,000 to 10,000 liters ☑

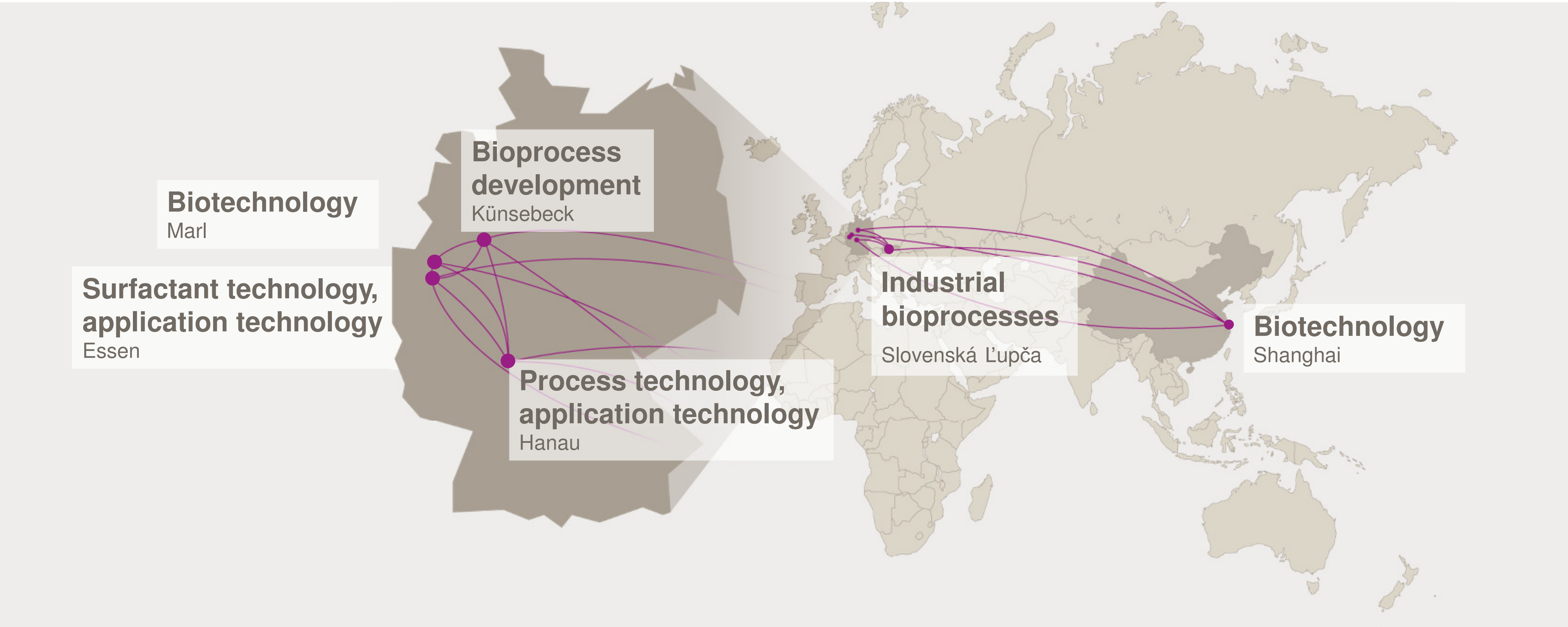
>10,000 liters ☑

> 5 years
> 20 experts

Production of first products on an industrial scale*

* further products in development

A strong innovation network



Biosurfactants – Sustainable growth through innovation

- Differentiated performance + environmental and skin compatibility
- Successful development based on core competences in surfactant technology and industrial bioprocesses
- Focus on attractive markets in personal and home care
- The first product has already been introduced successfully
- Expansion of leading position through continued projects

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Creating a global leader in Specialty & Coating Additives

Acquisition of Air Products Performance Materials

Tim Lange

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APD Performance Materials[1] provides an excellent fit with Evonik

Leadership position	• Creating a global leader in Specialty & Coating Additives • Leading market positions in performance-critical additives
Specialty product portfolio	• Strengthening of growth segments Nutrition & Care and Resource Efficiency • Excellent fit of all acquired businesses with Evonik's growth segments
Customer and innovation focus	• Combining complementary chemistry, manufacturing processes and formulation know-how • Customer- and solution-oriented businesses with complementary innovation pipeline
Truly global footprint	• Expanding global footprint • Strengthening presence in North America and Asia
Enhanced financial performance	• High margin and resilient business with low capital intensity and strong cash generation • High synergy potential due to exceptional business and regional complementarity

[1] APD Performance Materials is the Specialty & Coating Additives business of Air Products' Materials Technologies Segment

Transaction overview

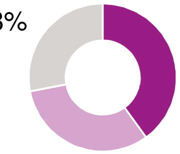
Structure	• 100% acquisition of the Specialty & Coating Additives business of Air Products for cash • Cash and debt free • Acquisition is structured as a mix of assets and shares
Financial impact	• Sustainable synergy level of ~$80 m p.a. • Asset step-up and accordingly higher D&A leading to ~$520 m NPV of tax benefits • EPS accretive in the first full year
Transaction value	• Acquisition price of $3.8 bn representing 9.9x Enterprise Value / 2016E[1] EBITDA multiple including tax benefits and sustainable synergies • Excluding tax benefits and sustainable synergies: 15.2x EV / 2016[1] EBITDA multiple
Financing	• Financing secured with half cash and half committed credit facility • Rating upgrade from Moody's and rating confirmation from Standard and Poor's
Timing	• Approved by Air Products' Board of Directors and Evonik's Supervisory Board • Aiming for closing by the end of 2016, subject to regulatory approvals

[1] 2016E FY EBITDA of $250 m

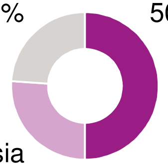
APD Performance Materials
A leader in Specialty & Coating Additives

$1,078 m 2015 Sales	**Global leader**	• Global leadership positions in all three divisions
$242 m / 22.4% 2015 EBITDA / EBITDA margin	**Mission-critical products**	• Performance-critical, highly specialised solutions • Represent only small portion of total end product costs
15-20%[1] of sales from new products	**Innovation & customer focus**	• Strong innovation power for unique technologies • In-depth knowledge of customer-specific requirements • Diverse customer base and end-market exposure
11 Plants[2] **8** R&D centers	**Global infrastructure**	• Best-in-class production and supply network • Strong presence in North America and Asia • Global customer service and R&D network
1,100 Employees ~**240** in R&D and applied technology	**Best in class financial performance**	• High and resilient margin profile • Low capital intensity and high cash generation

2015 Sales by division



2015 Sales by region



Note: APD Performance Materials' fiscal year 2015 is September year-end
[1] Sales from products introduced within the last 5 years historically in 15-20% range
[2] Includes Pasadena (Texas, USA) site currently under construction

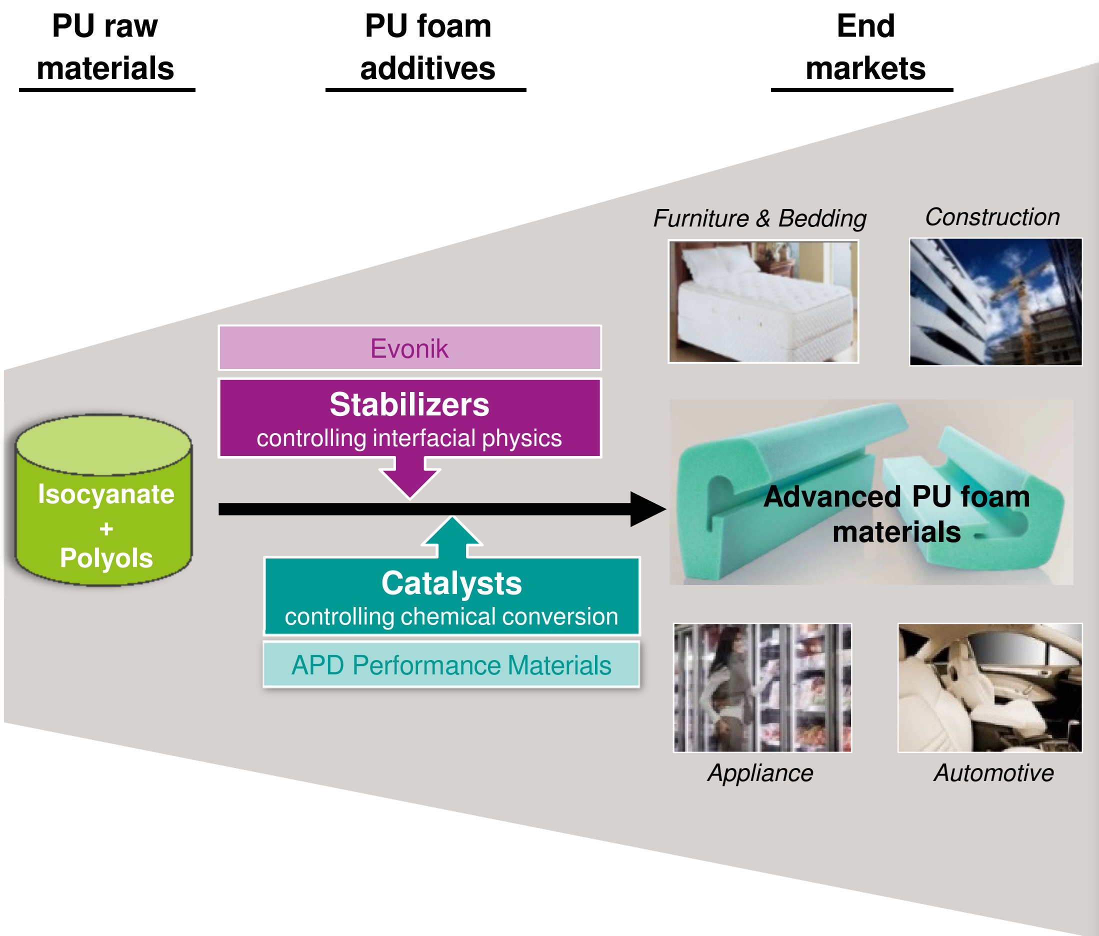
Combining complementary companies in the specialty additives market

Evonik	Target industries	APD Performance Materials
• PU foam stabilizers	 High value additives for PU foam	• PU foam catalysts
• Isophorone-based crosslinkers • Coating additives and adhesives resins	 Additives/Ingredients for Coatings & Adhesives	• Amine-based crosslinkers • Epoxy curing agents • Specialty wetting agents
• Specialty surfactants for care and industrial applications	 Specialty surfactants for Industrial & Institutional Cleaning	• Amine-based specialty surfactants
~€2.5 bn	**2015 Sales in Specialty and Coating Additives**	**~€1 bn[1]**

Creation of a global leader in Specialty and Coating Additives with ~€3.5 bn in sales

[1] APD Performance Materials' sales calendarised to December year-end and translated at EUR/USD FX rate of 1.11 as of average 2015

Global leading portfolio of PU foam additives

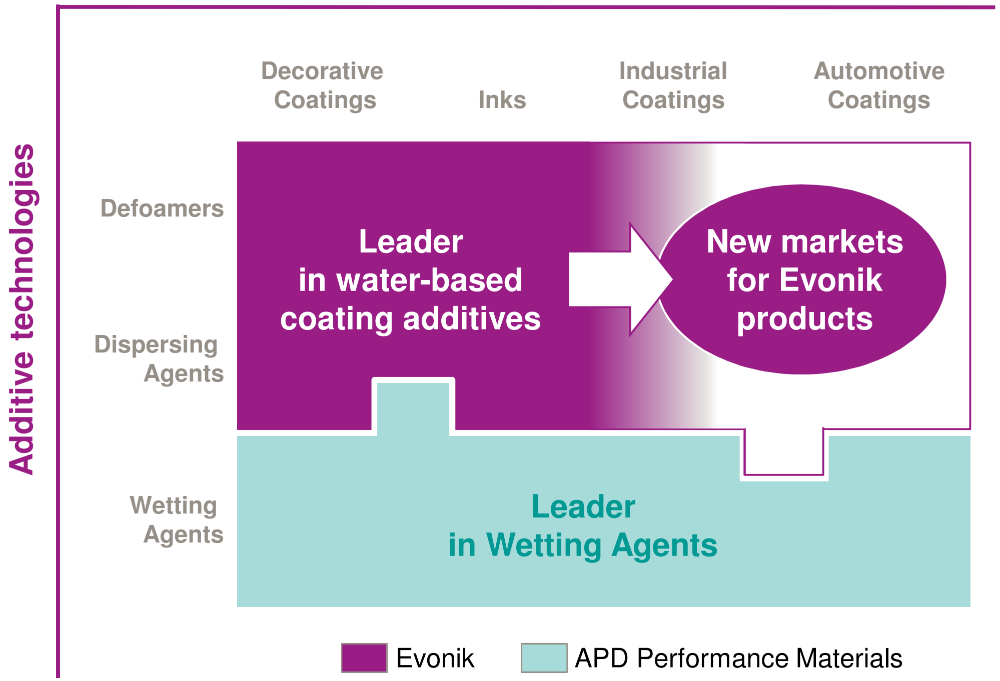


Benefits of combination to customers

- Full range of differentiating additives for polyurethane (PU) foams
- Preferred solution partner for customers
  - Closer proximity and strengthened presence in all regions
- Multiple key technology platforms from a single source
- Extensive applications know-how
  - Increased innovation capabilities for future generation of superior PU foams

APD Performance Materials offers unique products and access to new markets

Coatings end-markets

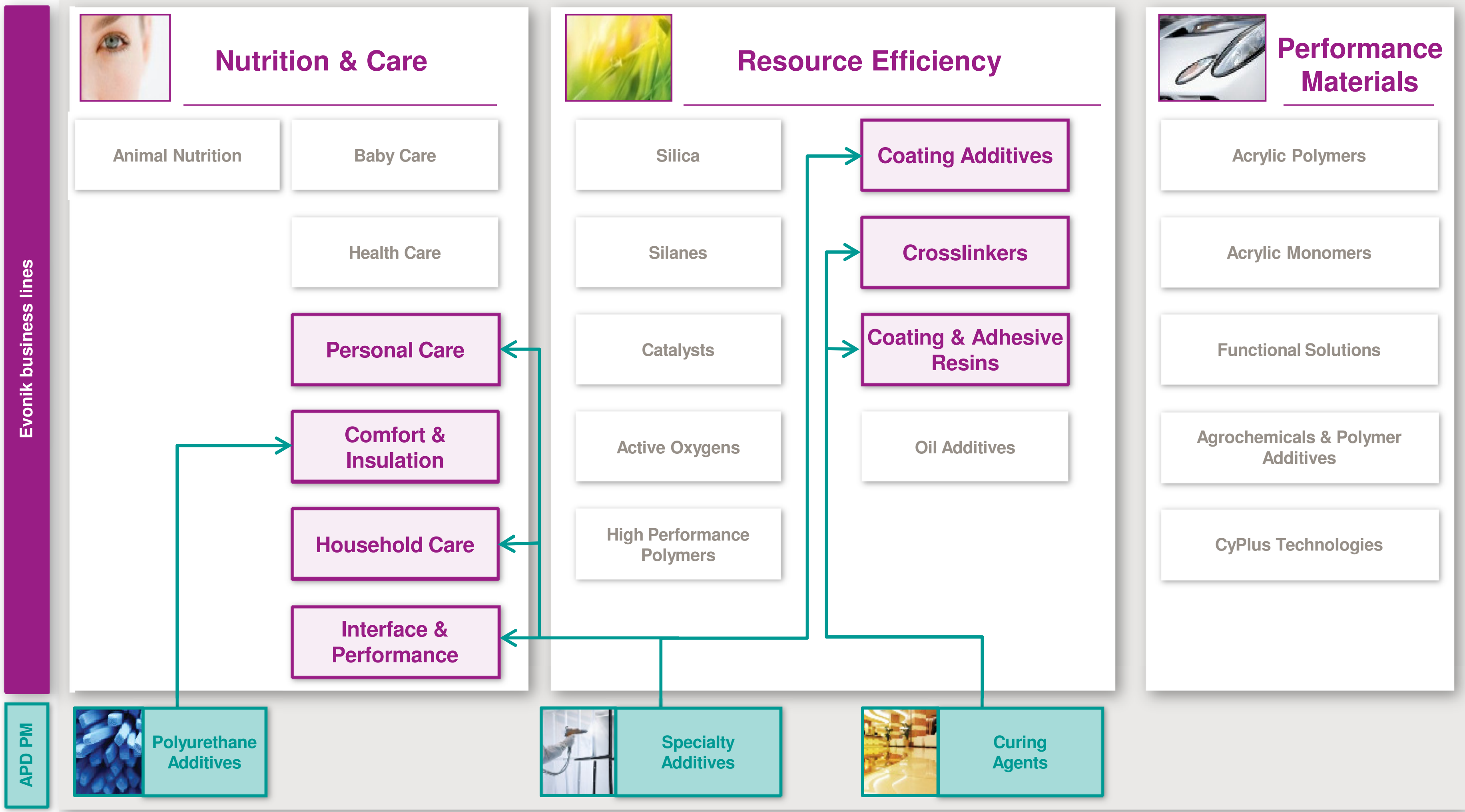


Key value drivers

- Global leader for formulations enabling environmentally-friendly / waterborne coatings
- Access to complementary APD Performance Materials' wetting agent technology with
  - Market-leading position
  - New end markets (automotive)
  - Additional customers to create cross-selling opportunities
- Expanded toolkit and solutions expertise
- Truly global set-up
  - Leveraging APD Performance Materials' position in North American coatings market

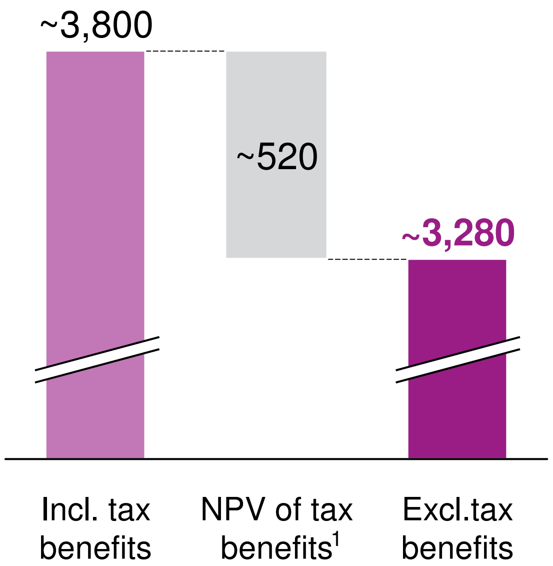
The unique APD Performance Materials product line complements Evonik's existing coating additives portfolio

Strong fit in Evonik's Growth Segments



Synergy potential and tax benefits leading to an attractive price

Enterprise Value (in $ m)



[1] By purchasing assets, tax benefits from higher D&A after asset step-up will reduce future cash tax burden

EV / EBITDA 2016E

9.9x

incl. synergies and tax benefits

EV / EBITDA 2016E

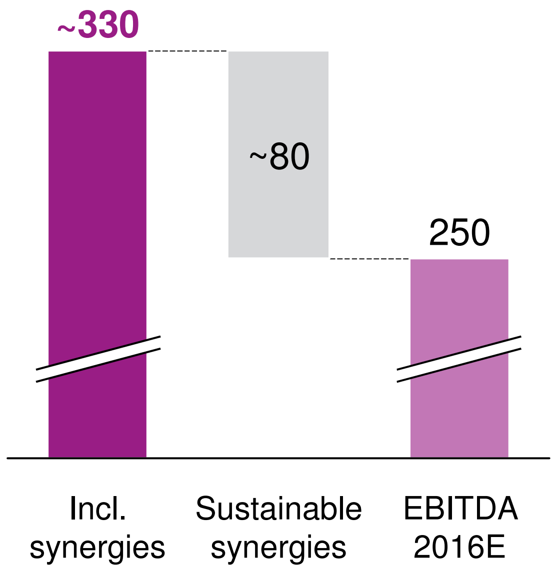
15.2x

excl. synergies and tax benefits

EPS accretive

from year one

Adjusted EBITDA[2] (in $ m)



[2] Adjusted EBITDA before restructuring charges and corporate allocations

Excellent strategic and operational fit leading to significant synergies

- ✓ Excellent strategic fit
- ✓ Complementary product portfolio
- ✓ Strong supply chains and manufacturing base

	Cost synergies			Revenue synergies	
Synergies	Overhead efficiencies	Production optimization	Procurement savings	Leveraging each other's customer base	Broader product and application portfolio
Expected sustainable level	~$60 m			~$20 m	

Total annual synergies of ~$80 m[1]

[1] Based on current assumptions and market conditions; ramp-up period of 3-4 years with cumulative implementation costs of ~$80 m

Key takeaways

- ✓ Creating a global leader in Specialty and Coating Additives
- ✓ Strengthening of growth businesses Nutrition & Care and Resource Efficiency
- ✓ Excellent fit with Evonik's existing businesses
- ✓ Substantial synergy potential and tax benefits
- ✓ Fully aligned with M&A strategy
- ✓ Enhanced rating profile after announcement

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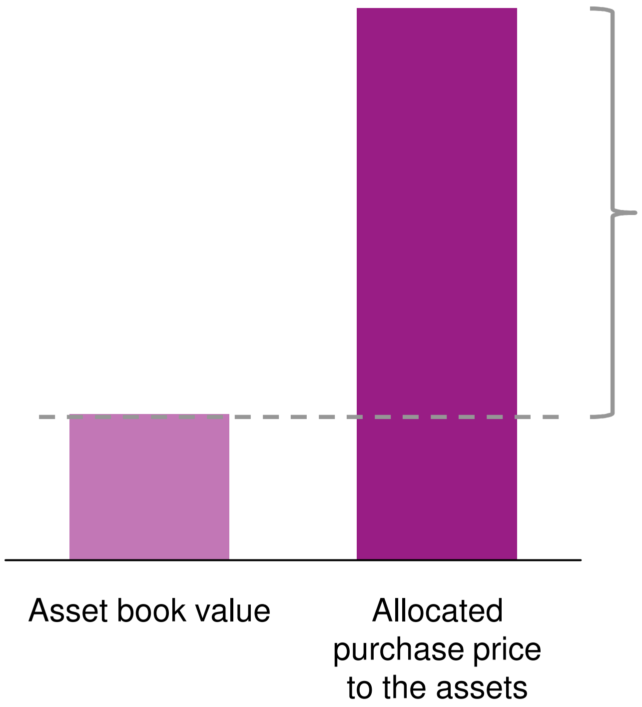
Financing secured

- Financing secured with half cash and half committed credit facility consisting of bridge and term loans provided by bank consortium
- Final financing structure to consist of mix of cash, term loans and bonds
- Moody‘s rating upgraded from Baa2 (positive outlook) to Baa1 (stable outlook)
  Standard and Poor’s rating confirmed at BBB+, outlook stable

Exemplary purchase price allocation in asset deals



Excess purchase price

Asset Value Step-Up

Depreciation & Amortization over remaining useful life of the respective asset

Goodwill

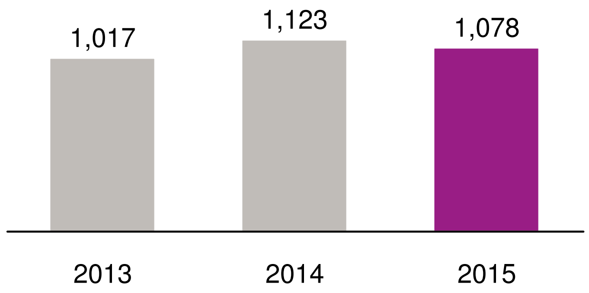
Amortized up to 15 years in tax accounts[1]

D&A reduces taxable income

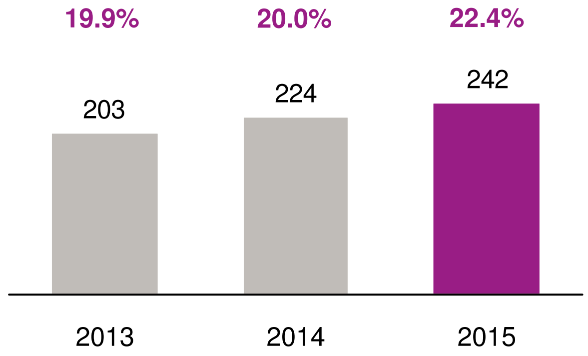
[1] In countries where applicable

Financial overview
APD Performance Materials

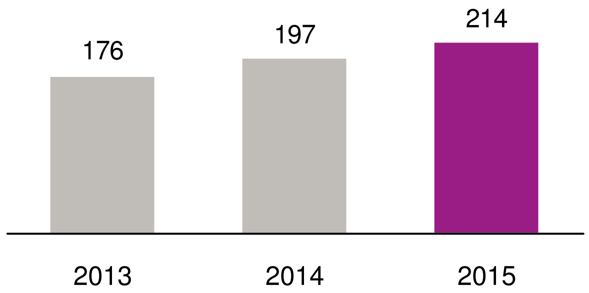
Sales (in $ m)



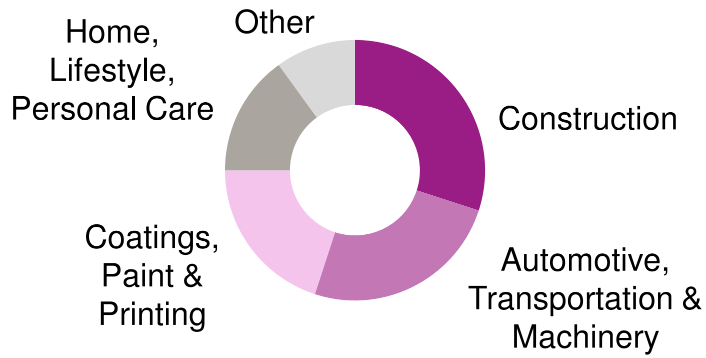
Adj. EBITDA[1] (in $ m) / margin[1]



Adj. Operating Income (in $ m)



End market split

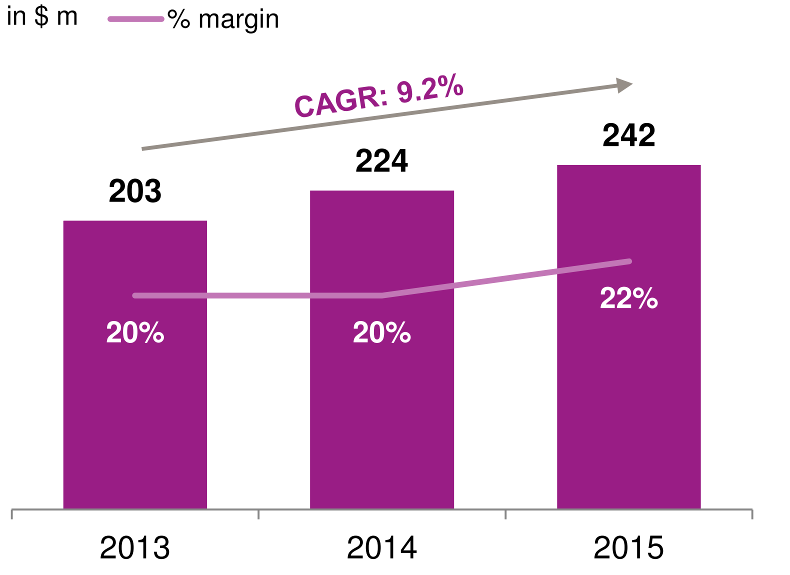


Note: APD Performance Materials' 2015 financials are September year-end

[1] Adjusted EBITDA before restructuring charges and corporate allocations, includes equity affiliates income

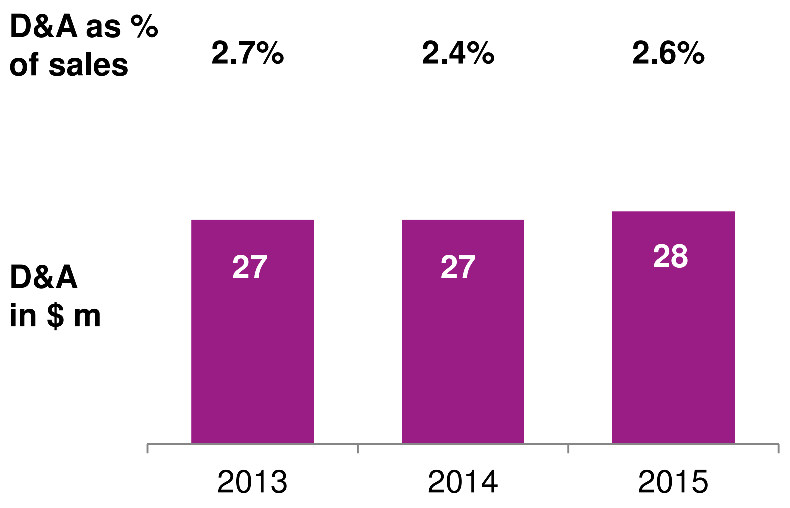
Resilient and attractive margin profile with strong cash generation

Adjusted EBITDA[1]



- Growing demand of specialty
- Earnings driven by innovation and unique technologies
- High and stable margins

Low capital intensity



- High quality asset base with low capital intensity
- Consistently high cash generation

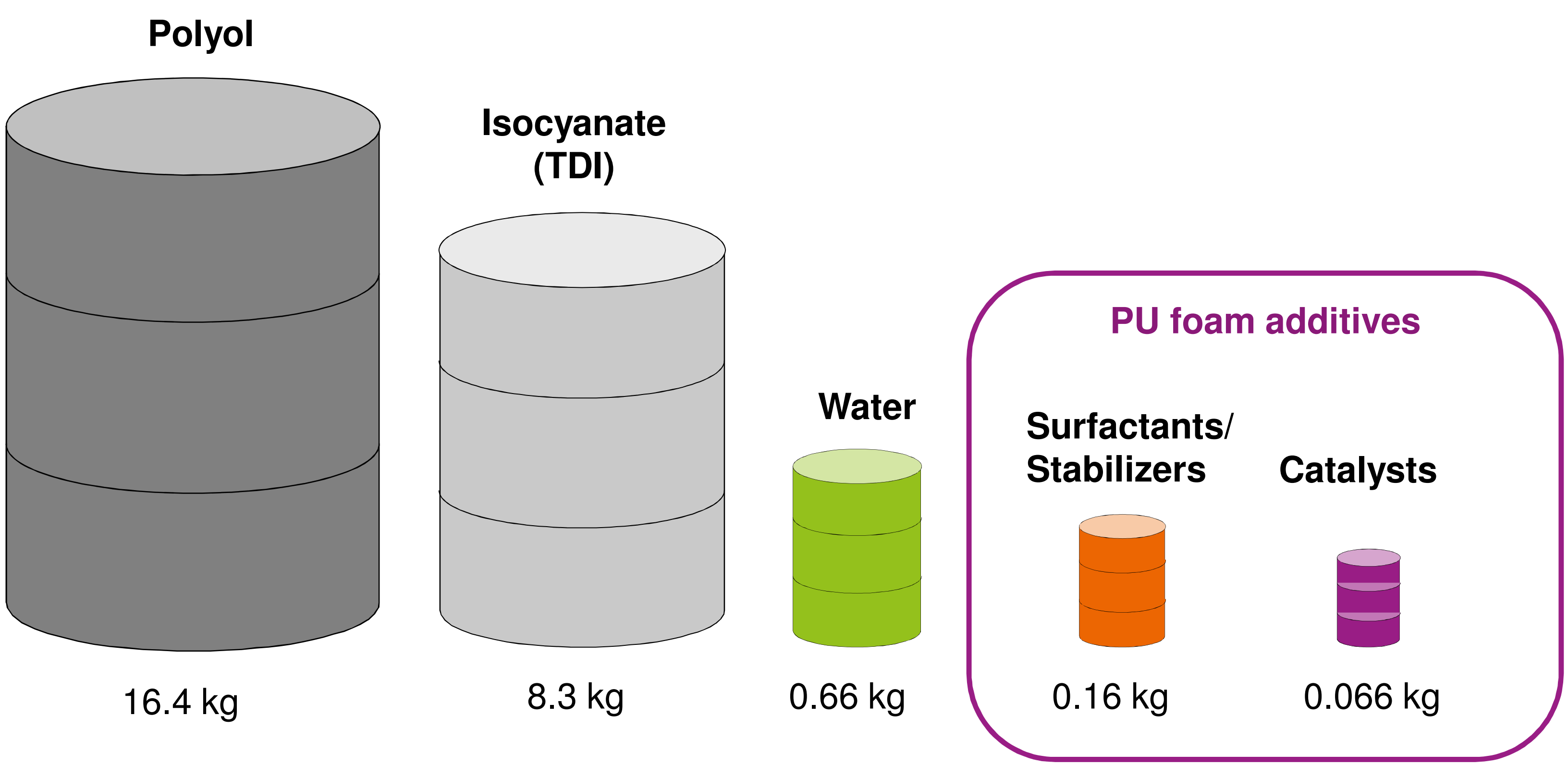
Note: APD Performance Materials' 2015 financials are September year-end

[1] Adjusted EBITDA before restructuring charges and corporate allocations, includes equity affiliates income

[2] Depreciation & amortization

Additives with small quantity, but decisive impact in PU foam formulation

Quantities being required to produce 1 m^3 of flexible foam with a density of 24 kg/m^3



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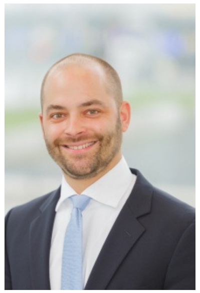

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