

Evonik. Power to create.

Q2 2014 Earnings Conference Call

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Ute Wolf, Chief Financial Officer

31 July, 2014



EVONIK
INDUSTRIES

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2	Financial performance Q2 2014
3	Outlook FY 2014

Financial highlights Q2 2014

Earnings pick-up sequentially;
full year guidance confirmed and specified



Sales of €3,247 m slightly exceed prior year level (+1%);
strong volume growth (+5%) continued, price deflation easing further (-2%)

Adj. EBITDA of €473 m sequentially improved (Q1: €463 m, prior year: €509 m);
Resource Efficiency maintaining high profitability level;
stable business environment in Consumer, Health & Nutrition







Investment program progressing well: Q2 capex increased by 12% yoy to €269 m;
new growth projects in Resource Efficiency announced

Outlook for 2014 confirmed and specified

Execution of investment program

Growth projects on track

Selected approved projects

Segment	Product area	Location		Capex	Start-up (expected)
CHN	Feed amino acids: DL-methionine	Singapore		>€500 m	Q4 2014
CHN	Personal & home care ingredients	China & Brazil		>€100 m	China: Q1 2014 ✓ Brazil: Q1 2015
RE	Precipitated silica	Global master plan		~€100 m	Brazil: Beginning of 2016
RE	Isophorone and isophorone diamine	China		>€100 m	Q2 2014 ✓
RE	Fumed silica and silanes	China		~€100 m	2016
SM	H ₂ O ₂ for HPPO	China		>€130 m	Q2 2014 ✓

Reorganization of Group structure (1/2)

Structural preconditions for more focused growth and capital allocation



Plans for reorganization

- Management holding to concentrate on strategic development of the Group
- Three separate specialty chemicals segments as fully functional legal entities

Strategic rationale

- Structural preconditions for more focused capital allocation and profitable growth in high-margin specialty chemicals
- Differentiated management tailored to specific needs of individual businesses
- Higher operational and strategic flexibility and independent market approach
- Better positioned to increase long-term value for shareholders

Reorganization of Group structure (2/2)

Differentiated management tailored to specific needs of individual businesses



EVONIK INDUSTRIES Management Holding

Consumer, Health & Nutrition

Resource Efficiency

Leading in customized, individual and innovation-driven solutions



- Markets with high margins, GDP+ growth rates and strong barriers to entry
- Business model based on customized, individual and innovation-driven solutions

- Above-average profitable growth
- High returns on invested capital
- Targeted investments and acquisitions

Specialty Materials

Leading in product-driven activities



- More product-driven, energy and raw material-intensive businesses
- Characterized by integrated technology platforms, efficient processes and high market penetration

- Further efficiency and effectiveness enhancements
- High cash returns
- Investments and, where appropriate, alliances to secure good market positions

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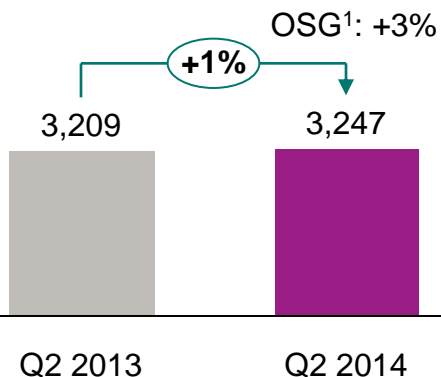
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Financial highlights Q2 2014

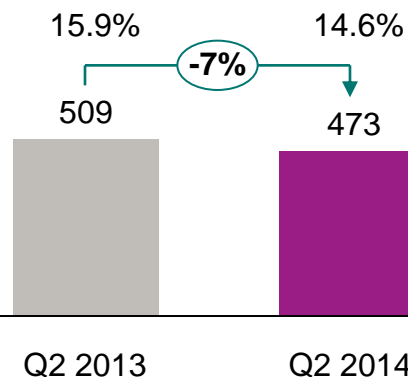
Another quarter of strong positive volume development; pricing trend improving



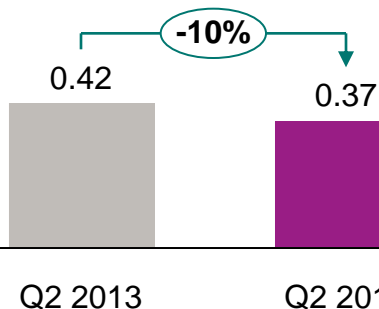
Sales (in € m)



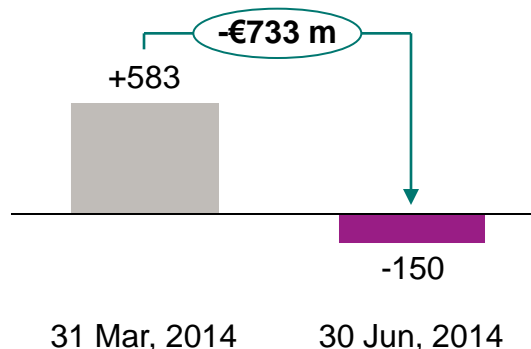
Adj. EBITDA (in € m) / margin



Adj. EPS (in €)



Net financial debt (in € m)



- Continued strong volume development (+5%) and further improving pricing trend (Q4: -6%; Q1: -4%; Q2: -2%)
- yoy sales growth (+1%) despite currency headwinds (-2%)
- Adj. EBITDA weaker than prior year, but sequentially improved at €473 m
- All segments with earnings increase qoq
- Adj. EPS affected by higher adj. tax rate (33%)
- Net financial debt of -€150 m following increased outflows for investments and dividend payment

Prior year figures restated for IFRS 11 changes

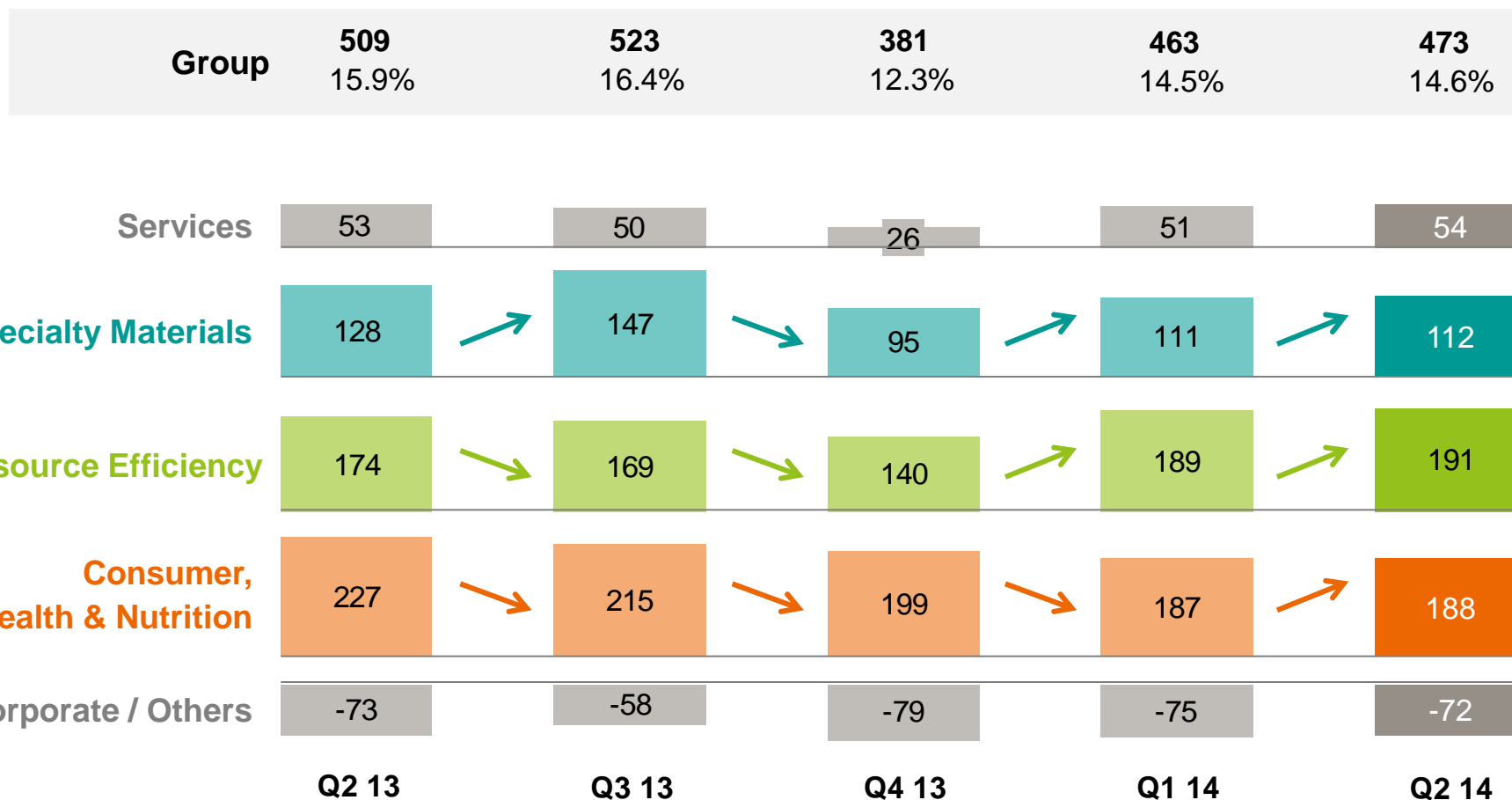
¹ OSG = Organic sales growth (volume + price development)

Segment overview

Sequential earnings improvement in all segments



Adj. EBITDA development (in € m) / margin (in %)



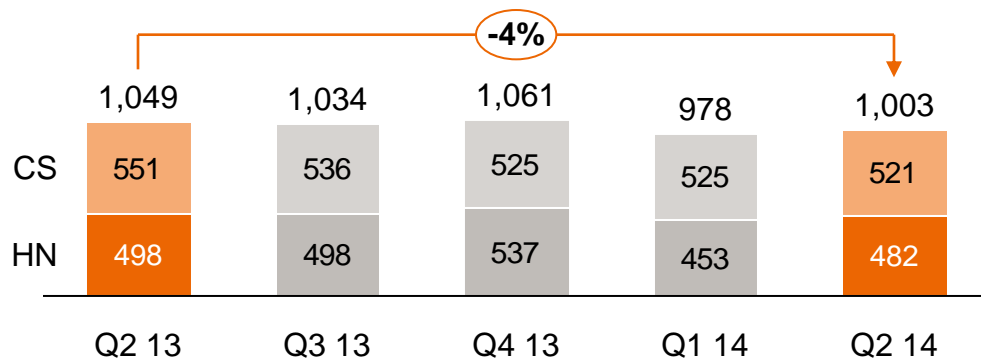
Prior year figures restated for IFRS 11 changes

Consumer, Health & Nutrition

Stable performance

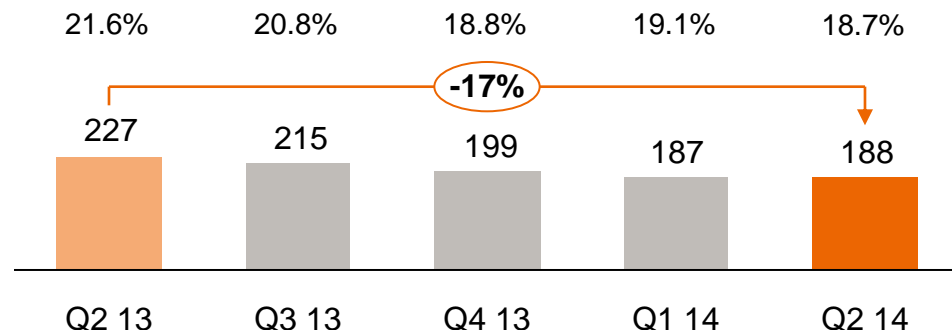


Sales (in € m)



Q2 14	Volume +2%	Price -4%	FX -3%	Other +/-0%
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Adj. EBITDA (in € m) / Adj. EBITDA margin (in %)



- Sales sequentially improved due to good volume development in amino acids; decline yoy driven by normalized situation in Baby Care and on average weaker amino acid prices
- Consumer Specialties' earnings lower yoy due to reduced volumes in Baby Care and ramp-up costs for new plants
- Health & Nutrition with sequential earnings improvement driven by positive volume trend; yoy comparison still affected by lower amino acid prices
- Methionine with continued good performance: stable average prices and improved volumes qoq; healthy supply and demand balance expected for H2
- Further price decline in lysine despite moderate signs of market improvement

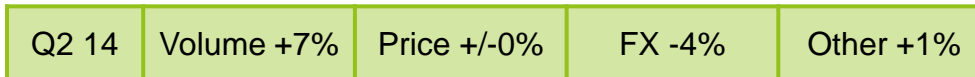
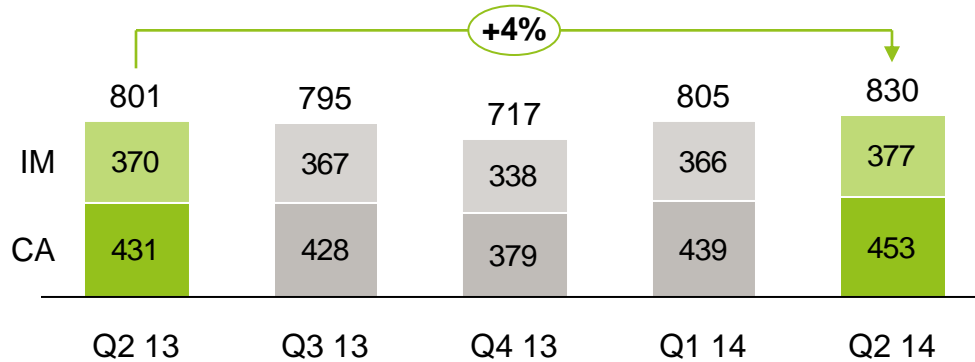
Prior year figures restated for IFRS 11 changes

Resource Efficiency

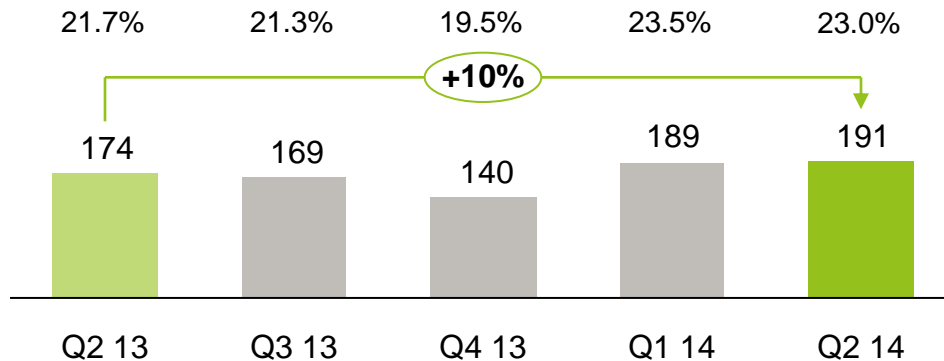
Continued high profitability



Sales (in € m)



Adj. EBITDA (in € m) / Adj. EBITDA margin (in %)

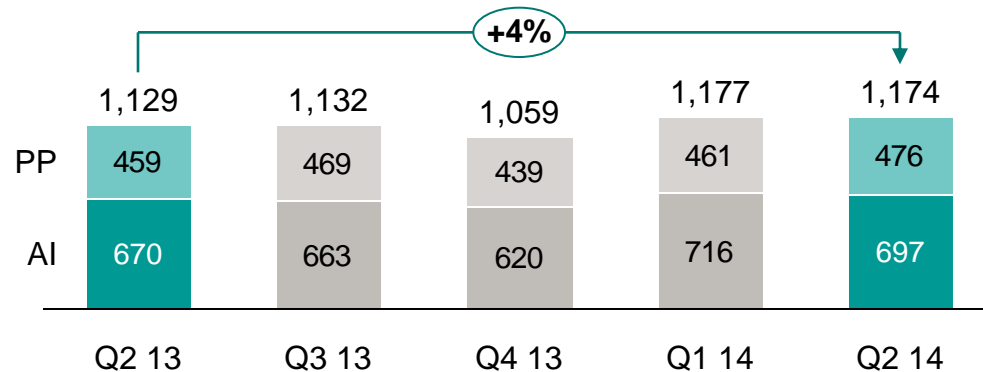


- Resource Efficiency again with increased sales and earnings yoy supported by both Business Units
- Margin maintained on high level of 23% due to ongoing strong volume trend and high plant utilization
- Silica with strong demand across most applications; continued currency headwinds from JPY
- Coatings & Additives' yoy improvement enabled by better demand from automotive and coatings markets and beneficial product mix
- First volumes produced in new world-scale plant for isophorone and isophorone diamine in Shanghai

Specialty Materials

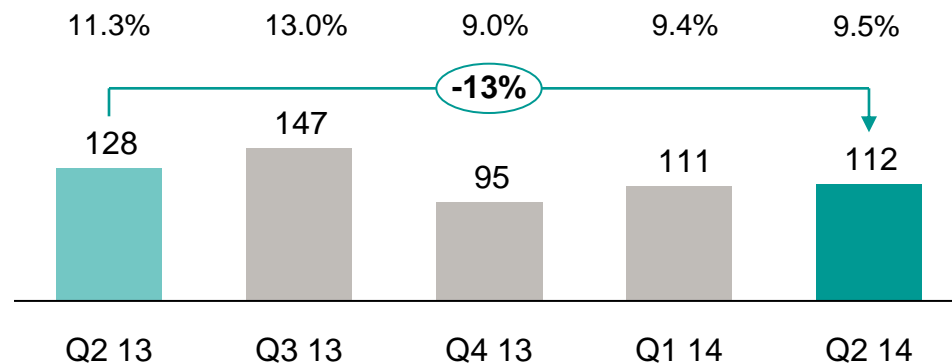
Recovery slower than expected

Sales (in € m)



Q2 14	Volume +7%	Price -3%	FX +/-0%	Other +/-0%
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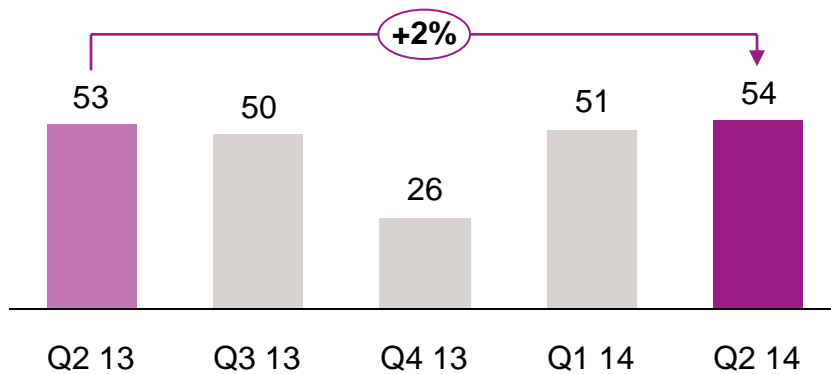
Adj. EBITDA (in € m) / Adj. EBITDA margin (in %)



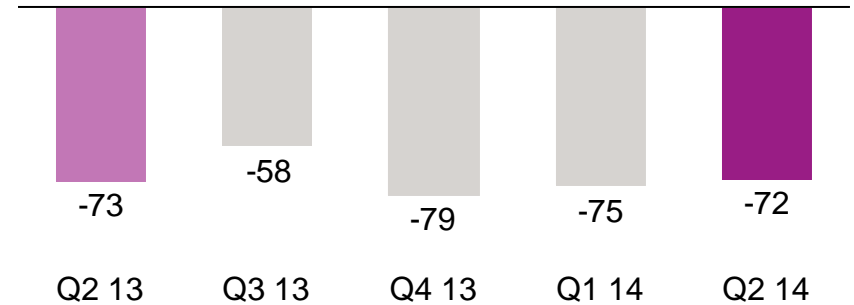
- Sales slightly above prior year supported by still increasing PA12 sales
- Solid volume development; prices again below last year, but comparables easing
- Demand situation robust for methacrylates with partly successful price increases
- Performance affected by planned maintenance shutdowns in all regions and still high raw material costs (acetone)
- Advanced Intermediates facing still unsatisfactory price levels for C4 products and higher raw material costs (naphtha); overall price recovery slower than expected
- First commercial volumes sold out of new HPPO plant in China

Services and Corporate / Others

Services: adj. EBITDA (in € m)



Corporate / Others: adj. EBITDA (in € m)



- Stable performance and ongoing efficiency measures

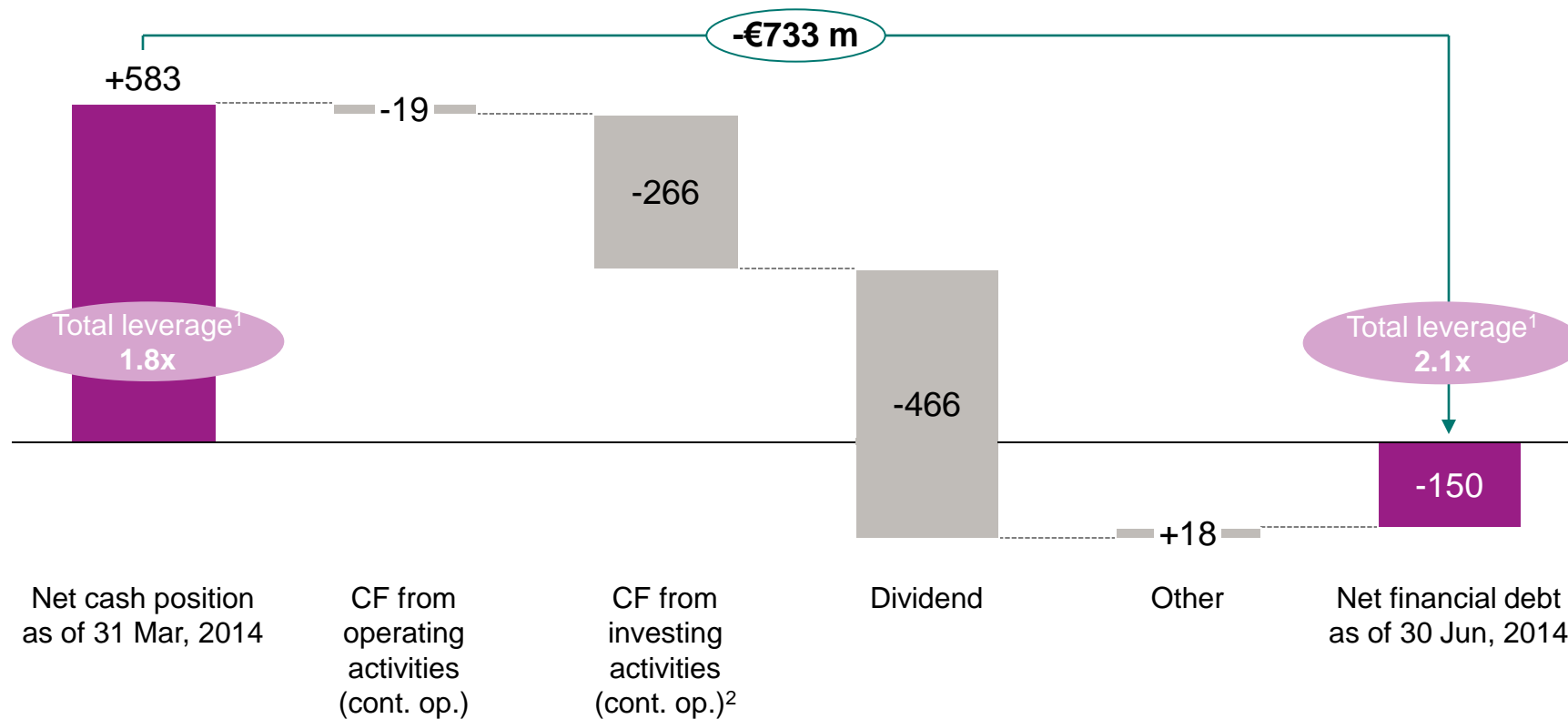
- Positively impacted by strict cost discipline in administrative functions

Net financial debt

Capex and dividend payment turning net cash into net financial debt again



Development of net financial debt (in € m)



Prior year figures restated for IFRS 11 changes

¹ Total leverage defined as (net financial debt + unfunded pension obligations) / adj. EBITDA LTM

² Cash outflow for investments in intangible assets, property, plant and equipment and shareholdings, not including cash in- and outflows related to divestments and securities

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Outlook for 2014 confirmed and specified

Outlook for Evonik in 2014

Economic environment

- Still slight upturn in global economic growth expected in 2014 as a whole, even though development in H1 was somewhat weaker than previously anticipated
- Increasing structural challenges in emerging markets and uncertainty arising from ongoing political disputes and military conflicts

Outlook

- **Sales: slightly higher** than in previous year (2013: €12.7 bn)
- **Adj. EBITDA: between €1.8 bn and €2.1 bn** (2013: €2.0 bn)
- **Positive volume trend** should continue driven by the completion of first **growth investments**
- Stabilization in **selling prices** from H1 expected to continue; slight positive price trend visible in some businesses; but price trends in Specialty Materials remained below original expectations so far
- If this should continue in H2, **adj. EBITDA will probably be in the lower rather than the upper part of the €1.8 bn to €2.1 bn range**
- First positive effects of **Administration Excellence** program
- Downside factors could result from **ramp-up expenses** for growth investments, **negative currency effects** and the **rising price of crude oil**



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Sale of former Energy business STEAG

Buyer intending to call remaining 49% stake



Basic information

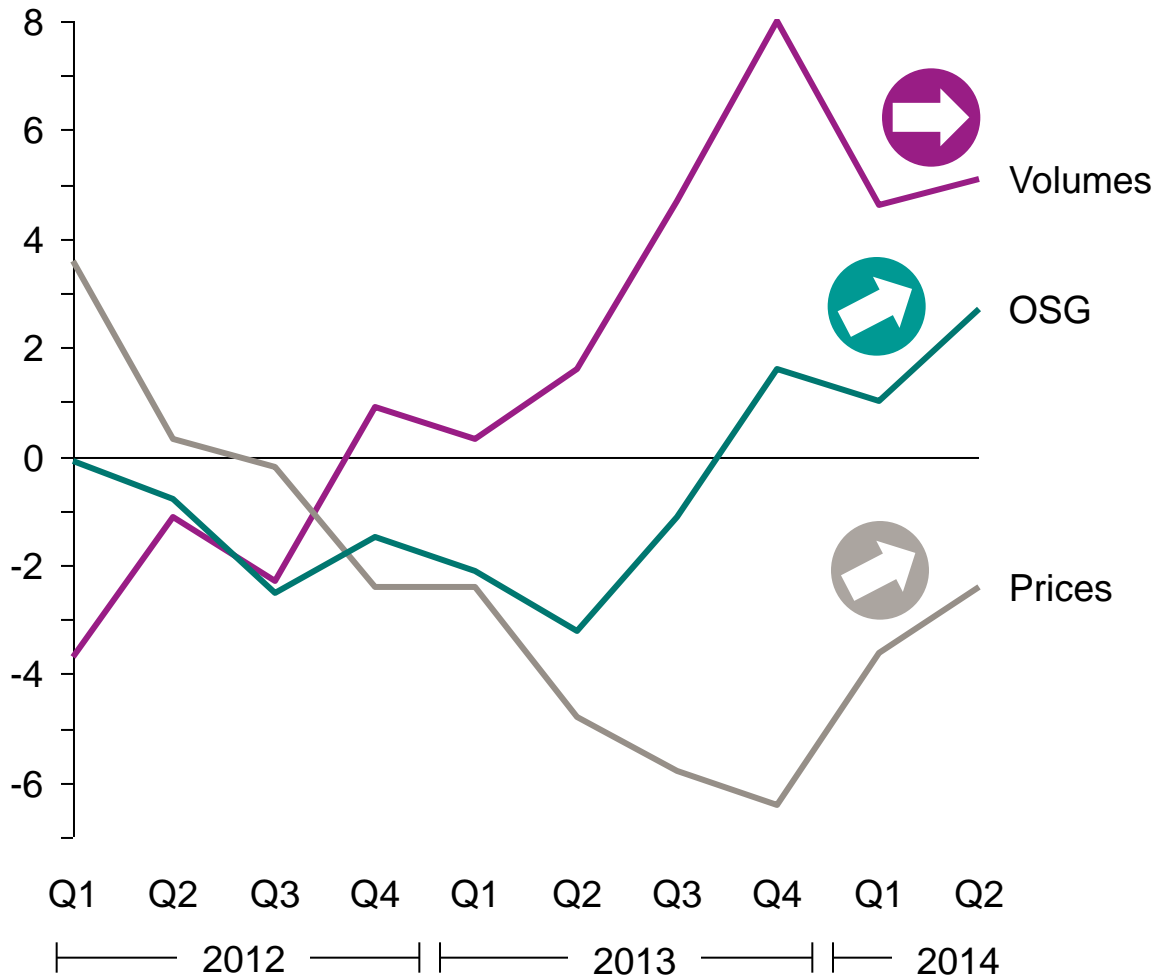
- Sale of 51% stake in Energy business STEAG to consortium of municipal utility suppliers in Q1 2011; put and call option arrangement in place for remaining 49% since then
- Remaining shareholding in STEAG accounted for at equity in P&L (fixed dividend of €24 m p.a.) and balance sheet

Exercising the call option

- In July 2014, notification received from buyer about intention to exercise call option within contractually agreed timeframe
- 49% stake in STEAG will be re-classified to discontinued operations from Q3 onwards; financial statements will be restated accordingly
- Guaranteed dividend of €24 m p.a. no longer included in FY adj. EBITDA (instead: “income after taxes, discontinued operations”)

Price and volume analysis

Strong volume development continued;
price pressure easing



- Positive volume growth for the last seven quarters
- Q2 2014 with strongest organic sales growth since more than two years
- Clear upward trend in pricing visible after trough in Q4 2013

Income statement Q2 2014

Sales to adj. EBITDA bridge



in € million	Q2 2013	Q2 2014	Δ in %
Sales	3,209	3,247	+1
Income before financial result and income taxes	289	260	
Results from investments recognized at equity	7	11	
Other financial income	5	0	
EBIT	301	271	-10
Adjustments	63	51	
Adj. EBIT	364	322	-12
Adj. depreciation and amortization	145	151	
Adj. EBITDA	509	473	-7
Adj. EBITDA margin	15.9%	14.6%	

- **Sales +1% yoy, thereof**
 - Volumes: +5%
 - Prices: -2%
 - FX: -2%
 - Other (incl. M&A): +/-0%
- **At equity result** includes €6 m quarterly, guaranteed dividend from 49% stake in STEAG

Continuing operations

Prior year figures restated for IFRS 11 changes

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Income statement Q2 2014

Adj. EBIT to adj. EPS bridge



in € million	Q2 2013	Q2 2014	Δ in %
Adj. EBIT	364	322	-12
Adj. net interest expense	-68	-59	
Adj. income before income taxes	296	263	
Adj. income tax	-98	-87	
Adj. income after taxes	198	176	
Adj. non-controlling interests	4	2	
Adj. net income	194	174	-10
Adj. earnings per share	0.42	0.37	-10

- **Adj. net interest expense**
 - yoy decrease in adj. net interest expense driven by
 - lower interest expense after repayment of Degussa bond end of 2013
 - higher interest income from contributions to CTA
 - qoq increase (Q1 2014: -€52 m) due to higher interest on long-term provisions (result of low-interest environment)
- **Adj. tax rate**
 - Adj. tax rate of 33%, higher than FY guidance (“around 28%”) due to structural temporary effects and re-evaluation of tax reserves

Cash flow statement Q2 2014

in € million	Q2 2013	Q2 2014
Income before financial result and income taxes	289	260
Depreciation and amortization	179	173
Δ Net working capital	-41	-51
Change in other provisions	-237	-222
Change in miscellaneous assets/liabilities	-43	-58
Outflows from income taxes	-119	-93
Others	-20	-28
Cash flow from operating activities	8	-19
Cash flow from investing activities, thereof:	-335	-302
Cash outflows for investment in intangible assets, pp&e and shareholdings	-237	-266
Cash inflows/outflows relating to securities, deposits and loans	-98	2
Cash flow from financing activities, thereof:	+496	-433
Dividend	0	-466
Addition of financial liabilities	+547	+27

- **CF from operating activities**
 - Changes in other provisions contain mainly outflows for variable remuneration
- **CF from financing activities**
 - Dividend payment for fiscal 2013 in Q2 2014; last year dividend paid out in Q1
 - Bond issuance in Q2 2013 leading to positive CFF

Continuing operations

Prior year figures restated for IFRS 11 changes

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Upcoming IR events

Roadshows

- 5 August, 2014: Roadshow Frankfurt / Main
- 7 August, 2014: Roadshow London
- 11-13 August, 2014: Roadshow New York (11/12) & Boston (13)
- 27 August, 2014: Roadshow Paris

Next reporting dates

- 30 October, 2014: Q3 reporting
- 3 March, 2015: Q4 / FY reporting

Conference participations

- 12 August, 2014: Jefferies Industrials Conference, New York
- 8 September, 2014: Commerzbank Sector Conference Week
- 25 September, 2014: Baader Investment Conference



**Please find an updated schedule
on our IR website
("Events & Presentations")**

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