Performance Materials

Overview of 2013

- → Slight decline in sales due to strong currency headwinds that outweighed organic growth
- → Strong market position of the Liquid Crystals business unit confirmed due to further development of existing products and high degree of innovation
- → Trend toward larger and higher-resolution television displays has a positive impact on the product mix of Liquid Crystals
- → EBITDA pre margin rises sharply by more than three percentage points due to structural improvements in the Pigments & Cosmetics business unit and a favorable product mix in Liquid Crystals

Performance Materials | Key figures

€ million	2013	2012	Change in %
Total revenues	1,644.4	1,675.6	–1.9
Sales	1,642.1	1,674.2	–1.9
Operating result (EBIT)	653.3	609.7	7.2
Margin (% of sales)	39.8	36.4	
EBITDA	765.8	734.6	4.3
Margin (% of sales)	46.6	43.9	
EBITDA pre one-time items	779.7	741.9	5.1
Margin (% of sales)	47.5	44.3	
Business free cash flow	787.8	798.1	–1.3

Development of total revenues and sales as well as results of operations

For the Performance Materials division, 2013 was another very successful year. In comparison with 2012, a record year, sales increased organically by a further 3.0%. Taking into account currency headwinds of –4.9%, divisional sales decreased by –1.9% to € 1,642 million (2012: € 1,674 million), thus remaining at a high level. The adverse foreign exchange impact stemmed mainly from the Japanese yen, the Taiwanese dollar and the U.S. dollar.

The Liquid Crystals business unit, which accounts for more than 70% of divisional sales, increased its high market share, thus defending its market leadership in liquid crystal materials by continuously improving its flagship technologies. The Liquid Crystals business unit benefited from the shift in demand toward technically more complex liquid crystals. These include materials based on polymer-stabilized vertical alignment (PS-VA) technology, which are primarily used in large-sized, high-quality television displays.

In 2013, the Pigments & Cosmetics business unit achieved good organic sales growth thanks to higher demand for decorative pigments, above all the Xirallic® product family, which is used in particular in automotive coatings. The business unit recorded a slight increase in organic sales of functional materials.

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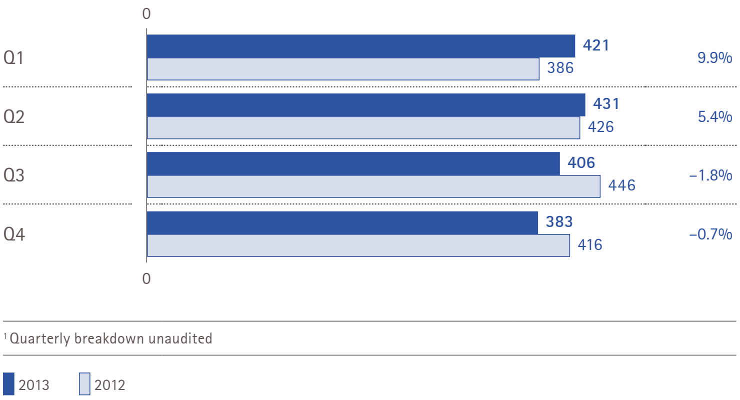
The development of sales in the individual quarters in comparison with 2012 as well as the respective organic growth rates are presented in the following table:

Performance Materials | Sales and organic growth by quarter[1]

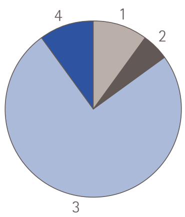
€ million/organic growth in %



[1] Quarterly breakdown unaudited

Performance Materials | Sales by region – 2013

€ million/% of divisional sales



1	Europe	164.3	10%
2	North America	85.6	5%
3	Emerging Markets	1,236.6	75%
4	Rest of World	155.6	10%

In geographic terms, the Emerging Markets region accounted for 75% (2012: 73%) of sales by the Performance Materials division. This two percentage-point increase was attributable to good organic sales growth of 4.9%. The high share of sales generated by this region is due to the concentration of liquid crystal customers in Asia. Including a negative foreign exchange impact of –3.4%, sales increased by 1.5% to € 1,237 million (2012: € 1,218 million).

With sales of € 164 million (2012: € 160 million, Europe generated 10% (2012: 10%) of divisional sales. Organic growth of 2.9% was achieved with both decorative pigments and functional materials.

The Rest of World region, which is dominated by Japan, recorded an organic sales decrease of –6.2%. Along with strong currency headwinds of –18.3%, this resulted in sales of € 156 million (2012: € 206 million). The Rest of World region's share of sales declined from 12% in 2012 to 10% in 2013.

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The North America region, where almost all sales are attributable to the Pigments & Cosmetics business unit, contributed 5% to divisional sales (2012: 5%). Including the negative foreign exchange impact, the slight decline in organic sales of –1.6% led to a total decline in sales of –4.4% to € 86 million (2012: € 90 million). The Xirallic® pigments business achieved high organic sales increases that could not compensate, however, for the weak demand for cosmetic active ingredients.

Performance Materials | Sales components by region – 2013

€ million/change in %	Sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Total change
Europe	164.3	2.9	–0.4	–	2.5
North America	85.6	–1.6	–2.7	–	–4.4
Emerging Markets	1,236.6	4.9	–3.4	–	1.5
Rest of World	155.6	–6.2	–18.3	–	–24.5
Performance Materials	**1,642.1**	**3.0**	**–4.9**	**–**	**–1.9**

In 2013, the division's cost of sales decreased by –14% to € 616 million (2012: € 716 million). This decline was primarily attributable to a more favorable product mix in liquid crystal materials as well as to efficiency improvements in the Pigments & Cosmetics business unit achieved within the scope of the "Fit for 2018" transformation and growth program. In comparison with 2012, gross profit thus grew by 7.2% to € 1,028 million (2012: € 959 million). This led to a significantly higher gross margin as a percentage of sales, which rose by more than five percentage points to 62.6% (2012: 57.3%).

Marketing and selling expenses declined slightly by –1.6% to € 141 million (2012: € 143 million), and administration expenses dropped by –10.7% to € 28 million (2012: € 31 million). R&D expenses rose by 4.1% to € 143 million (2012: € 137 million). The Liquid Crystals business unit, which maintained its market position thanks to innovations and the further development of existing technologies, accounted for the vast majority of research and development spending. As a percentage of sales, R&D expenses therefore increased to 8.7% (2012: 8.2%). In 2013, the net rise in other operating expenses to € 48 million (2012: € 32 million) was mainly due to the disposal of intangible assets as well as to an increase in one-time items.

The aforementioned development of income and expenses led to a 7.2% increase in the reported operating result (EBIT) to € 653 million (2012: € 610 million). Without the depreciation and amortization included in EBIT, EBITDA rose by 4.3% to € 766 million (2012: € 735 million). Adjusted for one-time effects, EBITDA pre one-time items rose by 5.1% to € 780 million (2012: € 742 million). Despite negative foreign exchange effects,

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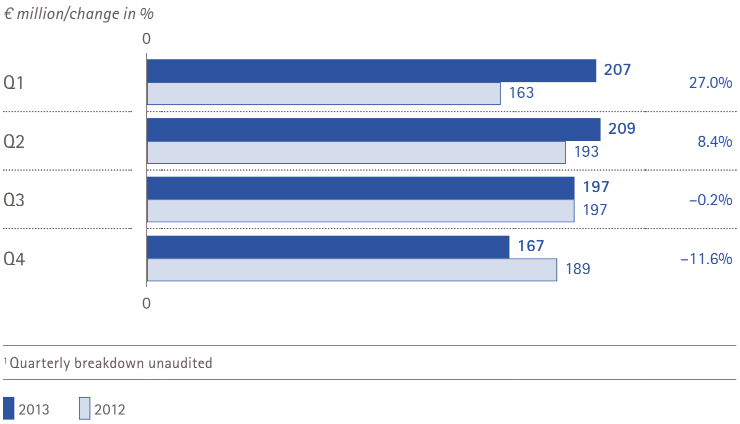
the division's profitability, i.e. the EBITDA pre margin, rose to 47.5% of sales (2012: 44.3% of sales). This profitability increase of more than three percentage points was primarily attributable to changes in the product mix of the Liquid Crystals business unit; it was also the result of cost structure improvements in the Pigments & Cosmetics business unit achieved through efficiency measures under the "Fit for 2018" transformation and growth program.

Performance Materials | Reconciliation EBIT to EBITDA pre one-time items

€ million	2013	2012	Change in %
Operating result (EBIT)	**653.3**	**609.7**	**7.2**
Depreciation/Amortization/Reversals of impairments	112.5	124.9	–9.9
EBITDA	**765.8**	**734.6**	**4.3**
One-time items	13.9	7.3	90.4
EBITDA pre one-time items	**779.7**	**741.9**	**5.1**

The development of EBITDA pre one-time items in the individual quarters in comparison with 2012 is presented in the following table :

Performance Materials | EBITDA pre one-time items and change by quarter[1]



[1] Quarterly breakdown unaudited

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Development of business free cash flow

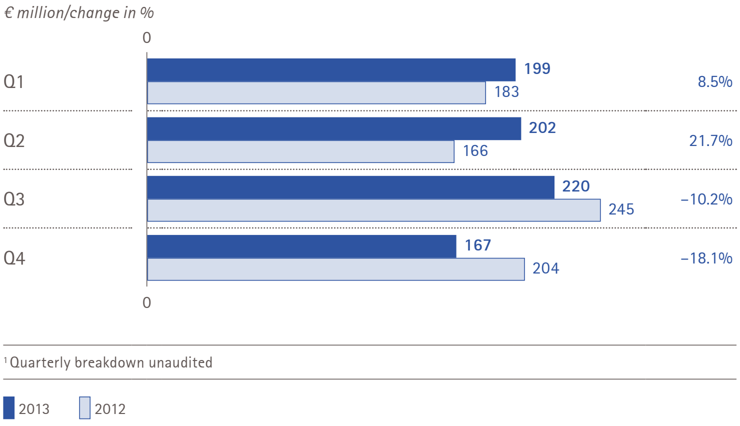
In 2013, the Performance Materials division generated business free cash flow of € 788 million (2012: € 798 million). Despite a € 38 million increase in EBITDA pre one-time items and the decrease in trade accounts receivable, business free cash flow declined slightly by –1.3% due to higher capital spending and a smaller reduction in working capital. Although the two relevant balance sheet items were further reduced by € –80 million in 2013, this total nevertheless fell short of the exceptionally high reduction of € –114 million achieved in 2012.

Performance Materials | Business free cash flow

€ million	2013	2012	Change in %
EBITDA pre one-time items	779.7	741.9	5.1
Investments in property, plant and equipment, software as well as advance payments for intangible assets	–71.7	–57.9	23.8
Changes in inventories	37.2	117.9	–68.4
Changes in trade accounts receivable	42.6	–3.8	–
Business free cash flow	**787.8**	**798.1**	**–1.3**

The development of business free cash flow in the individual quarters in comparison with 2012 is presented in the following table:

Performance Materials | Business free cash flow and change by quarter[1]



[1] Quarterly breakdown unaudited