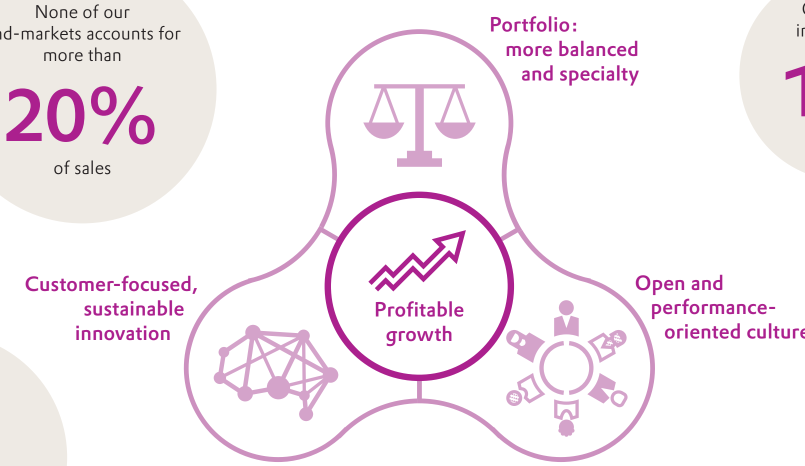
1. Basic information on the Evonik Group

A specialty chemicals company focused on strong market positions, a clear innovation culture, and sustainable business activities

- Corporate structure: three chemical segments that are close to their markets and customers
- Concentration on a balanced portfolio with four growth engines: Specialty Additives, Animal Nutrition, Smart Materials, and Health & Care
- Deep knowledge of our customers' business, coupled with active innovation management, drives profitable and sustainable growth
- Balanced management of economic, ecological, and social factors

None of our end-markets accounts for more than **20%** of sales

Operations in more than **100** countries



230 new patent applications submitted

36,523 employees worldwide

TARGETS

Volume growth > GDP

18–20% adjusted EBITDA margin

1.1 Business model

Evonik is one of the world's leading specialty chemicals companies. Our strengths include the balanced spectrum of our business activities, end-markets, and regions. Around 80 percent of sales come from **market-leading positions**[1], which we are systematically expanding. Our strong competitive position is based on close collaboration with customers, high innovative capability, and integrated technology platforms.

Our specialty chemicals products make an indispensable contribution to the benefits of our customers' products, which generate their success in global competition. Close cooperation with our customers enables us to build up a **deep knowledge** of their business, so we can offer products tailored to their specifications and extensive technical service. Our technology centers and customer competence centers play an important role in this around the world.

Market-oriented research and development is a key driver of profitable growth. This is based on our strong **innovation culture,** which is rooted in our innovation management and management development. Good ideas are rapidly recognized, driven forward, and implemented with our customers.

Highly trained **employees** are a key success factor. They drive forward the company on a daily basis through their hard work and identification. We have therefore developed a wide range of activities to gain and develop talented and qualified employees and to position Evonik as a preferred employer in order to retain them.

As preconditions for Evonik's future viability, **sustainable business activities** and **responsible conduct** are cornerstones of our business model. We drive forward our sustainability activities along the value chain in close dialogue with our stakeholders. As well as our own production processes and the products we market, we always consider the supply chain and the product benefits for our customers and their customers. We drive forward transparency and sustainability along the entire supply chain. We have observed rising demand from our customers for products that demonstrate a good balance of economic, ecological, and social factors. That opens up a broad spectrum of future-oriented business opportunities for Evonik in attractive markets. Sustainability has long been a growth driver in many of our business.

A decentralized corporate structure

Our specialty chemicals operations are divided into three chemical manufacturing segments, which operate close to their markets and customers and have a high degree of entrepreneurial independence.

The Nutrition & Care and Resource Efficiency segments operate principally in attractive markets with above-average growth rates. Both segments offer customers customized, innovation-driven solutions and the aim is for them to achieve above-average, profitable growth through innovations, investments, and acquisitions.

The Performance Materials segment is characterized by processes that make intensive use of energy and raw materials. It therefore concentrates on integrated, cost-optimized technology platforms, efficient workflows, and economies of scale. Our strategic goal for this segment is to contribute earnings to finance the growth of the Evonik Group. In the future, investments and, where appropriate, alliances will concentrate on securing and extending our good market positions.

Corporate structure C05

	Evonik			
Segments	Nutrition & Care	Resource Efficiency	Performance Materials	Services
	Specialty chemicals for consumer goods for daily needs, animal nutrition, and healthcare products	High-performance materials and specialty additives for environment-friendly and energy-efficient system solutions for the automotive, paints, coatings, adhesives, and construction industries and many other sectors	Production of polymer materials and intermediates, mainly for the rubber, plastics, and agriculture industries	Services for internal and external customers at Evonik sites and standardized Group-wide administrative services

[1] We define these as ranking 1st, 2nd or 3rd in the relevant markets.

Broadly diversified end-markets

Most of our customers are industrial companies that use our products for further processing. The range of markets in which they operate is diverse and balanced. None of these end-markets accounts for more than 20 percent of our sales.

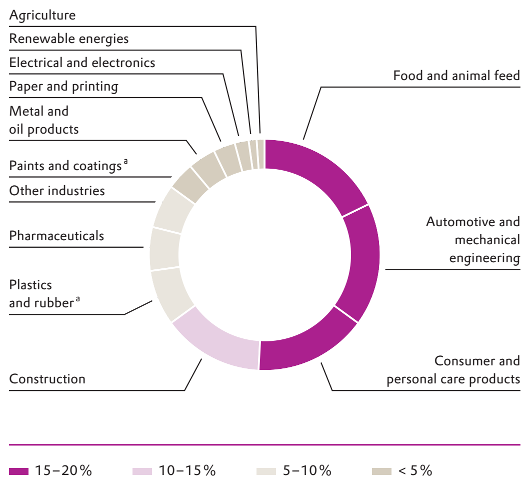
Global production

Evonik has a presence in more than 100 countries and 82 percent of sales are generated outside Germany. We have production facilities in 28 countries on five continents and are therefore close to our markets and our customers. Our largest production sites—Marl, Wesseling and Rheinfelden (Germany), Antwerp (Belgium), Mobile (Alabama, USA), Shanghai (China), and Singapore—have integrated technology platforms used by various units.

Integrated technology platforms are a competitive advantage

Our products are manufactured using highly developed technologies that we are constantly refining. In many cases, Evonik has integrated production complexes where it produces key precursors for its operations in neighboring production facilities. In this way we offer our customers maximum reliability of supply. At the same time, integrated world-scale production facilities combined with technologically demanding production processes act as high entry barriers.

Evonik's end-markets C06



[a] Where not directly assigned to other end-customer industries.

1.2 Principles and objectives

Building a best-in-class specialty chemicals company

We want to make Evonik the best-in-class specialty chemicals company. This global aspiration is closely linked to our goal of profitable growth. To increase the value of our company, our strategy has three focal areas:

- A more balanced and more specialty portfolio
- Customer-focused and sustainable innovation
- An open and performance-oriented culture.

Our goal is to step up our focus on businesses with clear specialty chemicals characteristics. To ensure an even better balance within our **portfolio** and to grow where Evonik is already strong but there are especially promising prospects, our strategy concentrates on four **growth engines:**

- Specialty Additives
- Animal Nutrition
- Smart Materials
- Health & Care.

Capital allocation for new developments and enhancements, investment, and acquisitions will be concentrated principally on these growth engines.They each focus on different markets but they have one thing in common: They are aligned consistently to delivering innovative solutions for issues and developments of relevance to industry and end-customers in the coming decades.

Innovation is an important driver of profitable growth at Evonik. It leverages the development of new products and applications. Within the four growth engines, Evonik has defined six innovation fields[1]: highly attractive new markets where we can effectively deploy our core competencies.

This is supported by a **corporate culture** where every employee takes responsibility for the company's success. Our corporate culture is based on trust, respect, and openness. We regard ourselves as an international company and see diversity as an opportunity. We initiate change, keep our promises, reward performance and readiness to take risks, and develop our own executives. Together with an even stronger focus on success and heightened cost-awareness, our corporate culture is a key element in our strategy.

[1] See section on research & development.

Our **sustainability strategy** takes up the growth engines identified in our corporate strategy and defines areas of action geared to balanced management of economic, ecological, and social factors. We are keenly committed to expanding the contribution made by our innovative solutions to sustainable development.

Ambitious targets

We aim to increase the value of our company. In parallel with the refocusing of our strategy, in 2017 we defined new **financial targets** to support our goal of profitable growth.

- We want to achieve **volume growth** that exceeds global economic growth across the economic cycle.
- The **adjusted EBITDA margin** should be raised sustainably to a level of 18–20 percent. Historically it has been 16–18 percent.

Moreover, our previous financial targets remain valid:

- An appropriate return on capital (ROCE) above the cost of capital
- A sustained positive cash flow
- A solid investment grade rating
- An attractive dividend trend.

As a responsible specialty chemicals company, we are also continuing to pursue our ambitious **non-financial targets.**[1]

Non-financial targets for the Evonik Group **T04**

Accident frequency[a] in 2018	Below upper limit of 1.30
Incident frequency[b] in 2018	Below upper limit of 1.10
Specific greenhouse gas emissions in 2020	Reduction of 12%[c]
Specific water intake in 2020	Reduction of 10%[c]

[a] Number of accidents involving Evonik employees and contractors' employees under Evonik's direct supervision per 1 million working hours.
[b] Number of incidents per 1 million working hours.
[c] Reference base 2012.

1.3 Business management systems

Most important financial key performance indicators

Financial management of Evonik is based on a consistent system of value-oriented indicators. These are used to assess the business performance of the operational units and the Group. Through systematic alignment to these indicators, Evonik endeavors to create value by raising profitability and ensuring profitable growth.

We use **adjusted EBITDA** (i.e., EBITDA after factoring out special items) as a financial performance indicator. To track the attainment of targets, the adjusted EBITDA of the operating units is used. The adjusted EBITDA and the corresponding relative indicator, the adjusted EBITDA margin, show operating performance irrespective of the structure of assets and investment profile. We use this in particular for internal and external comparisons of the cost structure and profitability of our businesses.

The return on capital employed **(ROCE)** is used as a further indicator of value-driven management of the company. It is calculated from adjusted EBIT in relation to average capital employed. Comparison with the cost of capital, which shows the risk-adjusted return expectations of our investors, indicates relative value creation. This is calculated using a weighted average cost of capital, which reflects the return expectations of both shareholders, derived from the capital asset pricing model, and providers of debt capital.

The special items that are factored out when calculating adjusted EBITDA and adjusted EBIT include restructuring, impairment losses/reversals of impairment losses, income and expenses in connection with the purchase/disposal of investments in companies, and other income and expense items that, due to their nature or amount, do not reflect the typical operating business. We consider that the adjusted earnings figures are more suitable than unadjusted data for comparing the performance of operating units over several periods.

We also use **free cash flow** as an operational performance indicator. This is calculated from the cash flow from operating activities, continuing operations, less outflows for capital expenditures on intangible assets, property, plant and equipment. The free cash flow is the amount that can be used for dividends, acquisitions, and to repay borrowing. It therefore shows the company's internal financing capacity.

[1] See section on safety and environment.

Most important non-financial key performance indicators

Evonik also uses a wide variety of non-financial performance indicators. For example, our annual sustainability report[1] provides information on ecological and societal issues to supplement our economic reporting.

Traditionally, we accord special significance to **safety,** which is regarded as a holistic management task that has to be lived at all management levels. Our guiding principles on safety are binding for staff at all levels and were reinforced in 2015 by a global safety culture initiative. In accordance with corporate policy, all units at Evonik have an occupational safety target. In addition, all production units have a plant safety target. The relevant indicators are accident frequency and incident frequency.[2]

[1] This report is based on G4, the currently valid guidelines issued by the Global Reporting Initiative (GRI).

[2] See section on safety and environment.

2. Business review

Acquisitions strengthen growth engines

Air Products specialty additives business

- Acquired on January 3, 2017
- Purchase price €3.5 billion
- Integrated into the Nutrition & Care and Resource Efficiency growth segments

Huber silica business

- Acquired on September 1, 2017
- Purchase price €550 million
- Strengthens the Resource Efficiency segment

Forecast for 2017 achieved

✓ Sales **€14.4 billion**
✓ Adjusted EBITDA **€2.4 billion**
✓ ROCE **11%**
✓ Capital expenditures **€1.1 billion**
✓ Free cash flow **€511 million**

Volume growth
3%

Adjusted EBITDA margin
16.4%

Solid investment grade rating

Adjusted net income grew 9 % to
€1.0 billion

Adjusted earnings per share
€2.17

Dividend
€1.15
per share

2.1 Overall assessment of the economic situation

As part of the ongoing development of our **corporate strategy,** we have defined four strategic growth engines within our Nutrition & Care and Resource Efficiency growth segments: Specialty Additives, Animal Nutrition, Smart Materials, and Health & Care. To improve the growth momentum of the Evonik Group, we intend to focus our acquisitions and research and development expenses on these growth engines, which have particularly promising prospects in our view.

The acquisition of the specialty additives business of Air Products and Chemicals Inc., Allentown (Pennsylvania, USA) strengthens our leading position on the attractive growth market for specialty additives. The acquisition of the silica business of J. M. Huber Corporation, Atlanta (Georgia, USA) strengths our activities in the Smart Materials growth engine. Both of the businesses acquired have business models that are similar to Evonik's and are an ideal fit with our growth engines.

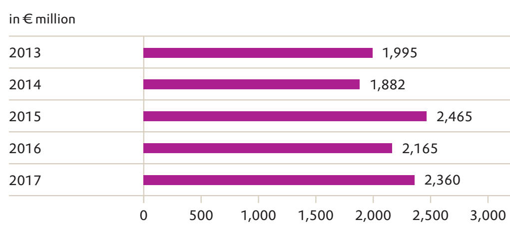
Operationally, our business developed well. Thanks to high global demand for our products, our growth segments posted volume rises that exceeded global economic growth (3.0 percent, expected). Selling prices developed differently in the segments but increased overall. Thanks to 5 percent organic sales growth and consolidation of the businesses acquired, sales grew 13 percent overall to €14,419 million. **Adjusted EBITDA** improved 9 percent to €2,360 million. The Resource Efficiency segment was very successful, benefiting from both higher volumes and the acquired businesses. Earnings in the Performance Materials segment were significantly better than in the previous year, mainly due to a favorable supply/demand situation. By contrast, the Nutrition & Care segment was held back by perceptibly lower selling prices.

The adjusted EBITDA margin of 16.4 percent fell short of both the prior-year level (17.0 percent) and the target mid-term range of 18–20 percent. ROCE was 11.2 percent, which was above the cost of capital, but it remained below the prior-year level (14.0 percent) as capital employed was significantly higher due to the acquisitions.

Net income fell 15 percent to €717 million. The reasons for this included higher expenses in connection with the acquisitions. Net income after adjustment for special items increased by 9 percent to €1,010 million, in line with the development of operating income. At the Annual Shareholders' Meeting, the Executive Board and Supervisory Board will again propose a dividend of €1.15 per share.

Our **financial profile** is still very good: Evonik has a solid investment grade rating. The cash flow from operating activities was good at €1,551 million. After deduction of outflows for capital expenditures, the free cash flow was clearly positive at €511 million. At year-end 2017 we had net financial debt as a result of the acquisitions.

Development of adjusted EBITDA in the Evonik Group C07



2.2 Economic background

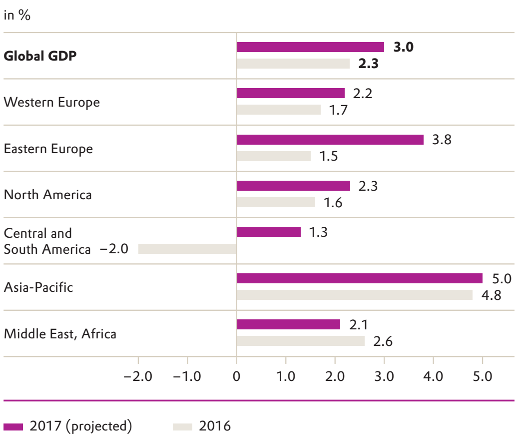
Positive global economic development

Global economic conditions developed better than expected in 2017. We estimate that the global economy grew by around 3.0 percent in 2017, which was faster than in the previous year (2.3 percent). At the start of the year, growth of 2.6 percent had been forecast.

Taking a regional view shows that the global upswing was broadly based. The economy picked up in the emerging markets as well as the industrialized nations.

The moderate upswing in Western Europe continued, with economies benefiting from the continuation of the European Central Bank's expansionary monetary policy and a moderate rise in prices. In Germany, the economy was mainly driven by consumer spending, the trade surplus, and the good labor market situation.

Development of GDP 2016/2017 C08



Eastern Europe posted considerable growth overall, primarily as a result of the recent favorable development of the Russian market. The main reasons for this were the clear stabilization of the ruble and the associated reduction in inflation.

The strong growth in North America resulted principally from a rise in domestic consumption and investment by the corporate sector. In view of the good economic situation, the Federal Reserve continued its gradual tightening of monetary policy and raised key interest rates by a total of 0.75 percentage points in three steps to 1.5 percent.

A recovery is visible in Central and South America, although so far growth has been relatively low. Political uncertainty, high levels of unemployment and private debt, and structural problems prevented a significant improvement in the economic situation.

The Asia-Pacific region again posted high growth rates. The moderate recovery in Japan continued as a result of higher exports, while the Chinese economy stabilized, mainly thanks to an expansionary fiscal and monetary policy. Economic momentum in India was dampened by a cash reform and the introduction of a uniform nationwide value-added tax.

Stronger development of end-customer industries

Worldwide, the development of Evonik's **end-customer industries** differed by region and by sector in 2017. We anticipate that overall industrial growth was higher than in the previous year.

Demand for consumer and care products rose in Europe, driven by an improvement in consumer sentiment and falling unemployment, and remained high in Asia-Pacific. Growth momentum for food and animal feed increased in North America but weakened slightly in Central and South America. The construction industry reported slightly higher growth than in the previous year, mainly thanks to higher capital expenditures in Europe. By contrast, automotive and mechanical engineering output was lower in Asia-Pacific due to a reduction in tax benefits and declined in North America.

Overall, there was an improvement in the general industrial trend in almost all regions of the world.

As a result of the increase in the price of crude oil and tougher environmental regulations in China at the end of the year, there was a year-on-year increase in Evonik's average raw material prices in 2017.

The average annual exchange rate for the euro against Evonik's most important currency—the US dollar—was US$1.13 and thus slightly higher than in the previous year (US$1.10).

2.3 Major events

On January 3, 2017, we closed the acquisition of the Air Products **specialty additives business,** integrated it into the Nutrition & Care and Resource Efficiency segments, and linked it to our established businesses. The acquisition of the Huber **silica business** was completed on September 1, 2017 and integrated into the Resource Efficiency segment.[1] The integration of both businesses is proceeding on schedule. In 2017, we leveraged the first synergies of around €20 million, most of which came from the integration of the specialty additives business.

At its meeting on March 1, 2017, the Supervisory Board of Evonik Industries AG resolved on changes in the **Executive Board.** Dr. Klaus Engel handed over his post as Chairman of the Executive Board of Evonik Industries AG to Christian Kullmann after the Annual Shareholders' Meeting on May 23, 2017 and left the company with effect from the end of the meeting. Dr. Ralph Sven Kaufmann left Evonik by mutual and amicable agreement on June 30, 2017, before the scheduled end of his term of office. Dr. Harald Schwager has been Deputy Chairman of the Executive Board, with responsibility for chemicals and innovation, since September 1, 2017. Dr. Schwager is a chemist and was a member of the Board of Executive Directors of BASF SE, Ludwigshafen (Germany) until May 2017.

[1] See Note 4.2 to the consolidated financial statements.

2.4 Business conditions and performance

Pleasing volume trend

We registered high demand for our products worldwide, especially in our growth segments, and were able to raise volumes sold considerably. Selling prices developed differently in the segments, but improved overall. 8 percent of the increase in our sales came from the initial consolidation of the businesses acquired from Air Products and Huber. Overall, Group sales grew 13 percent to €14,419 million.

Change in sales 2017 versus 2016 T05

in %	
Volumes	3
Prices	2
Organic sales growth	**5**
Exchange rates	–1
Portfolio/other effects	9
Total	**13**

Adjusted EBITDA at a good level

Adjusted EBITDA increased, driven principally by higher demand and consolidation of the acquired businesses. The adjusted EBITDA margin was 16.4 percent, down from the previous year's level of 17.0 percent.

Adjusted EBITDA by segment T06

in € million	2017	2016	Change in %
Nutrition & Care	749	1,006	–26
Resource Efficiency	1,174	977	20
Performance Materials	660	371	78
Services	123	151	–19
Corporate, other operations, consolidation	–346	–340	–2
Evonik	**2,360**	**2,165**	**9**

The decline in adjusted EBITDA in the Nutrition & Care segment mainly resulted from perceptibly lower selling prices. The Resource Efficiency segment registered a further improvement in its adjusted EBITDA thanks to higher volumes and consolidation of the acquired businesses. The substantial rise in earnings in the Performance Materials segment was driven mainly by higher selling prices and by the successful implementation of restructuring and efficiency enhancement measures. Adjusted EBITDA in the Services segment was lower owing to higher costs at the sites. The adjusted EBITDA reported by Corporate, other operations, including consolidation, was around the prior-year level, and includes, among others, expenses for the Corporate Center and strategic research.

Sales and reconciliation from adjusted EBITDA to net income T07

in € million	2017	2016	Change in %
Sales	**14,419**	**12,732**	**13**
Adjusted EBITDA	**2,360**	**2,165**	**9**
Adjusted depreciation, amortization and impairment losses	–870	–717	
Adjusted EBIT	**1,490**	**1,448**	**3**
Adjustments	–261	–150	
thereof attributable to			
Restructuring	*–25*	*1*	
Impairment losses/reversals of impairment losses	*–82*	*–48*	
Acquisition/divestment of shareholdings	*–89*	*–46*	
Other	*–65*	*–57*	
Income before financial result and income taxes (EBIT)	**1,229**	**1,298**	**–5**
Financial result	–202	–174	
Income before income taxes, continuing operations	**1,027**	**1,124**	**–9**
Income taxes	–293	–362	
Income after taxes, continuing operations	**734**	**762**	**–4**
Income after taxes, discontinued operations	–	96	
Income after taxes	**734**	**858**	**–14**
thereof attributable to non-controlling interests	17	14	
Net income	**717**	**844**	**–15**
Earnings per share	**1.54**	**1.81**	

The **adjustments** totaled –€261 million, compared with –€150 million in the previous year. The adjustment category purchase/disposal of investments contains expenses of €164 million, costs (€62 million) for the acquisition and integration[1] of the Air Products specialty additives business, the Huber silica business, and Dr. Straetmans, as well as expenses for the consumption of inventories acquired with the businesses, which were subject to purchase price step-ups in the course of the purchase price allocation (€102 million). This is countered by income (€75 million) in connection with the dissolution of a joint operation.[1]

The impairment losses and reversals of impairment losses related to assets in the Resource Efficiency segment (–€69 million) and the Nutrition & Care segment (–€13 million). The restructuring expenses mainly related to optimization of the administrative structure. The other adjustments included expenses in connection with the reorganization of contractual relationships at a production joint venture and expenses for simplification of the corporate structure in Europe.

The **financial result** of –€202 million contains special items of –€27 million, principally for impairment losses on loans to an equity investment (–€13 million) and currency hedging of the purchase price of the Huber silica business (–€9 million). The adjusted financial result was –€175 million, significantly below the year-back figure, mainly due to a rise in financial liabilities. **Income before income taxes, continuing operations** dropped 9 percent to €1,027 million. The income tax rate of 29 percent was below the expected Group tax rate of 32 percent. This was primarily attributable to income resulting from the reduction in the corporation tax rate following the US tax reform. The income tax rate after factoring out taxes on special items was also 29 percent. The income after taxes, discontinued operations of €96 million in 2016 mainly comprised the partial reversal of a provision relating to the former Energy Business Area.

Net income fell 15 percent to €717 million mainly as a result of the acquisition-related increase in expenses contained in the adjustments.

We use **adjusted net income** to assess the earnings power of the continuing operations, especially on a long-term view, and to forecast future development. The calculation starts from EBITDA after adjustment for special items[2]. The financial result is then adjusted for income and expenses in connection with the purchase/disposal of equity investments and other income and expense items that, by nature or amount, do not form part of typical current financing activities. Further, we deduct amortization of intangible assets, which mainly results from acquisitions, and adjust income tax for taxes on special items.

Overall, the adjusted net income of the Evonik Group improved 9 percent to €1,010 million, in line with the development of operating earnings.

Reconciliation to adjusted net income **T08**

in € million	2017	2016	Change in %
Adjusted EBITDA	**2,360**	**2,165**	**9**
Adjusted depreciation, amortization and impairment losses	–870	–717	
Adjusted EBIT	**1,490**	**1,448**	**3**
Adjusted financial result	–175	–139	
Amortization and impairment losses on intangible assets	128	47	
Adjusted income before income taxes [a]	**1,443**	**1,356**	**6**
Adjusted income taxes	–416	–412	
Adjusted income after taxes [a]	**1,027**	**944**	**9**
thereof adjusted income attributable to non-controlling interests	17	14	
Adjusted net income [a]	**1,010**	**930**	**9**
Adjusted earnings per share [a] in €	**2.17**	**1.99**	

[a] Continuing operations.

[1] See Note 4.2 to the consolidated financial statements.
[2] See section on business management systems.

Improvement in the cost position initiated

To support our financial targets, especially an improvement in the adjusted EBITDA margin, in November 2017 we announced plans to achieve a lasting reduction in selling and administrative expenses of €200 million by 2021. We have already identified savings potential of €50 million to be implemented in the course of 2018. Further details of the planned measures will be announced in 2018.

Efficient and effective procurement

Reliable supply, gaining access to new procurement markets, and ongoing optimization of material costs are key tasks for our procurement function.

2017 was dominated by very volatile procurement markets and rising oil prices. The reasons for this included geopolitical tension in the Middle East, hurricanes such as Harvey in the USA, and the Chinese government's tougher stance on environmental policy. This led to unforeseeable production stoppages in the supply chain and global price rises in some procurement markets. We essentially managed to secure supply to our sites through close cooperation with the suppliers affected and by drawing on alternative suppliers. Since we take environmental and sustainability aspects into account when selecting suppliers, none of our direct suppliers was affected by plant closures caused by Chinese environmental policy.

To optimize material costs, Procurement pursues a total-cost-of-ownership (TOC) approach, taking cross-unit aspects into account. This enables us to leverage savings potential along the value chain. Close collaboration with the business entities is a key success factor for efficient and effective procurement processes.

We continued to optimize our procurement processes in 2017. In particular, we made substantial progress in optimizing the end-to-end process from order to payment and achieved a considerable increase in the automation rate.

As well as participating in procurement alliances with other companies and validating new suppliers, we are working intensively to extend strategic relationships with suppliers. Here we are looking for additional opportunities to reduce risk, optimize costs, and enhance cooperation and innovation with the suppliers that are currently of the greatest strategic importance. We are aware of our responsibility within the supply chain. Issues such as safety, health, environmental protection, corporate responsibility, and quality play an integral part in our procurement strategy. These sustainability aspects are also supported by standardized global assessments through the Together for Sustainability (TfS) sector initiative, which was co-founded by Evonik. Evonik's principal suppliers and the majority of suppliers of critical raw materials have already taken part in these assessments, which are evaluated by an impartial sustainability rating company.

In 2017, Evonik spent around €9.1 billion on raw materials and supplies, technical goods, services, energy, and other operating supplies. Raw materials and supplies make up around 60 percent of procurement volume. Spending on petrochemical feedstocks is around €3.6 billion and accounts for 66 percent of our raw material base.

Using renewable resources remains very important to Evonik. In 2017, around 9 percent of raw materials were from renewable resources. The main applications for these raw materials are amino acids and starting products for the cosmetics industry.

Another good return on capital employed

Within our value-oriented management approach, our success is measured principally by **ROCE,** which was 11.2 percent in 2017 and therefore above our cost of capital. In our regular review in 2017, the cost of capital was adjusted to 10.0 percent before taxes (2016: 10.5 percent).

Capital employed, ROCE, and Economic Value Added (EVA®) T09

in € million	2017	2016
Intangible assets	5,476	3,231
+ Property, plant and equipment	6,300	5,851
+ Investments	46	49
+ Inventories	1,928	1,699
+ Trade accounts receivable	1,850	1,749
+ Other interest-free assets	500	402
– Interest-free provisions	−979	−1,072
– Trade accounts payable	−1,271	−1,013
– Other interest-free liabilities	−577	−563
= Capital employed [a]	**13,273**	**10,333**
Adjusted EBIT	**1,490**	**1,448**
ROCE (adjusted EBIT/capital employed) in %	**11.2**	**14.0**
Cost of capital (capital employed * WACC)	1,327	1,033
EVA® (adjusted EBIT – cost of capital)	**163**	**415**

[a] Annual averages.

The average **capital employed** increased by €3.0 billion to €13.3 billion. The acquisitions made a key contribution to this as they led to substantial increases, especially in intangible assets, property, plant and equipment, and inventories.

The higher capital employed was the reason for the decline in ROCE at Group level and in the growth segments. The hidden reserves identified in connection with the acquisitions contributed to this.

ROCE by segment **T10**

in %	2017	2016
Nutrition & Care	10.9	26.8
Resource Efficiency	20.8	27.1
Performance Materials	41.2	18.3
Services	–0.2	5.6
Evonik (including Corporate, other operations)	**11.2**	**14.0**

In the three chemical segments, ROCE is above the cost of capital. In the Resource Efficiency and Performance Materials ROCE was well above average.

Clear value creation

Economic Value Added **(EVA®)** is the difference between adjusted EBIT and the cost of capital, which is calculated by multiplying average capital employed by the average cost of capital (WACC). If EVA® is positive, the Group creates value (value spread approach). In 2017, we generated EVA® of €163 million. The substantial reduction of €252 million compared with the previous year was attributable to the rise in capital employed.

2.5 Comparison of forecast and actual performance

We almost entirely met our forecasts. Only incident frequency (1.11) was minimally above the expected upper limit of 1.10.[1]

Comparison of forecast and actual performance **T11**

Forecast performance indicators	2016	Forecast for 2017	Adjusted forecast for 2017[a]	2017	Forecast for 2018
Group sales	€12.7 billion	Year-on-year increase		€14.4 billion	Slight increase
Adjusted EBITDA	€2.165 billion	Between €2.2 billion and €2.4 billion	Upper half of the range	€2.360 billion	Between €2.4 billion and €2.6 billion
ROCE	14.0%	Above the cost of capital, significant decline		11.2%	Above the cost of capital, about level with the prior year
Capital expenditures[b]	€1.0 billion	Around €1.0 billion		€1.1 billion	Around €1.0 billion
Free cash flow	€0.8 billion	Clearly positive, but perceptibly below the prior year		€0.5 billion	Slightly above the prior year
Accident frequency	1.24	Stable and below upper limit of 1.30		1.16	Stable and below upper limit of 1.30
Incident frequency[c]	0.95	Below upper limit of 1.10		1.11	Below upper limit of 1.10

[a] In the financial report for the first nine months of 2017.
[b] Capital expenditures for intangible assets, property, plant and equipment.
[c] Redefined in 2017 and restated to ensure comparability.

[1] See section on safety and environment.

2.6 Segment performance

Nutrition & Care segment

Key data for the Nutrition & Care segment **T12**

in € million	2017	2016	Change in %
External sales	4,511	4,316	5
Adjusted EBITDA	749	1,006	−26
Adjusted EBITDA margin in %	16.6	23.3	–
Adjusted EBIT	465	795	−42
Capital expenditures[a]	391	315	24
Depreciation and amortization	262	209	25
Capital employed (annual average)	4,263	2,965	44
ROCE in %	10.9	26.8	–
No. of employees as of December 31	8,257	7,594	9

[a] Capital expenditures for intangible assets, property, plant and equipment.

Acquisitions lifted sales

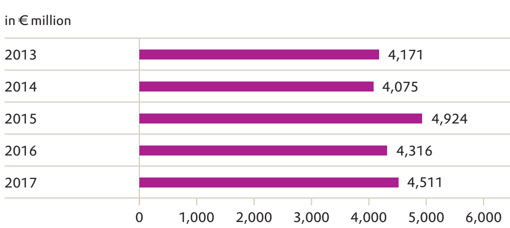
In the Nutrition & Care segment, sales advanced 5 percent to €4,511 million. This was principally due to the first-time consolidation of the business acquired from Air Products and of Dr. Straetmans. High global demand led to a perceptible rise in volumes. However, this was countered by the fact that selling prices were substantially lower than in the prior-year period.

In essential amino acids for animal nutrition, selling prices for methionine were lower than in the previous year. Evonik used the more favorable market environment in the second half of the year to raise selling prices. However, sales declined significantly because the average market price level was significantly lower than in the previous year and volumes were basically constant. In the healthcare business, a very successful performance was posted by functional polymers for smart drug delivery systems for oral and parenteral pharmaceutical applications and by exclusive synthesis for the pharmaceutical industry. Personal care products increased sales of active ingredients and emulsifiers. The integration of Dr. Straetmans is proving very successful and also contributed to the sales growth in this business line. Sales of household care products increased significantly thanks to buoyant demand and the inclusion of the Air Products activities. Higher volumes and inclusion of the Air Products activities also brought a significant increase in sales of additives for polyurethane foam, which are used, for example, in mattresses and in insulating materials.

Adjusted EBITDA lower than in the prior year

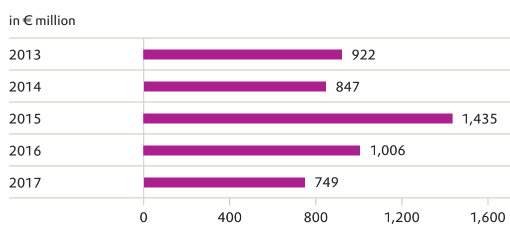
Adjusted EBITDA in the Nutrition & Care segment declined 26 percent to €749 million. This decline was due principally to lower selling prices. The adjusted EBITDA margin slipped from a very good level of 23.3 percent in the previous year to 16.6 percent.

Development of sales in the Nutrition & Care segment **C09**



2013: old structure.

Development of adjusted EBITDA in the Nutrition & Care segment **C10**



2013: old structure.

Higher capital expenditures

Capital expenditures in the Nutrition & Care segment increased 24 percent to €391 million and were again well above depreciation and amortization, which was €262 million. The average capital employed increased significantly to €4,263 million, mainly as a result of the acquisition of the Air Products business and Dr. Straetmans. The sharp drop in ROCE to 10.9 percent resulted from far higher capital employed and lower earnings.

Investment projects to drive growth

Nutrition & Care invested a high double-digit million euro amount in the construction of a new production plant for specialty silicones in Shanghai (China). Organically modified specialty silicones are part of the Specialty Additives growth engine and offer a broad spectrum of potential applications in many industries. As polymer additives, they ensure comfortable upholstered furniture, auto seats, and ergonomic mattresses. They also play an important part in formulations for insulating materials for buildings and ensure the energy efficiency of refrigerators. The silicone platforms are the backbone of significant business activities in the Nutrition & Care and Resource Efficiency segments.

At the site in Tippecanoe (USA), Nutrition & Care invested a double-digit million euro amount to extend its production facilities for highly potent active ingredients. The market for contract development and manufacturing of pharmaceutical products is still very attractive and supports the positive development of the healthcare business.

In view of the strong growth in the market for methionine, Nutrition & Care is currently building a further world-scale production complex in Singapore, alongside the facility on Jurong Island that came into service in November 2014. This investment strengthens the Animal Nutrition growth engine. In this new, fully backwardly integrated production complex, as well, the Nutrition & Care segment will produce all key strategic precursors.

Resource Efficiency segment

Key data for the Resource Efficiency segment **T13**

in € million	2017	2016	Change in %
External sales	5,395	4,473	21
Adjusted EBITDA	1,174	977	20
Adjusted EBITDA margin in %	21.8	21.8	–
Adjusted EBIT	886	751	18
Capital expenditures[a]	340	266	28
Depreciation and amortization	281	224	25
Capital employed (annual average)	4,262	2,776	54
ROCE in %	20.8	27.1	–
No. of employees as of December 31	10,260	8,928	15

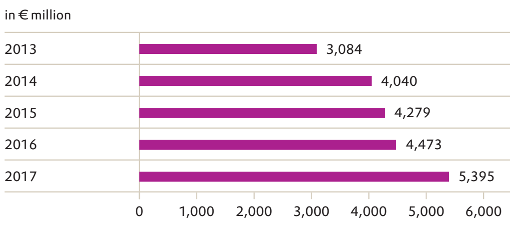
[a] Capital expenditures for intangible assets, property, plant and equipment.

Perceptible volume growth

The Resource Efficiency segment posted a successful performance, with sales growing 21 percent to €5,395 million. There was a further substantial hike in volume sales, driven by higher demand. Slightly higher selling prices also had a positive effect. 13 percentage points of the increase came from consolidation of the operations acquired from Air Products and Huber.

Silica benefited from higher demand, especially from the tire industry, and from consolidation of the Huber business, leading to significantly higher sales. Crosslinkers developed well worldwide. These products are mainly used in environment-friendly paint systems/coatings, high-performance composites, and specialty plastics. Including consolidation of the Air Products business, sales were significantly higher. Coating additives, which mainly offer applications solutions for coating technologies, increased sales substantially thanks to higher volumes and consolidation of the Air Products business. The business with high-performance polymers was pleasing, with high demand from the automotive sector, the electrical and electronics industry, and the consumer market bringing an increase in sales. Demand for oil additives for the automotive, construction, and transportation industries was high worldwide, resulting in a considerable year-on-year rise in sales.

Development of sales in the Resource Efficiency segment C11

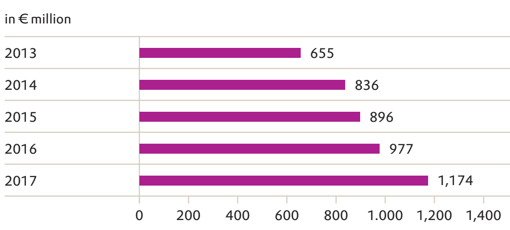


2013: old structure.

Further rise in earnings

Adjusted EBITDA in the Resource Efficiency segment climbed 20 percent to €1,174 million thanks to higher volumes and the additional earnings contributions from the activities acquired from Air Products and Huber. As in the previous year, the adjusted EBITDA margin was very good at 21.8 percent.

Development of adjusted EBITDA in the Resource Efficiency segment C12



2013: old structure.

High investment—Attractive return on capital

Capital expenditures rose 28 percent in the Resource Efficiency segment to €340 million and thus once again exceeded depreciation and amortization. The average capital employed increased 54 percent to €4,262 million, principally as a result of the acquisition of the Air Products and Huber activities. As a consequence, ROCE decreased to 20.8 percent, but that was nevertheless a good level.

Investment projects to expand market positions

We have started up a further production complex for the SEPURAN® brand of gas separation modules in Schörfling (Austria). This investment in the mid-double-digit million euro range doubles production capacity. SEPURAN® membranes allow particularly efficient separation of gases such as methane, nitrogen, and hydrogen.

A production plant for polyamide 12 powder in Marl (Germany) was also completed. Investment here was in the mid-double-digit million euro range. The Resource Efficiency segment will use the additional production capacity to meet rising demand from attractive markets in the coatings industry and additive manufacturing.

By raising global capacity for precipitated silica, the Resource Efficiency segment is supporting the growth of its global customers in the tire and construction industries and in attractive specialty markets. In North America, a new production facility for precipitated silica is currently under construction in Charleston (South Carolina, USA), close to almost all major customers in the tire industry. This involves investment in the low triple-digit million euro range. Precipitated silica is a fast-growing product that is mainly used in high-quality tires with low rolling resistance. Other areas of application are the food, feed, and agriculture industries. In North America, the market for tires with low rolling resistance, and thus for HD silica, is growing far faster than the market for normal auto tires.

In Antwerp (Belgium), the Resource Efficiency segment is investing a sum in the high double-digit million euro range to extend capacity for fumed silica. This production complex is scheduled to come into service in summer 2019. Typical applications for this special silica, which Evonik markets as AEROSIL®, are paints, coatings, modern adhesive systems, transparent silicones, and non-combustible high-performance insulating materials. Precipitated and fumed silicas belong to the Smart Materials growth engine.

As binders for paints, specialty copolyesters are used in coil coatings and, increasingly, in food can coatings. To meet rising demand, the segment is investing in a new plant at the Witten site in Germany. This will have annual capacity of several thousand metric tons. Completion is scheduled for 2018.

Performance Materials segment

Key data for the Performance Materials segment **T14**

in € million	2017	2016	Change in %
External sales	3,781	3,245	17
Adjusted EBITDA	660	371	78
Adjusted EBITDA margin in %	17.5	11.4	–
Adjusted EBIT	508	234	117
Capital expenditures[a]	163	168	–3
Depreciation and amortization	139	134	4
Capital employed (annual average)	1,233	1,278	–4
ROCE in %	41.2	18.3	–
No. of employees as of December 31	4,364	4,393	–1

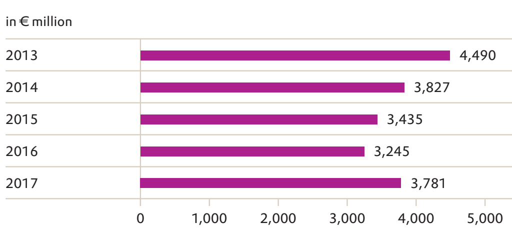
[a] Capital expenditures for intangible assets, property, plant and equipment.

Considerably higher sales

Sales rose 17 percent to €3,781 million in the Performance Materials segment. The primarily price-driven rise in sales was mainly attributable to a boom in C_4 business, concentration on attractive market segments, and new areas of application. The slightly lower volumes were mainly attributable to an unplanned shutdown in Antwerp (Belgium) in the second quarter of 2017.

Sales of performance intermediates rose substantially year-on-year, mainly because the average selling prices for the year were higher, especially for the C_4 derivative butadiene. Methacrylates also registered a significant improvement in sales. Demand remained pleasing, especially from the coatings and automotive sectors, while supply on the market was tight. Alkoxides for the production of biodiesel posted a very good performance, with higher volumes leading to a perceptible rise in sales.

Development of sales in the Performance Materials segment **C13**

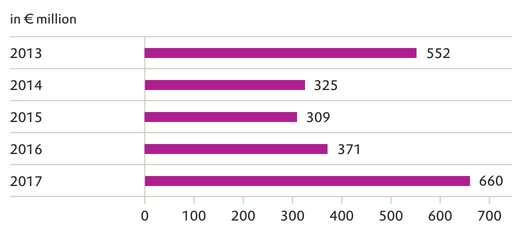


2013: old structure.

Hike in adjusted EBITDA

Adjusted EBITDA rose 78 percent to €660 million. Alongside higher selling prices and concentration on high-margin customer and product combinations, the focused implementation of restructuring projects and measures to improve the cost structure had a positive effect. The adjusted EBITDA margin increased to 17.5 percent (2016: 11.4 percent).

Development of adjusted EBITDA in the Performance Materials segment **C14**



Investment at prior-year level—Attractive return on capital

Investment in the Performance Materials segment aims to secure its leading market positions, raise efficiency, and broaden the technology base. Capital expenditures amounted to €163 million, above depreciation and amortization, which was €139 million. The average capital employed was reduced by €45 million to €1,233 million. ROCE rose to an attractive level of 41.2 percent, principally as a result of the significant improvement in earnings.

Focused investment

To ensure sustainable and reliable long-term supply of potassium derivatives to customers, Evonik established a production joint venture with AkzoNobel to build and operate a membrane electrolysis plant for chlorine and potassium hydroxide solution in Ibbenbüren (Germany). Production started at the end of 2017.

In Weiterstadt (Germany), Performance Materials is building a new production facility for high-quality flat films made from multi-layer polymethylmethacrylate (PMMA). This is scheduled to come into service at the end of 2018. Multi-layer PLEXIGLAS® and EUROPLEX® films are used in medical technology, in window and façade construction, and in the graphics industry.

Services segment

Key data for the Services segment T15

in € million	2017	2016	Change in %
External sales	716	683	5
Adjusted EBITDA	123	151	–19
Adjusted EBITDA margin in %	17.2	22.1	–
Adjusted EBIT	–1	32	–
Capital expenditures[a]	162	189	–14
Depreciation and amortization	124	117	6
Capital employed (annual average)	652	572	14
ROCE in %	–0.2	5.6	–
No. of employees as of December 31	13,021	12,892	1

[a] Capital expenditures for intangible assets, property, plant and equipment.

The Services segment generates sales both internally, with the specialty chemicals segments and Corporate Center (2017: €2,081 million), and with external customers. External sales advanced 5 percent to €716 million. This was mainly due to higher revenues from procurement and energy supply for external customers at our sites. Adjusted EBITDA was 19 percent lower than in the previous year at €123 million. The decline was due, among other things, to higher expenses at the sites.

Capital expenditures in this segment decreased by 14 percent to €162 million and therefore exceeded depreciation and amortization, which amounted to €124 million.

2.7 Regional development

Strategic reorganization of the regions

Evonik adjusted its regional structure in 2017. Global market requirements are becoming increasingly more specific and require more differentiated management.

For this reason, we adjusted the regional structure to align it more closely to these new requirements. At the same time, the entrepreneurial freedom of the regions was strengthened. Their role is to enable the operating business to make the best possible use of local market opportunities by providing efficient, competitive, and compliant platforms.

The objective of this altered structure is to ensure a more focused response to future challenges and timely identification and utilization of growth opportunities throughout the world.

A global presence

In 2017, 43 percent of our sales were generated in Western Europe. That was a year-on-year increase of 13 percent to €6,253 million. The acquisition of the Air Products specialty additives business and the Huber silica business contributed to this.

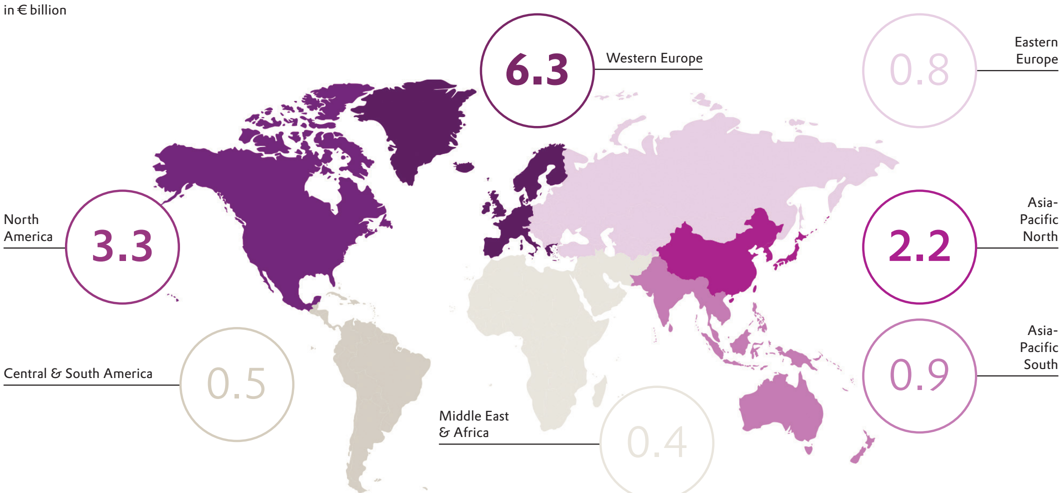
To strengthen the sites in Western Europe, we increased capital expenditures to €576 million (2016: €538 million). A production facility for polyamide 12 powder was completed at our site in Marl (Germany). In Ibbenbüren (Germany), a production joint venture established with AkzoNobel started up a membrane electrolysis plant for chlorine and potassium hydroxide solution. Another complex for the production of gas separation membrane modules was constructed in Austria.

In Eastern Europe, sales increased 9 percent to €837 million. In particular, the Resource Efficiency and Performance Materials segments were able to increase sales. This region accounted for 6 percent of Group sales.

In the Middle East and Africa region, sales rose 4 percent to €421 million, which was 3 percent of Group sales.

Sales by region C15

in € billion



Higher sales in the Americas

We generated sales of €3,303 million in North America. Acquisitions helped drive the 22 percent increase versus the prior year. This region accounted for 23 percent of total sales. Capital expenditures rose 5 percent to €254 million. In Tippecanoe (USA), the production facilities for highly potent active pharmaceutical ingredients were extended.

Sales declined 2 percent in Central and South America to €551 million. This region accounted for 4 percent of Group sales.

Higher investment in the Asia-Pacific region

Sales increased 11 percent to €2,158 million in Asia-Pacific North. This region accounted for 15 percent of Group sales. Capital expenditures in this region totaled €61 million. A new production facility for organically modified specialty silicones was constructed in Shanghai (China).

Sales in Asia-Pacific South rose 10 percent to €896 million, which was 6 percent of Group sales. Capital expenditures increased to €173 million (2016: €62 million). An additional world-scale production complex for methionine is currently under construction in Singapore.

2.8 Earnings position

Income before income taxes, continuing operations down slightly year-on-year

Sales grew 13 percent to €14.4 billion, principally as a result of higher volumes and initial consolidation of the businesses acquired from Air Products and Huber. The rise in the cost of sales was driven mainly by consolidation of the new businesses, higher volumes, and the increase in raw material costs. The higher selling expenses were mainly due to the expansion of our business, while administrative expenses increased as a result of consolidation of the acquired businesses. Other operating income includes income in connection with the dissolution of a joint operation. The increase in other operating expense was mainly attributable to the acquisitions. It included expenses resulting from the fact that the value of inventories acquired by Evonik with these businesses and used in 2017 was subject to step-ups in the course of the purchase price allocation (€102 million), as well as costs in connection with the acquisitions (€62 million). Income before financial result and income taxes was 5 percent lower at €1,229 million, principally because of higher expenses in connection with the acquisitions.

Income statement for the Evonik Group **T16**

in € million	2017	2016	Change in %
Sales	14,419	12,732	13
Cost of sales	–9,938	–8,534	16
Gross profit on sales	**4,481**	**4,198**	**7**
Selling expenses	–1,695	–1,515	12
Research and development expenses	–458	–438	5
General administrative expenses	–732	–686	7
Other operating income	311	321	–3
Other operating expense	–688	–543	27
Result from investments recognized at equity	10	–39	–
Income before financial result and income taxes, continuing operations	**1,229**	**1,298**	**–5**
Financial result	–202	–174	16
Income before income taxes, continuing operations	**1,027**	**1,124**	**–9**
Income taxes	–293	–362	–19
Income after taxes, continuing operations	**734**	**762**	**–4**
Income after taxes, discontinued operations	–	96	–
Income after taxes	**734**	**858**	**–14**
thereof attributable to non-controlling interests	17	14	21
Shareholders of Evonik Industries AG (net income)	**717**	**844**	**–15**

Lower net income

The financial result includes special items totaling –€27 million, mainly for impairment losses on loans to an equity investment (–€13 million) and currency hedging of the purchase price of the Huber silica business (–€9 million). Income before income taxes, continuing operations decreased 9 percent to €1,027 million. Income taxes declined to €293 million, mainly due to income resulting from the reduction in the income tax rate following the US tax reform. Non-controlling interests in after-tax income comprised the pro rata profits and losses of fully consolidated subsidiaries that are attributable to shareholders outside the Evonik Group. The income after taxes, discontinued operations of €96 million in 2016 mainly comprised the partial reversal of a provision relating to the former Energy Business Area.

Group net income was 15 percent lower at €717 million, mainly because of higher expenses in connection with the acquisitions.

2.9 Financial condition

Central financial management

The principal objectives of financial management are safeguarding the financial independence of the Evonik Group and limiting financial risks. We therefore apply a central financing strategy. Borrowing and bond issuance are normally undertaken by Evonik Industries AG or its financing company Evonik Finance B.V., Amsterdam (Netherlands). The liabilities of this company are fully guaranteed by Evonik Industries AG. To reduce external borrowing, surplus liquidity at Group companies is placed in a cash pool at Group level to cover financing requirements in other Group companies through intragroup loans. Currency derivatives are used at Group level to hedge intragroup loans. Evonik has a flexible range of corporate financing instruments to meet liquidity requirements for day-to-day business, investments, and the repayment of financial debt.

Solid investment grade rating confirmed

Both Moody's and Standard & Poor's (S&P) confirmed their credit ratings for Evonik Industries AG in 2017. Moody's rating is still Baa1 and S&P still rates Evonik BBB+, with a stable outlook in both cases. Maintaining a solid investment grade rating is a central element in our financing strategy. In this way we gain access to a broad investor base on appropriate financing terms and thus maintain our financial flexibility. A solid investment grade rating gives banks, investors, customers, and suppliers a reliable basis for a long-term business relationship with Evonik.

Solid funding of pension obligations

Pension provisions account for about half of our total debt. They are non-current and depend on the discount rate. Applying a constant discount rate, there was a slight reduction of €35 million in pension provisions compared with year-end 2016. The financing of pension obligations[1] was 70 percent as of the reporting date, a solid level in line with the industry norm.

Net financial debt due to acquisitions

As of December 31, 2017, financial debt was €4,045 million, a rise of €498 million compared with year-end 2016, principally as the result of the issue of a hybrid bond. Financial assets decreased by €3,636 million to €1,022 million, mainly as a result of payment of the purchase price of around €3.5 billion for the Air Products specialty additives business and payment of the dividend of €536 million for 2016. This was countered by the positive free cash flow[2] of €511 million. Net financial debt was therefore €3,023 million as of end-December 2017, compared with net financial assets of €1,111 million at year-end 2016.

Net financing status T17

in € million	Dec. 31, 2017	Dec. 31, 2016
Non-current financial liabilities[a]	–3.694	–3.240
Current financial liabilities[a]	–351	–307
Financial debt	**–4.045**	**–3.547**
Cash and cash equivalents	1.004	4.623
Current securities	9	11
Other financial investments	9	24
Financial assets	**1.022**	**4.658**
Net financial debt/assets as stated on the balance sheet	**–3.023**	**1.111**

[a] Excluding derivatives.

First hybrid bond issued

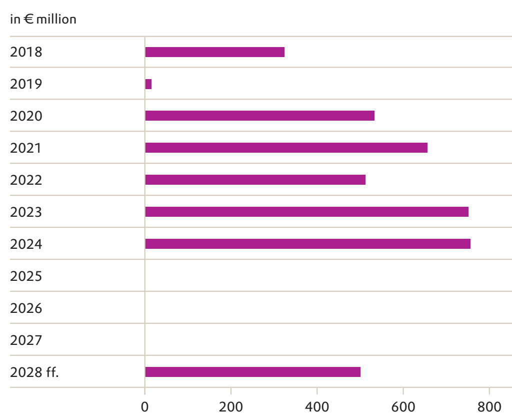
On July 7, 2017, Evonik Industries AG issued a hybrid bond with a nominal value of €500 million on the debt capital market for the first time. It was used to finance the acquisition of the Huber silica business. The hybrid bond is recognized as debt, but the Moody's and S&P rating agencies regard it as 50 percent equity as it is subordinate to other financial liabilities. Consequently, it supports our solid investment grade rating. The formal tenor of the bond is 60 years, but Evonik has a first redemption right in 2022. The issue price was 99.383 percent and it has a coupon of 2.125 percent p. a.

Corporate bonds as a central financing instrument

At year-end 2017, the financial debt of €4,045 million comprised six bonds with a total carrying amount of €3,624 million, decentralized bank loans totaling €350 million, and other financial liabilities of €71 million. On the reporting date, €3.15 billion of the debt issuance program of up to €5 billion had been used to issue bonds.

Around 94 percent of the Group's non-derivative financial liabilities are denominated in euros (2016: over 90 percent). Financial liabilities in other currencies result exclusively from local financing of foreign Group companies, especially in China. The use of currency derivatives aims to ensure that Evonik's global operating activities are financed in the corresponding currencies. Including these currency derivatives, around 41 percent of financial liabilities are denominated in euros, 34 percent in US dollars, 16 percent in Chinese renminbi yuan (CNY), 6 percent in Singapore dollars (SGD), and 3 percent in other currencies.

Maturity profile of financial liabilities C16



As of December 31, 2017.
The hybrid bond is included in 2022 (when Evonik has its first right of redemption).

[1] Ratio of plan assets to pension obligations.
[2] Cash flow from operating activities, less outflows for capital expenditures for intangible assets, property, plant and equipment.

Bonds **T18**

	Nominal value in € million	Rating (S&P/Moody's)	Maturity	Coupon in %	Issue price in %
Evonik Industries AG					
Fixed-interest bond 2013/2020[a]	500	BBB+/Baa1	April 8, 2020	1.875	99.185
Fixed-interest bond 2015/2023[a]	750	BBB+/Baa1	Jan. 23, 2023	1.000	99.337
Hybrid bond 2017/2077	500	BBB–/Baa3	July 7, 2077	2.125	99.383
Evonik Finance B. V.					
Fixed-interest bond 2016/2021[a]	650	BBB+/Baa1	Mar. 8, 2021	0.000	99.771
Fixed-interest bond 2016/2024[a]	750	BBB+/Baa1	Sep. 7, 2024	0.375	99.490
Fixed-interest bond 2016/2028[a]	500	BBB+/Baa1	Sep. 7, 2028	0.750	98.830

[a] Issued through the debt issuance program.

Liquidity position remains strong

As of December 31, 2017, Evonik had cash and cash equivalents amounting to €1,004 million. Alongside cash and cash equivalents and investments in current securities, Evonik's central source of liquidity is a €1.75 billion revolving credit facility. On June 20, 2017, we refinanced this credit line at the same amount with 18 national and international banks. The new credit line has an initial term running until 2022 with two extension options of one year each, so it runs until June 2024 at the latest. It was not utilized in 2017 and does not contain any covenants requiring Evonik to meet specific financial ratios.

In addition, there are various credit lines to meet local requirements, especially in the Asia-Pacific region. As of December 31, 2017, €306 million of the total amount had not been drawn.

Higher capital expenditures

In the specialty chemicals sector Evonik is expanding in business areas and markets where it already has—or intends to build—a strong competitive position. Investment projects are aimed at utilizing potential for sustained profitable growth and value creation. Every project undergoes detailed strategic and economic analyses. In addition, there is a minimum return requirement for every project based on Evonik's cost of capital. We take a flexible and disciplined approach to extending our leading market positions. All projects are regularly reviewed for changes in the market situation.

We increased capital expenditures by 12 percent to €1,078 million in 2017. In principle, there is a slight timing difference in outflows for property, plant and equipment due to payment terms. In 2017, cash outflows for property, plant and equipment totaled €1,040 million (2016: €948 million).

The highest proportion of capital expenditures went to the Nutrition & Care and Resource Efficiency segments (36 percent and 32 percent respectively). A further 15 percent each was allocated to the Performance Materials segment and the Services segment. The regional focus of capital expenditures was Western Europe, which accounted for 53 percent of the total, followed by North America (24 percent), Asia-Pacific South (16 percent), and Asia-Pacific North (6 percent).

Major projects completed or virtually completed in 2017 **T19**

Segment	Location	Project
Nutrition & Care	Shanghai (China)	Expansion of the silicone platform
	Tippecanoe (Indiana, USA)	Expansion of production capacity for active ingredients for the pharmaceutical industry
Resource Efficiency	Marl (Germany)	Capacity expansion for polyamide 12 powder
	Schörfling (Austria)	Expansion of production capacity for hollow fiber membrane modules
Performance Materials	Ibbenbüren (Germany)	Construction of membrane electrolysis plant at a joint venture with AkzoNobel

For further information on current capital expenditure projects, see section on segment performance.

Financial investments amounted to €4,322 million in 2017 (2016: €191 million). They mainly comprised the acquisition of the Air Products specialty additives business and the Huber silica business.[1]

Free cash flow of €511 million

The cash flow from operating activities declined by €218 million year-on-year to €1,551 million. This was mainly due to a smaller reduction in net working capital.

In 2017, we generated a free cash flow of €511 million (2016: €821 million). In addition to the lower cash flow from operating activities, the higher cash outflows for capital expenditures contributed to the year-on-year decline.

The cash flow from other investing activities comprised an outflow of €4,141 million. The main reasons for this were cash outflows for the purchase of subsidiaries.

The cash flow from financing activities was €23 million, mainly as a result of the cash inflow from the new bond. This was mainly reduced by the cash outflow for payment of the dividend for 2016. In the previous year, the cash inflow from financing activities was €1,373 million, principally as a result of the issuance of bonds.

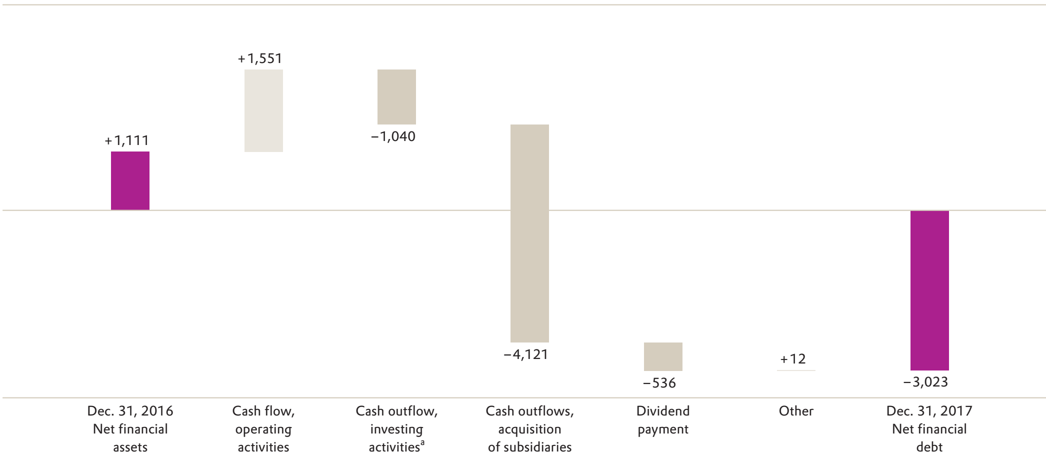
Cash flow statement (excerpt) T20

in € million	2017	2016
Cash flow from operating activities	1,551	1,769
Cash outflows for investments in intangible assets, property, plant and equipment	−1,040	−948
Free cash flow	**511**	**821**
Cash flow from other investing activities	−4,141	65
Cash flow from financing activities	23	1,373
Change in cash and cash equivalents	−3,607	2,259

Prior-year figures restated.

Change in net financing status C17

in € million



[a] Cash outflows for capital expenditures for intangible assets, property, plant and equipment.

[1] See Note 4.2 to the consolidated financial statements.

2.10 Asset structure

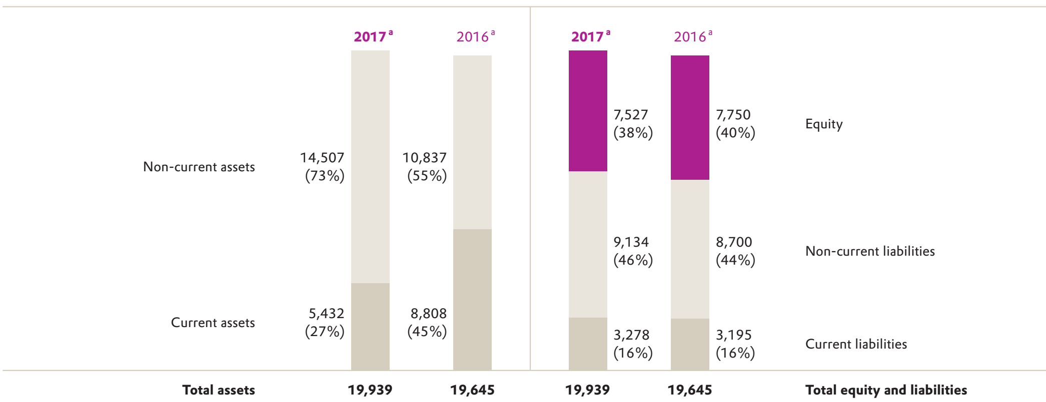
Slight increase in total assets

As of December 31, 2017, total assets were €0.3 billion higher at €19.9 billion. Non-current assets increased by €3.7 billion to €14.5 billion, mainly as a consequence of the high earnings. This was primarily because intangible assets increased by €2.8 billion to €6.1 billion and property, plant and equipment increased by €0.5 billion to €6.5 billion. In all, non-current assets increased to 73 percent of total assets, up from 55 percent in the prior year. They are financed by liabilities with the same maturity structure.

Current assets declined by €3.4 billion to €5.4 billion. The decline resulted principally from cash and cash equivalents, which fell by €3.6 billion to €1.0 billion due to the purchase price payment for the Air Products specialty additives business. This was countered by an increase in inventories of €0.3 billion to €2.0 billion and rise of €0.1 billion in trade accounts receivable to €1.8 billion. Current assets therefore decreased to 27 percent of total assets (2016: 45 percent).

Balance sheet structure of the Evonik Group C18

in € million



[a] As of December 31.

Equity[1] declined slightly, by €0.2 billion, to €7.5 billion. The equity ratio decreased from 40 percent to 38 percent.

Non-current assets rose by €0.4 billion to €9.1 billion. In particular, the issuance of the hybrid bond contributed €0.5 billion. Non-current liabilities increased from 44 percent to 46 percent of total equity and liabilities.

[1] See disclosures pursuant to Section 160 Paragraph 1 No. 2 German Stock Corporation Act (AktG), Note 6.8 (d) to the consolidated financial statements.

3. Performance of Evonik Industries AG

Evonik Industries AG, Essen (Germany) is the parent company of the Evonik Group. It holds direct and indirect stakes in all subsidiaries in the Group. The annual financial statements for Evonik Industries AG have been prepared in accordance with the accounting standards set out in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

The earnings performance of Evonik Industries AG is essentially dependent on income from its subsidiaries, income and expenses relating to corporate financing, and portfolio management activities. Financial management is therefore based on an earnings indicator that contains all these effects: net income.

Income statement for Evonik Industries AG T21

in € million	2017	2016
Sales	667	635
Increase/reduction in finished goods and work in progress	–5	4
Other own work capitalized	5	–
Other operating income	971	896
Cost of materials	–246	–221
Personnel expense	–366	–341
Depreciation and amortization of intangible assets, property, plant and equipment	–20	–17
Other operating expense	–1,356	–1,125
Operating result	**–350**	**–169**
Income from investments	834	1,481
Write-downs of financial assets and current securities	–49	–19
Write-ups of financial assets and current securities	149	12
Net interest income/expense	–43	18
Income before income taxes	**541**	**1,323**
Income taxes	–166	–85
Income after taxes	**375**	**1,238**
Net income	**375**	**1,238**
Profit carried forward from the previous year	400	–
Allocation to revenue reserves	–5	–302
Net profit	**770**	**936**

The 5 percent rise in sales to €667 million was principally attributable to an increase in procurement activities, especially for raw materials. As a result, the cost of materials was 11 percent higher at €246 million. Personnel expense was €366 million, an increase of €25 million compared with the prior year. Other operating income increased to €971 million. The increase resulted mainly from currency translation gains. In the gross presentation, currency translation gains of €910 million (2016: €670 million) are shown in other operating income, while the corresponding currency translation losses of €914 million (2016: €675 million) are shown separately in other operating expense. The net effect was a loss of €4 million (2016: €5 million). This was countered by the reduction in income from the reversal of provisions from €147 million to €6 million.

Income from investments fell 44 percent to €834 million. This decline was mainly due to lower income from profit-and-loss transfer agreements. The write-downs of financial assets and current securities totaling €49 million and write-ups of financial assets and current securities totaling €149 million mainly related to affiliated companies.

The net interest position declined from net interest income of €18 million to net interest expense of €43 million. This was mainly caused by higher interest expense in connection with the valuation of pension obligations. This item also contains interest income and expense from the Group-wide cash pool, which is concentrated at Evonik Industries AG.

Income before income taxes declined by 59 percent to €541 million, principally as a result of lower income from profit-and-loss transfer agreements. Income taxes amounted to €166 million, compared with €85 million in 2016.

As forecast, **net income** declined substantially and was €375 million, a drop of €863 million compared with the previous year. Following allocation of €4,537,505.50 to revenue reserves and taking into account the profit of €400,000,000.00 carried forward from the previous year, the net profit was €770,000,000.00. A proposal will be put to the Annual Shareholders' Meeting that €535,900,000.00 of the net profit should be paid out, giving a **dividend** of €1.15 per share. A further €234,100,000.00 should be carried forward to fiscal 2018.

Balance sheet for Evonik Industries AG **T22**

in € million	Dec. 31, 2017	Dec. 31, 2016
Assets		
Intangible assets, property, plant and equipment	68	55
Financial assets	9,430	9,011
Non-current assets	**9,498**	**9,066**
Inventories	6	9
Receivables and other assets	3,327	2,625
Cash and cash equivalents	637	4,272
Current assets	**3,970**	**6,906**
Prepaid expenses and deferred charges	16	11
Total assets	**13,484**	**15,983**
Equity and liabilities		
Issued capital	466	466
Capital reserve	721	721
Revenue reserves	4,611	4,606
Net profit	770	936
Equity	**6,568**	**6,729**
Provisions	610	577
Payables	6,305	8,661
Deferred income	1	16
Total equity and liabilities	**13,484**	**15,983**

The total assets of Evonik Industries AG decreased from €16.0 billion in the previous year to €13.5 billion. Financial assets mainly comprise shares in subsidiaries. The receivables mainly comprise financial receivables of €3.0 billion (2016: €2.2 billion), principally in connection with loans and cash pooling activities. The drop of €4.3 billion in cash and cash equivalents to €0.6 billion related to payment of the purchase price of €3.5 billion for the acquisition of the Air Products specialty additives business.

Equity decreased by €0.1 billion to €6.6 billion, mainly as a consequence of lower earnings. The equity ratio rose from 42.1 percent in 2016 to 48.7 percent. Provisions increased from €577 million to €610 million, mainly as a consequence of interest effects on provisions for pensions and higher provisions for taxes. The receivables and liabilities reflect the financing activities of Evonik Industries AG in its role as the holding company for the Group. Payables include financial liabilities of €6.1 billion (2016: €8.4 billion). €4.2 billion (2016: €7.1 billion) of this amount comprises liabilities to affiliated companies, principally in connection with cash pooling activities. A further €1.8 billion (2016: €1.3 billion) relates to corporate bonds.

Opportunities and risks

The most significant operating subsidiaries in Germany have profit-and-loss transfer agreements with Evonik Industries AG. In line with the central financing strategy of the Evonik Group, most internal and external financing transactions are handled by Evonik Industries AG. Consequently, Evonik Industries AG is essentially exposed to the same risks and opportunities as the Evonik Group. Further information can be found in the opportunity and risk report.

Outlook[1] for 2018

We anticipate that in 2018 the net income of Evonik Industries AG will be slightly higher than in 2017. This is based on the assumption of attractive income from investments. By contrast, given the low interest rates, effects relating to pension provisions could have a negative impact.

Report on relations with affiliated companies

A report on Evonik Industries AG's relations with affiliated companies has been prepared in accordance with Section 312 of the German Stock Corporation Act (AktG). It concludes with the following declaration: "Our company received adequate remuneration or compensation for each of the transactions set out in this report on relations with affiliated companies under the circumstances known to us at the time when the transactions were undertaken. No actions were performed or omitted at the instigation of such companies."

[1] For details of the assumptions, see the section on expected developments.

4. Research & development

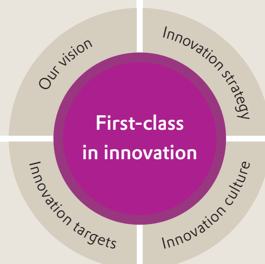
Our claim: First-class in innovation

Evonik is one of the most innovative companies in the world

Focus on growth fields

Push transformational innovation

Open collaboration



Increase the value of the innovation pipeline

New products, applications, and processes must make a substantial contribution to sales and profit

Enhance risk-taking

Trust, openness, and transparency

Improve knowledge sharing

Approx. **230** new patent applications

Total patents held/applications filed approx.: **26,000**

R&D expenses **€458 million**

Registered/pending trademarks approx.: **7,500**

3.2% R&D ratio

Average rise in R&D expenses 2013–2017 **4%** p.a.

Products/applications introduced in the past five years **10%** of sales

Approx. **2,800** R&D employees

40 R&D locations

Patent-driven sales[a] **52%**

[a] Excluding sales from first-time consolidation of acquisitions.

Innovation strategy firmly anchored in corporate strategy

Innovations and a systematic alignment to specialty chemicals play a key role in our drive to be the best-in-class specialty chemicals company.

In view of this, we have taken an important step to pave the way for the future: In 2016, we restructured our innovation portfolio to focus on six growth fields, which are assigned to our growth engines in highly attractive markets with above-average growth rates. Evonik's core competencies are ideally positioned to supply new products and solutions in the six innovation growth fields:

- **Sustainable Nutrition:** Establishing additional products and services for sustainable nutrition of livestock and people
- **Healthcare Solutions:** Developing new materials for implants, as components of cell culture media, and for custom-tailored drug formulations
- **Advanced Food Ingredients:** Creating a portfolio of health-enhancing substances and nutritional supplements as a contribution to healthy nutrition
- **Membranes:** Extending SEPURAN® technology for efficient gas separation to further applications
- **Cosmetic Solutions:** Developing further products based on natural sources for cosmetics and sensorially optimized formulations for skin care products
- **Additive Manufacturing:** Developing products and technologies for additive manufacturing

In the Sustainable Nutrition growth field, for example, we are establishing further products and services for sustainable nutrition of livestock. That involves linking modern digital technologies with our knowledge and experience of healthy animal nutrition. That benefits the animals, farmers, and consumers.

Another of our innovation growth fields is working on membranes. Our SEPURAN® technology for efficient gas separation is continuously being optimized for additional applications, giving us access to attractive markets. In 2017, we started up an extended production complex at our site in Schörfling (Austria). Here we will be producing membrane modules, especially for efficient nitrogen separation. A further membrane for the treatment of natural gas should be added to this product portfolio this year. Natural gas and nitrogen together account for over 80 percent of the total gas separation market.

The innovation portfolio in our growth segments and at our strategic innovation unit Creavis is aligned to these growth fields.

Successful innovations

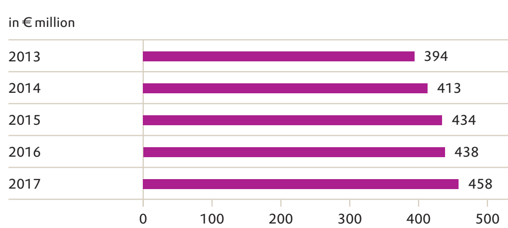
Evonik has an extensive **patent strategy** to protect new products and processes. The quality of our patent portfolio has increased steadily in recent years. Some 230 new patent applications were filed in the reporting period. Overall, we had around 26,000 patents and pending patents in 2017. Our "patent-driven" sales indicator was 52 percent of consolidated sales.[1] Product sales are defined as "patent-driven" if there is at least one relevant patent in force worldwide.

In 2017, products and applications introduced in the past five years accounted for 10 percent of Evonik's consolidated sales.

Our **innovation pipeline** is well stocked. It comprises a balanced mixture: As well as addressing completely new business options, it is geared to securing and enhancing the prospects of existing businesses. Alongside product and process innovations, the focus includes innovative business models and product and process innovations. Our portfolio is aligned to the differing business strategies of the various business entities.

In view of the strategic importance of R&D, we have raised R&D expenses by an average of 4 percent since 2013. In 2017, R&D expenses totaled €458 million. Our R&D projects are managed using the multi-step Idea-to-Profit process developed by Evonik to support the systematic development of projects right up to profitable commercialization.

R&D expenses **C19**



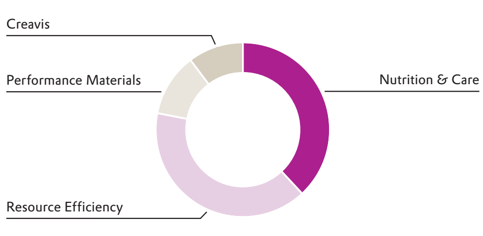
[1] Excluding sales from the newly consolidated acquired businesses.

R&D drivers at Evonik

Around 90 percent of our R&D is performed by our **segments.** That includes, first and foremost, research geared specifically to their core technologies and markets and to the development of new business. The Nutrition & Care and Resource Efficiency growth segments will receive an above-average share of our R&D funds so that they can enter new markets through innovations and alliances. The Performance Materials segment focuses on optimizing products and processes. In addition, R&D is driven forward by **Creavis,** our strategic innovation unit. Working closely with the segments, Creavis is engaged in research into new technologies. It concentrates on mid- and long-term projects, which are driven forward in a variety of ways. Its principal areas of focus are Evonik's innovation growth fields, and its work is linked to the segments' R&D activities. Examples are the development of new gas separation membranes, which add new technologies to our SEPURAN® platform.

On the basis of the identified potential in the strategic growth fields, Creavis sets up **project houses,** which spend three years working on research into a potential innovation in conjunction with the segments and external experts. For example, the Medical Devices Project House in the Healthcare Solutions growth field is currently working on new solutions for medical technology and on extending Evonik's competence in biomaterials and polymers. In particular, it is addressing applications in implantology.

Breakdown of R&D expenses **C20**



Evonik also obtains access to new technologies and business options through its **corporate venture capital activities.** We invest specifically in specialized technology funds and promising start-ups of strategic relevance to Evonik. This gives us an insight into new technologies and business activities that fit our growth strategy at a very early stage of development. Products and technologies are developed in joint projects. In this way we speed up our innovative process. Evonik has been involved in the venture capital business since 2012 and has made more than 20 investments in this time. In 2017, Evonik's investments included four start-ups and three funds. Our investments in start-ups include NUMAFERM, a biotechnology company based in Düsseldorf (Germany). NUMAFERM is working on more efficient production of peptides. Peptides and their applications are of enormous interest for our Specialty Additives and Health & Care growth engines. Evonik's fund investments include Digital Growth Fund I in Munich (Germany). This fund provides capital for fast-growing young IndustrialTech and FinTech companies with proven and successful B2B business models. Our investment in Digital Growth Fund I is a strong partnership that strengthens Evonik in an important field of the future: digitalization. In addition, we are driving forward precision livestock farming (PLF) for poultry. Through our analytical services for amino acids we already have experience of digital business models in agriculture and we now aim to link these using modern digital technologies.

We regard our **innovation culture,** which is encouraged and brought to life through our R&D activities, as a major factor in our innovative capability. It determines whether—and how fast—employees are able to identify and drive forward good ideas and convert them into additional sales and earnings. Alongside commitment, passion, and stamina, that entails the strength to discontinue R&D projects if their prospects of success are too low, as well as a constructive attitude to mistakes. We therefore regard Evonik as an open, learning company.

Opportunities offered by digitalization

Evonik recognized the opportunities inherent in digital business models at an early stage. We are consciously shaping the necessary changes in the company. In the coming years, Evonik intends to invest considerably in developing and testing digital technologies and building up the related expertise. Within the Evonik Group, Evonik Digital GmbH therefore started to develop new digital business models and build up digital competencies at the start of 2017. This Evonik entity focuses on digital solutions and drives them forward after successful testing in the Group. A major role here is played by collaboration with well-known technology companies and universities.

5. Sustainability

We take responsibility for our business, our employees, and the environment

- Safety has top priority
- Our products help our customers achieve their sustainability goals
- Evonik offers an attractive working environment so employees like working for us and fulfill their potential
- Protecting the climate and the environment is important to us

Safety indicators at a very good level

✓ **Accident frequency indicator:** 1.16, below the maximum limit of 1.30
✓ **Incident frequency indicator:** 1.1, only just above the maximum limit of 1.10

Our employees come from **110** nations

Climate strategy rated **A–** by CDP Climate Change

Low employee fluctuation rate of **5.8%**

23.2% of managers are female

We invest around **€500** per employee in training

55 ESHQ audits worldwide

Accolades:

Sustainable Business Awards Singapore

Building Public Trust Award

German Awards for Excellence 2017: Evonik Industries AG

Outstanding employer

Responsible corporate management

Sustainability is a core element in our corporate claim “Power to create.” Our products and solutions are used in many areas that help to improve people’s lives and minimize the use of scarce resources. In this way, we also aim to play a part in the 17 goals for sustainable development set by the United Nations, to be achieved by 2030. In the reporting period, we addressed these goals and their relevance for the Evonik Group, individual operating units, and entire value chains in a variety of ways.

Numerous voluntary commitments

Evonik is committed to the ten principles of the UN Global Compact and is guided by the International Labour Standards issued by the International Labour Organization (ILO) and the Guidelines for Multinational Enterprises published by the Organisation for Economic Cooperation and Development (OECD). In addition, we are involved in many networks such as the “Chemie^3” sustainability initiative of the German chemical industry, and the World Business Council for Sustainable Development (WBCSD). Together with our Code of Conduct, our Global Social Policy (GSP) and our Environment, Safety, Health and Quality (ESHQ) Values provide a framework for responsible corporate management.

We are also committed to the WBCSD’s “Vision 2050,” which describes the pathway to achieving a sustainable world with around 9 billion people living well within the limits of the planet by 2050.

Integrated sustainability strategy and sustainability management

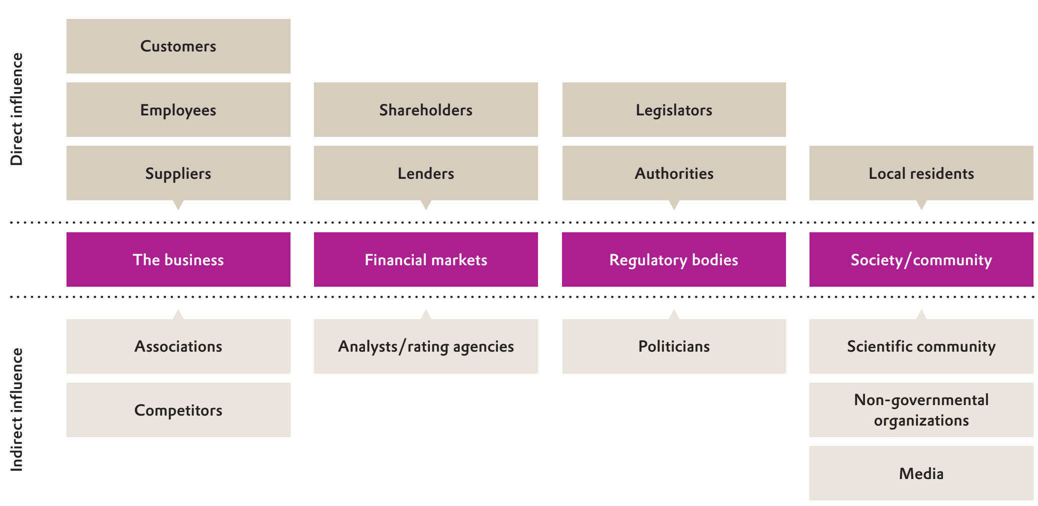
We are convinced that sustainable business activities and responsible conduct by our management and staff at all levels are vital for the future of our company. Our sustainability strategy takes up the growth engines identified in our corporate strategy—Specialty Additives, Animal Nutrition, Smart Materials, and Health & Care—and defines areas of action geared to balanced management of economic, ecological, and social factors.

The Executive Board bears overall responsibility for sustainability. Direct responsibility is assigned to the Chief Human Resources Officer, who is also responsible for all climate-related aspects at Evonik. The Corporate Responsibility Division sets the strategic framework for sustainability management and coordinates the Group-wide implementation of the strategy in close collaboration with other central functions and the segments.

Intensive dialogue with stakeholders

Dialogue with our stakeholders is important to give us a better understanding of different perspectives and regularly review our own positions. Findings and impetus from our stakeholder dialogues facilitate timely identification of upcoming market developments, trends, opportunities, and risks. That enables us to customize our products and solutions to meet the needs of our customers and markets.

Evonik’s stakeholder groups **C21**



We use a variety of formats for dialogue with our stakeholders. One example was an exchange of experience with representatives of churches, industrial unions, companies, and non-governmental organizations on “Industry and Human Rights” in June 2017. At the Evonik Perspectives expert forum in October 2017, the Corporate Responsibility Division and the Resource Efficiency segment discussed opportunities and challenges on the road to greater energy efficiency and more efficient use of resources with more than 100 stakeholders. Important feedback about our sustainability performance also comes from talking with members of the investment community.

Impact analysis launched

Sustainability is a key criterion in many of our markets and is increasingly becoming a growth driver. Our sustainability analysis makes the contribution made by corresponding products and services to our business performance measurable. We are continuously developing this methodology. In addition, we have started to evaluate the positive and negative impacts of Evonik’s business activities along the value chain on the economy, the environment, and society in monetary terms.

Transparency in sustainability reporting

Transparent and open reporting of our sustainability activities is important to us. The information channels provided for this include our “Responsibility” website, which was redesigned in 2017, our extensive Sustainability Report, and, for the first time, a separate non-financial report[1]. In addition, we are rated by prestigious rating agencies: Evonik is positioned among the leaders in the chemical industry in significant sustainability ratings and is included in major sustainability-oriented index families.

We received many accolades for our sustainability activities and sustainability reporting in 2017. That recognition is an additional incentive for us to extend our commitment to sustainability.

5.1 Employees

Employees are the foundations of our success

Skilled and motivated employees are the key to Evonik’s success. By providing an attractive working environment, we want to ensure that our employees like to work for Evonik and can develop their talents. All employees can fulfill their potential. We foster the creativity of our employees and offer them space to take their own route to innovative solutions. We want to create an atmosphere based on trust, respect, and openness. We reward performance and readiness to take risks and we develop our own managers.

This is reflected in our human resources strategy, which is divided into the following areas of action: attract, develop, perform, retain, and lead.

Attract

Employer branding—Positioning as an attractive employer

We seek out creative and competent employees with high potential and offer them a working environment that fosters ideas, rewards hard work, and maintains their mental and physical employability. We also use these employer qualities in the competition to attract the most talented employees and managers to Evonik.

Our new employer branding campaign, #HumanChemistry, is designed to make it clear that Evonik is an innovative and increasingly more digital specialty chemicals company where highly motivated employees and their abilities play a central role.

A variety of awards and surveys confirm that Evonik is already one of Germany's most attractive employers. In the Focus ranking, Evonik is still among the top-10 employers in the chemical industry. In the B2B Social Media Ranking (Brandwatch), Evonik shot up from 35th place in 2016 to first place in 2017. In China, Evonik was once again included in the list of the most popular employers published by the Top Employer Institute in 2017.

Modern recruiting

To attract potential new employees, it is becoming increasingly important to establish contact to relevant target groups at an early stage. We therefore work specifically with selected universities and higher education institutes around the world.

Through the Evonik Perspectives program we remain in contact with students whose performance in internships at Evonik is above average. Many of the participants in this program join Evonik when they finish their studies.

Develop

Further training to secure the future

We want to ensure timely identification of the potential of our employees and talents and to foster, develop, and stretch employees accordingly. Our intranet site provides transparent and accessible information for all employees on opportunities for continuing professional development, together with the content and whom to contact.

[1] See www.evonik.com/nonfinancial-report

We need employees with the right mindset and the relevant skills and competencies so we can address the digital transformation and potentially disruptive changes. Through #HumanWork, we aim to prepare our employees for tomorrow's world of work and the age of digitalization. To support this necessary cultural change at Evonik, we established our first rooms to test new working conditions in 2017. In these New Work Labs our employees can make an active contribution to aspects of Work 4.0.

For the continuing professional development of our employees, we invested around €500 per employee in training alone in 2017.

Vocational training for present and future specialists

We still recruit specialists specifically from young people within the company, and are committed to their development. All employees hired following successful completion of their vocational training are offered a clear perspective for the future.

At year-end 2017, we had around 1,900 young people at 16 sites in Germany on more than 38 vocational training courses and combined vocational training and study programs. Around 390 of them were being trained on behalf of other companies. Apprentices accounted for nearly 8 percent of our workforce in Germany, which is still well above the national average. A total of 90 places were offered on the "Start in den Beruf" pre-apprenticeship project in the 2017/2018 academic year, including 20 for refugees. Overall, we invested €65 million in vocational training in Germany in 2017. That positions Evonik among the best training companies in Germany.

Talent management—Developing tomorrow's executives

Key positions are filled predominantly by talented employees from within the company. To this end, we develop employees with potential across hierarchical levels, functions, and organizational units. Important objectives for talent development at Evonik are personal responsibility, diversity, internationality, and entrepreneurship. Alongside on-the-job development through job rotation, involvement in projects, and international postings, targeted programs are used to ensure the development of our high potentials. In addition to demanding seminars on aspects of leadership and management in collaboration with major business schools such as IMD in Lausanne (Switzerland), we have established a further element geared to ethical aspects, values, and personal development.

Options for personal behavior and responsibility are addressed, discussed, and experienced through community work in Vietnam, a special curriculum on ethics, values, and moral aspects, and a program of reflection on the role of companies in politics and society.

Perform

We regard a healthy performance culture as the basis for the company's success and the personal motivation of every individual employee. Fair, performance-related remuneration plays a central role in this, together with employees' annual performance and development review with their manager.

Remuneration—Performance-related pay around the world

When shaping remuneration systems, Evonik believes it is very important to offer specialists and executives market-oriented and performance-related salaries. The remuneration of many members of our workforce includes bonus payments that are based on the company's business performance and/or their personal performance.

In addition, our employees in Germany, Belgium, and the USA and, for the first time in 2017, staff in China and Singapore are offered the "Share" employee share program. The participation rate rose for the third time in succession to a new record of 41 percent.

Fringe benefits form part of overall remuneration

As a responsible employer, Evonik helps the majority of employees build financial security to cover risks such as accidents and disability and to provide for retirement, either directly or through pension contributions to external institutions. The arrangements are based on the economic, legal, and tax situation in the various countries. Employer contributions to pension plans are an important element in competitive overall remuneration packages, especially in Germany, the USA, and some European countries. The pension plans in Germany and the USA have been revised and aligned to the future cost to Evonik as a result of demographic challenges.

Retain

Diversity enriches

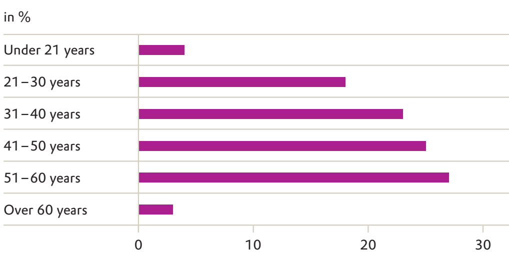
We regard ourselves as an international company and see diversity as an opportunity. Diversity means fostering creativity, trying out new things, and better understanding the needs of our customers. We see diversity of nationality, gender, educational background, and professional experience, as well as a wide-ranging age structure in the workforce, as a clear competitive advantage. For us, diversity means utilizing the entire spectrum of experience, competencies, and viewpoints that our employees contribute in their daily work.

Our diversity strategy includes gender networks as well as clear diversity targets for managers. It is evaluated and managed through a Group-wide Diversity Council.

Key data on diversity T24

in € million	2017	2016
Women as a proportion of the total workforce in %	24.9	24.7
Female managers in %	23.2	22.0
Average age in years	41.9	41.8
Nationalities	110	105

Age structure in the Evonik Group C22



Work-life balance

Healthy and motivated employees are vital for Evonik's success and an integral part of our corporate responsibility. We respect the individual needs and personal aspirations of our employees. Therefore, it is very important to us that our employees find a balance between work and their private lives. We offer flexible worktime models and concrete measures to support them in the various phases of their lives. Our well@work program covers all aspects that maintain and improve the employability and quality of life of our employees.

Core elements are support in child care and flexible worktime models.

Including employee interests in our corporate culture

Our corporate culture determines how we treat one another and our success. Regular surveys on our corporate culture are therefore important to us so we are aware of our employees' attitudes and can include them in decisions. In 2017, we conducted an executive survey of the top 200 executives at Evonik. This will be followed in 2018 by our regular employee survey, which is conducted every three years and covers the approximately 36,000 employees in the Evonik Group.

Key data on employee retention T25

	2017	2016
Fluctuation rate in %	5.8	4.7
Average length of service in years	14.6	14.9

Leadership

Clear, consistent, cooperative

The heart of our leadership culture is a trustful relationship between employees and managers. Here we focus on three dimensions: clear instructions, consistent action, and a cooperative approach to our employees. Our aim is to ensure that sincere and effective leadership is a distinctive quality at all Evonik sites. Following our executive survey, Share your wisdom, in spring 2017 we therefore launched a continuous dialogue between our Executive Board and Group executives.

A considerable increase in headcount due to growth and acquisitions

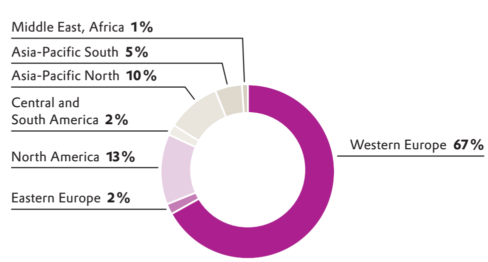
At year-end 2017, the Evonik Group had 36,523 employees, 2,172 more than at year-end 2016. The increase resulted principally from the acquisition of the Air Products specialty additives business (1,097 employees) and the Huber silica business (692 employees) as well as investment in growth projects in the Health & Care and Resource Efficiency segments. At the same time, there were some headcount reductions due to implementation of the Administration Excellence program to enhance efficiency and some small optimization programs in the chemical segments.

Employees by segment T26

	Dec. 31, 2017	Dec. 31, 2016
Nutrition & Care	8,257	7,594
Resource Efficiency	10,260	8,928
Performance Materials	4,364	4,393
Services	13,021	12,892
Other operations	621	544
Evonik	**36,523**	**34,351**

In 2017, personnel expenses, including social security contributions and pension expense, rose 8 percent to €3,374 million. Personnel expenses were therefore 23.4 percent of sales (2016: 24.6 percent).

Employees by region C23



5.2 Safety and environment

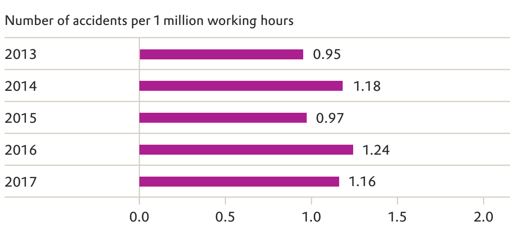
Safety as a management task

We take our responsibility in the field of safety particularly seriously—during production and while shipping products to our customers. Our objective is to protect our employees and local residents as well as the environment from any potential negative impact of our activities. The Group-wide Safety at Evonik initiative has become firmly established as an ongoing process to develop our safety culture and as a fundamental management approach to all aspects of occupational and traffic safety. Our guiding principles for safety and our safety culture provide a structure and guidance for our corporate targets and activities. Binding principles are applicable for all employees, from local personnel to our management, and provide clear and measurable guidance for their personal conduct and leadership.

Incident frequency indicator improved slightly and was within the defined limit

A special focus of our initiative is the safety of our employees—both at work and on the way to and from work—and the safety of contractors working at our sites. In 2017, the **accident frequency indicator**[1] for our employees was 1.16, which was within our defined maximum limit of 1.30. That was a slight improvement compared with the previous year (1.24). Discussing the accidents provided valuable pointers for future accident prevention, and these have been communicated to our employees.

Accident frequency indicator C24



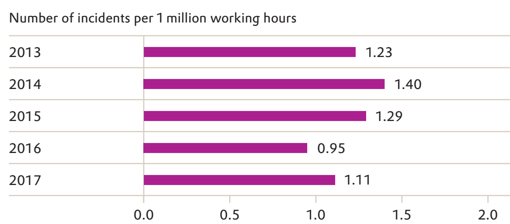
In the year under review, there was one fatal accident involving an Evonik employee. There were no fatal accidents involving contractors' employees, nor any fatal traffic accidents involving employees on the way to or from work or on business trips.

The accident frequency indicator for contractors (number of work-related accidents involving non-Evonik employees resulting in absence from work per 1 million working hours) increased slightly year-on-year to 3.52 (2016: 3.15).[2]

Incident frequency indicator at a very good level

Process safety at our plants is another focus of our initiative. The concepts to prevent fire and the release of hazardous substances are regularly analyzed in detail. The aim is timely identification of risks so we can develop appropriate measures that reliably prevent these risks. We monitor and evaluate plant safety using the **incident frequency indicator**[3]. In 2017, this indicator was 1.11 and therefore fell slightly short of our target. Nevertheless, it was still at a very good level.

Incident frequency indicator C25



Safety targets

Our overriding aim is to avoid all accidents and incidents. We set annual limits for occupational safety and plant safety indicators.

For 2018 these are:

- The accident frequency rate should not exceed 1.30.
- The incident frequency rate should not exceed 1.10.

[1] Number of accidents involving Evonik employees and contractors' employees under Evonik's direct supervision per 1 million working hours.
[2] Calculation based on assumptions and estimates.
[3] Number of incidents per 1 million working hours.

Ambitious environmental targets

Protecting our environment and the climate are major global challenges of our age, along with the efficient use of limited natural resources in the face of the growing world population and increasing affluence. Maintaining the natural basis of life for future generations is part of our corporate responsibility. Key areas of action in the ecological arena can be derived from efficiency requirements. For us, that principally means reducing energy consumption, minimizing emissions into the air and water, and efficient water management.

We also develop products that contribute to forging a clear link between economic success and ecological progress. However, improving our ecological footprint and remaining internationally competitive are also dependent on public acceptance and political opportunity. These conditions are reflected in our strategic focus.

We have set demanding environmental targets for the period 2013–2020 (reference base: 2012):

- Reduce specific greenhouse gas emissions[1] by 12 percent.
- Reduce specific water intake[2] by 10 percent.

In sustainable waste management, we are continuing our efforts to make more efficient use of resources.

In 2017, we made further progress in reducing emissions at all stages in the value chain. A functioning environmental management system is the basis for this. Integrating it into our corporate processes is an ongoing task and an integral part of our sustainability management. At Evonik, accountability for plants, technical systems, products, and processes is therefore assigned to the responsible members of staff, for example, through job descriptions and letters of delegation.

Our environment, safety, health, and quality management system is binding for the entire Evonik Group. In addition, we require our production sites to be validated as conforming to the internationally recognized environmental management standard ISO 14001. As a result of the necessary start-up and preparatory phase for new units, the proportion of output covered by ISO 14001 validation varies. However, it is always between 95 and 100 percent. Audits are conducted to monitor implementation by the segments, regions, and sites. Alongside audits on specific issues, we conducted 55 ESHQ audits worldwide in 2017.

Carbon Disclosure Project—Climate reporting at a high level

Corporate growth potential arises from the systematic alignment of products and services to global megatrends. That includes the challenge of global climate change. Many innovative products from Evonik help improve energy efficiency at subsequent stages in the value chain, reduce the use of resources, and cut emissions.

In the area of reporting key environmental indicators, Evonik is engaged in intensive exchange with rating agencies such as the Carbon Disclosure Project (CDP). In 2017, we confirmed the very good CDP Climate Change score of "A–" obtained in 2016.

Slightly higher CO_2 emissions[3]

Output increased from 10.6 million metric tons to 11.0 million tons in 2017. About half of this increase came from the first-time consolidation of the Air Products specialty additives facilities.[4] CO_2 emissions increased from 9.4 million metric tons in 2016 to 9.8 million metric tons. In addition to higher output, this was attributable to routine shutdowns at gas power plants and the related increase in the use of the coal-fired power plant in Marl (Germany).

The 26 facilities operated by Evonik that fall within the scope of the European Union's Emissions Trading System (EU ETS) emitted 3.8 million metric tons of CO_2 in 2017.

[1] Energy- and process-related emissions as defined by the Greenhouse Gas Protocol. Scope 2 emissions measured using the market-based method.
[2] Excluding site-specific factors in the use of surface water or groundwater.
[3] Direct CO_2 emissions (Scope 1 emissions under the Greenhouse Gas Protocol) come from energy generation and production. Indirect CO_2 emissions (Scope 2 emissions) come from purchased energy. Gross emissions measured using the market-based method.
[4] The silica business acquired from Huber will only be included in the environmental data from 2018.

6. Opportunity and risk report

6.1 Opportunity and risk management

Risk strategy

Evonik's Group-wide internal opportunity and risk management (referred to generically as risk management in this section) forms a central element in the management of the company. Our risk management includes a risk detection system, which meets the requirements for publicly listed companies. The aims are to identify risks as early as possible and to define measures to counter and minimize them. To ensure optimal use is made of opportunities, these also need to be recognized and tracked from an early stage. We only enter into entrepreneurial risks if we are convinced that in this way we can generate a sustained rise in the value of the company and, at the same time, permanently limit possible negative implications.

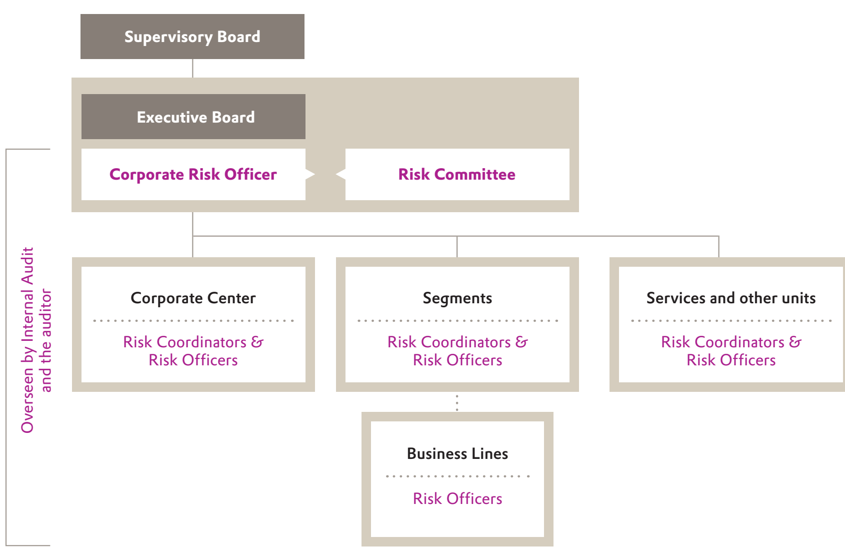
Structure and organization of risk management

At Group level, risk management is assigned to the Chief Financial Officer and is organized on a decentralized basis in line with Evonik's organizational structure.

The segments, corporate divisions, and service units bear prime responsibility for risk management. That comprises early identification of risks and estimating their implications. Furthermore, suitable preventive and control measures have to be introduced and internal communication of risks must be ensured. Risk coordinators in the organizational units are responsible for agreeing on the relevant risk management activities. At all levels in the Group, systematic and timely risk reporting is a key element in strategic and operational planning, the preparation of investment decisions, projections, and other management and decision-making processes.

A central Corporate Risk Officer coordinates and oversees the processes and systems. He is the contact for all risk coordinators and is responsible for information, documentation, and coordination at Group level. Further responsibilities include ongoing development of the methodology used by the risk management system. The Risk Committee is chaired by the Chief Financial Officer and composed of representatives of the corporate divisions. It validates the Group-wide risk situation and verifies that it is adequately reflected in financial reporting. The Supervisory Board, especially the Audit Committee, oversees the risk management system.

Structure of risk management C26



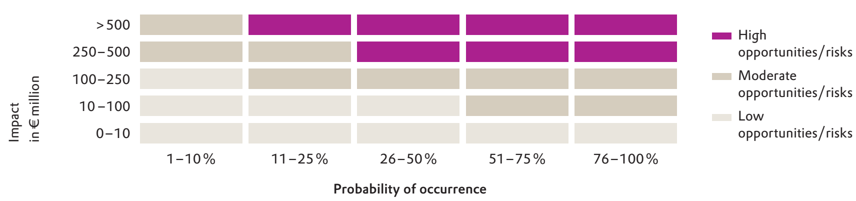
In 2017, risk management again included all consolidated companies in the Evonik Group. At companies where we do not exert a controlling influence, we implement our risk management requirements primarily through our presence in management and supervisory bodies.

Corporate Audit monitors risk management in our organizational units to make sure they comply with statutory and internal requirements and to ensure continuous improvement of risk management. The risk detection system is included in the annual audit in compliance with the requirements for listed companies. This audit showed that Evonik's risk detection system is suitable for timely identification of risks that could pose a threat to the company's survival.

The risk management system is based on the internationally recognized COSO Enterprise Management standard. It is implemented through a binding Group-wide policy. Individual risks are systematically identified and managed with the aid of special risk management software. Their probability of occurrence and the possible damage (potential impact) are evaluated and documented, together with their expected value (product of probability of occurrence and potential impact). Analogously to current planning, the evaluation is based on a period of three years (mid-term planning). Opportunities and risks are defined as positive and negative deviations from the plan. The relevant indicators include adjusted EBITDA. In addition, longer-term opportunities and risks, including those relating to sustainability, are included.

The organizational units conduct an extensive annual risk inventory in connection with the mid-term planning process. They are required to provide details of the measures to be taken with regard to the risks identified, introduce them immediately, and track their timely implementation. Internal management (for example, reporting by the Risk Committee) takes a mid-term view. The opportunities and risks identified are classified as low, moderate, or high (see opportunity and risk matrix). The evaluation is always based on a net view, in other words, taking into account risk limitation measures. Risk limitation measures can reduce, transfer, or avoid gross risks. Common measures include economic counter-action, insurance, and the establishment of provisions on the balance sheet.

Opportunity/risk matrix C27



The risk inventory is supplemented by quarterly reviews of all opportunities and risks relating to the present year both to spot changes in the opportunities and risks that have already been identified and to identify new risks and opportunities.

All high risks and opportunities are classified as material individual risks and opportunities, as are moderate risks and opportunities with an expected value of over €100 million in the mid term. The expected value is used exclusively as a basis for prioritization and to focus reporting on key issues.

6.2 Overall assessment of opportunities and risks

Given the measures planned and implemented, no risks have been identified that—either individually or in conjunction with other risks—could jeopardize the continued existence of Evonik as a whole, including Evonik Industries AG in its role as the holding company for the Group.

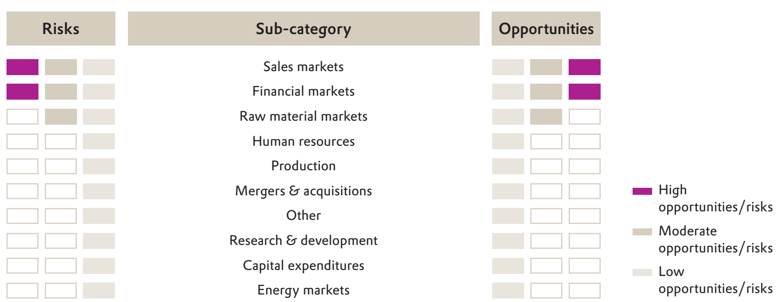
For 2017 we expected more risks than opportunities. During the year, there were some opportunities and risks whose overall effects canceled each other out. Pleasingly, in the Resource Efficiency and Performance Materials segments we were mainly able to realize opportunities, especially in C_4 chemicals and methacrylates. In the Nutrition & Care segment, considerably more risks than opportunities materialized, especially in the market for amino acids. Our reporting distinguishes between the categories market and competition risks, legal and compliance risks, and process and organization risks. The main parameters influencing the risk categories in terms of both opportunities realized and risks that materialized resulted from the development of specific market and competition situations. From the present standpoint, the risks for 2018 again outweigh the potential opportunities. Compared with 2017, there has been a slight increase in the risks for the Evonik Group, while the opportunities have increased considerably.

Material individual risks and opportunities for the Evonik Group are changes in exchange rates and the development of margins for C_4 chemicals. Further material risks relate to the development of amino acid prices and the overall economic development. Measures to reduce the risks include general economic mitigation measures and, especially with regard to changes in exchange rates, the use of hedging instruments. Sections 6.3 and 6.4 present the material individual risks and opportunities, along with further opportunities and risks in each category. Except where otherwise indicated, they apply for all segments.

6.3 Market and competition opportunities and risks

In accordance with our internal management, opportunities and risks in the market and competition category are allocated to risk quantification classes within sub-categories. The chart shows the highest class to which an individual risk or opportunity is allocated in each sub-category. Individual opportunities and risks may also be allocated to the lower risk classes. Where two sub-categories have the same profile in the chart, they are ranked first on the basis of the risks, then listed in descending order, based on their expected impact.

Opportunity and risk classes within the market and competition category C28



1. Sales markets

The development of the global economy entails both opportunities and risks for Evonik. If economic growth strengthens or weakens, for example, due to political developments, changes in interest rate and exchange rate policy, or the development of key sectors of the economy (e. g., the banking and real estate sectors), this can have an impact on demand in market segments of relevance to Evonik. That in turn can influence Evonik's earnings and cash flows. Evonik counters these economic risks by constantly monitoring the macroeconomic environment, optimizing cost structures and competitive positions in its established areas of business, and extending businesses in its portfolio with low cyclical exposure.

Alongside the general demand situation, intensive competition in the various market segments harbors both opportunities and risks. These may result from either demand in specific markets or from the competitive situation in various industries. Changes in demand can have a considerable impact on our business volume and sales. In addition, competitors in low-wage countries in particular can increase competitive pressure through new capacities and aggressive pricing policies that can impair our selling prices and volume trends. To counter this we are broadening our foreign production base and gaining access to new markets in high-growth regions such as Asia and South America. To reduce these risks, the operating units affected also use various methods of increasing customer loyalty and gaining new customers, enter into research alliances with customers, and extend the services offered along the value chain.

On the other hand, opportunities arise for our businesses from unmet demand in individual markets, for example, if our competitors are unable to bring planned new capacity into service on schedule. In 2017, there was an increase in shutdowns of production facilities in China, including those operated by our competitors, to improve environmental protection and occupational safety. Our production facilities worldwide are based on modern standards and have high levels of occupational and environmental safety, so we see an opportunity to increase our market share.

We are constantly developing attractive and competitive new products and technologies to mitigate the risk that chemical products could be replaced by new, improved, or less expensive materials or technologies. One potential risk factor for our amino acids business, for example in Asia, is the possible impact of substandard food quality and food safety, especially due to bird flu. We utilize opportunities for profitable future growth by gaining access to new markets as part of our strategic development. One attractive market for our amino acids business is aquaculture, for which we have developed innovative products. As a result of global population growth, rising affluence in emerging markets, and overfishing of the world's oceans, the global aquaculture market is growing faster than other areas of livestock farming.

Customer concentration is basically low in our chemicals segments. None of the end-markets that we supply accounts for more than 20 percent of sales. Nevertheless, some operational units, especially in the Nutrition & Care and Resource Efficiency segments, and the Services segment have a certain dependence on key customers. In the operating business, this applies in particular to production facilities erected in the direct vicinity of major customers. The possible loss of a major customer could result in lower sales and in impairment losses on receivables and investments, as well as impacting our long-term raw material agreements or the financial structure of our affiliates.

2. Financial markets

As a rule, liquidity, credit default, currency, and interest rate risks and the risks relating to pension obligations are managed centrally. All material financial risk positions are identified and evaluated in accordance with Group-wide policies and principles. This forms the basis for selective hedging to limit risks. In the use of derivative and non-derivative financial instruments to minimize the risks, Evonik applies the principle of separation of front office, risk controlling, and back office functions and takes as its guide the banking-specific "Minimum Requirements for Risk Management" (MaRisk) and the requirements of the German legislation on corporate control and transparency (KonTraG). Financial derivatives[1] are only used in connection with corresponding hedged items.

Exchange rate volatility

Transaction-related exchange rate risks arise from the translation of operating monetary assets and liabilities on the balance sheet into the functional currency of the respective Group company. The resulting net risk is normally hedged in full using derivatives. Further, our transaction-related currency management takes account of forecast cash inflows and outflows, which are hedged on the basis of forecast transactions, with a target hedging rate of up to 75 percent. Material opportunities and risks may arise from the remaining unhedged items and from discrepancies between the actual future rates and the average rates used to hedge forecast transactions. Scenario analyses are performed to estimate and control such risks and opportunities. These focus on the main foreign currencies of relevance for the Evonik Group, the US dollar, Chinese renminbi yuan, and the Singapore dollar. In view of the rising importance of regions outside the euro zone, risks and opportunities relating to transactions in foreign currencies will increase in the long term. In addition, there are currency-related risks from the translation of separate financial statements. Further, economic risks arise because exchange rates influence our competitiveness in global markets.

Risk of changes in interest rates

Potential changes in capital market rates result in opportunities and risks. These comprise, on the one hand, changes in the fair value of fixed-interest financial instruments and, on the other, changes in interest payments on variable-rate financial instruments. To control these risks, when setting interest rate terms Evonik pays special attention to the structure of the fixed-floating relationship and uses interest rate swaps for further optimization where appropriate. Through the use of fixed-interest loans and interest rate hedging instruments, 77 percent of all financial liabilities were classified as fixed-interest as of the reporting date, and therefore had no material exposure to changes in interest rates.

[1] Further details of the financial derivatives used and their recognition and measurement can be found in Note 9.2 to the consolidated financial statements.

Liquidity risks

To manage the Group's solvency, Evonik uses central liquidity risk management.[1] At its heart is a Group-wide cash pool. In addition, our financial independence is secured through a broadly diversified financing structure and our good rating. Overall, we believe that adequate financing instruments are available to ensure sufficient liquidity at all times.

Default risks

Default risks involve the risk of a loss if our debtors are fully or partially unable to meet their payment commitments. The credit risk of our customers and financial counterparties is therefore systematically examined when the contracts are concluded and monitored continuously afterwards. Limits are set for each contractual partner on the basis of internal or rating-based creditworthiness analyses.

Financial risks in connection with pension obligations

Both opportunities and risks may arise from potential changes in the parameters used to evaluate our pension obligations.[2] Changes, especially in interest rates, but also in mortality rates and rates of salary increases can alter the present value of pension obligations, which directly alters equity and can result in changes in the expenses for pension plans.

Market opportunities and risks, and liquidity and default risks relating to financial instruments also arise from the management of our pension plan assets. We counter these risks through an active risk management approach, combined with detailed risk controlling. Strategic management of the portfolios takes place via regular active/passive studies. To minimize risk, we use derivative hedging strategies where appropriate. The broad diversification of asset classes, portfolio sizes, and asset managers avoids cluster risks but there are unavoidable residual risks in the individual investments.

Impairment risk

The risk of asset impairment arises when the interest rate used in an impairment test rises, the forecast cash flows decline, or investment projects are halted. In the present business environment, we do not see a material risk of impairment of goodwill or individual assets. This also applies to investments, which are recognized in the balance sheet at their present market value in accordance with IAS 39.

3. Raw material markets

For our business operations we require both high-volume commodities and smaller amounts of strategically relevant raw materials that have to meet highly demanding specifications. In both cases, Evonik is confronted with opportunities and risks relating to the increasing volatility of the availability of raw materials and their prices.

The operating business is dependent on the price of strategic raw materials, especially petrochemical feedstocks obtained directly or indirectly from crude oil. The price of renewable raw materials is also highly volatile and is driven, for example, by weather-dependent harvest yields. Structural changes in exchange rates are another significant aspect affecting price risks. These risks are hedged by optimizing the global focus of procurement activities, for example by accessing new markets and concluding market-oriented agreements. To further reduce the price risks with regard to products that have intensive raw material requirements, our aim is to pass both the risks and the opportunities of fluctuations in raw material prices along to other stages in the value chain where necessary, for example, through price escalation clauses.

The overriding aim of the procurement strategy is to secure the availability of raw materials on the best possible business terms. Short- and mid-term bottlenecks in the availability of precursors and intermediates are potential risks. As well as making preparations to use substitute suppliers in an emergency, we constantly observe the business performance of suppliers of selected key raw materials to anticipate bottlenecks and avoid risks.

Increasing volatility requires constant monitoring of the corresponding risks in the value chain.

The opportunities and risks arising from changes in the price of petrochemical feedstocks mainly affect the Performance Materials segment because of its high procurement volume. Risks relating to single sourcing and short-term restrictions on the availability of raw materials mainly affect the Nutrition & Care and Resource Efficiency segments.

Supply chain

Ensuring that the supply chain meets sustainability criteria is a central aspect of procurement. We expect our suppliers to share our principles of entrepreneurial responsibility. We therefore have our own code of conduct for suppliers, based on the principles of the UN Global Compact, the International Labour Standards issued by the International Labour

[1] A detailed overview of liquidity risks and their management can be found in Note 9.2 to the consolidated financial statements. Details of the financing of the Evonik Group and action to protect liquidity can be found in the section on financial condition.
[2] See Note 6.9 to the consolidated financial statements.

Organization (ILO), and the Responsible Care® initiative. Globally, this approach to sustainability is also supported by the sector initiative Together for Sustainability, of which Evonik is a founding member, through the use of standardized assessments. Evonik's principal suppliers and the majority of critical suppliers have already taken part in these assessments, which are evaluated by an impartial sustainability rating company.

4. Human resources

As a global corporation, we respect the principles of the International Charter of Human Rights, the ten principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the International Labour Standards of the International Labour Organization (ILO). Compliance with all employment laws is especially important to us.

Qualified specialists and managers are the basis for the achievement of our strategic and operational targets and thus a key competitive factor. Both the loss of key personnel and difficulties in attracting and hiring skilled and talented staff could therefore constitute a risk in this context.

To ensure that we can recruit and retain qualified staff to meet our future requirements, we offer varied employment opportunities worldwide, systematic personnel development, and competitive remuneration. As a responsible employer, Evonik helps the majority of employees build financial security to cover adverse risk factors and provide for retirement, either directly or through pension contributions to external institutions. The arrangements are based on the economic, legal, and tax situation in the various countries. In addition, we take care of our employees' personal welfare through programs such as well@work. In this way, we retain and foster high-performers and talented employees, and position Evonik as an attractive employer for prospective staff. We also maintain close links to universities and professional associations to help us recruit suitable youngsters. Both our employer branding and many internal activities are aligned to diversity. The aim is to make Evonik even more attractive to talented specialists and managers.[1]

Strategic human resources planning identifies requirements for a five-year period so timely steps can be taken to cover future personnel needs. We have thus largely limited potential human resources risks. Opportunities and risks for the development of personnel expenses could come, for example, from future collective agreements.

5. Production

As a specialty chemicals company, Evonik is exposed to the risk of business interruptions, quality problems, and unexpected technical difficulties. We use complex production processes, some of them with interdependent production steps. Consequently, disruption and stoppages can adversely affect subsequent production steps and products. The outage of production facilities and interruptions in production workflows could have a significant negative influence on business and earnings performance, and could also harm people and the environment. Group-wide policies on project and quality management, highly qualified employees, and regular maintenance of our plants effectively minimize these risks. Insofar as is economically viable, we take out insurance to cover damage to our plants and sites and production stoppages, so the financial consequences of potential production risks are largely insured. Nevertheless, there is a risk of unforeseeable individual incidents.

6. Mergers & acquisitions

Active portfolio management has high priority for Evonik as part of our value-based management approach. We have set out clear procedures for preparing, analyzing, and undertaking acquisitions and divestments. In particular, these include clear rules on accountability and approval processes. An intensive examination of potential acquisition targets (due diligence) is undertaken before they are acquired. This involves systematic identification of all major opportunities and risks and an appropriate valuation. Key aspects of this process are strategic focus, earnings power, and development potential on the one hand, and any legal, financial, and environmental risks on the other. New companies are rapidly integrated into the Group and thus into our risk management and controlling processes. Every transaction of this type entails a risk that integration of the business may not be successful or that integration costs may be unexpectedly high, thus jeopardizing realization of the planned quantitative and qualitative targets such as synergies.

In the integration of the Air Products specialty additives business and the Huber silica business, which were acquired in 2017, Evonik is paying special attention to the identified risks and the related measures.

Where businesses no longer fit our strategy or meet our profitability requirements despite optimization, we also examine external options. If a planned divestment is not achieved successfully, this could generate risks that impact the Group's earnings position.

[1] See also the section on employees.

7. Other

A steady improvement in our cost position is necessary to make us more competitive. Our goal is to achieve a lasting reduction of €200 million in selling and administrative expenses by 2021. We will be working out specific measures in the coming months. Beside the potential to raise strategic flexibility and strengthen the operating units as a result of these programs and other restructuring projects, there are risks relating to their implementation. These include delays in implementation, the loss of key personnel, ineffectiveness of measures, and higher costs for the realization of measures. Stringent project management, including involving relevant stakeholders, is used to counter these risks.

8. Research & development

Opportunities for Evonik also come from market-oriented research & development (R&D), which we regard as an important driver of profitable growth. We have a well-stocked R&D pipeline with a balanced mixture of short-, mid-, and long-term R&D projects. On the one hand, we constantly strive to improve our processes in order to strengthen our cost leadership, and on the other, our projects open the door to new markets and new fields of technology. Our project portfolio is consistently aligned to our growth engines and innovation growth fields.

Through our venture capital program, we take stakes in companies whose know-how can support us in joint developments. Aspects of digitalization are becoming more significant.

Opportunities and risks in R&D relate to the viability of planned product and process developments and the timing of their implementation. We mainly see opportunities arising from the introduction of new products that go beyond our present planning in the innovation growth fields.

9. Investments

Generating growth through investment entails risks as regards the proposed scope and timing of projects. These risks are addressed through established, structured processes. For instance, we take an extremely disciplined approach to implementing our investment program. Both projects that have not yet started and those that are already underway are constantly reviewed for changes in the market situation and postponed if necessary.

At the same time, we regard building new production facilities in regions with high growth momentum as an opportunity to generate further profitable growth. For example, socio-economic megatrends are driving the development of our amino acids business. Following the successful start-up of a world-scale facility for DL-methionine in Singapore in fall 2014, we are planning to erect another plant at this complex by 2019. Global population growth means that demand for animal protein will continue to rise steadily in the future. Moreover, environmentally compatible agricultural production that makes more efficient use of resources is becoming more important worldwide for ecological reasons.

Resource efficiency is the basis for a large number of energy-efficient and environment-friendly products from Evonik. One example is precipitated silica, where we are a market leader. Combining precipitated silica with silanes allows the manufacture of tires with considerably lower rolling resistance than conventional auto tires, resulting in fuel savings of up to 8 percent. Here, future growth will be supported, among other factors, by the introduction of tire labeling regulations in further countries. To utilize the resultant opportunities, we are selectively increasing our capacity for silica. For instance, a new production facility was taken into service in Brazil in 2016 and a further production facility for precipitated silica will be constructed in the USA by the end of 2018.

The investments described above are included in our mid-term planning.

10. Energy markets

Evonik requires considerable amounts of energy from a wide variety of sources for its chemical facilities and infrastructure. The main sources are natural gas, electricity, and coal. At several major sites, our power and steam requirements are fully or partially met by resource-efficient co-generation plants. In 2017, we continued our constant monitoring of trends on the national and international energy markets, enabling us to respond in a risk- and cost-conscious manner.

In countries where the sourcing of energy is not state-regulated, we procured and traded in energy and, where necessary, emission allowances (CO_2 allowances) within the framework of defined risk strategies. The aim is to balance the risks and opportunities of volatile energy markets. Depending on how the general conditions develop, our segments could be faced with additional costs.

Here, risks could come from the structure of the fourth trading period of the emissions trading system (2021–2030), which could possibly include tighter rules for the allocation of free allowances. In the broader regulatory context of the energy markets, the way in which the cost of renewables is allocated among captive energy generators in Germany is of particular significance for Evonik, especially in view of the legal framework in Europe. That said, in principle we assume that captive generation will continue to contribute to the competitiveness of our German sites in the future. Possible costs could arise from the increase in grid feed fees and changes in the grid fee system due to the shift in German energy policy. Overall, we are exposed to fluctuations in the market price and cost of various energy sources as a result of the specific demand/supply situation and political events. These entail both opportunities and risks.

6.4 Legal/compliance risks and opportunities

The opportunities and risks in this category are far more difficult to quantify than market and competition risks, as they not only have financial implications but often also involve reputational risks for the company and/or criminal law consequences. Provisions are set up on our balance sheet to cover the financial impact. These are reflected in our system as reducing risk. In view of this complexity, legal/compliance opportunities and risks are not assigned to the opportunity/risk matrix illustrated above, nor are they allocated to the risk quantification classes.

1. Compliance, law, and the regulatory framework

Compliance means lawful business conduct. All forms of corruption, including "facilitation payments," are prohibited at Evonik. All employees are subject to the binding regulations on fair treatment of each other and of business partners set out in our Code of Conduct. Risks could therefore result from failure to comply with the corresponding regulations. To minimize compliance risks, extensive training and sensitization of employees is undertaken at face-to-face training sessions and/or through e-learning programs. Our Code of Conduct is binding for all employees of the Evonik Group worldwide, including the Executive Board and the governance bodies of all Evonik companies. They are required to comply with the rules set forth in the Code of Conduct, to ensure they are familiar with its content, and to take part in the relevant training.[1]

Evonik monitors the observance of human rights along its value chain. To minimize the related risks, we require compliance with the Evonik Supplier Code of Conduct, our Global Social Policy, and the Policy Statement on Human Rights.

Evonik is exposed to legal risks, resulting, for example, from legal disputes such as claims for compensation, and from administrative proceedings and fines. In its operating business, the Evonik Group is exposed to liability risks, especially in connection with product liability, patent law, tax law, competition law, antitrust law, and environmental law. Changes in public law could also give rise to legal risks or materially alter such risk positions. As a chemicals company with its own power plants, risks of particular relevance here are a possible change in the charges levied under the German Alternative Energies Act (EEG) and amendments to the European emissions trading regulations.

Further, Evonik may be liable for guarantee claims relating to divestments. Structured post-transaction management closely monitors any liability and guarantee risks resulting from divestments. We have developed a concept involving high quality and safety standards to ensure a controlled approach to such legal risks.

Insurance cover has been purchased for the financial consequences of any damage that may nevertheless occur as a result of damage to property, product liability claims, and other risks. Where necessary, Evonik sets up provisions for legal risks.

At present, the relevant legal risks are the issues outlined below. As a matter of principle, we refrain from evaluating the opportunities and risks of potential legal proceedings or proceedings that have commenced, in order not to influence our position.

Evonik is currently involved in three ongoing appraisal proceedings in connection with the settlement paid to former shareholders. The background relates to the following corporate restructuring measures: the domination and profit-and-loss agreement concluded with RÜTGERS GmbH (formerly RÜTGERS AG) in 1999, the squeeze-out of non-controlling interests in RÜTGERS AG (now RÜTGERS GmbH) in 2003, and the squeeze-out of non-controlling interests in Degussa AG (now Evonik Degussa GmbH) in 2006. The appraisal proceedings comprise a court review of the appropriateness of cash settlements or compensation.

In connection with the divestment of the former carbon black activities, the purchaser has requested indemnification from environmental guarantees relating to alleged infringement of the US Clean Air Act. Evonik is currently engaged in a dispute with the purchaser on this.

Following a fine imposed by the EU Commission in 2002 on various methionine producers (including Evonik), the Brazilian antitrust authorities have filed proceedings against

[1] See declaration on corporate governance.

Evonik in connection with the delivery of methionine to Brazil. Evonik is of the opinion that a fine cannot be imposed due to the statute of limitations.

Furthermore, following completion of administrative proceedings outside Germany, it is not improbable that individual customers could file claims for compensation.

With regard to employment law, there are risks relating, for example, to recalculation of pension commitments entered into by Evonik and its legal predecessors.

Tax risks relate to differences in the valuation of business processes, capital expenditures, restructuring by the financial authorities, tax reforms in some countries, and potential retroactive payments in the wake of tax audits.

2. Information security and the protection of intellectual property and know-how

Innovations play a significant part in Evonik's business success. Protecting know-how and intellectual property is therefore of central importance. With markets growing ever closer and the globalization of business, a competent approach to protecting our competitive edge is a key element in our investment activities. The company is also exposed to a risk that intellectual property cannot be adequately protected, even through patents, especially when building new production facilities in certain countries. Similarly, the transfer of know-how in joint ventures and other forms of cooperation also entails a risk of an outflow of expertise from Evonik. For example, in the event of the possible separation from a joint venture or other cooperation partner there is no guarantee that the business partner will not continue to use know-how transferred or disclose it to third parties, thereby damaging Evonik's competitive position.

Measures to minimize and avoid such risks are coordinated by the Corporate Security Division and the Intellectual Property Management unit.

IT risks

Electronic information processing is a key element in Evonik's success. Therefore, sustained protection of information and the availability, confidentiality, and integrity of IT-assisted business processes are especially important. If these systems and information are compromised, this can have a detrimental effect on our business and production processes.

To protect them and the associated knowledge from cyber criminality (including industrial espionage and manipulation through electronic attacks) from both within and outside the Group and to minimize such risks, Evonik has developed an IT security strategy and established organizational and technical measures. The secure use of information systems is described in binding Group-wide policies and regulations and driven forward and monitored by an internal control system.

In view of the considerable and continuously rising threat, we regularly review our security measures, implement risk-based countermeasures as required, and adapt them wherever necessary. Training, including compulsory training in some cases, and constant information, for example, via the Evonik Group intranet and internal social networking platforms, keep employees aware of the need for IT security. Strictly confidential information that Evonik needs to protect is identified and corresponding protective measures are implemented. At the same time, managers' awareness of this issue is raised. The Evonik Computer Emergency Response Team (CERT) is networked externally at various levels (Germany: member of the German CERT network, Europe: member of TF-CSIRT, globally: member of FIRST).

3. Environmental risks (environment, safety, health, quality)

Evonik is exposed to risks in the areas of occupational and plant safety. For example, workplace accidents and incidents in production facilities can cause injury to our employees or substance releases that impair the health of our employees and local residents. We counter these risks by living our understanding of safety as a holistic management task at all management levels. Our guiding principles for safety are binding for all managers and employees. In this way, Evonik makes it clear that safety is a central element in its corporate culture. We analyze accidents and incidents carefully so we can learn from them. Moreover, audits are conducted at the request of the Executive Board to check the controlled handling of such risks.

The aim of our product stewardship is timely identification and evaluation of possible health and environmental risks in our portfolio. We examine the entire value chain of each of our products—from procurement of the raw materials to delivery to our industrial customers, who receive all relevant information on the handling and disposal of our products. That includes, for example, safety data sheets and technical information sheets. As well as complying with all statutory requirements such as the European Chemicals Regulation (REACH) and the Globally Harmonized System of Classification and Labelling of Chemicals (GHS), product stewardship at Evonik includes voluntary commitments that go beyond these regulations.

Further risks may result from environmental regulations.

Furthermore, the Group-wide environmental protection and quality management system, which is validated as conforming to international standards, undergoes constant development and improvement. As a responsible chemicals company, Evonik ensures that such processes are operated in accordance with the principles of the global Responsible Care® initiative and the UN Global Compact.

Adequate provisions have been established to secure or remediate contaminated sites where necessary. Alongside the need to adjust environmental provisions identified through structured internal processes, for example as a result of changes in the regulatory framework, further unplanned additions to such provisions may be necessary.

6.5 Process/organization risks

1. General

This risk category covers the interface between risk management and the internal control system (ICS). In this category, risks generally result from specific process shortcomings. Alongside general weaknesses, these include, in particular, risks within the ICS and the accounting-related ICS. Classification is therefore based on the list of processes drawn up by Corporate Audit. Starting from key corporate processes, the existence of relevant control objectives and standard controls for the main risks identified is checked. In view of the types of risk in this category, a purely qualitative assessment is normally used.

The evaluation of specific risks resulting from weaknesses in processes within the organizational units showed very little scope to optimize existing processes because of the efficacy of the current controls. Corresponding scope for improvement has been identified. There are therefore no signs of systematic errors in the Evonik Group's ICS.

2. Internal control system for financial accounting

The main financial reporting risks are identified in the ICS through a quantitative and a qualitative analysis. Controls are defined for each risk area of the accounting process. Their efficacy is reviewed at regular intervals and improved where necessary. All elements of the control process are verified by Internal Audit on the basis of random samples.

To ensure the quality of financial statements we have a Group-wide policy which defines uniform accounting and valuation principles for all German and foreign companies included in the consolidated financial statements for the Evonik Group. The majority of companies have delegated the preparation of their financial statements to Global Financial Services. Through systematic process orientation, standardization, and the utilization of economies of scale, this leverages sustained cost benefits and also improves the quality of accounting. Global Financial Services has developed a standardized control matrix for the internal control system for financial accounting. This is implemented in the three global shared service centers: in Offenbach (Germany) for the Germany region, Kuala Lumpur (Malaysia) for the Asia region, and San Jose (Costa Rica) for the Americas region. The aim is to ensure a uniform global standard for the internal control system for financial accounting. In principle, the annual financial statements of all fully consolidated companies and all joint operations are audited. In the few exceptions from this rule, an upfront risk assessment is performed with the auditor.

All data are consolidated by the Accounting Division using the SAP SEM-BCS system. Group companies submit their financial statements via a web-based interface. A range of technical validations is performed at this stage. Computerized and manual process controls and checking by a second person are the key oversight functions performed in the financial reporting process. The preparation of the monthly consolidated income statement and publication of three quarterly reports allow us to gain experience with new accounting issues and provide a sound basis for plausibilization of the year-end accounts. The Executive Board receives monthly reports and quarterly reports are submitted to the Audit Committee of the Supervisory Board.

Aspects that may represent opportunities or risks for financial reporting in the future are identified and evaluated early through the risk management system. This ensures that risk management can be closely aligned to controlling and accounting processes.

7. Report on expected developments

7.1 Economic background

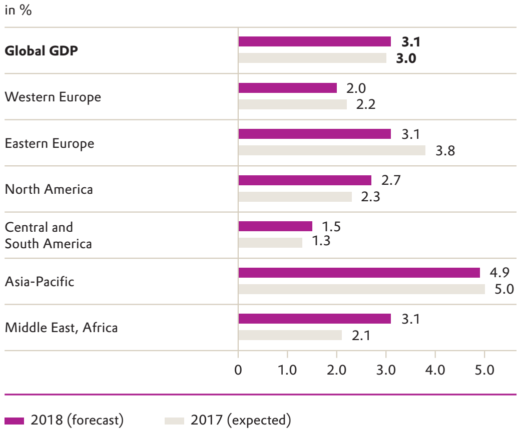
Global economy expected to grow slightly faster in 2018

We expect **global economic conditions** in 2018 to be slightly better than in 2017. Overall, we anticipate slightly stronger global momentum, with a growth rate of 3.1 percent in 2018, compared with 3.0 percent in 2017.

We assume that the positive economic trend will continue in Western and Eastern Europe, albeit with slightly lower growth than in 2017. This should be supported, among other things, by continued monetary policy stimulation, a weaker fiscal policy headwind, and rising confidence among companies and private households. Nevertheless, the economic development could be marred by political risks and risks in the financial sector.

GDP forecast for 2018 C29

in %



In North America, the economy should recover further. Growth will be driven by consumer spending, supported by falling unemployment and rising domestic incomes and assets. The US tax reform will reduce the tax burden on companies and private individuals and will provide moderate economic impetus through an increase in corporate investment and private consumption. In the light of increasing inflation, the Federal Reserve in the USA will continue its cautious interest rate rises.

Thanks to the economic upturn in Brazil, growth will pick up further in Central and South America. However, political uncertainty, high unemployment, and private debt are holding back a significant improvement in the economic prospects for this region.

Growth will remain high in the Asia-Pacific region. We assume that lower growth in investment and lending, plus environmental policy, will dampen the Chinese economy slightly in the future. Economic growth in Japan will weaken slightly compared with the previous year. In India, by contrast, growth will pick up again following the reform of the cash system and the introduction of a uniform nationwide value-added tax.

The projection for the global economy is marked by some uncertainty. At present, the main risks relate to geopolitical uncertainty caused by the large number of crises. The global economy could, however, develop differently from our expectations, especially as a result of central bank action. Alongside the as yet unclear impact of the UK's exit from the European Union, uncertainty about the United States' economic policy has increased. Furthermore, global growth could be dampened if the slowdown of the Chinese economy gathers pace.

In view of the stable development of raw material prices and exchange rates, we estimate that the rise in global inflation will be moderate. As of the start of 2018, we expect raw materials to rise as the markets recover in the second half of the year. Reasons for this are, on the one hand, the present development of oil prices and, on the other, the Chinese government's tougher stance on environmental policy. Overall, we expect prices of Evonik-specific raw materials to be slightly higher than in 2017. Consequently, we estimate that in 2018 Evonik's raw material index will be slightly higher than in 2017.

7.2 Outlook

Basis for our forecast:

- Global growth of 3.1 percent
- Euro/US dollar exchange rate: US$1.20 (2017: US$1.13)
- Internal raw material cost index slightly higher than in the prior year

Sales and earnings

We aim to grow sales and earnings again in 2018.

We anticipate that **sales** will grow slightly in 2018 (2017: €14.4 billion). Thanks to our strong market positions and strategic alignment to our four growth engines, we assume continued high demand for our products and perceptible volume growth. Selling prices are expected to be stable or rise slightly in most businesses. Overall, we anticipate a slight decline at Group level due to the expected development of the Performance Materials segment.

We also expect that operating earnings will improve compared with the prior year (€2,360 million). At the same time, there will be a further structural improvement in our earnings quality. In addition to higher contributions from our innovation growth fields, the businesses acquired from Air Products and Huber will play a considerable part in this. That will further reduce our dependence on individual products.

Specifically, we expect **adjusted EBITDA** to be between €2.4 billion and €2.6 billion. The growth in our operating earnings should be primarily organic. In addition, we assume positive earnings effects from the full-year consolidation of the Huber silica business, further synergies from the integration of the businesses acquired from Air Products and Huber, and a positive earnings contribution from the efficiency enhancement program we have launched.

We assume that earnings will continue to develop positively in the majority of businesses in the Nutrition & Care segment. Our solutions for sustainable animal nutrition and our innovative products and services for pharmaceuticals, medical technology, and cosmetics should make a significant contribution to this. As well as organic growth, we expect to leverage additional positive earnings effects from synergies resulting from the integration of the Air Products business. The annual average prices for essential amino acids for animal nutrition are expected to be stable compared with the prior year. At the same time, we assume sustained volume growth in this area. Overall, in the Nutrition & Care segment earnings are expected to be slightly higher than in the previous year.

We also anticipate that the Resource Efficiency segment will continue the very successful business performance of previous years. Further strong volume growth should bring another perceptible rise in earnings. Our broad portfolio of high-performance materials for environment-friendly and energy-efficient system solutions offers the best basis for a continuation of the positive organic earnings trend. In addition, earnings growth will be boosted by additional earnings from the Huber silica business and synergies from the integration of the Air Products and Huber businesses.

The Performance Materials segment should get off to a good start in 2018. In addition to the measures already in place to raise efficiency, which are increasingly feeding through to earnings, the continuation of the favorable supply/demand situation, especially for methacrylates, is proving beneficial. In the remainder of the year, however, this segment is unlikely to achieve the good level of 2017. Overall, earnings in the Performance Materials segment will not achieve the prior-year level.

The earnings impact of slightly higher raw material prices may affect the various businesses differently, but should balance out across the portfolio as a whole, partly through our ability to recoup most of the rises through selling prices.

In 2018, the return on capital employed **(ROCE)** should again be above the cost of capital (10.0 percent before taxes) and will probably be around the prior-year level (2017: 11.2 percent).

Financing and investments

We expect capital expenditures to be around €1 billion in 2018. We have set ourselves a goal of keeping total capital expenditures below the prior-year level (2017: €1.1 billion), even though investment in our world-scale plant for feed additives in Singapore will double compared with 2017 to around €300 million. Our strict capital discipline and clear focus on our four growth engines will contribute to this.

Alongside the expected earnings growth and increased cost-awareness, our strict capital discipline will also result in a slight increase in the **free cash flow** (2017: €511 million).

Occupational and plant safety

We assume that the **accident frequency**[1] indicator will be stable in 2018 (2017: 1.16) and expect it to be below the upper limit of 1.30 defined for 2018. Our long-term goal is still a sustained value of less than 1.00. We anticipate that we can achieve a slight improvement in our plant safety indicator, **incident frequency**[2] (2017: 1.11), and that it will remain below the upper limit of 1.10.

[1] Number of accidents involving Evonik employees and contractors' employees under Evonik's direct supervision per 1 million working hours.
[2] Number of incidents per 1 million working hours.