Strategic success—A solid operating performance in difficult market conditions

1. Basic information on the Evonik Group

1.1 Business model

Focus on strong market positions

Evonik is one of the world's leading specialty chemicals companies. We concentrate on high-growth megatrends, especially health, nutrition, resource efficiency and globalization. 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 integrated technology platforms, innovative strength and working closely with our customers.

See p. 267 f.

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 customers' specifications and extensive technical service. Our technology centers and customer competence centers play an important role in this around the world. We also have a focus on our customers' customers.

Market-oriented research and development is a key driver of profitable growth. Evonik is highly innovative and has efficient research. This is based on our strong innovation culture, which is rooted in our innovation management and management development.

We are convinced that sustainable and responsible business activities are vital for the future of our company. Evonik therefore accepts responsibility worldwide—for its business, its employees and society.

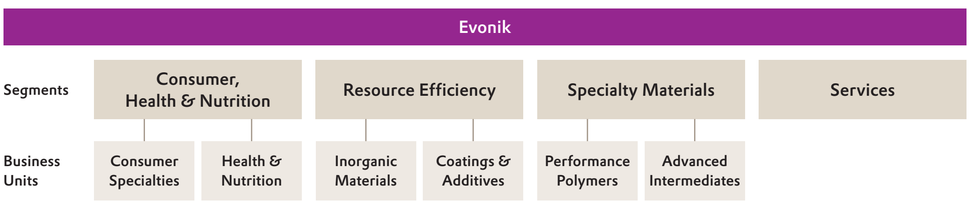
Highly trained employees are a key success factor. They drive forward the company on a daily basis through their hard work and identification. We have therefore developed a wide range of activities to gain and develop talented and qualified employees and to position Evonik as a preferred employer in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

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

A decentralized corporate structure

Operationally, our specialty chemicals business is aligned to global megatrends that have the potential to generate profitable growth and give us access to future-oriented markets. Our business is grouped in three segments, each of which has two business units. The Services segment is a cross-site supplier of typical chemicals-related services such as utilities, waste management, logistics and plant management, and standardized administrative services. The Corporate Center supports the Executive Board in its strategic management activities and provides administrative functions for the Group. The activities previously bundled in the Real Estate segment were deconsolidated in July 2013 following divestment of the majority of the shares, so we no longer report on this segment.

C06 Corporate structure



The Consumer, Health & Nutrition segment produces specialty chemicals, principally for applications in the consumer goods, animal nutrition and healthcare sectors. It comprises the Consumer Specialties and Health & Nutrition Business Units.

The Resource Efficiency segment provides environment-friendly and energy-efficient system solutions. This segment comprises the Inorganic Materials and Coatings & Additives Business Units.

The heart of the Specialty Materials segment is the production of polymer materials and intermediates, mainly for the rubber and plastics industries. It comprises the Performance Polymers and Advanced Intermediates Business Units.

Our services, which are bundled in a separate segment, mainly comprise Site Services and Business Services, which principally provide services for the specialty chemicals business, the Corporate Center, and third parties.

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 backwardly 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, backwardly integrated *world-scale* production facilities combined with technologically demanding production processes act as high entry barriers.

G See Glossary p. 274

Further advantages are leveraged by the use of our *integrated technology platforms* for several businesses. That means, for example, that by-products from one production facility can be used as starting materials for other products. This results in optimum utilization of resources and thus high added value. Moreover, the operating units can share the site energy supply and infrastructure cost-effectively.

G See Glossary p. 273

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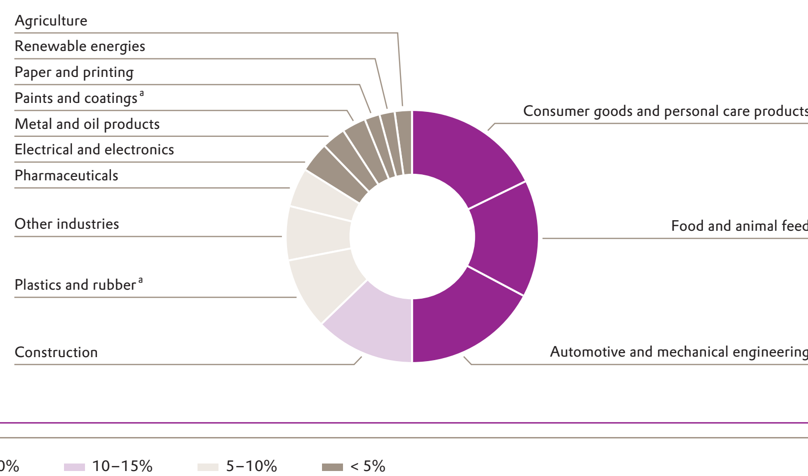
Broadly diversified end-markets

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 the end-markets that we supply accounts for more than 20 percent of our sales.

C07 Evonik's end-markets



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

Global production

See p. 69 ff.

Evonik has a presence in more than 100 countries and over 76 percent of sales are generated outside Germany. We produce where our markets and customers are. Consequently, we have production facilities in 24 countries on five continents. Our largest production sites—Marl, Wesseling and Rheinfelden (Germany), Antwerp (Belgium), Mobile (Alabama, USA) and Shanghai (China)—have integrated technology platforms used by various business units.

1.2 Principles and objectives

Profitable growth, enhanced efficiency, values

A sustained increase in the value of the company is our overriding goal and the basis for Evonik's strategic alignment. To implement our strategy, we have set demanding financial, safety and environmental targets.

Our strategy is based on profitable growth, efficiency and values. We aim to

- further increase our leading market positions,
- concentrate on attractive growth businesses and emerging markets,
- gain access to new growth areas through innovation and external growth, and
- continuously improve our cost and technology position.

As **growth drivers** for our business we have identified the megatrends health, nutrition, resource efficiency and globalization, and the dynamic development of the emerging markets. The objective of our ambitious program of investment totaling over €6 billion between 2012 and 2016 is to strengthen our leading market positions around the world. Around €4 billion of this is earmarked for growth investments, principally in emerging markets.

See p. 75 f.

To raise scope for growth and innovations, we are continuously working to improve our **cost position.** A key element is the On Track 2.0 efficiency enhancement program introduced in 2012. This is expected to make a significant contribution, for example, through further optimization of global procurement, production and related workflows. The aim of On Track 2.0 is to cut costs by €500 million a year by the end of 2016. Following the successful repositioning of Evonik as a specialty chemicals company, we are now turning our attention to our administrative processes. To achieve a uniform global administrative structure, without duplication of responsibilities and cost-intensive interfaces, we introduced the Administration Excellence program in fall 2013. This should leverage savings of up to €250 million a year by the end of 2016.

See p. 51

The **values** we live provide the foundations for us to enhance our growth impetus and raise efficiency. We encourage a Group-wide performance culture and growth-oriented recruitment of employees. *Diversity* has high priority at Evonik. For our business associates and customers, who are central to Evonik, we are a strong and reliable partner.

See p. 93 ff.
G See Glossary p. 272

We accept responsibility worldwide—for our business, our employees and our social environment. That is how we define **sustainability** and corporate responsibility (CR). As part of our corporate strategy, our sustainability strategy takes up economic megatrends as well as ecological and social challenges, and supports the development of new business activities. We are keenly committed to expanding the contribution made by our innovative solutions to sustainable development.

See p. 91 ff.

Management report

See p. 84 ff.

Innovations are the driving force of future growth. They provide access to new products and applications, open up attractive future markets and strengthen our market and technology leadership. In fall 2012 we launched an initiative to increase Evonik's innovative strength still further.

Active portfolio management, combined with efficient allocation of capital, is very important to our company. We want to raise the proportion of high-margin chemical specialties in our portfolio. We only invest in businesses that we believe promise sustainable and profitable growth. Businesses that no longer fit our strategy or fail to meet profitability requirements on a sustained basis are divested.

Ambitious targets

In line with our growth strategy, we set ambitious **financial targets** in 2013:

- We aim to report sales of around €18 billion and adjusted EBITDA of over €3 billion by 2018.
- We want to maintain our sound investment-grade rating in the long term.

See p. 99 f.

As a responsible specialty chemicals company, we have also defined ambitious **non-financial targets.** We take our responsibility in the field of safety particularly seriously. Our objective is to protect our employees and local residents, as well as the environment, against any potential negative impact of our activities. Accordingly we set annual limits for occupational safety and plant safety indicators. For 2014 these are:

G See Glossary p. 272
G See Glossary p. 273

- The *accident frequency rate* [1] should not exceed 1.3.
- *Incident frequency* [2] should not exceed 48 [3].

See p. 92

Evonik is committed to making a contribution to climate protection, minimizing its ecological footprint, and steadily improving its environmental protection performance. We therefore defined demanding environmental targets for our chemicals business for the period 2004-2014:

- Reduce specific energy-related emissions of greenhouse gases by 20 percent.
- Reduce specific water consumption by 20 percent.
- Reduce production waste by 20 percent.

Preparations are under way for the adoption of ambitious new environmental targets in 2014.

[1] Number of accidents per 1 million working hours.
[2] This indicator comprises incidents resulting in the release of substances, fires or explosions, even if there is little or no damage.
[3] Number of incidents per 1 million working hours in the production facilities operated by the business units, taking 2008 as the reference base (expressed in percentage points: 2008 = 100).

Targets already achieved

The strategic goal of **focusing on specialty chemicals** set in 2009 was achieved in 2013 with the divestment of the majority of the shares in the real estate activities bundled at Vivawest GmbH. We intend to divest the remaining 10.9 percent stake to long-term investors in the intermediate term. In 2011, we sold 51 percent of the shares in the energy company STEAG GmbH and made binding arrangements to divest the remaining shares in this company between 2014 and 2017. We have also divested non-core operations that we do not consider to belong to the specialty chemicals business.

Another long-term goal was achieved through our successful **stock exchange listing** in 2013. As well as raising awareness of Evonik, this opens up access to new sources of finance, provides scope for more direct employee participation in the success of the company, and gives us a more objective basis for comparing performance and value creation.

The **environmental targets** agreed for the chemicals business in 2004 were achieved in 2012, two years earlier than planned. That was attributable to the commitment of our employees, who contributed to the significant improvement in our environmental protection performance through a large number of technical and organizational measures.

1.3 Business management systems

Our assessment of our most important key performance indicators (KPIs) is based on the following criteria: regular reporting to the Executive Board, use as the basis for incentive payments, extensive internal analyses, basis for defining action to be taken, and external expectations.

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.

Up to and including 2013, the main financial key performance indicator (KPI) used in the management of Evonik was **EVA®** (economic value added). *EVA®* is the difference between adjusted EBIT and the cost of capital, which is calculated by multiplying average capital employed[1] by the weighted average cost of capital. A positive EVA® indicates that Evonik has created absolute value based on a value-spread approach.

G See Glossary p. 275
See p. 52

In light of our increased capital market orientation following our stock exchange listing, in 2013 we defined **adjusted EBITDA** as the most important KPI. From the start of 2014 it replaced *adjusted EBIT* as the main indicator used in our reporting. To track the attainment of targets, *adjusted EBITDA* is broken down to the level of the operating units. Adjusted EBITDA and the corresponding relative indicator, the adjusted EBITDA margin, show the operating performance of an entity

G See Glossary p. 275

[1] For details of the calculation see section headed Business review p. 43 ff.

irrespective of the structure of its assets and its investment profile. They therefore provide a key basis for internal and external comparison of the cost structure of business operations. Since depreciation, amortization and impairment losses are not included, these are also cash-flow based parameters. The adjusted EBITDA margin can therefore be taken as an approximation of the return on sales-related cash flows.

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Our most important KPIs also include the return on capital employed **(ROCE)**. In our value-oriented corporate management approach, *ROCE*, which is already used to measure the attainment of targets, is replacing EVA® as the most important KPI. Both parameters are derived from uniformly defined performance indicators taken from the income statement and balance sheet. The calculation starts 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, can be used to derive 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.

Since EVA® and adjusted EBIT will no longer be defined as our most important KPIs from 2014, no forecasts are given for them. From 2014, adjusted EBITDA and ROCE will be our most important financial performance indicators.

Most important non-financial key performance indicators

www.evonik.com/responsibility

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

See p. 54 and 99 f.

See Glossary p. 272 and 273

Traditionally, we accord special significance to **safety,** which is regarded as an all-round management task that has to be lived at all management levels. In line with this, in 2013 we adopted new guiding principles on safety, which are binding for both managers and non-managerial employees. In keeping with the corporate directive, 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].

See p. 98 ff.

To protect the environment we aim to reduce **emissions of greenhouse gases,** not just from our production but also along the entire value chain. We therefore strive continuously to improve our production processes still further, make more efficient use of resources, and minimize environmental impact. Within our environmental indicators, we therefore give particular priority to specific CO_2 emissions and plan to utilize this as a key non-financial performance indicator in the future.

[1] This report is based on G.3.1, the currently valid guidelines issued by the Global Reporting Initiative (GRI).
[2] See sections Strategy and objectives p. 39 ff., Business performance p. 47 ff., and Sustainability p. 91 ff.

2. Business review

2.1 Overall assessment of the economic situation

From a strategic viewpoint, 2013 was a very successful year for Evonik in which it achieved two long-standing objectives. Shares in Evonik Industries AG have been traded on the stock exchanges in Frankfurt am Main (Prime Standard) and Luxembourg since April 25, 2013. Moreover, following divestment of the majority interest in the real estate activities, Evonik is now entirely a specialty chemicals company.

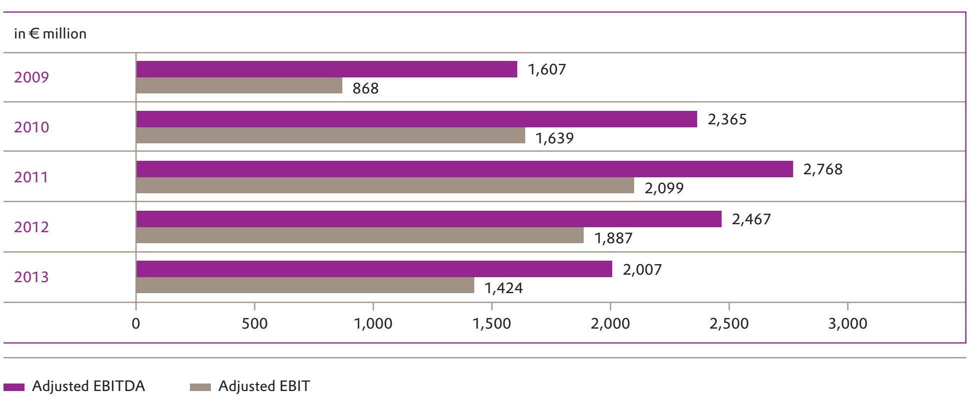
Operationally, the overall economic environment in 2013 was tougher than had been anticipated. That resulted in perceptible pressure on selling prices and we suffered considerable price erosion for some important products. Very pleasing, by contrast, was the continued high demand for our products around the world, driven partly by global megatrends. In response to the more challenging conditions, we stepped up our efforts to optimize our cost position. In all, sales and the operating results were below the previous year's very good figures.

Despite the decline in our operating performance, our profitability is still attractive. The adjusted EBITDA margin was 15.6 percent and ROCE was 14.5 percent, well above the cost of capital. Net income increased substantially to €2.1 billion thanks to the gain from the sale of the majority of shares in the real estate activities.

We also achieved a further improvement in our financial profile. As a consequence of the real estate transaction, we had a net financial asset position for the first time at year-end 2013. The cash flow from operating activities was €1.1 billion. Capital expenditures for our ambitious growth strategy also increased to €1.1 billion. Evonik still has sound investment grade ratings (Moody's: Baa2, Standard and Poor's: BBB+).

Overall, we rate our business performance in 2013 as successful, even though it was weaker than in the very good preceding years.

C08 Development of adjusted EBITDA and adjusted EBIT in the Evonik Group

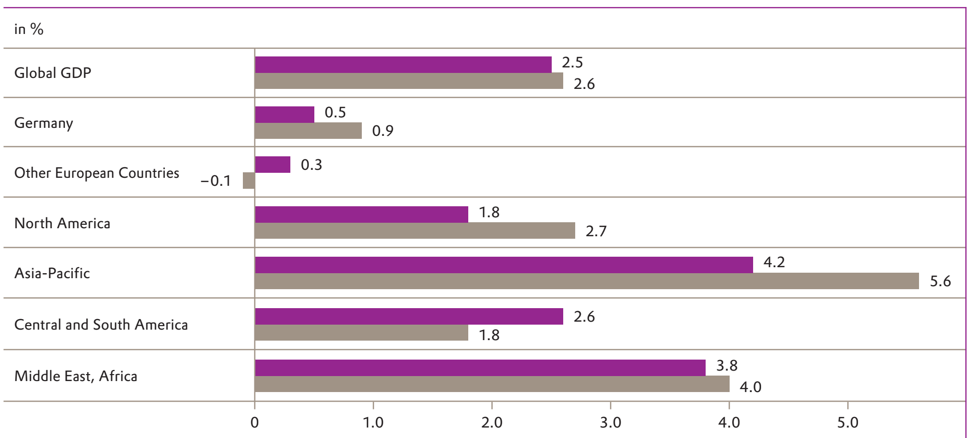


2.2 Economic background

Global economic situation remained challenging in 2013

Following on from the very low momentum in the second half of 2012, the global economy made a weak start to 2013. While it picked up slightly in the following months, we nevertheless assume a further year-on-year drop in the average growth rate to 2.5 percent in 2013.

C09 Development of GDP 2012/2013 [a]



2013 2012

[a] Projected.

In the developed economies, the year-on-year reduction in the growth rate was mainly due to far lower expansion in North America, principally as a result of the uncertainty caused by the political dispute about financial policy. Despite renewed political friction, the US economy picked up perceptibly in the second half of the year.

Although the economic situation in Germany improved in the course of 2013, the expected economic upswing again failed to materialize. The country posted the lowest growth rate since the economic and financial crisis, with export and industrial output trends remaining weak.

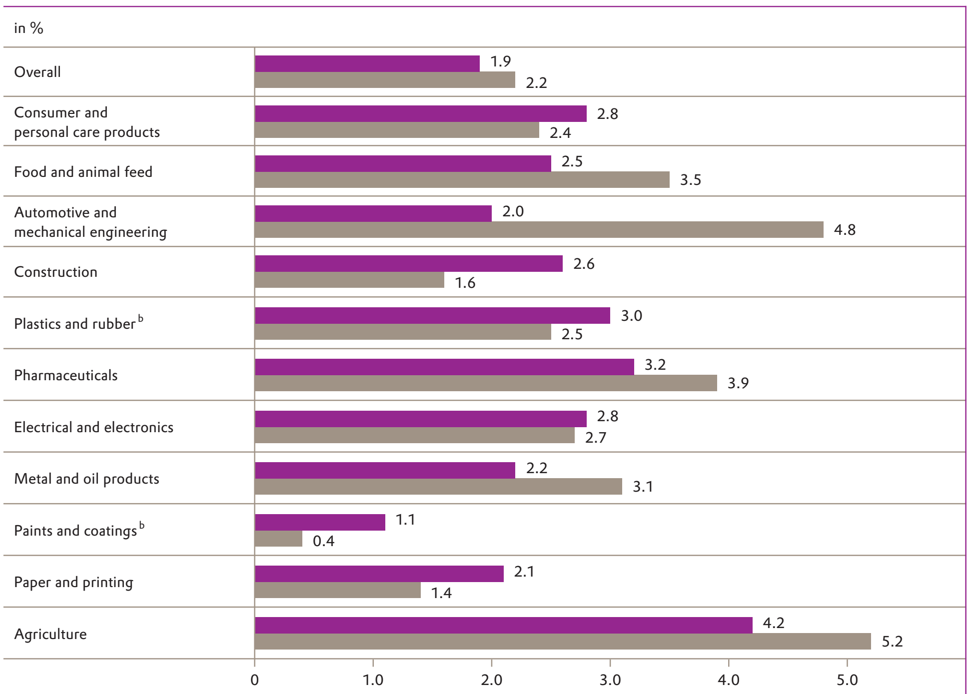
In the rest of Europe, consolidation measures to reduce public-sector debt continued to undermine demand, with strong uncertainty apparent among both consumers and investors. Unlike the situation in the previous year, the decline in GDP in Europe (excluding Germany) was halted.

Growth in output declined even faster in the Asian emerging markets than in the developed countries. On the one hand there was a lack of demand impetus from developed economies, and on the other the pace of growth slowed as a result of domestic economic problems. Many countries also reported considerable capital outflows in the summer as investors endeavored to minimize their investment risks given the prospect of a reversal of US monetary policy.

Further subdued trend in end-customer industries

Although output in Evonik's end-customer industries picked up slightly during 2013, it remained sluggish overall. The full-year growth rate was just 1.9 percent, which was lower than in the previous year (2.2 percent) and also slightly below growth in the gross domestic product. The main drivers were a modest upswing in US manufacturing industry and, especially, in Japan. In contrast to this, there was a further substantial decline in output in Europe.

C10 Development of Evonik's end-customer industries 2012/2013[a]



2013 2012

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

Analogously to the economic recovery, in 2013 there was only a slight shift in demand for consumer and personal care products towards the long-term trend. Persistently high unemployment in the industrialized countries and mounting uncertainty in the emerging markets further dampened consumer confidence.

Lower growth in the emerging markets also impacted the food and feed sectors. At the same time, important markets such as China and the USA were affected by a range of adverse factors such as drought and the debate about food safety.

Overall, the automotive and mechanical engineering sector only posted slow growth in 2013, despite high growth in China and the USA. As a result of downturns in emerging markets such as Brazil, India and Russia as well as in Europe, growth was below the previous year's level.

The global construction industry was dominated by positive signals in 2013. The US, British and Japanese markets picked up and growth remained robust in China. The German construction sector also gained momentum in the second half of the year.

In the plastics and rubber industries, there were two contrasting trends in 2013: While the automotive industry and consumer spending continued to hold back growth, positive effects came from strong growth in the US and Chinese construction sectors.

G See Glossary p. 274

Compared with the average price recorded for 2012, there was no further increase in the average price of Evonik's raw materials in 2013. In fact the annual average was slightly lower. This was because an increase in supply resulting from new capacity and the US *shale gas* and oil boom coincided with weaker demand. Against Evonik's most important foreign currency, the US dollar, the euro appreciated to US$1.33 (2012: US$1.28).

2.3 Major events

Shares in Evonik Industries AG have been listed on the stock exchanges in Frankfurt am Main (Prime Standard) and Luxembourg since April 25, 2013. Effective September 23, 2013, they were included in Deutsche Börse's **MDAX** index. As of the same date, the shares were also listed on the STOXX Europe 600 index and the corresponding sub-indices, including the DJ STOXX 600 Chemicals^{SM}.

G See Glossary p. 275

In accordance with the **focus on specialty chemicals,** in July 2013 we divested the majority of our stake in the real estate operations bundled in the Real Estate segment. RAG-Stiftung, Essen (Germany) now holds 30.0 percent of Vivawest GmbH (Vivawest), Essen (Germany), Vermögensverwaltungs- und Treuhandgesellschaft der Industriegewerkschaft Bergbau und Energie mbH (VTG), Hanover (Germany) holds 26.8 percent, Evonik Pensionstreuhand e.V., (contractual trust arrangement, *CTA*), Essen (Germany) holds 25.0 percent, and RAG Aktiengesellschaft, Herne (Germany) holds 7.3 percent. We plan to divest our remaining 10.9 percent stake in Vivawest to long-term investors in the intermediate term. All operations of the Real Estate segment were reclassified to discontinued operations in March 2013 and deconsolidated in July. The divestment gain from the sale of the majority shareholding was €1.1 billion and income from the divestment amounted to €1.5 billion.

See Notes 5.2 and 5.3, p. 181 ff.

See Note 5.3, p. 183 ff.

We intend to withdraw completely from our activities in the field of electromobility and are conducting negotiations on the divestment of the **lithium-ion business.** Accordingly, we reclassified these activities to discontinued operations in September 2013. The prior-year figures in the income statement, reconciliation from adjusted EBITDA to net income and cash flow statement have been restated.

At the end of September we launched a program to streamline our administrative structures. Following Evonik's successful repositioning from a conglomerate to a listed specialty chemicals company, the next step is Group-wide consolidation of management and administrative processes. The **Administration Excellence** program aims to create a uniform global administrative organization—without duplication of responsibilities or cost-intensive interfaces. This should leverage savings of up to €250 million a year by the end of 2016.

In connection with this, at its meeting on September 23, 2013 the Supervisory Board of Evonik Industries AG decided to reduce the size of the company's **Executive Board.** Dr. Dahai Yu (52) and Dr. Thomas Haeberle (57) left the company by amicable mutual agreement on December 31, 2013. Effective January 1, 2014, responsibility for the specialty chemicals business was transferred to Patrik Wohlhauser (49) as Chief Operating Officer.

On June 21, 2013, the Supervisory Board appointed Ute Wolf (45) to succeed Dr. Wolfgang Colberg (53) as a member of the Executive Board and **Chief Financial Officer** with effect from October 1, 2013. Ute Wolf has a degree in mathematics and had headed Evonik's Finance Division since 2006.

2.4 Business performance

Very solid operating performance

Our end-customer industries and thus our own business performance were affected by the lower economic growth in Asia-Pacific and North America, which are important regions for Evonik, and by the persistently weak development in Europe. The more challenging market environment led to perceptible pressure on selling prices and we registered considerable price erosion for some important products. By contrast, the continued high global demand for our products was very pleasing. In all, sales and the operating results were below the previous year's very good figures.

Slight organic sales decline

The Evonik Group's sales fell 4 percent to €12,874 million. The organic decline was 1 percent, with an increase in volumes (4 percentage points) more than offset by the drop in selling prices (– 5 percentage points). Another 2 percentage points were due to other effects, principally the deconsolidation of the colorants business, which was divested in April 2012, and the cyanuric chloride business in China, which was divested in December 2012. Adverse currency effects accounted for a further percentage point.

T003 Change in sales 2013 versus 2012

in %	
Volumes	4
Prices	–5
Organic sales trend	**–1**
Exchange rates	–1
Other	–2
Total	**–4**

Operating results below the very good prior-year figures

The operating results[1] declined, principally as a result of lower selling prices in key areas of business and higher project costs in connection with growth-driven investments. Adjusted EBITDA dropped by 19 percent to €2,007 million. As a consequence, the adjusted EBITDA margin slipped from 18.5 percent to 15.6 percent.

T004 Adjusted EBIT by segment

in € million	2013	2012	Change in %
Consumer, Health & Nutrition	767	929	–17
Resource Efficiency	540	526	3
Specialty Materials	395	701	–44
Services	87	78	12
Corporate, other operations	–365	–347	–5
Evonik	**1,424**	**1,887**	**–25**

Prior-year figures restated.

Adjusted EBIT dropped 25 percent to €1,424 million. The Consumer, Health & Nutrition and Specialty Materials segments both reported a considerable reduction in earnings compared with the previous year's high levels, whereas the Resource Efficiency segment slightly increased adjusted EBIT. Earnings in the Services segment were also higher than in the previous year. The adjusted EBIT for Corporate, other operations was minus €365 million, compared with minus €347 million in 2012. This includes, among others, expenses for the Corporate Center, strategic research, and depreciation of the purchase price allocation from past acquisitions.

[1] The first-time application of the revised version of IAS 19 (2011) retrospectively increased both adjusted EBITDA and adjusted EBIT for 2012 by €22 million. See Note 3.3, p. 151 ff.

T005 Sales and reconciliation from adjusted EBITDA to net income

in € million	2013	2012	Change in %
Sales	**12,874**	**13,365**	**–4**
Adjusted EBITDA	**2,007**	**2,467**	**–19**
Depreciation and amortization	–583	–580	
Adjusted EBIT	**1,424**	**1,887**	**–25**
Adjustments	–333	–10	
thereof attributable to			
Restructuring	*–153*	*132*	
Impairment losses/reversals of impairment losses	*–93*	*–167*	
Acquisition/divestment of shareholdings	*–41*	*8*	
Other	*–46*	*17*	
Net interest expense	–255	–321	
Income before income taxes, continuing operations	**836**	**1,556**	**–46**
Income taxes	–220	–453	
Income after taxes, continuing operations	**616**	**1,103**	**–44**
Income after taxes, discontinued operations	1,397	65	
Income after taxes	**2,013**	**1,168**	**72**
Attributable to non-controlling interests	41	–3	
Net income	**2,054**	**1,165**	**76**

Prior-year figures restated.

The **adjustments** are the net balance of non-operating income and non-operating expense items which are by nature one-off or rare and amounted to minus €333 million in 2013. They included restructuring expense of €153 million, mainly in connection with the planned optimization of administrative and service structures and workflows, and the shutdown of production facilities in the Specialty Materials segment. This was countered by income relating to measures taken in the photovoltaic business in 2012. The adjustments also include impairment losses on production facilities in the Resource Efficiency and Specialty Materials segments and on the 49 percent stake in STEAG. Further, they include expenses in connection, among other things, with the divestment of former non-core business activities, and allocations to provisions for environmental protection measures and legal disputes. “Other” contains income in connection with measurement of the put option and the call option for the 49 percent stake in STEAG, which is shown separately from the impairment loss on this investment.

The prior-year figure of minus €10 million essentially comprised income from settlements and impairment losses in connection with the photovoltaic business.

G See Glossary p. 275

Net interest expense improved considerably to €255 million, mainly as a result of transfers made to the *CTA* in 2012 and 2013, and lower interest on non-current provisions. **Income before income taxes, continuing operations** fell 46 percent to €836 million due to the reduction in operating performance and higher one-off adjustment expense. The income tax rate was 26 percent and thus below the expected Group tax rate of 30 percent, principally due to tax-free income.

Income after taxes, discontinued operations amounted to €1,397 million. €1,629 million related to the real estate activities, comprising a divestment result of €1,519 million and operating income of €110 million up to deconsolidation. This item also includes a loss of €233 million from the lithium-ion business, comprising the operating business, impairment losses and provisions for impending losses. The minus €41 million attributable to non-controlling interests contains the pro rata losses of fully consolidated subsidiaries attributable to shareholders outside the Evonik Group. **Net income** improved 76 percent to €2,054 million thanks to the income from the divestment of the majority of shares in the real estate activities.

Adjusted net income reflects the operating performance; it does not contain the impact of adjustments or the discontinued operations. Adjusted net income dropped 23 percent to €830 million. **Adjusted earnings per share** decreased from €2.31 to €1.78.

T006 Reconciliation to adjusted net income

in € million	2013	2012	Change in %
Income before financial result and income taxes [a]	**1,021**	**1,815**	**–44**
Result from investments recognized at equity	59	62	
Other financial income	11	–	
EBIT	**1,091**	**1,877**	**–42**
Adjustments	333	10	
Adjusted EBIT	**1,424**	**1,887**	**–25**
Net interest expense	–255	–321	
Adjusted income before income taxes [a]	**1,169**	**1,566**	**–25**
Adjusted income taxes	–326	–445	
Adjusted income after taxes [a]	**843**	**1,121**	**–25**
Adjusted income attributable to non-controlling interests	–13	–45	
Adjusted net income [a]	**830**	**1,076**	**–23**
Adjusted earnings per share [a] in €	**1.78**	**2.31**	**–23**

Prior-year figures restated.

[a] Continuing operations.

Good progress with On Track 2.0—Administration Excellence program launched

In view of the increasing risks associated with the European sovereign debt crisis, at the start of 2012 we initiated the On Track 2.0 efficiency enhancement program. The aim is to reduce costs, especially in production, by €500 million a year by 2016 through a further increase in process efficiency. Measures designed to cut costs by over €400 million have already been identified and approved for the period 2012 to 2016. At the end of 2013, over €280 million was already being implemented.

Following the successful stock exchange listing and Evonik's full focus on the specialty chemicals business, in September 2013 we launched the Administration Excellence program to further strengthen our competitive position and optimize the quality of our administrative processes. This should leverage savings of up to €250 million a year by the end of 2016, and will include shedding around 1,000 jobs, which will be achieved in a socially compatible manner. The first organizational measures and staff changes were implemented in the second half of 2013.

Systematic optimization of the value chain and implementation of the efficiency enhancement programs support Evonik's profitable growth and are core elements of the Evonik 2016 corporate program.

Effective procurement

Ensuring reliable supply, gaining access to new procurement markets, and ongoing optimization of material costs will remain key tasks in the future. For instance, procurement in Evonik's growth markets will play a greater role in the future. Another increasingly important factor is taking a critical look at the growing opportunities to obtain gas from unconventional sources. As well as participating in procurement alliances and validating new suppliers, we are working intensively on extending strategic relationships with suppliers. Here, we are looking for further opportunities to reduce risk, improve 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.

The Administration Excellence initiative includes a review of our procurement organization. The main focus is further integration of local and regional procurement activities into the global procurement structures. Intensive cross-organizational and cross-functional collaboration with the business units remains crucial.

In 2013 Evonik spent around €8.5 billion on raw materials and supplies, technical goods, services, energy and other operating supplies. Petrochemical feedstocks account for about 27 percent of the total. Overall, raw materials and supplies make up around 63 percent of procurement volume.

Using renewable resources is very important to Evonik. In 2013, around 8 percent of raw materials were once again from renewable resources. The main applications for these raw materials are *amino acids* and starting products for the cosmetics industry.

G See Glossary p. 272

Further value creation

Up to and including 2013, EVA® was the central management parameter for our business. If EVA® is positive, the Group creates value (value spread approach). EVA® is the difference between adjusted EBIT and the cost of capital, which is calculated by multiplying average capital employed by the weighted average cost of capital (WACC). In the regular review of the cost of capital in 2013 the WACC for the Evonik Group was left unchanged year-on-year at 10.5 percent before taxes.

T007 Capital employed, EVA® and ROCE

in € million	2013	2012
Intangible assets	3,077	3,156
+ Property, plant and equipment, investment property	4,546	4,270
+ Investments	772	615
+ Inventories	1,626	1,561
+ Trade accounts receivable	1,726	1,787
+ Other interest-free assets	584	604
– Interest-free provisions	−999	−1,098
– Trade accounts payable	−1,031	−1,071
– Other interest-free liabilities	−473	−574
= Capital employed [a]	**9,828**	**9,250**
Adjusted EBIT	**1,424**	**1,887**
Cost of capital (capital employed * WACC)	1,032	972
EVA® (adjusted EBIT – cost of capital)	**392**	**915**
ROCE (adjusted EBIT/capital employed) in %	**14.5**	**20.4**

Prior-year figures restated.

[a] Annual averages; prior-year figures restated to reflect discontinued operations.

The average capital employed increased by €0.6 billion to €9.8 billion. The year-on-year increase in capital expenditures to implement our growth strategy increased capital employed, while the divestment of business activities and impairment losses on production facilities had a slight counter-effect.

In 2013, we generated EVA® of €392 million and thus created perceptible value. The reduction of €523 million compared with the previous year was mainly attributable to the drop in operating earnings.

Financial statements

T008 EVA® by segment

in € million	2013	2012
Consumer, Health & Nutrition	532	729
Resource Efficiency	381	358
Specialty Materials	183	511
Services	32	27
Corporate, other operations	–736	–710
Evonik	**392**	**915**

Prior-year figures restated.

The three specialty chemicals segments once again generated high returns. The Resource Efficiency segment increased its EVA®, while the contributions from the Consumer, Health & Nutrition and Specialty Materials segments was below the previous year's high level. The Services segment once again reported positive economic value added. The EVA® for the Corporate, other operations segment is dominated by the identified hidden reserves from the acquisition of shares in the former Degussa AG and from earlier mergers of the former Degussa AG. These greatly increase capital employed, while their write-downs considerably diminish EBIT.

Very high return on capital in the specialty chemicals segments

ROCE measures the return on capital employed. It is calculated from adjusted EBIT in relation to average capital employed. We regard the ROCE of 14.5 percent earned in 2013 as an attractive return on capital employed. The decrease compared with the figure reported for 2012 was mainly caused by the decline in the operating results and higher capital expenditures, which increased capital employed but have not yet impacted adjusted EBIT. The return on capital employed in the three specialty chemicals segments was well above-average. The Group's ROCE is considerably lower because capital employed also includes identified hidden reserves from former business combinations.

T009 ROCE by segment

in %	2013	2012
Consumer, Health & Nutrition	34.3	48.7
Resource Efficiency	35.7	33.0
Specialty Materials	19.6	38.7
Services	16.7	16.0
Evonik (including Corporate, other operations)	**14.5**	**20.4**

Clear success in occupational safety

Our significant non-financial performance indicators for occupational and plant safety continued their positive long-term trend, although there was a slight deterioration in incident frequency in 2013.

Our occupational safety performance is measured by **accident frequency** based on our own employees. It is calculated as the number of work-related accidents resulting in absence from work per 1 million working hours. This figure includes both Evonik employees and contractors' employees directly supervised by Evonik. In 2013 accident frequency improved substantially to 0.9, down from 1.4 in 2012, and was therefore well below the maximum of 1.5 set for 2013. However, the sustained positive trend in recent years was overshadowed by two fatal accidents at work and one fatal traffic accident on the way to work.

See p. 99 f.

Plant safety is evaluated continuously on the basis of **incident frequency.** This figure comprises incidents involving the release of substances, fires or explosions, even if there is little or no damage[1]. It is calculated from the number of incidents per 1 million working hours in the production facilities operated by the business units, taking 2008 as the reference year (reference base = 100 points). This indicator, for which we set a target for the first time in 2013, increased slightly to 50 points (2012: 46 points). We attribute this to an improvement in the reporting culture and increased awareness of such incidents.

[1] Process safety performance indicator in accordance with the European Chemical Industry Council, Cefic.

2.5 Comparison of forecast and actual performance

Revised forecast met

In our annual report for 2012, we anticipated that in 2013 sales would be higher and the operating results would be in line with the very good level reported for 2012, based on the assumption that global economic conditions would meet expectations. We assumed global growth of 3.0 percent and an increase of 3.5 percent in global industrial output. In fact, the economic trend was considerably weaker in the first half of the year. As a consequence, we had to revise our expectations of a recovery in the second half of the year. This chiefly affected our growth expectations for the main regions of significance for Evonik, especially the EU and China. In view of this, at the end of the first half of the year we revised our full-year outlook downwards and also set more concrete targets: We anticipated sales of around €13 billion, roughly in line with the previous year[1], and forecast that the operating results would be below the very good 2012 levels. We also assumed that adjusted EBITDA would be around €2.0 billion.

Both global growth and industrial output were well below expectations in 2013. In this difficult economic environment, we achieved sales of €12.9 billion and adjusted EBITDA of €2.0 billion, so we met our revised outlook.

Improvement in financial position

At the end of the first half of 2013 we also reduced our capital expenditure budget from the original level of €1.5 billion to €1.2 billion. In this we made use of the flexible timeframe for implementation of the investments of over €6 billion planned for the period 2012 to 2016. In fact, capital expenditures came to €1.1 billion, slightly below the revised budget but well above depreciation, See p. 76 which was €0.6 billion. The cash flow from operating activities was €1.1 billion. See p. 77 At the start of 2013, we anticipated that net financial debt would be higher at year end. However, as a result of the divestment of the majority of the shares in the real estate activities, which was not factored into our outlook, we ended the year with net financial assets. See p. 74

[1] Continuing operations.

2.6 Segment performance

Consumer, Health & Nutrition segment

The Consumer, Health & Nutrition segment produces specialty chemicals, principally for applications in the consumer goods, animal nutrition and healthcare sectors. The long-term development of this segment's business is driven by socio-economic megatrends. As a result of growth in the world population, demand for food based on animal protein is rising. At the same time, the rise of an affluent middle class in the emerging markets is increasing consumption of meat and leading to higher demand for better quality day-to-day consumer goods such as personal care products and cosmetics. Moreover, as a result of demographic change the proportion of older people in the developed markets will rise in the long term, leading to higher demand for cosmetics, wellness and healthcare products. This segment comprises the Consumer Specialties and Health & Nutrition Business Units.

T010 Key data for the Consumer, Health & Nutrition segment

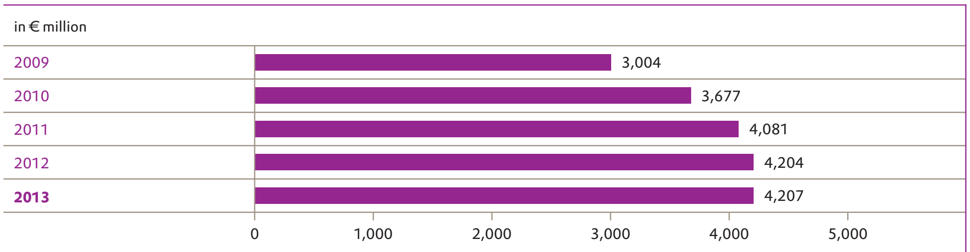
in € million	2013	2012	Change in %
External sales	4,207	4,204	0
Consumer Specialties Business Unit	2,192	2,056	7
Health & Nutrition Business Unit	2,015	2,148	–6
Adjusted EBITDA	910	1,055	–14
Adjusted EBITDA margin in %	21.6	25.1	–
Adjusted EBIT	767	929	–17
Capital expenditures	455	303	50
Depreciation and amortization	140	132	6
Capital employed (annual average)	2,237	1,906	17
ROCE in %	34.3	48.7	–
Employees as of December 31	7,150	6,821	5

Prior-year figures restated.

Perceptible volume growth

Thanks to buoyant global demand and new production capacities, the Consumer, Health & Nutrition segment registered perceptible volume growth. Owing to the overall downtrend in selling prices, sales were in line with the previous year at €4,207 million.

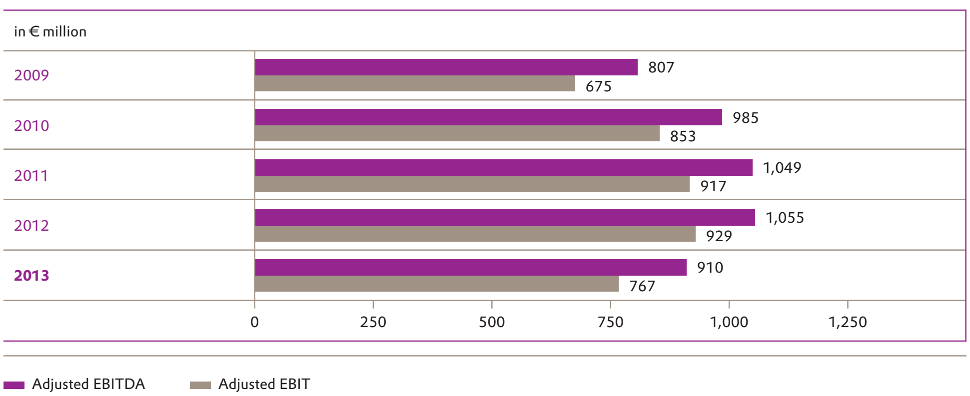
C11 Development of sales in the Consumer, Health & Nutrition segment



Very good earnings

The segment's operating earnings were very pleasing but fell short of the previous year's excellent levels as a result of the reduction in selling prices. Adjusted EBITDA fell 14 percent to €910 million, while adjusted EBIT dropped 17 percent to €767 million. The adjusted EBITDA margin remained high at 21.6 percent, but was below the previous year's very good level.

C12 Development of adjusted EBITDA and adjusted EBIT in the Consumer, Health & Nutrition segment



2012 figures restated.

Ambitious growth strategy

The Consumer, Health & Nutrition segment continued the systematic implementation of its growth strategy in 2013. To strengthen its leading global market positions and participate in the dynamic trend, especially in emerging markets, new production facilities were erected. Capital expenditures therefore increased to €455 million (2012: €303 million), and were well above depreciation, which amounted to €140 million. The average capital employed increased by €331 million to €2,237 million, principally because of the high capital expenditures. ROCE was very good at 34.3 percent, although it was considerably lower than in the previous year due to the growth-induced rise in average capital employed.

CONSUMER SPECIALTIES

This business unit focuses principally on ingredients, additives and system solutions, especially for high-quality consumer goods and specific industrial applications. It has outstanding knowledge of interfacial chemistry. Its products are based on an extensive range of oleochemical derivatives, organically modified silicones, and active ingredients produced by biotechnology. Key success factors are high innovative capability, integrated technology platforms and strategic partnerships with major consumer goods manufacturers.

Further improvement in earnings

G See Glossary p. 274

@ www.evonik.com/personal-care

The Consumer Specialties Business Unit continued its successful performance in 2013. Sales grew 7 percent to €2,192 million on the back of an appreciable rise in volumes. *Superabsorbents* were driven by a particularly strong hike in demand and registered higher sales. Products for special industrial applications such as radiation-curing silicone acrylates for self-adhesive labels posted a very pleasing development. Volume sales of personal care products were also up, partly as a result of marketing activities in connection with the start-up of the new production plant in China. Overall, the operating results were higher, partly because of the rise in volumes, but this was tempered by higher fixed costs and start-up expenses for growth investments.

Start-up of new production facilities in attractive emerging markets

In fiscal 2013, Consumer Specialties successfully completed two major expansion projects in attractive emerging markets.

In Saudi Arabia, the first production plant for superabsorbents in the Middle East was completed as planned at year-end 2013. For this purpose, Evonik established the Saudi Acrylic Polymers Company as a joint venture with Saudi Acrylic Acid Company (SAAC) in 2011. The new facility, which has annual production capacity of 80,000 metric tons, was built under license from Evonik. Total investment is triple-digit millions of euros, and Evonik's share is in the double-digit million range. The superabsorbent production plant is part of a new acrylic acid and derivatives complex at the Tasnee site in the Al Jubail Chemical Park in Saudi Arabia. It strengthens Consumer Specialties' global leadership in the superabsorbents business and meets rising demand for hygiene products in the fast-growing markets of the Middle East and parts of Africa and Asia.

A new plant for organic specialty surfactants with annual production capacity of around 80,000 metric tons came on stream in Shanghai (China). Investment was in the upper double-digit million euro range. Evonik can now offer customers in Asia a wide range of locally produced products to support their growth. Examples are specialty surfactants produced from renewable raw materials for use in personal care and hygiene products, fabric softeners and industrial applications. China, which is the largest market for cosmetic products in Asia, is expected to account for 25 percent of global growth in this market in the medium term.

In Brazil, 2013 saw the start of construction of a similar facility, which will also be producing ingredients for cosmetics and consumer household goods. Planned production capacity is around 50,000 metric tons a year, with investment in the mid-double-digit million euro range. This plant is scheduled to come into operation in 2014.

HEALTH & NUTRITION

The Health & Nutrition Business Unit produces and markets essential amino acids for animal nutrition and is a strategic partner for the healthcare industry. Key success factors are years of experience of chemical synthesis and biotechnology, which we regard as key growth drivers for the Evonik Group. Other significant competitive advantages are its global distribution network and extensive and differentiated service offering.

Strong demand

There was continued strong demand for the *amino acids* methionine, lysine, threonine and tryptophan, which are essential for animal nutrition. This was driven by global trends such as population growth and rising incomes in emerging markets. Thanks to the continuous increase in capacity in recent years, for example, the increase in Biolys® capacity in North America in fall 2012, we were able to translate the increased demand into higher volume sales. However, selling prices were well below the very good prior-year level as a result of increasing competition. Sales of amino acids therefore declined overall. The business with healthcare products did not fully match the positive trend seen in 2012 and sales here were also down. Overall, sales of the Health & Nutrition Business Unit slipped 6 percent to €2,015 million. The operating results dropped considerably compared with the previous year's excellent figures as a result of lower selling prices, higher raw material costs and project costs in connection with growth projects.

G See Glossary p. 272

@ www.evonik.com/feed-additives

Investing in further growth

We are making good progress with the global expansion of capacity for methionine and lysine. Over €500 million is currently being invested in a fully backwardly integrated production complex for DL-methionine in Singapore. It will be the most modern complex of its type worldwide and the first world-scale facility for methionine in Asia, which is the fastest growing market for this product. The facility is scheduled to come into service in the second half of 2014 with production capacity of 150,000 metric tons a year, bringing total methionine capacity to 580,000 metric tons a year.

Health & Nutrition is building a plant for biotechnological production of the feed additive L-lysine in Castro (Brazil). Evonik's L-lysine, which is marketed as Biolys®, is regarded worldwide as an extremely effective source of lysine for animal nutrition. This new plant is being built at the site operated by the US company Cargill, from which Evonik already sources the main raw material for the Biolys® produced in Blair (Nebraska, USA). The Castro site has excellent access to corn, which is used as a raw material, very good logistics connections, and is close to our customers in the growing Latin American market. A further production plant for Biolys® is under construction in Volgodonsk, in the Rostov on Don region of Russia. It is being built by Evonik and the Russian Varshavsky Group. Evonik is the minority partner in this joint venture. The starting product will be wheat from the Rostov region. The new capacity of 100,000 metric tons a year in Brazil and Russia will give Evonik total production capacity of nearly 500,000 metric tons a year Biolys® from 2015.

Resource Efficiency segment

The Resource Efficiency segment provides environment-friendly and energy-efficient system solutions. Since supplies of fossil fuels are limited, we see the trend to renewable energy sources and energy-efficient and environment-friendly products as a key factor in the development of this segment's business. This segment comprises the Inorganic Materials and Coatings & Additives Business Units.

T011 Key data for the Resource Efficiency segment

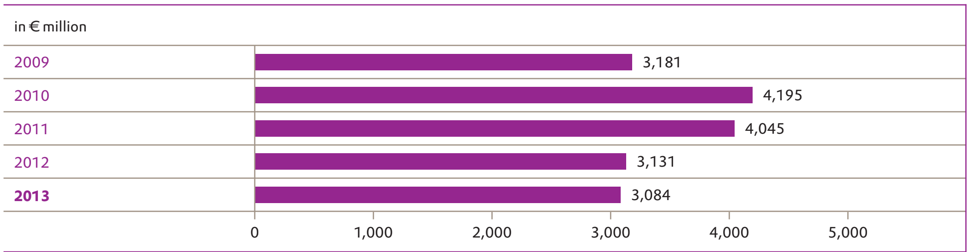
in € million	2013	2012	Change in %
External sales	3,084	3,131	–2
Inorganic Materials Business Unit	1,436	1,473	–3
Coatings & Additives Business Unit	1,648	1,658	–1
Adjusted EBITDA	656	663	–1
Adjusted EBITDA margin in %	21.3	21.2	–
Adjusted EBIT	540	526	3
Capital expenditures	230	171	35
Depreciation and amortization	114	136	–16
Capital employed (annual average)	1,513	1,596	–5
ROCE in %	35.7	33.0	–
Employees as of December 31	5,854	5,755	2

Prior-year figures restated.

Organic sales growth

Sales in the Resource Efficiency segment were €3,084 million, 2 percent lower than in the previous year, principally as a result of negative currency effects. In addition, the previous year's figure still contained sales from the colorants business, which was divested at the end of April 2012, and from the photovoltaic activities. In September 2012 we concluded agreements with two major customers in the photovoltaic sector, essentially on winding up long-term supply agreements and on the shutdown of one production plant and divestment of another. After adjustment for these factors, this segment posted organic sales growth as a result of higher volumes and unchanged selling prices.

C13 Development of sales in the Resource Efficiency segment

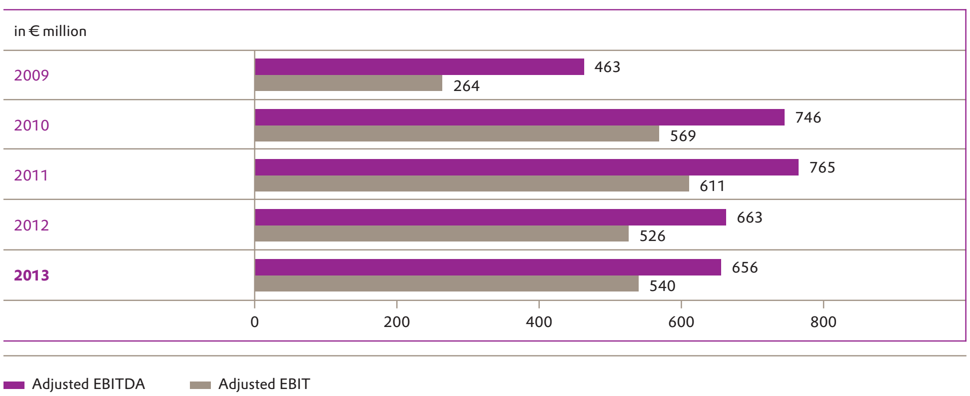


Figures up to July 2011 include the carbon black business that has since been divested.

Higher adjusted EBITDA margin

The operating results were once again very good. At €656 million, adjusted EBITDA almost matched the previous year's level, while adjusted EBIT rose 3 percent to €540 million. The adjusted EBITDA margin increased slightly from 21.2 percent to 21.3 percent.

C14 Development of adjusted EBITDA and adjusted EBIT in the Resource Efficiency segment



Figures up to July 2011 include the carbon black business that has since been divested.

Improved return on capital employed

Capital expenditures amounted to €230 million and were once again well above depreciation, which totaled €114 million. The average capital employed decreased by €83 million to €1,513 million. This was primarily attributable to the divestment of the colorants business and the shutdown and divestment of photovoltaic production facilities. A counter-effect came from higher capital expenditures. ROCE improved from 33.0 percent to 35.7 percent, mainly thanks to higher adjusted EBIT.

INORGANIC MATERIALS

A central feature of the Inorganic Materials Business Unit is its integrated silicon technology platform. Key customers include the tire, electronics, construction and fiber optics industries. Its expertise in designing organic particles and their surface properties is also used in the catalysts business.

Good volume trend

G See Glossary p. 274

@ www.evonik.com/rubber-silanes

Sales decreased by 3 percent to €1,436 million in the Inorganic Materials Business Unit. The main factors behind this decline were negative currency effects, especially from the Japanese yen, and the fact that the previous year still contained sales from the photovoltaic business. After adjustment for these factors, the business unit reported organic sales growth, partly due to higher volumes. Business with fumed *silicas* and specialty oxides was pleasing, with high demand and good utilization of production capacity. Silicas and silanes for the tire and rubber industries also developed well. Both are used above all in tires with reduced rolling resistance ("green" tires) which enhance fuel economy. Rising demand was registered in Europe and Asia in particular, while business in North America was softer. Adjusted EBITDA was lower than in the previous year, while adjusted EBIT was in line with the previous year owing to lower depreciation.

Further expansion of the precipitated silicas business

G See Glossary p. 274

Inorganic Materials is raising capacity for precipitated silicas by 30 percent by 2014 (reference base 2010). The main growth driver in this market is the trend to energy-saving tires with low rolling resistance. Using a combination of silica and *silanes*, it is possible to manufacture tires with considerably lower rolling resistance than conventional auto tires, resulting in fuel savings of up to 8 percent. Evonik is the only producer that offers both components, making it a competent partner for high-performance tire blends for customers in the tire and rubber industries. Through its capacity expansion, Inorganic Materials is therefore supporting the growth of its key customers in the global tire industry.

@ www.evonik.com/aerosil

Having increased capacity at its sites in Asia and Europe, production capacity for precipitated silicas is now being raised by around 20,000 metric tons at the facility in Chester (USA). Following investment in the low double-digit million euro range, this new plant is scheduled to come into operation in 2014. A low double-digit million euro capacity expansion is also under way at the precipitated silica plant in Map Ta Phut (Thailand). This will raise capacity considerably and should be completed in the first quarter of 2014. Alongside automotive applications, precipitated silica is used by the food and feed industries and in paints and coatings. Demand from these industries is rising strongly in South-East Asia.

COATINGS & ADDITIVES

The Coatings & Additives Business Unit supplies high-quality functional polymers and specialty monomers to the paints, coatings, adhesives and sealants industries. It also produces high-performance oil additives and hydraulic fluids. A key attribute is its integrated isophorone technology platform. In addition, Coatings & Additives is closely meshed with Evonik's methylmethacrylate and silicone platforms.

Higher operating earnings

2013 was another successful year for the Coatings & Additives Business Unit, which registered unchanged high demand from the automotive, construction and transportation industries for oil additives that enhance the performance of engines and gears. There was also high demand from the coatings industry and for binders. The composites business got off to a weak start in 2013 but picked up in the second half of the year. This business unit's sales slipped 1 percent to €1,648 million as the previous year's figure still contained sales from the colorants business (divested: April 2012). After adjustment for this effect, the Coatings & Additives Business Unit posted organic sales growth. The operating results improved, principally thanks to higher volumes.

@ www.evonik.com/oil-additives

Investment in new markets

A major new production facility for functionalized polybutadiene came into operation in Marl (Germany) at the start of 2014. Investment in this plant was in the mid-double-digit millions of euros. Functionalized *polybutadiene*, which Evonik will be marketing as POLYVEST® HT, is mainly used in sealing components, for example, for double and triple-glazed windows, and in adhesives for lightweight structures in automotive engineering. In this sector adhesives are increasingly being used to complement traditional welding processes and as structural adhesives as a result of the growing use of metal sheeting and plastics.

G See Glossary p. 273

In Shanghai (China), new production facilities for *isophorone* and *isophorone diamine* costing over €100 million are also scheduled to come into service in the first quarter of 2014. Crosslinkers are important components, for example, in the production of tough industrial floorings, imitation leather, paints and coatings. They are also used in chemical synthesis and in the growing area of high-performance composites. The capacity expansion is part of the business unit's goal of supporting the growth aspirations of its key customers in Asia and elsewhere in the world.

G See Glossary p. 273
@ www.evonik.com/crosslinkers

Coatings & Additives will be raising capacity for oil additives on Jurong Island in Singapore considerably by the start of 2015. Most of the ongoing improvements and debottlenecking measures are scheduled for completion in the first half of 2014. These optimization measures and the planned expansion will almost double production capacity at the oil additives plant in Singapore. Oil additives, which are marketed by Evonik as VISCOPLEX®, are key components in ready-to-use lubricants, which are used in the automotive industry and for other industrial applications. They improve engine performance, help raise fuel economy, and cut CO_2 emissions. Evonik is responding to the above-average growth in the market for oil additives resulting from rising mobility and increased demand from Asia for high-performance lubricants with a higher additive content.

Specialty Materials segment

The heart of the Specialty Materials segment is the production of polymer materials and intermediates, mainly for the rubber and plastics industries. Progressive globalization offers market opportunities for this segment, driven by the mobility and urbanization megatrends, which are raising global demand for efficient transportation systems and sustainable construction methods. This is reinforced by the rise of an affluent middle class, especially in the emerging markets in Asia. We are also convinced that this segment's growth will be boosted by new applications resulting from the substitution of materials. This segment comprises the Performance Polymers and Advanced Intermediates Business Units.

T012 Key data for the Specialty Materials segment

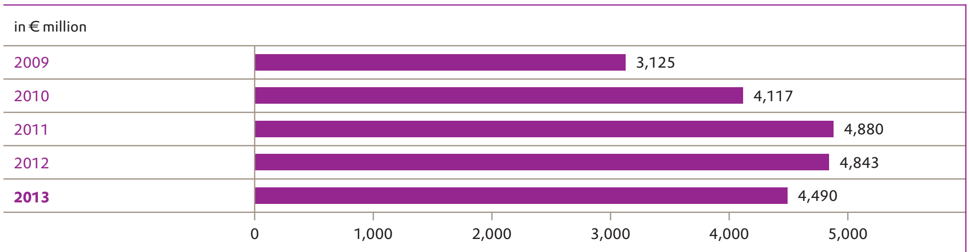
in € million	2013	2012	Change in %
External sales	4,490	4,843	–7
Performance Polymers Business Unit	1,810	1,774	2
Advanced Intermediates Business Unit	2,680	3,069	–13
Adjusted EBITDA	552	853	–35
Adjusted EBITDA margin in %	12.3	17.6	–
Adjusted EBIT	395	701	–44
Capital expenditures	289	344	–16
Depreciation and amortization	157	151	4
Capital employed (annual average)	2,019	1,811	11
ROCE in %	19.6	38.7	–
Employees as of December 31	6,268	6,134	2

Prior-year figures restated.

Lower sales

Sales declined 7 percent to €4,490 million in the Specialty Materials segment. Alongside withdrawal from the cyanuric chloride business in China in December 2012, this was due to an organic sales decline, caused by far lower selling prices. However, volumes increased appreciably, driven mainly by the fact that the production plant for cyclododecatriene (CDT), a precursor for polyamide 12, came back into service at the start of 2013. The plant in Marl (Germany) had been damaged by an explosion and fire on March 31, 2012.

C15 Development of sales in the Specialty Materials segment



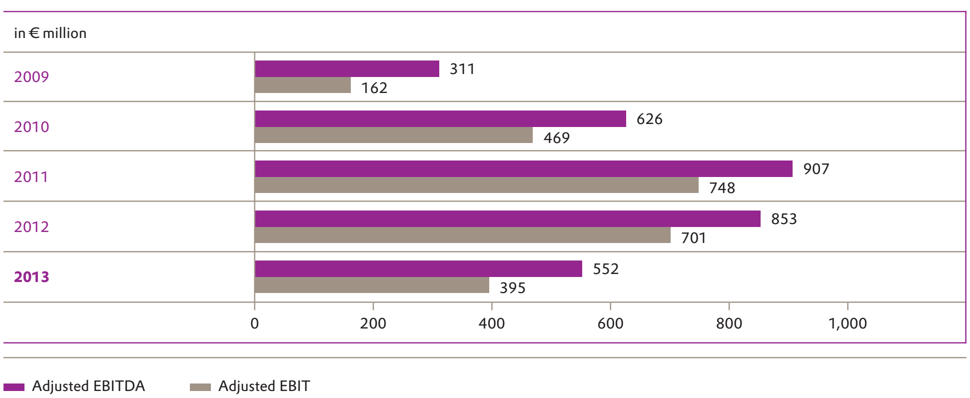
Operating results lower than in the previous year

Operating earnings were below the previous year's high levels, mainly as a result of lower selling prices. Adjusted EBITDA fell 35 percent to €552 million, while adjusted EBIT dropped 44 percent to €395 million. The adjusted EBITDA margin was 12.3 percent, down from 17.6 percent in the previous year.

Higher capital expenditures

To increase its global production capacity, Specialty Materials invested €289 million in property, plant and equipment in 2013, following investment of €344 million in 2012. In view of the ambitious growth strategy, capital expenditures once again exceeded depreciation, which amounted to €157 million. The average capital employed increased by €208 million to €2,019 million as a result of intensive capital expenditures. ROCE slipped from 38.7 percent to 19.6 percent owing to the lower earnings and higher average capital employed.

C16 Development of adjusted EBITDA and adjusted EBIT in the Specialty Materials segment



PERFORMANCE POLYMERS

The Performance Polymers Business Unit produces a wide range of high-performance materials, mainly for the automotive, aviation, electronics and photovoltaic industries. At its heart are integrated technology platforms for methylmethacrylate chemistry (MMA) and polyamide 12.
In addition, it manufactures high-performance polymers based on polyethereether ketone (PEEK) and polyimides to meet extremely high-tech mechanical, thermal and chemical requirements. Membrane technology is also developing promisingly.

High demand

G See Glossary p. 272

@ www.evonik.com/vestamid

Sales rose 2 percent to €1,810 million in the Performance Materials Business Unit, driven by a considerable rise in volumes. However, selling prices declined. The substantial increase in volumes was mainly due to the resumption of production of *cyclododecatriene (CDT)*, a precursor of polyamide 12, in early 2013. Following the fire on March 31, 2012, the CDT plant was rebuilt in record time and came back into service in January 2013. The damage in 2012 resulted in a clear drop in sales volumes but the reduction in earnings was largely covered by insurance. The difficult market environment in southern Europe and Asia affected methacrylate chemicals and prices came under pressure. As a result, the operating results declined.

New joint venture for lightweight construction applications

@ www.evonik.com/rohacell

In September 2013, Performance Polymers and SECAR Technologie, Hönigsberg (Austria) established Litecon Advanced Composite Products, a new joint venture for the mass production of innovative fiber-reinforced composite components for the automotive and aviation industries. Evonik owns 49 percent of the joint venture and will be contributing its expertise in materials development, especially ROHACELL® structural foam. ROHACELL® is used in sandwich structures in planes and sports cars, rotor blades for wind turbines, medical x-ray tables, and sports and leisure equipment.

Substantial capacity expansion

Capacity increases for the specialty polymer polyamide 12 came on stream in 2013 in Marl (Germany) and Shanghai (China). In addition, a new polyamide 12 line is planned for Asia. Performance Polymers is planning this substantial capacity increase to meet rising demand from its customers and secure its leading position in the market for polyamide 12.

In Mobile (Alabama, USA), additional production capacity was completed for methacrylate monomers for special applications, which are developed in close collaboration with customers. Expansion of the plants in Worms (Germany) should be completed by the end of 2014.

Basic engineering for the methacrylate (MMA) production facility based on the new AVENEER® process in Mobile is well advanced. In the intermediate term, Evonik has budgeted a sum in the triple-digit millions of euros for this facility. Methacrylate monomers and their derivatives are the basis for innovative products for resource-saving solutions such as lightweight automotive construction.

ADVANCED INTERMEDIATES

Key factors in the success of the Advanced Intermediates Business Unit are advanced chemical processes, which Evonik has developed systematically over decades. This applies in particular for the integrated C_4 technology platform, where C_4 crack is processed into specialties. This business unit has gained access to new growth markets for hydrogen peroxide thanks to its innovative capability. It is a world market leader in alcoholates, which are used as catalysts in the production of biodiesel.

Sales and earnings down year-on-year

Sales fell 13 percent to €2,680 million. Alongside divestment of the cyanuric chloride business in China in December 2012, the principal factors were a significant reduction in the selling prices of Performance Intermediates (*C_4 chemistry*), especially butadiene. Volumes were slightly below the previous year's high levels on account of an extensive maintenance shutdown at production facilities for performance intermediates in Marl (Germany) which takes place every five years. The *hydrogen peroxide* business was stable, benefiting from higher demand, especially for applications produced using the *HPPO process* developed by Evonik and ThyssenKrupp Uhde. Demand for alcoholates for the production of *biodiesel* remained buoyant. However, the operating results fell short of the very good results for the prior-year period due to the lower selling prices.

G See Glossary p. 272
G See Glossary p. 272
G See Glossary p. 272
G See Glossary p. 272

Investing in the future

The new production facility for hydrogen peroxide was completed in Jilin (China) at the start of 2014, bringing total annual production capacity for this product to over 850,000 metric tons. This investment in the low triple-digit million euro range gives Advanced Intermediates access to new markets for this environmentally friendly oxidation agent. Under a long-term agreement, most of the hydrogen peroxide from the facility in Jilin will be supplied to the neighboring propylene oxide plant operated by Jishen Chemical Industry Co., Ltd., via a direct pipeline. Jishen will use it to produce propylene oxide, which is mainly used in the manufacture of starting products for polyurethane. The market for this is growing particularly fast in Asia.

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A new plant to produce catalysts for the production of biodiesel from renewable raw materials has been completed in Puerto General San Marino (Argentina). This new plant has capacity of over 60,000 metric tons a year and will mainly serve the South American region. Through this investment Advanced Intermediates aims to participate in the fast-growing South American market for biodiesel.

Evonik has extended its offering of sustainable plasticizers through a strategic addition to its portfolio: A new production plant for phthalate-free plasticizers has started operating in Marl (Germany) following investment amounting to double-digit millions of euros. Plasticizers from Evonik are mainly used in the plastics industry, and in the automotive and construction sectors.

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In Jayhawk (USA) this business unit started up a new production plant for polymer additives. This capacity increase was triggered by a new strategic alliance with a leading producer of polyamides and their precursors. In future, Advanced Intermediates will be producing a ligand exclusively for this customer for an innovative catalyst system that represents a new key technology for efficient chemical production.

Services segment

This segment principally comprises Site Services and Business Services. It mainly provides services for the chemicals segments and the Corporate Center, but also serves third parties. The Site Services unit bundles cross-site infrastructure services, such as utilities, waste management, logistics and facility management. Business Services support the specialty chemicals operations and the Corporate Center by providing standardized administrative services, including IT, human resources, accounting and legal services. The Services segment also includes the Group-wide procurement and engineering operations.

T013 Key data for the Services segment

in € million	2013	2012	Change in %
External sales	916	999	–8
Adjusted EBITDA	182	174	5
Adjusted EBITDA margin in %	19.9	17.4	–
Adjusted EBIT	87	78	12
Capital expenditures	122	103	18
Depreciation and amortization	94	91	3
Capital employed (annual average)	521	486	7
ROCE in %	16.7	16.0	–
Employees as of December 31	12,192	11,900	2

Prior-year figures restated.

Higher earnings

The Services segment's sales totaled €2,680 million in 2013. Internal sales with the specialty chemicals segments and the Corporate Center accounted for €1,764 million of the total. The external sales of €916 million were mainly attributable to services and procurement activities for other customers. The 8 percent drop in external sales was mainly due to lower revenues from Site Services as a result of the shutdown of a customer's plant at the site in Marl (Germany). The increase in the operating results came mainly from successful cost management at the sites. Adjusted EBITDA rose 5 percent to €182 million, while adjusted EBIT grew 12 percent to €87 million. ROCE improved from 16.0 percent to 16.7 percent thanks to higher adjusted EBIT.

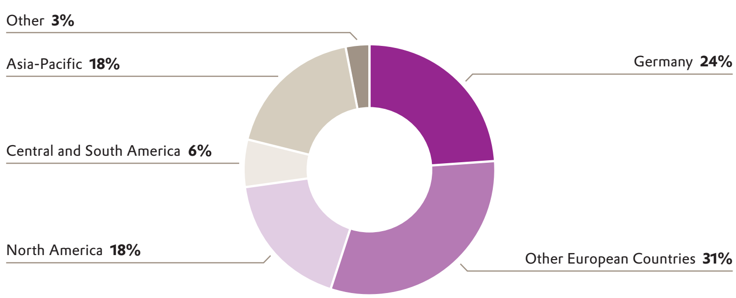
2.7 Regional development

A global presence

In 2013, 76 percent of our sales were once again generated outside Germany. Sales in **Germany** declined by 2 percent to €3,049 million. This was mainly due to the reduction in selling prices in the Specialty Materials segment, and lower sales revenues from the Services segment as a result of the shutdown of a customer's facility at the site in Marl (Germany). Capital expenditures dropped by 22 percent to €349 million as a number of major projects from the previous year were completed. New production facilities for phthalate-free *plasticizers* and the specialty polymer polyamide 12 came into service in Marl (Germany). In addition, a major facility for the production of functionalized *polybutadiene* came on stream in Marl at the start of 2014. A new building was completed in Darmstadt (Germany). From 2014 the pharmaceutical polymers activities will be combined here in order to leverage synergies.

G See Glossary p. 273
G See Glossary p. 273

C17 Sales by region[a]



[a] By location of customer.

Sales in the **Other European Countries** declined 4 percent to €4,044 million with all three segments contributing to this. This region accounted for an unchanged 31 percent of Group sales. Capital expenditures in this region rose 4 percent to €82 million. In Russia a further production facility for Biolys® with capacity of around 100,000 metric tons p.a. is under construction in Volgodonsk in the Rostov on Don region. It is being built by the OOO DonBioTech joint venture with the Varshavsky Group of Russia. Evonik is the minority partner in this joint venture.

Higher investment in the Americas

In **North America** sales contracted by 3 percent to €2,350 million. Here too, all segments reported lower sales. This region's share of Group sales was unchanged at 18 percent. Capital expenditures amounted to €130 million, slightly below the previous year's figure of €139 million. A new production plant for polymer additives came on stream in Jayhawk (USA), and capacity for precipitated *silicas* is currently being expanded in Chester (USA).

G See Glossary p. 274

In **Central and South America** Evonik's sales totaled €810 million, which was 3 percent less than in 2012. Higher sales were reported by the Consumer, Health & Nutrition segment, principally because of a hike in business with superabsorbents. The Resource Efficiency segment also increased sales slightly. This region accounted for an unchanged 6 percent of total sales. Capital expenditures to step up our operations in this region rose to €57 million (2012: €14 million). A new facility to produce catalysts for the production of *biodiesel* from renewable resources was completed in Argentina. In Brazil, we are constructing production plants for the cosmetics and household consumer goods sectors and for the feed additive Biolys® for the South American market.

G See Glossary p. 272

Expansion of our market position in Asia-Pacific

Sales in the **Asia-Pacific** region dropped 6 percent to €2,303 million. This was partly due to the fact that the prior-year figure still contained the cyanuric chloride operations in China. The region's share of Group sales was unchanged at 18 percent. Capital expenditures increased by 85 percent to €513 million as a result of major projects. In China, new production facilities for hydrogen peroxide, polyamide 12 and organic specialty surfactants have been completed or are close to completion, and new capacity for *isophorone* and *isophorone diamine* is scheduled for start-up in 2014. Capacity for precipitated silicas has been expanded greatly in Thailand and a new backwardly integrated production complex for the amino acid DL-methionine is under construction in Singapore.

G See Glossary p. 273

An increased presence in emerging markets

As part of our growth strategy, we are expanding our presence in emerging markets. We define these as selected countries in Asia, South America, Eastern Europe, and the Middle East. In these countries we generated sales of €3.8 billion in 2013, which was 29 percent of total sales.

As a result of our ambitious investment program, the proportion of Group sales generated in attractive growth regions will increase greatly in the future. Evonik will then have a balanced presence in developed and emerging markets.

2.8 Earnings position

Lower income before income taxes, continuing operations

Despite higher volumes, sales declined 4 percent to €12,874 million as a result of lower selling prices. The cost of sales slipped 2 percent to €9,310 million. This was mainly attributable to initial cost savings, especially from the On Track 2.0 efficiency enhancement program. The prices of individual raw materials fluctuated considerably in some cases both during the year and in the regions. Overall the internal raw materials index was slightly lower than in the previous year. However, this was offset by higher volumes. The gross profit on sales decreased by 9 percent to €3,564 million. Selling and administrative expenses were €1,925 million, around the same level as in the previous year (€1,920 million). To strengthen our innovative capability still further, we raised spending on research and development by 3 percent to €394 million.

See p. 51

See p. 84 ff.

Other operating income and expenses include income or expenses from the measurement of derivatives and from currency translation of monetary assets and liabilities. The other operating income of €935 million includes income of €477 million (2012: €589 million) from these two items. The derivatives include the put option and the call option for the remaining shares in STEAG, which resulted in income of €48 million in 2013 (2012: €17 million). Excluding these items, other operating income decreased by €439 million to €458 million, mainly because the previous year's figure contained one-off income of around €270 million from settlements with two customers in the photovoltaic industry. Moreover, income from insurance refunds was lower. The other operating expenses of €1,159 million comprise expenses relating to the measurement of derivatives and the currency translation of monetary assets and liabilities totaling €451 million (2012: €580 million). Excluding these two items, other operating expenses increased by €11 million to €708 million. They contain, among other things, restructuring expenses of €209 million and impairment losses of €106 million, for example on production facilities in the Resource Efficiency and Specialty Materials segments and the 49 percent stake in STEAG. Also included are environmental protection expenses and provisions for legal disputes. The impairment losses and expenses included in the previous year's figure principally related to the photovoltaic business and the incident at the CDT plant. Income before financial result and income taxes, continuing operations dropped 44 percent to €1,021 million.

See Note 6.3, p. 189 ff.

See Note 6.4, p. 191 ff.

Management report

T014 Income statement for the Evonik Group

in € million	2013	2012	Change in %
Sales	12,874	13,365	−4
Cost of sales	−9,310	−9,457	−2
Gross profit on sales	**3,564**	**3,908**	**−9**
Selling expenses	−1,294	−1,286	1
Research and development expenses	−394	−382	3
General administrative expenses	−631	−634	–
Other operating income	935	1,486	−37
Other operating expenses	−1,159	−1,277	−9
Income before financial result and income taxes, continuing operations	**1,021**	**1,815**	**−44**
Financial result	−185	−259	−29
Income before income taxes, continuing operations	**836**	**1,556**	**−46**
Income taxes	−220	−453	−51
Income after taxes, continuing operations	**616**	**1,103**	**−44**
Income after taxes, discontinued operations	1,397	65	–
Income after taxes	**2,013**	**1,168**	**72**
Non-controlling interests	−41	3	–
Shareholders of Evonik Industries AG (net income)	**2,054**	**1,165**	**76**

Prior-year figures restated.

Considerable increase in net income

The financial result improved by €74 million to minus €185 million, principally due to lower interest expense and higher income from securities transactions. Income before income taxes, continuing operations was 46 percent lower at €836 million. Income taxes decreased to €220 million, primarily as a result of tax-free income and the reduction in income. Overall, income after taxes, continuing operations declined by 44 percent to €616 million.

See Note 5.3, p. 183 ff.

Income after taxes, discontinued operations amounted to €1,397 million. €1,629 million related to the real estate activities, comprising a divestment result of €1,519 million and operating income of €110 million up to deconsolidation. It also includes a loss of €233 million from the lithium-ion business, comprising impairment losses (€223 million), the operating business, and provisions for impending losses. Income after taxes therefore improved 72 percent to €2,013 million. Non-controlling interests in after-tax income amounted to minus €41 million and comprised the pro rata losses of fully consolidated subsidiaries that are attributable to shareholders outside the Evonik Group. Overall the net income of the Evonik Group grew 76 percent to €2,054 million.

2.9 Financial condition

Effective financial management

The central 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., whose liabilities are fully guaranteed by Evonik Industries AG. To reduce external borrowing, surplus liquidity is placed in a cash pool at Group level to cover financing requirements in other Group companies. Evonik has a flexible range of corporate financing instruments to meet capital requirements for day-to-day business, investments, and the repayment of financial debt.

Moody's upgrade to Baa2, outlook still positive

Following announcement of the divestment of the real estate business Vivawest in March 2013, Moody's upgraded Evonik's *rating* by one notch to Baa2. The outlook remained positive. Moody's stressed the significant reduction in debt resulting from the transaction. It also welcomed the private placements of shares in spring 2013 ahead of the stock exchange listing. Our rating from Standard and Poor's is still BBB+ with a stable outlook. This rating agency confirmed its positive assessment in May 2013. Maintaining a sound investment grade rating is a central element in our finance strategy. To ensure this, the ratio of net debt (including unfunded pension obligations) to adjusted EBITDA should not exceed 2.5. As of December 31, 2013 it was 1.4, compared with 2.1 at year-end 2012. The improvement was mainly driven by a reduction in net debt resulting from revenues from the sale of the majority stake in the real estate activities (€1.1 billion), the transfer of part of Vivawest to the *CTA* for pensions (€0.8 billion), and deconsolidation of the financial debt and pension obligations relating to the real estate activities (€0.6 billion).

G See Glossary p. 276

G See Glossary p. 275

Net financial asset position

Evonik had net financial assets of €552 million at year-end 2013, compared with financial debt of €1,163 million at year-end 2012. The net asset position was principally due to the divestment and deconsolidation of the real estate business and the cash flow from operating activities, while high capital expenditures, the dividend payment of €429 million for 2012, and a cash contribution of €200 million to the CTA had a counter-effect. Further funds are to be allocated to the CTA in 2014 and 2015.

Management report

T015 Net financial assets/debt

in € million	Dec. 31, 2013	Dec. 31, 2012
Non-current financial liabilities	–627	–1,397
Current financial liabilities	–976	–1,437
Financial debt	**–1,603**	**–2,834**
Cash and cash equivalents	1,518	741
Current securities	635	928
Other financial assets	2	2
Financial assets	**2,155**	**1,671**
Net financial assets/debt as stated on the balance sheet	**552**	**–1,163**
Net financial assets, discontinued operations	18	–
Net financial assets (total)	**570**	**–**

There was a substantial decline of €1,231 million in financial debt to €1,603 million in 2013. On a comparable basis, i.e. taking into account the deconsolidation of the real estate activities and the reclassification of the lithium-ion business to discontinued operations, the decline was €633 million. In April 2013 Evonik Industries AG issued a €500 million bond. The €1,093 million bond issued by Evonik Degussa GmbH was redeemed as scheduled in December. The new bond matures in seven years and has a coupon of 1.875 percent. The yield at issue was 2.001 percent.

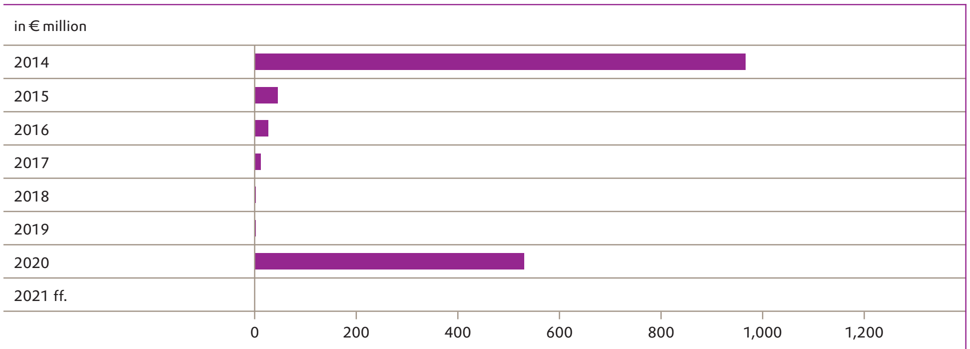
Corporate bonds as a central financing instrument

At year-end 2013, the financial debt of €1,603 million comprised two corporate bonds totaling €1,243 million, decentralized bank loans (€326 million), and other liabilities (€34 million). The bond issued by Evonik Industries AG with a nominal value of €750 million matures in October 2014.

At the start of 2013, we launched a debt issuance program to place bonds with a total volume of up to €3 billion. This has increased our flexibility. We can now issue bonds at short notice, thus improving our access to the capital markets.

Over 85 percent of the Group's financial liabilities are denominated in euros. Only Group companies outside the euro zone have financial liabilities in other currencies. The relevant currencies include the Chinese renminbi yuan (CNY), the new Taiwan dollar (TWD), the Argentinean peso (ARS) and the US dollar (USD).

C18 Maturity profile of financial liabilities [a]



As of December 31, 2013.

[a] Contains all material financial liabilities relating to bonds, bank loans and promissory note loans.

Strong liquidity position

Alongside cash and cash equivalents of €1,518 million and investments of €635 million in current securities, the Group's central source of liquidity is a €1.75 billion revolving credit facility from a syndicate of 27 national and international banks. This credit facility is €250 million higher than in the previous year and is divided into two tranches of €875 million each running initially until September 2016 and 2018, with two extension options of one year each. This revolving credit facility was not drawn at any time in 2013. It does not contain any covenants requiring Evonik to meet specific financial ratios.

Further, as of December 31, 2013, various unused credit lines totaling €342 million were available to meet local requirements, especially in the Asia-Pacific region.

First growth projects completed

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, and has to meet business-specific, risk-adjusted minimum return requirements, which include covering the cost of central functions. Evonik is currently undertaking a €6 billion investment program. The first major projects under this program were completed or virtually completed in 2013. They include the *superabsorbents* plant at the joint venture with Saudi Acrylic Acid Company (SAAC) in Saudi Arabia, the production facility for organic specialty surfactants in Shanghai (China), and the production facility for *hydrogen peroxide* in Jilin (China).

G See Glossary p. 274
G See Glossary p. 272

In 2013 we increased investment in property, plant and equipment by 18 percent to €1,135 million (2012: €960 million). The increase was mainly for strategic growth projects. As part of our growth strategy geared to creating value, these projects will result in above-average capital expenditures in the coming years compared with previous fiscal years. The biggest single project in 2013 was the methionine complex in Singapore, which is scheduled for completion in the second half of 2014.

In keeping with our corporate strategy, the specialty chemicals operations once again received the highest proportion of capital expenditures—86 percent—and 11 percent was invested in the Services segment. The regional focus of capital expenditures was Germany, which accounted for 31 percent of the total, followed by South-East Asia (24 percent) and Greater China (20 percent).

See p. 56 ff.

T016 Major projects completed or virtually completed in 2013

Segment	Location	Project
Consumer, Health & Nutrition	Al Jubail (Saudi Arabia)	Construction of a new superabsorbents plant[a]
	Shanghai (China)	Construction of an integrated oleochemicals facility
Resource Efficiency	Lantaron (Spain)	Expansion of silica capacity
	Rheinfelden (Germany)	Expansion of capacity for functional silanes
Specialty Materials	Jayhawk (USA)	Expansion of capacity for polymer additives
	Jilin (China)	New hydrogen peroxide facility
	Rosario (Argentina)	New plant for biodiesel catalysts
	Marl (Germany)	New production plant for phthalate-free plasticizers
	Mobile (USA)	Expansion of capacity for monomer applications

[a] Joint venture (financial investment).

For further information on current capital expenditure projects, please see the sections on the segments and regions.

Additions to financial assets totaled €28 million, which was below the previous year's figure of €32 million.

Cash flow below previous year's high level

The cash flow from operating activities in our continuing operations was €1,086 million in 2013, €309 million less than in the previous year. The reduction in income before the financial result, income taxes, depreciation and amortization was offset to some extent by lower income tax payments. Insurance refunds and the measurement of derivatives also had a positive effect. The cash flow from operating activities in the discontinued operations related to the lithium-ion business and the former Real Estate segment and comprised an outflow of €3 million, compared with an inflow of €25 million in 2012. Overall, the cash flow from operating activities declined by €337 million to €1,083 million.

T017 Cash flow statement (excerpt)

in € million	2013	2012
Cash flow from operating activities, continuing operations	1,086	1,395
Cash flow from operating activities, discontinued operations	–3	25
Cash flow from operating activities	**1,083**	**1,420**
Cash flow from investing activities, continuing operations	322	–1,472
Cash flow from investing activities, discontinued operations	59	–149
Cash flow from investing activities	**381**	**–1,621**
Cash flow from financing activities, continuing operations	–1,044	–488
Cash flow from financing activities, discontinued operations	418	20
Cash flow from financing activities	**–626**	**–468**
Change in cash and cash equivalents	**838**	**–669**

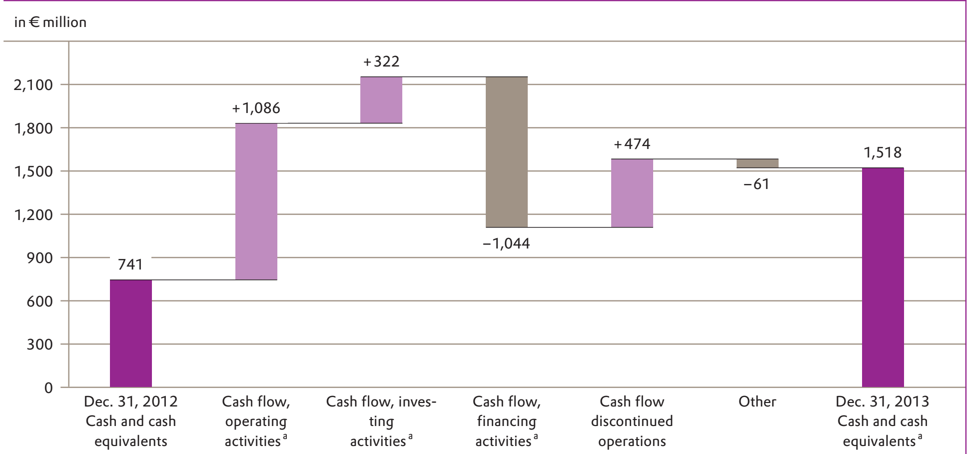
Including discontinued operations.

The cash flow from investing activities, continuing operations comprised an inflow of €322 million. This resulted mainly from the receipt of payments totaling €1,621 million, especially in connection with the divestment of the real estate activities, principally the shares in Vivawest, and current securities. There were also outflows of €1,099 million for investment in property, plant and equipment and shareholdings, and an allocation of €200 million to the *CTA*. In 2012, cash outflows for investment in property, plant and equipment, securities and the allocation to the CTA resulted in a total outflow of €1,472 million. Together with the cash flow from the discontinued operations, the cash flow for investing activities comprised an inflow of €381 million, compared with an outflow of €1,621 million in the previous year.

G See Glossary p. 275

The cash flow from financing activities, continuing operations comprised an outflow of €1,044 million. The main outflows were for repayment of financial debt, especially the redemption of the bond issued by Evonik Degussa GmbH, and the payment of a dividend. These were countered by an inflow from the issuance of the bond by Evonik Industries AG. In 2012, the cash outflow for financing activities, continuing operations was €488 million. The cash inflow from financing activities, discontinued operations amounting to €418 million mainly related to a promissory note in the former Real Estate segment. In all, there was a cash outflow of €626 million for financing activities in 2013, compared with an outflow of €468 million in the previous year.

C19 Maturity profile of financial liabilities December 31, 2013 versus December 31, 2012



[a] Continuing operations.

2.10 Asset structure

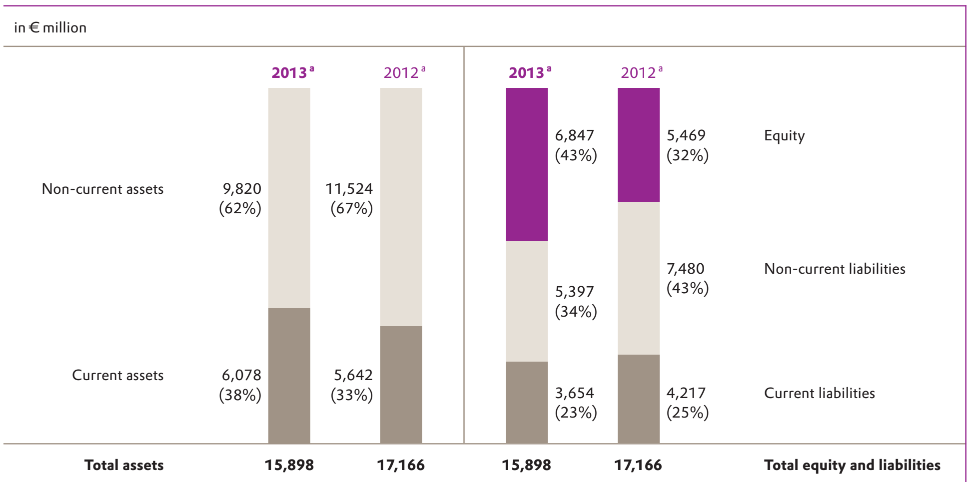
Decrease in total assets

Total assets as of December 31, 2013 decreased by €1.3 billion to €15.9 billion, principally as a result of the deconsolidation of the real estate activities in July 2013 following divestment of the majority of the shares. This was the main reason for the €1.7 billion drop in non-current assets to €9.8 billion. Current assets increased by €0.4 billion to €6.1 billion, mainly because of the receipt of the divestment proceeds of €1.1 billion for the majority stake in the real estate activities. This was countered by the scheduled redemption in December 2013 of the Evonik Degussa bond. Non-current assets decreased to 62 percent (2012: 67 percent) of total assets as a result of the deconsolidation of the principally non-current assets relating to the real estate business. The non-current assets are financed by liabilities with the same maturity structure.

See Note 5.2, p. 181 ff.

See p. 74

C20 Balance sheet structure of the Evonik Group



[a] As of December 31.

Equity increased by €1.4 billion to €6.8 billion thanks to high net income, and the equity ratio improved from 31.9 percent to 43.1 percent.

Non-current liabilities decreased by €2.1 billion to €5.4 billion. The main influences were the deconsolidation of the real estate activities and reclassification of the €750 million bond issued by Evonik Industries AG, which matures in October, to current financial liabilities. In current liabilities, this addition was countered by the redemption of the Evonik Degussa bond. As a result, current liabilities declined by €0.6 billion to €3.7 billion.

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).

As of July 1, 2013, the management of all plants operated by Infracor GmbH and Industriepark Wolfgang GmbH (IPW) was transferred to Evonik Industries AG. In connection with this, around 4,500 employees of these companies were transferred to Evonik Industries AG. There are also plant management agreements with five other major operating companies, including Evonik Degussa GmbH, which were concluded in previous years.

The companies remain the economic owners of the assets and liabilities of the plants. Consequently, the opportunities and risks are still borne by and assigned to these companies. As the operator, Evonik Industries AG recognizes all liabilities entered into in its name and capitalizes a claim for compensation from the owners of the plants. As a result of this structure, the sales revenues shown on the income statement of Evonik Industries AG only contain fees for the management of these plants. All other income and expenses are allocated to the companies that own the plants and are recognized in their annual financial statements.

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

T018 Income statement for Evonik Industries AG

in € million	2013	2012
Sales	44	71
Other operating income	2,194	505
Personnel expense	–116	–79
Depreciation of property, plant and equipment, amortization of non-current intangible assets	–3	–3
Other operating expenses	–620	–707
Operating result	**1,499**	**–213**
Income from investments	453	365
Write-downs of financial assets and marketable securities	–17	–4
Write-ups of financial assets	48	–
Net interest expense	–99	–93
Income before taxes	**1,884**	**55**
Extraordinary income	12	8
Extraordinary expense	–15	–10
Extraordinary loss	**–3**	**–2**
Income taxes	–66	23
Net income	**1,815**	**76**
Allocation to/withdrawals from revenue reserves	–907	353
Net profit	**908**	**429**

Sales relate almost exclusively to plant management fees and slipped from €71 million in 2012 to €44 million in 2013, mainly due to a lower calculation base for plant management fees. The other operating income of €2,194 million contains income of €1,791 million from the sale of the majority of the shares in the real estate business. It also includes income from currency translation gains (€342 million). In the gross presentation, currency translation losses (€336 million) are shown in other operating expenses, separately from the currency translation gains. The net effect was income of €6 million. Personnel expenses increased from €79 million to €116 million. This was principally due to higher remuneration for the Executive Board[1] and expenses for planned measures in the administrative area. This item does not include personnel expense for the employees transferred under the new plant management structure because economically they are still attributable to the companies that own the plants.

[1] See the Remuneration report, p. 124 ff. and Note 10.3, p. 252 f.

Income from investments increased to €453 million and includes a dividend of €500 million from Vivawest GmbH, which was offset by expenses for the assumption of losses. The net interest expense of €99 million mainly resulted from borrowing for the company's financing activities for the Group. 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 improved from €55 million to €1,884 million, mainly because of the gain from the divestment of the majority of the shares in the real estate subsidiary Vivawest. The extraordinary loss of €3 million (2012: €2 million) comprised expenses in connection with the stock market listing. The extraordinary expenses also include expenses of €12 million (2012: €8 million) for preparation of the stock exchange listing, which were reimbursed by our shareholders. Since the divestment gain was tax-free, income tax expense was €66 million. The net income improved from €76 million to €1,815 million, principally as a result of the divestment gain and higher income from investments. €907,155,984.30 was allocated to revenue reserves, leaving a net profit of €907,500,000.00. The Executive Board will propose to the Annual Shareholders' Meeting that a further €441,500,000.00 should be allocated to other revenue reserves and that €466,000,000.00 should be distributed. That gives a dividend of €1.00 per share.

T019 Balance sheet for Evonik Industries AG

in € million	2013	2012
Assets		
Intangible assets, property, plant and equipment	8	11
Financial assets	8,745	8,818
Non-current assets	**8,753**	**8,829**
Receivables and other assets	3,671	3,281
Securities	630	900
Cash and cash equivalents	1,186	421
Current assets	**5,487**	**4,602**
Prepaid expenses and deferred charges	**1**	**2**
Total assets	**14,241**	**13,433**
Equity and liabilities		
Issued capital	466	466
Capital reserve	720	720
Revenue reserves	3,192	2,285
Net profit	908	429
Equity	**5,286**	**3,900**
Provisions	**2,044**	**1,743**
Payables	**6,911**	**7,790**
Total equity and liabilities	**14,241**	**13,433**

Evonik Industries AG's total assets increased by €0.8 billion to €14.2 billion. Financial assets mainly comprise shares in subsidiaries. The receivables mainly comprise claims for reimbursements in connection with plant management, and financial receivables of €1.2 billion, principally in connection with loans and cash pooling activities. Equity increased by €1.4 billion to €5.3 billion. The equity ratio therefore improved from 29.0 percent to 37.1 percent. The provisions of €2.0 billion include €1.6 billion relating to the plants managed by Evonik Industries AG. 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 €6.0 billion. €4.7 billion of this comprises liabilities to associated companies, mainly in connection with cash pooling activities. A further €1,250 million relates to the corporate bonds.

Opportunities and risks

The most significant operating subsidiaries 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 for 2014

We anticipate a substantial reduction in the net income of Evonik Industries AG in 2014 compared with the figure for 2013, which contained the divestment gain from the real estate activities. In order to optimize the legal structures of our subsidiaries, there will be further intragroup mergers in 2014. As in 2013, the merger-related losses will reduce income from investments.

Report on relations with affiliated companies

A report on 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."

4. Research & development

Evonik gives research more clout

Evonik—one of the world's most innovative companies. That is the vision that guides our research and development (R&D). The Group-wide Leading Innovation initiative, which is designed to step up the pace of innovation, is a key element: It is our response to the challenging market environment and increasingly short product and innovation lifecycles, and paves the way for the future success of the Evonik Group. In 2013 a number of specific measures were defined as part of this initiative, including realigning our strategic innovation unit, Creavis.

A culture of innovation is a key factor in a company's innovative capability. It determines whether—and how fast—employees are able to drive forward good ideas and convert them into additional sales and earnings. That includes the strength to halt R&D projects if their prospects of success are too low, and a constructive attitude to mistakes. Evonik sees itself as an open and learning organization and has anchored this in its innovation management and executive development activities.

To gather new business ideas within the Group, we are using creative new approaches and stepping up the use of online platforms, for example, through global, cross-unit Ideation Jams. In this way, in fall 2013 employees worldwide were able to put forward proposals for the development of new products, technologies and business models aligned specifically to the health needs of older people. More than 20 of the roughly 160 suggestions received were selected for further development.

Every year we present an Innovation Award in various categories to honor outstanding research achievements.

Attractive innovations should continue to support Evonik's growth in the coming years and help us attain the financial targets set for 2018. We have a well-stocked pipeline with a balanced mixture of around 500 short-, mid- and long-term R&D projects.

Examples of our most recent R&D highlights are novel amino acid derivatives that can be used as feed additives for fish, highly transparent insulation for windows, and—as an alternative to petroleum-based laurin lactam—a bio-based amino lauric acid that produces an identical polyamide 12.

In view of its strategic importance, R&D spending has been increased by an average of 9 percent a year since 2009. In 2013, it totaled €394 million, up from €382 million in the previous year and the R&D ratio was 3.1 percent. We intend to maintain spending on R&D at a high level in the future.

Innovation Award 2013

New Products/New System Solutions category

Project:
Silylisocyanates—New technology platform makes automotive clear coats more scratch resistant

Coatings & Additives Business Unit

New or Improved Process category

Project:
New serine production platform—Two enantiomers by a single route

Health & Nutrition Business Unit

Creative Communication Medium category

Project:
CAREtain—The communication platform for sustainable innovation

Consumer Specialties Business Unit

T020 R&D at Evonik

R&D expenses	€394 million
R&D ratio	3.1%
R&D employees	approx. 2,600
Locations	approx. 35
R&E projects	approx. 500
Number of new patent applications filed	approx. 260
Patents held and applications filed	approx. 26,000
Registered/pending trademarks	approx. 7,500

In addition, Evonik invested more than €50 million in the construction of laboratory capacity and pilot facilities in 2013. Examples include a new innovation center for applications for the cosmetics industry, which the Consumer Specialties Business Unit opened in Essen (Germany) in June 2013. High-quality cosmetic ingredients are an attractive growth market. As a result of intensive research, the Performance Polymers Business Unit opened a pilot plant for the production of bio-based amino lauric acid in Slovenska L'upča (Slovak Republic) in early 2013.

The large number of first-time patent applications filed by Evonik places it at the forefront of the specialty chemicals sector. In 2013 we had around 26,000 patents and pending patents and filed around 260 new patent applications. The value of our patent portfolio has increased steadily in recent years. In summer 2013 the strength and efficiency of our R&D were highlighted by a survey by PatentSight, a company which regularly analyzes companies' patent portfolios against their global competitors.

Internal and external networks foster new business and technology ideas

Evonik's R&D activities are decentralized. Our global R&D network comprises some 2,600 employees from a variety of disciplines at around 35 locations. We regard this interdisciplinary collaboration as an important generator of innovations, which these days generally span the interfaces between different fields. Moreover, we bring together our in-house expertise in specialty chemicals,
process technology and engineering at an early stage in projects. This facilitates rapid transfer of new processes into industrial production.

Turning successful research into business success requires a sound knowledge of the marketplace. Our R&D staff therefore work closely with their colleagues from Marketing & Sales. As a result, our innovations are very closely aligned to the needs of our customers, enabling us to enhance their competitiveness through new or improved products and applications. As part of our Leading Innovation initiative we aim to integrate Marketing & Sales even more closely into our innovation processes in the future. To complement that, our product and marketing expertise for key end-markets such as the automotive, pharmaceuticals, and paints and coatings industries is bundled in special teams. That also increases our visibility to potential customers.

Since product lifecycles are becoming shorter while innovation is becoming more complex, we are making our R&D more open to external partners in the sense of "open innovation." Development alliances with key customers, which have long been established in our day-to-day activities, are becoming even more significant. For this reason, Consumer Specialties' new innovation center has a special workshop area that is separated from the remaining research facilities to secure collaboration with customers yet take account of the need to protect know-how.

In order to participate in the latest research findings, Evonik cooperates with leading universities around the world. In addition, in June 2013 we stepped up our established cooperation with Duisburg-Essen University in Germany by concluding an agreement to sponsor a junior professorship and fund ten new scholarships for doctoral candidates. In fall 2013 we signed a declaration of intent on a strategic partnership with Singapore's leading national research organization, the Agency for Science, Technology and Research (A*STAR).

We are also exploring new routes in open innovation. In August 2013, we invited more than 100 scientists in Germany working in the areas of organic chemistry, biochemistry and catalysis to submit proposals for a specific cooperation project. The goal was to find ways of synthesizing DL-methionine or L-methionine without using hydrocyanuric acid. At Evonik's annual research colloquium in December 2013 awards were presented to the scientists who submitted the three best proposals.

@ www.evonik.com/venturing

Our corporate venture capital activities are a special way of networking and a strategic complement to our R&D. They give us an insight into innovative technologies and business activities aligned to our growth strategy at a very early stage of development. In the next few years, we intend to invest up to €100 million in promising start-ups. More than 300 potential candidates were examined in 2013. In 2012 we invested in the High-Tech Gründerfonds II, the Emerald Cleantech Fund III, and the Pangaea Ventures Fund III. In December 2013 we took a direct stake in FRX Polymers, Inc., a US technology company with specialist expertise in environment-friendly polymer-based flame retardants. This company has pilot facilities in the USA and Switzerland and started up its first plant for mass production of halogen-free flame retardant plastics in Antwerp (Belgium) at the end of 2013.

Strategic innovation unit Creavis realigned

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Creavis has long been a symbol of Evonik's research. In the past three years alone, it has initiated new business through the successful development of 20 innovation projects that have been transferred to our operating units for marketing. To make Creavis even faster and more flexible in the future, we reviewed its structures and concepts as part of our Leading Innovation initiative. The goal was to build on Creavis' strengths: excellence in technology and project management. As a result, Creavis was given a new structure effective January 1, 2014.

Interdisciplinary research will still be pursued in Creavis' project houses, but they will be structured more flexibly. In spring 2013 we opened our tenth project house, Composites, based in Marl (Germany) with a unit in Darmstadt (Germany). It will be developing innovative materials and systems solutions for lightweight construction. Its research focuses, among other things, on applications in the automotive and aviation sectors and regenerative energies. A further project house is planned for spring 2014. It will be working on medical technology and will be based in Birmingham (Alabama, USA), a location for the healthcare activities of our Health & Nutrition Business Unit.

Sustainability is an important innovation driver

Research into sustainable products and processes that use resources efficiently is an integral element of Evonik's innovation strategy. That applies to the business units as well as to Creavis.

For example, a Creavis project led to the SEPURAN® Green hollow fiber membrane modules marketed by our Performance Polymers Business Unit, which greatly enhance the efficiency of upgrading biogas into biomethane. Evonik was awarded with the German Innovation Prize for Climate and the Environment 2013 in the Environment-Friendly Technologies category. This award is presented annually by the German Ministry for the Environment, Nature Conservation and Reactor Safety and the Federation of German Industry.

@ www.evonik.com/sepuran

Further, scientists at the Eco^2 Science-to-Business (S2B) Center have developed a method of estimating the carbon footprint of a product or process at an early stage in development. Following successful completion of the S2B at the end of 2013, the Sustainable Business unit at Creavis will be extending it to other environmental and social indicators.

Evonik maintains close dialogue with scientists

Regular interchange with leading international researchers is important to Evonik. At the Evonik Meets Science forum in Atlantic City (New Jersey, USA) in September 2013, our experts discussed surface-active systems for consumer and industrial applications with professors from leading US universities.

Fostering talented young people is also very important to us. In the 2013/2014 academic year, Evonik is providing a total of 200 German scholarships to support students at 14 universities. These scholarships, which are awarded by the German government in collaboration with private sponsors, are designed to encourage more young people to take a university degree. Through the Evonik Foundation we have supported students and doctoral candidates with their research for many years. Regular meetings with these young scientists give them an early insight into day-to-day work in the field of specialty chemicals and positions us as an attractive employer for talented youngsters.

Further globalization of R&D

Selective expansion of our R&D in economically attractive regions, especially Asia, supports Evonik's growth strategy. The aim is to strengthen the competitiveness of our customers in these regions through research and applications technology and technological services geared specifically to local needs. To this end, we have expanded our R&D center in Shanghai (China) for the third time. The new laboratory capacity came into service in fall 2013.

Our Light & Electronics Advanced Project House is based at the renowned Industrial Technology Research Institute in Hsinchu (Taiwan), in the direct vicinity of large electronics producers. It focuses on panel lighting, display components and functional coatings. Nowhere else in the world are innovative trends, for example, for light management systems, mobile communications and electronics, set as fast as in China, South Korea and Taiwan. In 2013 this project house undertook initial sampling of newly developed optoelectronics applications with prospective customers.

In the coming years, we also intend to step up our research in NAFTA, focusing on five Evonik sites in this region. At the end of November 2013, Greensboro (North Carolina, USA), hosted Evonik's first interdisciplinary R&D colloquium in North America. Around 60 R&D experts and engineers attended to find out about the latest projects and new initiatives, so the colloquium was a good opportunity to extend personal networks and facilitate innovative impetus in the future.

Market-oriented research & development

In 2013 our operating units once again developed and launched major innovative products and processes. Special attention was paid to environmental compatibility and efficient use of resources.

The **Consumer Specialties** Business Unit in the **Consumer, Health & Nutrition segment** has developed an innovative class of self-adhesive labels which eliminate the previously essential paper or plastic release liner. This new linerless concept was made possible by the extensive process know-how and product technologies of the Consumer Specialties Business Unit. Radiation-cured silicone acrylates can be used for in-line printing of labels. The linerless labels reduce volume and weight by more than 40 percent and completely eliminate the liner film that had to be disposed of at the end of the process.

Another environment-friendly innovation from Consumer Specialties is Tego® Care PBS 6, a versatile polyglyceryl-based oil-in-water emulsifier for challenging fluid emulsions. This product is used in the production of modern sun care products containing a high proportion of water-soluble UV filters and can also be used with other ingredients where stabilization is a problem. This new emulsifier does not contain polyethylene glycols (PEG) and is produced entirely from plant-based raw materials, principally rape seed and coconut. The first products containing Tego® Care PBS 6 are scheduled for market launch in 2014.

The **Health & Nutrition** Business Unit has developed a more economical process for enzymatic synthesis of the *amino acid* serine, for which it won Evonik's internal Innovation Award in the category "New or Improved Process." The new process allows fully backwardly integrated production of all enantiomer forms (L-serine, D-serine and DL-serine) as well as an attractive portfolio of serine derivatives. L-serine is a natural amino acid found in the human body that plays an important role in the biosynthesis of protein. The main applications for this product are nutrition, pharmaceuticals and cosmetics. So far the business unit has manufactured this product by purifying crude L-serine obtained from natural sources. To scale up the new enzymatic process for industrial use, the production facilities at the site in Nanning (China) have been extended.

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As part of its ongoing strategic development, the Health & Nutrition Business Unit is expanding its DL-methionine activities into aquaculture. Given the scarcity of natural resources, amino acids and plant-based protein can replace valuable fishmeal, enhance feed efficiency in fish and crustaceans, and reduce environmental impact by cutting nitrogen emissions. The first production trial for AQUAVI® Met-Met was completed successfully at our site in Hanau (Germany) in 2013. AQUAVI® Met-Met is a methionine dipeptide specifically for the nutrition of shrimp and other crustaceans.

The **Inorganic Materials** Business Unit in the **Resource Efficiency segment** has introduced ULTRASIL® 6000 GR, a further highly dispersible precipitated silica. Used as an active reinforcer for automobile tires, this product combines the typical benefits of precipitated *silica* such as low rolling resistance and very good wet grip with the rising demands placed on the road handling properties of today's high-performance tires. This is achieved in part through customized particle size distribution. That enhances customers' ability to meet the conditions for tire labeling in the EU. Thanks to global expansion of Evonik's silicas activities, ULTRASIL® 6000 GR will be available worldwide in the future.

@ www.evonik.com/ultrasil
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Thermoplastics have to be crosslinked to protect their properties. That is vital, for example, for common polyethylene pipes used to supply drinking water, otherwise they would not be resistant to water pressure or hot water. One important method is crosslinking with organofunctional *silanes*, but in most cases this involves the use of catalysts based on organic tin compounds that are critical from an environmental viewpoint. Inorganic Materials offers two new tin-free systems, Dynasylan® SILFIN 201 and 202, as alternatives.

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Scratch-resistance is particularly important for clear automotive top coats. Alongside protection, they make sure the vehicle retains its shiny high-class appearance for longer. Thanks to Evonik's extensive expertise in silane and isocyanate chemistry, the **Coatings & Additives** Business Unit has developed a process that delivers IPMS (3-isocyanatopropyltrimethoxysilane) at competitive cost. This is marketed as VESTANAT® EP-IPMS. Extensive tests have shown that coatings produced with IPMS-functionalized binders have exceptionally high and durable scratch resistance. They also have easy-to-clean properties and good resistance to chemicals. Pilot-scale production of IPMS started in Marl (Germany) in June 2013. In 2013 this innovation won Evonik's internal Innovation Award 2013 in the category "New Products/System Solutions."

Management report

www.evonik.com/dynapol

DYNAPOL® Terra from Coatings & Additives represents a breakthrough in the search for bio-based binders for metal coatings. Pre-coated metal substrates are used in many architectural applications and in the food and beverage industry. The majority of binders for these coatings are based on saturated polyester resins produced from petroleum-based raw materials. By contrast, the products in the new DYNAPOL® range are partially or completely produced from renewable polyester resin components. Their technical properties are comparable to those of conventional binder systems.

www.evonik.com/vestakeep

In the **Specialty Materials segment,** the **Performance Polymers** Business Unit is systematically extending business with the high-performance polymer VESTAKEEP® PEEK. One attractive market is medical technology, where VESTAKEEP® PEEK polymers are valued for their superior biocompatibility and biostability. In February 2013 the first spinal fusion implant based on VESTAKEEP® received 510(k) approval from the US Food and Drug Administration (FDA). The K7C™ Cervical Spacer is one of several spinal implants developed by the US company K7 LLC and produced with VESTAKEEP® PEEK. According to K7 LLC, the special mechanical properties of VESTAKEEP® PEEK were the main factor in obtaining FDA clearance.

In addition, Performance Polymers has developed an adhesion promoter that improves the performance of hybrid components and reduces material requirements by up to 20 percent. That results in considerable cost benefits and lower CO_2 emissions. The co-polyamide-based VESTAMELT® adhesion promoter ensures excellent bonding to both metals and polymers. A leading automotive manufacturer uses VESTAMELT® X1333-P1 in several of its mass-produced models. Hybrid structures facilitated by VESTAMELT® make a key contribution to lightweight construction by ensuring durable and robust bonding of metals and plastics. The aluminum tubing connects both A-pillars and supports the entire dashboard—from the steering wheel to the glove compartment.

The **Advanced Intermediates** Business Unit has its own research and development laboratory in Marl (Germany) to drive forward the development of plasticizers. ELATUR® CH, a new phthalate-free *plasticizer* brand was brought onto the market in 2013. It is produced in a new production plant in Marl (Germany) with capacity of 40,000 metric tons a year. As a strategic addition, the portfolio will be supplemented by bio-based plasticizers in the future.

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Tomorrow's small-scale production plant is compact, can be planned relatively quickly, and is suitable for a wide variety of different locations. This innovative technology platform was developed as part of the European Union's F^3 Factory Project, which aims to make European chemical production more resource-efficient. The goal was to develop standardized, modular production plants using the F^3 concept, which stands for fast, flexible, future. The solution is a container-based structure for small to mid-sized production facilities. Experts from Advanced Intermediates and Process Technology & Engineering jointly developed and tested a compact facility of this type for hydroformylation. The modular system was subsequently transferred to a container system with the assistance of Site Services.

5. Sustainability

Sustainability is a key element in our corporate strategy. We are committed to the ten principles of the UN Global Compact and are guided by the International Labour Standards issued by the International Labour Organization (ILO) and the OECD Guidelines for Multinational Enterprises. Together with Evonik's Code of Conduct, the Global Social Policy (GSP) and our Environment, Safety and Health (ESH) Values contribute to responsible corporate management.

@ www.evonik.com/responsibility

Central responsibility for sustainability management

The Executive Board bears overall responsibility for sustainability at Evonik. The Chief Human Resources Officer is the Executive Board member with direct responsibility. The issues derived from the sustainability strategy are implemented through goals set for the business units and specialist departments, and their attainment is monitored using performance indicators. The role of the steering committees is to ensure that these goals are achieved. The strategy is mainly developed and monitored in the Corporate Center. In addition, issue-based network platforms, which are supplemented as required, are used to track sustainability-related issues in the Evonik Group and translate them into specific measures.

C21 Sustainability management at Evonik

Driving forward sustainability strategy

In 2013 we refined Evonik's sustainability strategy. This is currently being agreed with the operational units to facilitate subsequent integration into corporate processes. The principles on which our actions are based are business success as a vital precondition, and transparent evaluation of sustainability aspects to support entrepreneurial decisions. We are guided by the conviction that lasting business success and the acceptance of corporate responsibility are complementary and mutually indispensable. The objective of the revised strategy will be to ensure that greater attention is paid to sustainability in long-term corporate decisions, such as investment and research decisions, and at the same time, to anchor it even more firmly in conventional

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sustainability-related areas, i.e. the environment, safety, health and human resources. Equally, we want to address issues such as resource efficiency and social responsibility, which are regarded as important in the context of *stakeholder* dialogue, and to align Evonik to the “Vision 2050” of the World Business Council for Sustainable Development (WBCSD): “9 billion people living well, within the limits of the planet.” In our view, the growth, efficiency and values areas of our corporate strategy as the main ways in which we can respond to economic, ecological and social challenges.

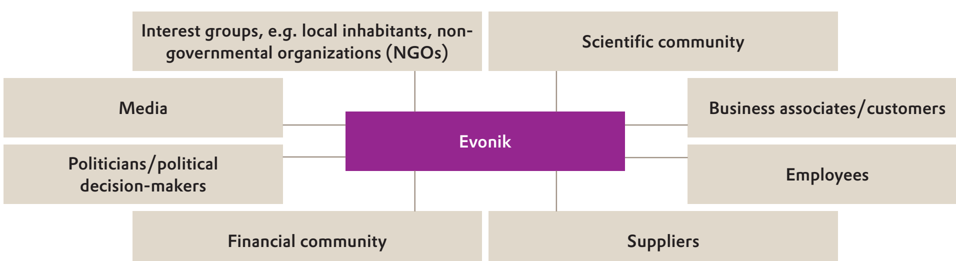
New environmental targets to be defined

Evonik met the ambitious targets set for its core specialty chemicals business in the key areas of greenhouse gases, water consumption and production waste for the period 2004-2014 two years earlier than expected, in 2012. Our aim was a 20 percent reduction in specific (i.e. output-based) energy-related emissions of greenhouse gases, water consumption and production waste. That was only possible thanks to technical and organizational measures, and the hard work and innovative capability of our employees. In 2013 we conducted an intensive dialogue with our operating units on ambitious targets for the period up to 2020, which will now be translated into new targets for the Group.

Collaboration with our stakeholders

Open debate and communication are key elements in sustainability management at Evonik. Ongoing dialogue with our stakeholders helps us understand different perspectives, and pick up trends and key issues at any early stage so we can incorporate them into our business decisions. Key stakeholder groups for Evonik are:

C22 Evonik’s stakeholder groups



Dialogue takes place at local, national and international level and may focus on specific issues or target certain stakeholder groups.

5.1 Employees

Human resources work—International harmonization

Our human resources work makes a significant contribution to enhancing Evonik's growth and efficiency. The aims are to ensure excellence in HR work, add value for employees and executives, and ensure that our HR work is perceived as bearing a "common stamp." Following the transfer of around 19,000 employees from subsidiaries to Evonik Industries AG, in 2013 we started to harmonize the roughly 1,700 different rulings applicable to human resources. Our goal is to establish uniform standards and reduce complexity. A large number of aspects including supplementary sick pay and working hours on daytime shifts have already been harmonized and more are to be standardized in 2014. Internationally too, we made considerable progress in harmonizing rules and regulations through HR OnTheMove in the USA, and introduced HR Direct USA as the first point of contact for employees in all HR-related inquiries.

The two new centers introduced in Germany in 2012 are now well established. The HR Direct advisory center is firmly anchored in the Group with a profile spanning our sites. The Recruiting Center provides advice on selecting appropriate recruitment channels and makes sure that the most suitable candidates are hired to fill vacancies.

The HR functions will be supporting the more efficient and effective alignment of Evonik's administrative structures, which is the aim of the Administration Excellence program, as well as driving forward change within the HR organization. We took the first steps towards this in 2013 by stepping up HR's global competency in project management.

HR strategy—Efficiency is becoming more important

In our annual strategy review we confirmed the core messages and objectives of our HR strategy. The key areas of action for executives and HR managers are using our new employer branding concept to attract highly qualified staff, and targeted development of talented employees through extensive talent management activities. To this end, we are strengthening development opportunities for employees throughout the Group and paving the way to fill key positions primarily from within the company. Modern HR management tools and uniform and transparent remuneration systems aid our executives in establishing a healthy performance culture in their teams. In response to the economic situation, we will be giving even greater priority to efficiency-related issues and addressing them more actively.

Employee survey—From data to action

The results of the 2012 employee survey were presented in spring 2013. Alongside a rise in the participation rate to 83.4 percent, the main results were a significant improvement in the commitment index, indicating the enormous identification and engagement of our employees. On the basis of the findings, around 520 improvements have been defined and implementation is under way. Most of them relate to communication and collaboration, and to improving working processes and the organization of work. At Group level, the Executive Board has increased the focus on leadership and values. In all, twice as many measures were initiated in 2013 as in response to the employee survey in 2010.

www.evonik.com/career

Employer branding—Creative new approaches

In spring 2013 we started to communicate our new employer branding concept "Exploring opportunities. Growing together." to sharpen Evonik's profile as an employer. The main focus was on our redesigned careers website and a series of adverts in printed and online media in our core markets, Germany, the USA and China. In tandem with this, we are training more and more employees from all areas of the company as internal brand advocates. The Human Resources Manager magazine honored our new employer branding as exceptionally innovative and creative and awarded us the Human Resources Excellence Award 2013 in the category "Employer Branding Strategy." We also gained first place in the university marketing category for the collaborative Blind Applying project led by Deutsche Telekom. Under this program, Evonik and 17 other companies award an internship without providing advance information on the location or field. In our recruitment strategy, we also continued to focus on selective use of social networks and extended Evonik's activities in this area to include a global presence on LinkedIn, XING and Kununu.

Vocational training—A source of future employees

To continue its policy of sourcing specialists mainly from within the company, Evonik continues to focus on in-house vocational training. In 2013 some 560 youngsters embarked on an apprenticeship with the company in Germany. In all, there were more than 2,200 young people on vocational training, pre-training and combined training and degree programs at year-end 2013. Evonik also makes its expertise in vocational training available to other companies. More than 90 young people sponsored by external partners also started an apprenticeship at Evonik in 2013. Apprentices account for about 9 percent of Evonik's workforce in Germany, which is still well above the national average, and we invested a total of €58 million in vocational training in 2013.

In response to the large number of school leavers resulting from a change in the German education system, Evonik offered 30 additional apprenticeships. It also offered ten additional training places on the "Start in den Beruf" program, which is preparing 110 disadvantaged youngsters for vocational training.

All Evonik apprentices who completed their training courses and were able and willing to work for the company were offered an employment contract in 2013. 55 percent of them were immediately hired on permanent contracts.

We also foster the vocational training of young people in China and the USA. Through our training library we provide multi-media materials in English and Mandarin, which are also suitable for in-house training. In all, the training library has increased its offering to more than 3,000 different materials, with 500 available in English and 250 in Mandarin.

Talent management—Sustained strengthening of our talent base

Filling managerial and other key positions from within the company is an objective that Evonik has actively put in to practice for many years. An end-to-end talent system allows the identification, development and advancement of talented employees across hierarchical levels and functions. The development of such employees and succession planning are discussed by representatives of the business units and regions at a number of planning conferences throughout the year. To supplement our internal talent development, in 2013 we turned our attention to the external market. Through the RISE program (recruiting initiative to strengthen the talent pipeline at Evonik), we were able to attract top talents and integrate them into our talent management system, where they are now undergoing further development. Customized programs are organized in collaboration with renowned business schools and other selected partners. These are complemented by in-house programs for specific target groups such as our management talent training program. In addition, talents regularly meet with members of the top management to discuss topical issues of relevance to Evonik. In keeping with the "Exploring opportunities. Growing together." employer branding concept, we are empowering talented employees to take greater responsibility for their career development through networking and mentoring.

We intend to internationalize the idea of combining voluntary work with character building, which was realized for the first time through our TalentDays in 2012. At the 2014 TalentDays our corporate talents will be working with local inhabitants to rebuild a village in Vietnam.

Executive development stepped up

With a view to future challenges, leadership has been given a more prominent place in the context of our HR strategy and our strategic drivers "Attract, Develop, Perform, Retain." Representatives of our international regions and all business unit management teams attended workshops where we developed a common understanding of leadership aligned to the "Evonik 2016" corporate program and the principles of growth, efficiency and values. This common concept forms the basis for a leadership initiative that is scheduled to start in 2014 following approval by the Executive Board.

Continuing the Evonik Executive Development Program introduced in collaboration with Wharton Business School in 2012, a second group of top managers undertook a seven-month "learning voyage" in 2013. This comprises three modules held in the USA, China and Germany and offers participants an opportunity to build on their personal competencies in order to help Evonik realize its growth targets.

Diversity is decisive

We define *diversity* as the interaction of different nationalities, genders, educational backgrounds, professional experience and age structures. To foster female specialists and managers as key elements in Evonik's diversity strategy, we continued the WoMentoring program initiated in 2012. Female mentees receive personal support and advice from experienced Evonik managers over an 18-month period. Half-way through the program in 2013, the participants met up for a first opportunity to share their experience and opinions.

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We also stepped up the Women@Work network. At kick-off events at various sites more than 300 female employees came up with a large number of proposals, some of which have already been embraced in site-specific or more broadly based activities.

New LTI Plan for executives and members of the Executive Board

Following Evonik's stock exchange listing, the Long-Term Incentive (LTI) Plan for executives and members of the Executive Board was placed on a new footing. It focuses on Evonik's long-term performance and balances the interests of shareholders and the management. The benchmarks are the performance of Evonik's share price and a comparison with a share index reflecting the global stock market performance of the chemical industry. The MSCI World Chemicals Index^{SM} has been selected as the benchmark. The LTI Plan runs four years, with graduated exercise options.

Remuneration systems—Global harmonization driven forward

We drove forward our global review and harmonization of remuneration systems in 2013. Following implementation in almost all Asian countries and regions, the Evonik Global Grading System was rolled out to Europe, North America, the Middle East and Africa. The process will be completed in 2014 with the rollout to Central and South America.

In view of the wide variety of transfer arrangements, we have developed a new global transfer policy for Evonik's more than 400 expatriates from 21 countries. This sets out Group-wide standards yet takes account of regional features.

Employee participation program even more popular

Around 10,000 employees purchased participation rights with a total value of around €22.2 million in the German employee participation plan in 2013. This plan enables them to share in Evonik's success. The capital invested earns a return based on the Group's return on capital employed (ROCE). The participation rate rose by about 10 percent to around 45 percent, the fourth successive rise. This program is to be replaced by an international employee stock program in 2014.

well@work—Employability and quality of life

Healthy and motivated employees are vital for Evonik's success. The well@work program derived from our HR strategy strengthens employability and quality of life. This initiative centers on human resources and health-related issues, and the wide-ranging modules and measures include regular health screening, training and workshops to strengthen mental health and value-oriented leadership. A focal area in 2013 comprised workshops to make employees and executives more aware of their personal responsibility. At the same time, we introduced guidelines setting out clear rules for responsible use of mobile devices by both executives and other employees. In 2014 we will be stepping up the internationalization of well@work, which we initiated in Europe and Asia, and rolling it out to further regions.

Integrating an awareness of family issues into the management of the company is a key element in well@work. Examples of the many ways in which we help employees in Germany combine their work and private lives are the provision of over one hundred childcare places, vacation programs for more than 600 children, and extensive support on issues related to caring for elderly and sick relatives. The quality and continuity of our offerings is evidenced by the repeated award by the not-for-profit Hertie Foundation's certificate for our family-friendly policies.

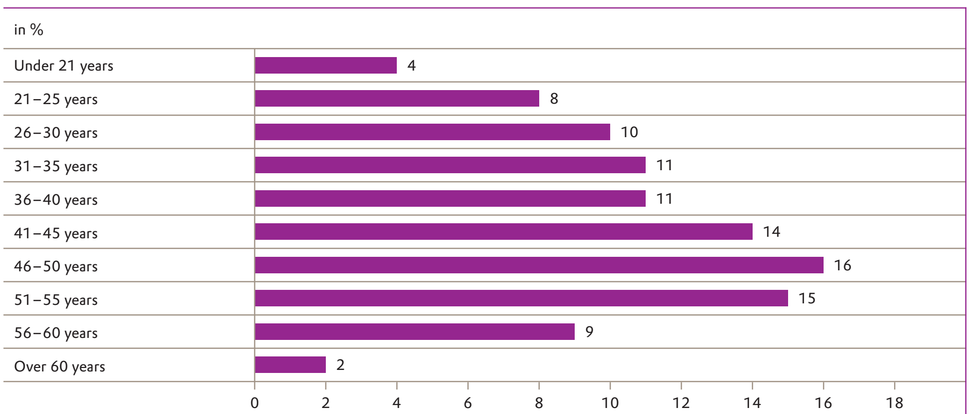
Headcount in 2013

At year-end 2013 the continuing operations had 32,995 employees (33,650 including the lithium-ion business which is classified as a discontinued operation). Around 24 percent of employees were female. The average age of the workforce is 41.2 years and about 36 percent are employed outside Germany. Compared with year-end 2012, the number of employees in the continuing operations increased by 961 as a result of the global expansion of our production operations.

T021 Employees by segment

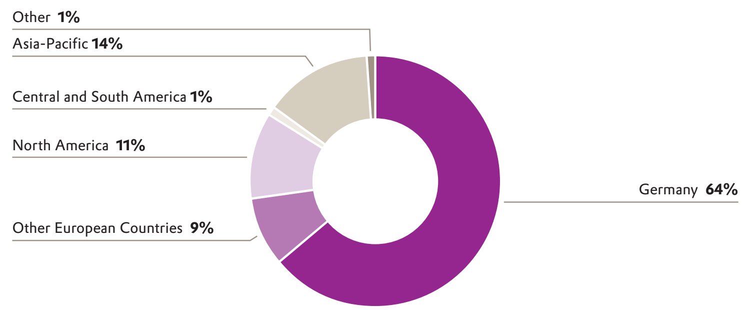
	Dec. 31, 2013	Dec. 31, 2012
Consumer, Health & Nutrition	7,150	6,821
Resource Efficiency	5,854	5,755
Specialty Materials	6,268	6,134
Services	12,192	11,900
Other operations	1,531	1,424
Continuing operations	**32,995**	**32,034**
Discontinued operations	655	1,264
Evonik	**33,650**	**33,298**

C23 Age structure in the Evonik Group, continuing operations



Management report

C24 Employees by region, continuing operations



5.2 Environment, safety and health

Protecting our environment and the climate is one of the major global challenges of our age, along with the limits on key resources and demographic change. We accept our shared obligation to maintain the natural basis for future generations. Companies with a long-term focus and sustainable business practices must be able to reduce emissions, utilize materials and resources more efficiently, and still be successful on the market. It is no longer simply assumed that companies will accept this responsibility: Society's expectations and political pressure on industry to take action are rising steadily. At the same time, customers expect offerings that reduce pressure on the environment so they can improve their own ecological profile. We are making an important contribution to this through our endeavors to reduce emissions further at all stages in the value chain. Key areas of action in the ecological arena can be derived from efficiency requirements. For us, that principally means energy, emissions into the air and water, and water management. A functioning environmental management system is the essential precondition for this. Integrating it into our corporate processes is an ongoing task and an integral part of sustainability management at Evonik. Responsibility for this is delegated to the responsible site operators. Plants, buildings and outdoor areas are therefore assigned to a specific operator along with the responsibility for the associated plant and technical equipment, products and processes. Our binding Group-wide Environment, Safety and Health (ESH) strategy, including rules that have been audited externally, forms the basis for our action. Audits are conducted to monitor implementation by the business units, regions and sites. Alongside many internal audits in operating units, in 2013 we conducted 23 corporate audits. Over 95 percent of our global production has been validated externally as conforming to ISO 14001, the internationally recognized environmental management standard.

Health management and contingency planning go hand-in-hand

Our social responsibility with regard to our employees is demonstrated by programs such as well@work, which contains a wide range of measures to strengthen their employability and thus their quality of life. Evonik's health management measures focus first and foremost on encouraging a healthy lifestyle with offerings in the areas of exercise, a healthy diet, work-life balance, and preventing infections and addiction. To supplement this, special annual campaigns are held to highlight different aspects and the company offers voluntary preventive measures. In 2013, for example, our German sites ran campaigns on prostate cancer, immunization and depression.

Standardized processes based on hazard assessments are used for occupational health management. Potential dangers in the workplace are systematically identified and measures are developed to assure the health and safety of our employees. Their effectiveness is monitored through medical check-ups. Medical contingency management at Evonik is based on a global corporate policy that sets out the necessary emergency organization and the equipment and personnel to be provided, taking the regional emergency response infrastructure into account. Exercises are conducted regularly to check the functioning of this system.

Development of occupational and plant safety

Measured by accident frequency (number of work-related accidents involving company employees and contractors' employees under Evonik's direct supervision per 1 million working hours), the occupational safety performance at our continuing operations improved slightly year-on-year to 0.9 (including the lithium-ion business classified as a discontinued operation: 1.0), compared with 1.4 in 2012. That was well within our defined target of a maximum of 1.5. The sustained positive trend in recent years was overshadowed by two fatal accidents at work and one fatal traffic accident on the way to work. At our site in Rheinfelden (Germany) an employee died in a fork-lift accident. In Qingdao (China) an employee died after falling from a work platform. A bus traveling to our site in Rayong (Thailand) was involved in an accident in which one employee was killed.

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For the purpose of statistical evaluation of accidents, in 2013 for the first time, we also recorded the hours worked by service-providers and other third parties at our sites in order to report accident frequency (number of accidents involving non-Evonik employees resulting in absence from work per 1 million working hours). The accident frequency figure of 3.2[1] for such employees is far higher than the equivalent figure for Evonik's employees and those directly supervised by the company, indicating that we need to require greater commitment to occupational safety from our contractors and involve them more actively in our safety program. Criteria include setting even higher standards for occupational safety performance when selecting contractors, more intensive monitoring, and more systematic evaluation of contractors' employees while they are working at our sites. Our contractor management ensures that our supervisors, safety professionals and plant engineers work together and that we require and support safe working practices by contractors' employees. Since the start of the year, a team of experts has been working on enhancing contractor management.

[1] Continuing and discontinued operations.

For constant monitoring of plant safety we use a process safety performance indicator based on the standards set by the European Chemical Industry Council (Cefic). This indicator covers incidents involving the release of substances, fire or explosion, even if there is little or no damage. Analogously to the accident frequency indicator for occupational safety, it is calculated from the number of incidents per 1 million working hours in the business units' production facilities. To show a positive development, this indicator has to decline over time. We therefore compare it with 2008, the year in which it was calculated for the first time (reference base: 100 points). This indicator rose slightly to 50 points in 2013 (2012: 46). We attribute this partly to an improvement in the reporting culture and increased awareness of such incidents. Another plant safety indicator developed in 2011 is the activity indicator. This leading indicator identifies the extent to which the business units engaged in production perform their management tasks in the areas of plant safety at the various sites and production facilities. It is based on a survey of key plant safety aspects conducted at the sites (self-assessment by plant managers or evaluation through regular audits). The ten areas covered include directives and targets, the provision of specialist knowledge, change management in the production process, initiatives and programs. The survey was conducted in more than 60 percent of plants in 2012 and evaluated in 2013. Where it indicated a need for improvement, the plants and business units have taken the appropriate steps. This indicator is an effective way of identifying shortcomings in plant safety and communicating them to those responsible.

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High standards of climate reporting

Companies that address the challenges of climate change, systematically integrate them into their business strategy and ultimately take them into account in the structure of their portfolio of products and services stand to benefit from the growth potential offered by economically relevant aspects of climate change. Maximizing transparency and comparability in this area is the aim of the Carbon Disclosure Project (CDP), a non-governmental organization which is currently supported by more than 700 institutional investors with combined assets under management in excess of US$85 trillion. That makes it the biggest and most important initiative by the financial community on climate change as an investment criterion.

www.cdp.net

Evonik took part for the first time in 2012 and was immediately awarded a score of 81/D by the CDP for extensive and transparent reporting.

Through structural improvements such as implementation of climate responsibility at Executive Board level, we achieved a significant improvement in our CDP score in 2013. A score of 92/B puts us among the top 10 percent of companies that take part in the initiative for mid-sized enterprises in Germany, Austria and Switzerland ("Mittelstandsinitiative").

In view of current climate reporting developments, investigating climate-related impacts is becoming an increasingly significant factor in evaluating entire supply chains. The CDP has set up a special Supply Chain Project for this. Companies can obtain information on the climate performance of suppliers validated by the CDP. The feedback gives companies important information on potential for improvement and risks and opportunities in their supply chain.

Customers have also approached Evonik to ask for its assistance. In 2013 Evonik was singled out by the CDP as the best participating company from Germany in the category "Supply Chain Project Participants."

Reduction in CO_2 emissions[1]

CO_2 emissions totaled 8.7 million metric tons in 2013, which was 3 percent lower than in 2012 (9.0 million metric tons). Both direct and indirect CO_2 emissions (from energy sources) are included in these figures. Direct CO_2 emissions (Scope 1 emissions under the Greenhouse Gas Protocol) come from energy generation and production, and from Evonik's fleet. Indirect CO_2 emissions come from purchased energy (Scope 2 emissions). The reduction is a result of specific energy initiatives and a large number of separate measures to improve energy efficiency, and to a reduction in the use of coal and the divestment of business operations.

The Evonik facilities that fall within the scope of the European Union's Emissions Trading System (EU ETS) emitted 4.2 million metric tons of CO_2 in 2013 (2012: 3.1 million metric tons CO_2). The reason for the rise was that the EU ETS was extended to 29 of Evonik's facilities from 2013 (2012: 15).

Environmental protection investment and operating costs[1]

We invested €29 million in 2013 (2012: €39 million) to achieve a further improvement in environmental protection. Investment in environmental protection is divided among a large number of individual investments in end-of-pipe and integrated measures. They depend on specific measures in new or existing facilities and can therefore vary considerably from year to year. The decline in 2013 was due in part to the divestment of business operations. Operating costs for environmental protection amounted to €250 million in 2013, which was slightly less than in the previous year.

[1] Continuing and discontinued operations.

6. Events after the reporting date

No reportable events have occurred since the reporting date.

7. Opportunity and risk report

7.1 Opportunity and risk management

Risk strategy

Evonik is exposed to a variety of risks in the course of its business activities. The management of opportunities and risks therefore forms a central element in the management of the company and is geared to targeted management of risk with a view to securing present and future potential for success, avoiding, preventing, countering and minimizing risk, and utilizing and strengthening opportunities. We only enter into entrepreneurial risks if we are convinced that we can generate a sustained rise in the value of the company and that we are able to control any possible implications. Our system is therefore also used to identify potential events that could jeopardize the company and to ensure that corporate objectives, especially strategic, operational and financial objectives, can be achieved as planned.

Structure and organization of risk management

Evonik has an internal opportunity and risk management system covering the entire Group (subsequently referred to generically as risk management). Addressing opportunities and risks is part of our management structure and is a key task for the heads of all business units, and the process owners and project managers at Group companies. Risk management is therefore a central element in Evonik's controlling processes at all levels in the Group. That includes strategic and operational planning, preparations for investment decisions, monthly reporting and projections, and immediate reporting of risks.

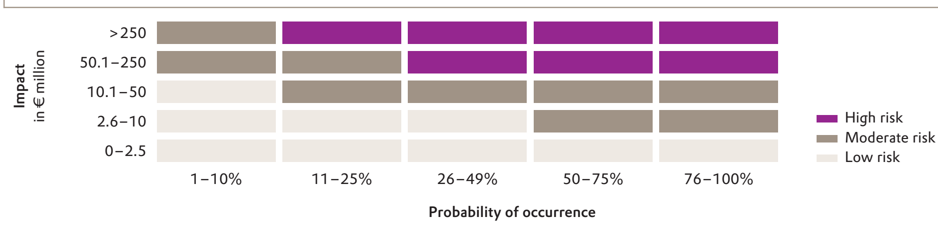
At Group level risk management is assigned to the Chief Financial Officer and is organized on a decentralized basis in line with Evonik's organizational structure. The business units, corporate divisions and service units bear prime responsibility for the early identification of risks, estimating their implications, introducing suitable preventive and control measures, and for the related internal communication. Risk coordinators within the organizational units are responsible for coordinating the relevant risk management activities. By contrast, interest rate and exchange rate risks are managed centrally by the Finance Division of Evonik Industries AG, while commodity risks are managed by the business units in accordance with established corporate policies.

A central Corporate Risk Officer coordinates and oversees the processes and systems. He is the contact for all risk officers 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, which is chaired by the CFO and includes representatives of the corporate divisions, 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. Alongside organizational measures and internal control systems, risk management is supported by Corporate Audit as a process-unrelated controlling and consulting body.

In accordance with our risk catalog, we monitor risks on the basis of the four categories defined by the COSO Enterprise Risk Management model: strategic, operational, compliance/legal and financial. A binding Group-wide policy on risk management has been issued. Special risk management software is used for this. All individual risks are systematically identified and documented. Their probability of occurrence and the potential damage are evaluated and documented, together with their expected impact. The evaluation is viewed against the current five-year (mid-term) planning so the opportunities and risks are defined as deviations from the plan. Comparing current risk reports with previous reports highlights changes in the risk structure.

The organizational units conduct an extensive annual risk inventory in connection with the mid-term planning process. They are required to provide details of action to be taken with regard to risks identified in the risk inventory and track their timely implementation. The annual risk inventory looks at opportunities and risks on the basis of deviation from planned net income over a period of one year (short-term) and at least five years (mid-term). The key criterion for internal management (for example, reporting by the Risk Committee) is the intermediate term. Opportunities and risks are therefore classified as low, moderate or high and evaluated on a five-year basis (see risk matrix). The evaluation is always based on a net view, in other words, taking into account risk limitation measures.

C25 Risk matrix



All high risks are considered material, as are risks classified as moderate with an expected impact over €10 million. The management of risks and opportunities and their potential impact and probability of occurrence are based on the principles outlined above. The expected impact is used exclusively as a basis for prioritization and to focus reporting on key issues. This management system is then used to estimate and classify opportunities and risks within each category.

The annual risk inventory is supplemented by a quarterly review of all risks and monthly risk reports containing changes in the risks already identified and new risks or relevance for the fiscal year.

In addition, the corporate divisions identify and evaluate risks of relevance for the Group. These risks are regularly documented and tracked via appropriate charts. These Group issues are reported quarterly to the Executive Board with the other risk reports. The focus here is on risks that are of material significance for the Group and have altered significantly since the last report.

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 so that we can anticipate any negative earnings implications for the Evonik Group. Where it appears necessary, the Corporate Risk Officer and/or the Executive Board is informed.

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

7.2 Internal control system for financial accounting

The main financial reporting risks are identified through the internal control system (ICS), which is based on a quantitative and a qualitative analysis. Controls are defined for each risk area of the accounting process. Their efficacy is tested 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 Business Services. Through systematic process orientation, standardization and the utilization of economies of scale, this leverages sustained cost benefits and can improve the quality of accounting.

Business Services has developed a standardized control matrix for the internal control system for financial accounting. This matrix is already applied to all Group companies in Germany for which Business Services is responsible. It has also been implemented at the major operating companies in China and will now be rolled out successively to further foreign companies. The aim is to ensure a uniform global standard for the internal control system for financial accounting. An external audit is conducted on the annual financial statements of 95 percent of companies.

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 are 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.

7.3 Risks

Overall assessment of opportunities and risks

Due to the fields in which it operates, the Evonik Group is confronted with constantly changing national and international political, societal, demographic, legal and economic operating conditions. In all segments, market risks may be increased or reduced as a consequence of the *volatility* and cyclicality of the markets. These may have a significant adverse effect on our earnings position. Regional differences in demand trends could also affect our pricing and selling opportunities, with corresponding implications for earnings. To counter the resultant risks we monitor our business environment closely, anticipate market trends and consistently develop our portfolio in conformance with our corporate strategy.

G See Glossary p. 276

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. With respect to material individual companies, the divestment of our lithium-ion business could entail risks to the survival of Li-Tec Battery GmbH and the precursor producer Evonik Litarion GmbH (see section headed “Risks relating to individual companies“).

See p. 114

We see substantial opportunities in connection, above all, with the improvement in our cost position (On Track 2.0 and Administration Excellence programs). Further, opportunities are derived from our alignment to the health and nutrition, resource efficiency and globalization megatrends, which we intend to participate in through extensive investment projects.

Overall, the relationship between opportunities and risks at Evonik was virtually unchanged in 2013 compared with 2012. Looking at individual risk categories, there was no major change with regard to the *volatility* of exchange rates, the stabilization of the European sovereign debt crisis, and lower interest rates. By contrast, we identify an increased risk, for example, in the increasing competition in some markets, less favorable supply and demand structures, and higher raw material prices which cannot always be passed on to customers immediately or in full (pass-through capability) as a result of the market or competitive situation. In the following sections, the risks in each category are presented in descending order of significance for the Evonik Group. Except where otherwise indicated, they apply for all segments.

G See Glossary p. 276

1. Strategic risks

Plans to grow the chemicals business through investment in attractive markets and acquisitions entail certain risks as regards the planned scope and timing of projects. These risks are addressed through established, structured processes.

Market and competitive risks

One general risk factor is the intensive competition in some market segments. In particular, competitors in low-wage countries increase competitive pressure through aggressive pricing policies that could 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. The operating units affected also use various methods of increasing customer loyalty to reduce these risks. These include, in particular, strategic research alliances with customers and improving the services offered. We are constantly developing attractive and competitive new products and technologies to counter the risk that chemical products could be replaced by new, improved or less expensive materials or technologies. Alternatives also have to be found for certain raw materials subject to the *REACH* Regulation which may no longer be available in the future. Specific risks of considerable significance for the Group result from the present market situation, especially in the Resource Efficiency segment and, above all, the markets for wind power, composites and oil additives. In addition, the *shale gas* boom in the USA could result in a significant cross-segment risk as the improved cost position of some competitors with local production facilities could put Evonik at a competitive disadvantage. Action to counter this includes further optimization of our cost structures. Overall, market and competitive risks represent a high risk for Evonik.

G See Glossary p. 274

G See Glossary p. 274

Acquisition and divestment risks

Active portfolio management has priority for Evonik as part of our value-based management approach. Our operating units are permanently screened for sustainable profitability and to ensure they fit our corporate strategy. The strategic development of Evonik may entail the expansion of specific operations, divestment or gaining a foothold in completely new fields of business. Evonik has defined structured processes for all of these alternatives.

We have set out clear procedures for preparing, analyzing and undertaking acquisitions. In particular, these include clear rules on accountability and approval processes. For example, an intensive examination of potential acquisition targets (due diligence) is undertaken before they are acquired. This involves systematic identification of all major risks and opportunities 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.

Any restructuring or divestment requirements relating to the strategic management of the Evonik Group are also systematically implemented. Post-transaction management closely monitors any liability and guarantee risks resulting from divestments. In connection with the divestment of former businesses, Evonik is exposed to risks arising from contractually agreed indemnification arrangements. Examples relate to the divestment of the former energy business (STEAG) where start-up of a new coal-fired power plant was delayed by technical problems until December 2013, and to the divestment of the former carbon black business as a result of alleged violation of the US Clean Air Act. These risks are outlined in the section on legal risks.

See p. 110 f.

2. Operational risks

In view of the typical business-related dependence on external parameters, especially in the chemicals business (for example economic cycles and raw material prices), action to reduce operational risks is of central importance.

Sales and marketing risks

A decline in demand from the industries served or a deterioration in the competitive position of customers could adversely affect our operating business. We respond to these risks by permanently monitoring the market, acquiring new customers, and efforts to develop new applications and gain access to new markets as early as possible. The above risks may be of high significance for the Group, either in aggregate or individually, depending on the importance of individual products/product groups for Evonik. In view of their high significance for the Group, this applies in particular to activities in the Advanced Intermediates Business Unit (Specialty Materials segment) and the Health & Nutrition Business Unit (Consumer, Health & Nutrition segment).

The customer base in the chemicals segments means they are only exposed to low cluster risks. Nevertheless, some operational units (especially in the Specialty Materials segment) have a certain dependence on key customers. For these segments, the risk is classified as high. The Services segment is dependent to some extent on the performance of large customers at its sites (for example, at the Marl chemical park). This is classified as a moderate risk.

Alongside the specific market situations mentioned above, in Asia in particular, the possibility of avian flu and the associated loss of confidence in certain foods (“food quality crisis”) represents an additional risk for our feed additives business. New cases of avian flu could entail high risks to the earnings performance of our Consumer, Health & Nutrition segment.

Procurement risks

For our business operations we require large amounts of raw materials, but also smaller quantities of strategically relevant products. Consequently, the Evonik Group faces risks arising from fluctuations in the price and availability of raw materials and in some cases the very limited number of potential suppliers (“single sourcing”).

The chemicals segments are dependent on the development of the price of strategic raw materials, especially petrochemical feedstocks derived directly or indirectly from oil. They are also exposed to changes in exchange rates, which have a major influence on both commodity and energy costs. These risks are countered by optimizing global purchasing activities, and entering into long-term supply agreements with price formulae. In 2013, raw material prices were basically unchanged year-on-year. The market and competitive situation means that cost rises cannot always be passed on to customers through price rises either immediately or in full.

Short- and mid-term bottlenecks in the availability of precursors and intermediates are also potential risks. As well as preparations to switch to substitute suppliers in emergencies, we ensure timely monitoring of the business performance of all suppliers of key raw materials in order to respond promptly to bottlenecks.

In view of Evonik’s procurement policy and strategy of backward integration, both the Group and individual business units may be exposed to fluctuations in raw material prices and supply bottlenecks, despite the counter-measures outlined above. Accordingly, on a gross view, this risk is classified as high. To minimize the risks Evonik constantly strives to pass on raw material price rises to customers, for example through price escalation clauses and by adjusting its selling prices. This pass-through capability can be utilized in many areas of business and greatly reduces risk. Viewed on a stand-alone basis, however, the risks are classified as low to moderate as a result of the risk-limitation measures described here. This applies in particular to fluctuations in raw material prices in areas of the Consumer, Health & Nutrition segment with a high dependence on such starting products, and to both price fluctuations and availability of raw materials in the Specialty Materials segment. In addition, in the Resource Efficiency segment there is a moderate risk relating to single sourcing. The resultant accumulated net risk relating to raw materials and suppliers thus represents a high risk for the Group.

Production risks

As a specialty chemicals company, Evonik is exposed to a risk of business interruptions, quality problems and unexpected technical difficulties. Our products involve 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. The substantial damage to the *cyclododecatriene* (CDT) plant in 2012 was covered by our insurance. This plant was rebuilt in just six months and was fully operational again at the start of 2013, so the force majeure status could be removed.

G See Glossary p. 272

Action is taken to mitigate risks through the risk minimization measures outlined above and existing insurance policies. Nevertheless, unforeseeable individual incidents represent a high risk.

Human resources risks

The skills and knowledge of our highly qualified managers and employees are vital to achieve the strategic and operational objectives of the organizational units. There is evidently a risk that sufficient suitable candidates will not be found for vacancies or that competent staff will leave the company. Further, in the emerging markets where we are investing or building up new business operations, there may not be sufficient candidates whose qualifications and language skills meet demands of challenging jobs in an international chemical corporation.

To ensure that we can recruit and retain qualified staff to meet our future requirements we offer attractive remuneration systems and systematic personnel development, giving employees a wide range of opportunities to develop and enhance their personal and professional abilities. We also maintain close links to universities and professional associations to help us recruit talented youngsters. Our employer branding is aligned to the *diversity* of human resources. In this way, we aim to attract sustained interest in our company from talented specialists and managers. We have thus largely limited human resources risks.

See p. 93 ff.

G See Glossary p. 272

There are risks relating to recalculation of pension commitments made by Evonik and its legal predecessors. These are classified as moderate.

3. Compliance and legal risks

Legal risks

Evonik is exposed to risks relating to legal disputes, 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 a risk or materially alter risk positions. As a chemicals company with its own power plants, risks could arise in connection with a possible change in the charges under the German Alternative Energies Act (EEG). This represents a moderate risk for Evonik. Guarantee claims against the company may result from divestments. We have developed a concept involving high quality and safety standards to ensure a controlled approach to such 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. In this context, patent risks are classified as moderate, while the risks relating to the other categories are considered to be low or moderate.

At present, the legal proceedings outlined below represent the main legal risks.

Evonik and its subsidiary RBV Verwaltungs-GmbH are currently involved in three ongoing appraisal processes in connection with the settlement paid to former shareholders. The background relates to the following legal 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 in 2003, and the squeeze-out of non-controlling interests in Degussa AG in 2006. The appraisal proceedings comprise a court review of the appropriateness of cash settlements or compensation. Evonik has established sufficient provisions for the associated risks.

In connection with the divestment of its former energy activities (STEAG), Evonik gave the purchaser various guarantees with regard to the Walsum 10 coal-fired power plant that was under construction at the time. As a result of technical problems, the commissioning of this plant was delayed by nearly four years, so commercial operation only started on December 20, 2013. Evonik has established sufficient provisions for the resultant risks. Evonik is of the opinion that the general contractor is responsible for reimbursement of the majority of additional costs and the damage caused by the delay. Arbitration proceedings are currently pending between the project company and the general contractor.

Further, criminal proceedings have been initiated against representatives of one of our companies in an EU country in connection with the alleged failure to file tax declarations.

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

In connection with the divestment of the former carbon black operations, the acquirer has claimed indemnification as a precaution in connection with alleged violation of the US Clean Air Act. Evonik is currently in negotiations with the acquirer on this. A provision has been recognized for possible use of the indemnity agreement on the basis of current knowledge. We currently consider the risks exceeding this to be low.

At present there are no specific material risks in the following categories: the environment, know-how protection, compliance, or data security and IT compliance. In principle, however, unforeseeable low to moderate risks could arise in these areas at any time.

Environmental risks (environment, safety, health, quality)

As a specialty chemicals company, Evonik is exposed to risks in the fields of plant safety, product safety, occupational safety and failure to comply with other environmental regulations. Group-wide health and safety policies, and initiatives taken by the Group and the business units to steadily improve the safety of production facilities effectively reduce these risks. In addition, risks that could arise as a result of the sourcing of raw materials and technical services and their impact on our operating business are systematically identified and evaluated. Moreover, audits are conducted at the request of the Executive Board to check the controlled handling of such risks. Furthermore, our environment and safety management systems, which are validated as conforming to international standards, undergo constant development and improvement. Adequate provisions have been established to secure or remediate contaminated sites where necessary. As a responsible company with significant chemical activities, Evonik ensures that such processes are operated in accordance with the principles of the global *Responsible Care* initiative and the UN Global Compact.

See p. 98 ff.

G See Glossary p. 274

Know-how protection risks

Know-how protection forms an integral part of the principles and actions designed to ensure legally compliant corporate conduct. 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. The transfer of know-how and/or business secrets to joint ventures and other forms of cooperation also entails a risk that expertise could be withdrawn from Evonik. In particular, 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 and business secrets transferred or disclose them to third parties, thereby damaging Evonik's competitive position. The Group-wide IP & Know-how Management (IPM) unit supports the operational units in protecting, developing and utilizing intellectual property and patents. It is assisted by a worldwide network of correspondent lawyers. Raising awareness of the value of company know-how and the need to protect it was the main objective of the Chief Know-how Protection Officer (CKPO) in 2013, supported by his team and by know-how protection officers in the various organizational units. Undesired attacks can be hampered by safe communication and behavioral practices, and by timely identification of critical signs.

Management report

Compliance risks

G See Glossary p. 275

Compliance risks relate to compliance with regulations and ethically correct business conduct. All Evonik employees are subject to the binding regulations on fair treatment of each other and of business partners set out in our Code of Conduct. The compliance issues regarded as particularly important from Evonik's viewpoint are combined in a "House of Compliance"[1]. To minimize compliance risks, extensive training and sensitization of employees is undertaken at face-to-face training sessions and/or through e-learning programs.

See C 01, p. 21

The issues grouped at the "House of Compliance" include fighting corruption, antitrust and foreign trade law, data protection, know-how protection, IT and capital market compliance, and the environment, safety, health and quality (ESHQ).

Data security and IT compliance risks

Group-wide rules and regulations provide details of how to handle information and on the secure use of information systems. Modern information and data security technologies are used throughout the Group to avoid such risks. Appropriate procedures and state-of-the-art technical protection are installed to counter the risk of potential unauthorized access and the loss of data. These are expanded and adapted to the constantly changing risk situation to ensure that we are adequately protected against potential risks in the future. Internal communication methods such as IT security campaigns are used to heighten employees' awareness of the need for security in the handling of information technology.

4. Financial risks

Financial risks relate to market and liquidity risks and the risk of default on financial instruments. Market risks are characterized by the fact that the fair value or future cash flows of a financial instrument can vary as a result of changes in market prices. Market risks comprise exchange rate risks, interest rate risks, and the risks relating to commodity prices, which have already been outlined in the section on procurement risks. Liquidity risks relate to the ability of the company to meet its payment obligations, while default risks entail the risk of a loss because a debtor is fully or partially unable to meet its payment commitments.

See p. 108

Minimizing these risks is an important objective of our corporate policy. Risk is managed by using derivative and non-derivative financial instruments, taking the cost/risk profile into account. Hedging can also be used to utilize the opportunities arising from positive market developments. For financial risk management purposes, Evonik follows the principle of separation of trading, 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). Binding trading limits, responsibilities and controls are thus set in accordance with recognized best practices. Under Group-wide policies and procedures, all financial risk positions have to be identified and evaluated. This forms the basis for selective hedging to limit risks.

[1] The Corporate Governance Report can be found on p. 18 ff.

Interest rate and exchange rate risks are managed centrally by the Finance Division of Evonik Industries AG, which also issues instructions on the management of liquidity and default risks. Commodity risks are managed by the business units and the procurement organization on the basis of established corporate policies. Financial derivatives are used exclusively to reduce risks arising from operating and financing activities and therefore always relate to corresponding underlying transactions. The Evonik Group does not use financial instruments for speculation.

For the management of interest rates and exchange rates, currency swaps, forward exchange contracts, cross-currency swaps and interest rate swaps are used. Commodity swaps are used to hedge price risks relating to coal and gas. We also use forward contracts to secure the procurement of emissions allowances to meet statutory obligations. Put and call options are used to minimize the risks of stepwise divestments. These hedge the value of our investment against the risk of a change in fair value. Further details of the financial derivatives used and their recognition and valuation can be found in Note 10.2 to the consolidated financial statements.

See p. 235 ff.

Interest and exchange rate risks

A considerable portion of the Evonik Group's financial assets and liabilities and its sales revenues are denominated in currencies other than the euro, which is the Group's reporting currency. The most important foreign currencies are the US dollar and the Chinese renminbi yuan. All cash flows that are forecast, firmly committed or recognized on the balance sheet as receivables and liabilities that are not denominated in the functional currency of the respective company are exposed to a transactional currency risk. In the Evonik Group, the risk positions resulting from foreign currency receivables and liabilities recognized on the balance sheet are normally bundled and offset through intragroup hedging. The remaining risks are fully hedged through macro-hedges. In view of the opposite valuation effects of the hedged item recognized on the balance sheet and the hedge, no valuation units are formed for this type of currency hedging. Valuation units for micro-hediging are only used in exceptional circumstances (for example, non-current loans, structured hedging instruments for major investments). By contrast, forecast or firmly committed foreign currency cash flows are generally hedged through micro- or portfolio hedges, where the earnings effects of the recognized hedging transactions are synchronized with those of the off-balance-sheet hedged item through hedge accounting. For foreign currency sales revenues and expenditures that are highly probable, the aim is normally to achieve a hedging ratio of 65 percent of the calculated currency risk.

Evonik manages the interest rate risk resulting from financing and investment activities on a case-by-case basis. Through the use of fixed-interest loans and interest rate hedging instruments, 96 percent of all financial liabilities were classified as fixed-interest as of the reporting date and are therefore not exposed to any material interest rate risk. Changes in interest rates can nevertheless have a significant influence on the present value of our pension obligations so here the risk is classified as high.

See Note 4 (d), p. 173 f.

We use scenario analyses to assess the possible impact of currency and interest rate risks. In view of the rising importance of regions outside the euro zone, on a long-term view the exchange rate risks and opportunities are increasing and can be classified as high despite the hedging measures outlined above.

See Note 10.2, p. 235 ff.

A detailed overview of interest rate and foreign exchange management and the use of financial derivatives is given in Note 10.2 to the consolidated financial statements and Note 25 to the annual financial statements of Evonik Industries AG.

Liquidity risks

At the heart of Evonik's central liquidity risk management is a Group-wide cash pool. In addition, the Group's financial independence is secured through a broadly diversified financing structure. A detailed overview of liquidity risks and their management can be found in Note 10.2 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.

See p. 73 ff.

Overall, Evonik believes that adequate financing instruments are available to ensure sufficient liquidity at all times.

Credit risks relating to financial contracts are systematically examined when the contracts are concluded and monitored continuously afterwards. Ceilings are set for each counterparty on the basis of internal or rating-based creditworthiness analyses. The probability of default is currently low, but in unfavorable circumstances a moderate risk situation could arise.

5. Risks relating to individual companies

Together with our joint venture partner, in 2013 we started to search for a purchaser for our joint lithium-ion business. If this search is fruitless, we would have to consider continuing the operations, with the corresponding negative impact on earnings, or closing them down. As outlined in the presentation of the overall risk and opportunity situation, this could represent a risk to the continued existence of Li-Tec Battery GmbH and the precursor manufacturer Evonik Litarion GmbH, but not to the survival of the Evonik Group.

7.4 Opportunities

Following the divestment of the majority of the shares in the energy and real estate activities, since summer 2013 Evonik has been entirely a specialty chemicals company. We see that as a considerable advantage. We are focusing on identifying and utilizing opportunities to drive forward the profitable growth of our business, and creating a uniform administrative structure. Moreover, the reduction in complexity and heterogeneity make it easier to live our values.

We are systematically expanding Evonik's leadership positions in the market, concentrating on global megatrends such as health, nutrition, resource efficiency and globalization. At the same time, through our ambitious investment program we are stepping up our presence in attractive markets where we see tremendous potential thanks to their economic momentum. That applies especially to the Asia-Pacific region, South America and Eastern Europe.

Regular review of opportunities

In this section we outline the opportunities—analogously to the risks—in descending order of their significance for Evonik. Their significance is derived from a combination of their potential contribution to earnings, probability of occurrence and the time horizon. Their potential for the Evonik Group is regularly reviewed as part of our opportunity and risk management process and the strategic planning process. The opportunities outlined here are only quantified if this is undertaken for internal management and reporting purposes (for example, with a view to Administration Excellence). By contrast, the opportunities generated by the megatrends and innovative capability are outlined by type and not quantified. In view of the focus of the opportunity and risk management system, quantification is only possible with reference to the underlying five-year planning period. However, the megatrends and innovative capability have a far longer term timeframe.

Opportunities generated by continual streamlining of structures and improvement of the cost position

To increase scope for growth and innovations, we are working steadily to improve our cost position. The key element is the On Track 2.0 efficiency enhancement program through which we aim to cut annual costs by €500 million by year-end 2016. We are also optimizing our administrative workflows. The Administration Excellence program introduced in fall 2013 should achieve annual savings of up to €250 million by the end of 2016.

Opportunities generated by the nutrition megatrend

Evonik is the only company in the world that produces all four key amino acids for modern animal nutrition: DL-methionine, L-threonine, L-tryptophan and L-lysine (Biolys®). The development of this business is driven by socio-economic trends: Global population growth means that demand for animal protein will continue to rise steadily in the future. This is reinforced by a further trend: In the emerging markets eating habits in the growing middle class are shifting towards western patterns in the wake of rising affluence and increasing urbanization. Consumption of meat is increasing sharply, especially in Asian cities, leading to more intensive livestock farming in this region. At the same time, environmentally compatible agricultural production that makes more efficient use of resources is becoming more important worldwide for ecological reasons.

In view of this, we expect our amino acids business to go on growing very dynamically in the long term and are therefore systematically extending capacity. A new DL-methionine complex on Jurong Island (Singapore), which is fully backwardly integrated, is scheduled to come on stream in the third quarter of 2014. We will be bringing the additional capacity of up to 150,000 metric tons p.a. onto the market carefully. This new facility is intended mainly to serve the Asia-Pacific region, which is the most dynamic market for DL-methionine. New applications for DL-methionine are also developing very promisingly. One example is aquaculture, enabling us to steadily extend the basis for profitable growth of this business. In addition, we are raising capacity for amino acids produced by fermentation. New production facilities for Biolys® are currently under construction in Brazil and Russia, where the market is growing fast.

Opportunities generated by the resource efficiency megatrend

Evonik offers its customers environment-friendly and energy-efficient systems solutions. In view of the limited reserves of fossil fuels, we see this as a major source of opportunities. One example is precipitated silica, where we are a market leader. Precipitated silica is used in combination with silanes to produce tires with low rolling resistance that reduce fuel consumption. Growth of such products is receiving additional impetus from labeling regulations such as the EU tire label. We are the only manufacturer worldwide that can offer the tire and rubber industries both components required for tires with low rolling resistance, i.e. silica and silanes. Experts are predicting double-digit percentage growth in the global market for these tires in the next five years. To utilize the resultant business opportunities, we are increasing our global capacity for silica by around 30 percent by 2014 (reference base: 2010).

We are currently adding the first site in Asia for our isophorone technology. The new production complex, which is scheduled to come into service in 2014, is located at our multi-user site in Shanghai Chemical Industry Park. We will then have integrated production facilities in the world's three main economic areas, Europe, NAFTA and Asia, so we can further strengthen our market leadership.

Opportunities generated by the health megatrend

In the emerging markets, there is rising demand from the affluent middle class for personal care products and cosmetics. Looking forward, we expect that in the next few years South America will become the world's second-largest market for personal care products, with China in third place. From this we derive promising opportunities for our business. Following the successful start-up of a new production facility for ingredients for the cosmetics and household consumer goods market in Shanghai (China) in fall 2013, we are currently building a corresponding plant in Americana in the state of São Paulo (Brazil) to extend our global production network. This new plant, which is expected to come into service in 2014, will improve our access to the growing South American market.

Opportunities generated by the globalization megatrend

Evonik is the market and technology leader in high-performance additives to optimize the lubricating and flow properties of engine oils and hydraulic fluids. The dynamic economic development in the emerging markets is boosting this business. Asia accounts for one-third of the global lubricants market and is currently the fastest growing market for these products.

We see promising opportunities for our activities there. We will therefore be doubling capacity at our oil additives plant in Singapore by 2015 and are optimizing the production process at the same time. In this way we are responding to the above-average market growth resulting from rising mobility in Asia and increased demand for high-performance additives for modern, resource-efficient lubricants.

Opportunities generated by research and development

In the coming years, we want to step up the pace of research and development, for example through our Leading Innovation initiative. Evonik expects this to bring additional opportunities for profitable growth in the future. Our R&D pipeline is well stocked and comprises a balanced mixture of short-, mid- and long-term projects. Since product lifecycles are becoming shorter while innovation is becoming more complex, we are making our R&D more open to external partners in the sense of open innovation. At the same time we are continuing to drive forward the internationalization of our research activities and gaining access to new opportunities in emerging markets.

Opportunities generated by active portfolio management

Systematic portfolio management generates additional opportunities for Evonik. To support our growth strategy, the focus is on acquisitions to give us access to additional high-margin products, markets and technologies. We constantly examine the strategic alignment, earnings power and development potential of possible acquisition targets. Above all, we are interested in strengthening our activities in the areas of personal care, coating additives, silicas, high performance polymers, oil additives and healthcare.

Businesses that no longer fit our strategy or no longer meet our profitability requirements are divested. For example, we intend to withdraw completely from the electromobility business and divest our activities in this field.

In addition, in mid-2013 we initiated the divestment process for STOKO® Professional Skin Care, a leader in protective skin-care products for use in working conditions that are tough on the skin. This is a non-core business with sales in the mid-double-digit million euro range which is assigned to our Consumer Specialties Business Unit.

Opportunities generated by sustainable products and processes

Our strategic innovation unit Creavis and our business units are stepping up research into sustainable products and processes that make more efficient use of resources. We regard sustainability as an important innovation and growth driver with which we can also meet our corporate responsibility. For example, Evonik is working on industrial biotechnology, a key technology for realization of the bioeconomy. Our products here include amino acids produced using fermentation techniques for nutrition tailored especially to the needs of poultry and pigs. As a result, livestock needs less feed. That also reduces excretion of nitrogen and other undigested nutrients, which improves the carbon footprint of livestock farming and reduces overfertilization of the soil.

VESTAMID® Terra is the brand name for a group of new polyamides based on renewable raw materials marketed by our Performance Polymers Business Unit. The monomers are obtained fully or partially from ricinus oil, a raw material that is not used either as a food or as an animal feed. Moreover, cultivation does not compete with land for food crops.

Opportunities generated by diversity and healthy and motivated employees

G See Glossary p. 272

Evonik sees the *diversity* of all its employees as an enrichment. We define diversity not simply as the best possible balance between male and female employees, but also between different educational backgrounds, experience of working in different organizational units and functional areas, a broad age range and a variety of nationalities, in other words, diversity in all its facets. That increases the ability to generate new ideas, products, processes and applications, strengthen our competitive position, and effectively address demographic change. That is particularly important for us as a specialty chemicals company. Actively fostering diversity is therefore an important element in our corporate culture which has been anchored in the Group in recent years through a variety of measures. Since we see this as offering considerable opportunities, we will be systematically driving it forward.

The same applies to our Group-wide well@work program because healthy and motivated employees are vital if we are to utilize business opportunities effectively. The well@work program is designed to strengthen our employees' fitness for work and thus their quality of life. Good health is one of the major factors in this. Evonik therefore supports and encourages employees in health-promoting activities such a healthy diet, daily exercise and dealing effectively with psychomental stress.

Opportunities generated by access to new growth areas

Looking ahead to future developments on a ten to fifteen-year time horizon should also contribute to Evonik's success. The Corporate Foresight Team at our strategic innovation unit Creavis identifies such growth areas, with a keen eye on future needs. Trend analyses are used to identify the challenges that will confront tomorrow's markets and where they interface with our specialty chemicals portfolio. The multidisciplinary Corporate Foresight team works closely with a steadily growing network of internal and external specialists. In recent years their work has focused on "megacities", in other words, the urbanization trend. It is now analyzing the development potential and business opportunities of maritime applications.

8. Information pursuant to Section 289 Paragraph 4 and Section 315 Paragraph 4 of the German Commercial Code and explanatory report by the Executive Board pursuant to Section 176 Paragraph 1 of the German Stock Corporation Act

Structure of issued capital

The capital stock of Evonik Industries AG comprises €466,000,000 and is divided into 466,000,000 no-par registered shares. Each share entitles the holder to one vote.

Under Section 5 Paragraph 2 of the Articles of Incorporation, shareholders do not have any claim to the issue of certificates for their shares unless the issue of a certificate is required by the rules of a stock exchange on which the share has been admitted for trading.

There are no different share classes, nor any shares with special rights.

Restrictions on voting rights or the transfer of shares

RAG-Stiftung and Gabriel Acquisitions GmbH (the main shareholders) concluded agreements on cooperation with a view to the development of the Evonik Group, including agreements relating the divestment of their shares in Evonik.

Through a shareholder agreement (most recently revised on April 10, 2013) they have given an undertaking that in the event of sale of shares in Evonik to third parties outside the stock exchange (trade sale), they will first offer the shares to each other. RAG-Stiftung has to give its consent to a trade sale by Gabriel Acquisitions GmbH, but may only withhold it with good reason. In the event of a trade sale by RAG-Stiftung, Gabriel Acquisitions GmbH has a right to concurrently sell up to 50 percent of the number of shares to be sold out of its shares in Evonik Industries AG. If the main shareholders' combined shareholding in Evonik Industries AG drops below 50 percent of the capital stock of Evonik Industries AG as a result of a trade sale by RAG-Stiftung, Gabriel Acquisitions GmbH may utilize its right to simultaneous sale for its entire shareholding.

Purchasers of Evonik shares through a trade sale must accede to the shareholder agreement. However, in the event of a trade sale by RAG-Stiftung, this shall only apply insofar as the main shareholders together hold less than 80 percent but more than 50 percent of the capital stock of Evonik Industries AG. This shareholder agreement ends if one of the two main shareholders hold less than 5 percent of the capital stock.

Direct and indirect shareholdings that exceed 10 percent of the voting rights

Under the German Securities Trading Act (WpHG), every shareholder whose voting rights in the company reach, exceed or drop below a certain level, whether through the purchase or sale of shares or in any other way, must notify the company and the Federal Financial Supervisory Authority (BaFin). Under Section 21 Paragraph 1 of the German Securities Trading Act, the relevant thresholds are 3, 5, 10, 15, 20, 25, 30, 50 and 75 percent of the voting rights. Changes in voting rights between these thresholds are not subject to notification under the German Securities Trading Act so the following data may differ from more recent overviews of shareholder structure.

Under Section 289 Paragraph 4 No. 3 and Section 315 Paragraph 4 No. 3 of the German Commercial Code (HGB), all direct and indirect shareholdings exceeding 10 percent of the voting rights must be declared.

The company's Executive Board has received notification of the following direct and indirect shareholdings that exceed 10 percent of the voting rights:

T022 Direct/indirect shareholdings exceeding 10 percent of the voting rights

RAG-Stiftung, Essen (Germany)	direct	68.91 percent
	indirect	18.93 percent
Gabriel Acquisitions GmbH, Gadebusch (Germany)	direct	18.93 percent
	indirect	68.91 percent
CVC Capital Partners Advisory Company Limited, St. Helier (Jersey)	indirect	87.84 percent
CVC Capital Partners Finance Limited, St. Helier (Jersey)	indirect	87.84 percent
CVC Capital Partners SICAV–FIS S.A., Luxembourg (Luxembourg)	indirect	87.84 percent
CVC Capital Partners 2012 Limited, St. Helier (Jersey)	indirect	87.84 percent
CVC European Equity Partners Tandem Fund (A) L.P., Georgetown (Cayman Islands)	indirect	87.84 percent
CVC European Equity Partners Tandem Fund (B) L.P., Georgetown (Cayman Islands)	indirect	87.84 percent
CVC European Equity Partners Tandem Fund (C) L.P., Georgetown (Cayman Islands)	indirect	87.84 percent
CVC European Equity Partners V (A) L.P., Georgetown (Cayman Islands)	indirect	87.84 percent
CVC European Equity Partners V (B) L.P., Georgetown (Cayman Islands)	indirect	87.84 percent
CVC European Equity Partners V (C) L.P., Georgetown (Cayman Islands)	indirect	87.84 percent
CVC European Equity Partners V (D) L.P., Georgetown (Cayman Islands)	indirect	87.84 percent
CVC European Equity Partners V (E) L.P., Georgetown (Cayman Islands)	indirect	87.84 percent
CVC European Equity Tandem GP Limited, St. Helier (Jersey)	indirect	87.84 percent
CVC European Equity V Limited, St. Helier (Jersey)	indirect	87.84 percent
CVC Group Holdings L.P., St. Helier (Jersey)	indirect	87.84 percent
CVC Group Limited, St. Helier (Jersey)	indirect	87.84 percent
CVC MMXII Limited, St. Helier (Jersey)	indirect	87.84 percent
CVC Nominees Limited, St. Helier (Jersey)	indirect	87.84 percent
CVC Portfolio Holdings Limited, St. Helier (Jersey)	indirect	87.84 percent
Gabriel Holdings S.à r.l., Luxembourg (Luxembourg)	indirect	87.84 percent
Gabriel Investments S.à r.l., Luxembourg (Luxembourg)	indirect	87.84 percent

Under the shareholder agreement, the voting rights are allocated reciprocally between the main shareholders pursuant to Section 22 Paragraph 2 of the German Securities Trading Act (WpHG). Both the indirect and the direct investment by Gabriel Acquisitions GmbH is allocated cumulatively to the other shareholders in accordance with Section 22 Paragraph 1 WpHG.

The Executive Board is not aware of any further direct or indirect holdings in the company's capital stock that exceed 10 percent.

In compliance with Section 160 Paragraph 1 No. 8 of the German Stock Corporation Act, the Notes to the company's consolidated financial statements contain an overview of all voting rights notifications submitted to Evonik Industries AG.

Appointment and dismissal of Executive Board members, amendments to the Articles of Incorporation

The appointment and dismissal of members of the Executive Board of Evonik Industries AG is governed by Section 84 of the German Stock Corporation Act (AktG) and Section 31 of the German Codetermination Act (MitbestG), in conjunction with Section 6 of the company's Articles of Incorporation. Section 6 of the Articles of Incorporation states that the Executive Board comprises at least two members. Further, the Supervisory Board is responsible for determining the number of members.

Amendments to the Articles of Incorporation have to be adopted by a resolution of the Shareholders' Meeting with a majority of at least three quarters of the capital stock represented at the meeting. Sections 179 et seq. of the German Stock Corporation Act (AktG) are applicable.

Under Section 11 Paragraph 7 of the Articles of Incorporation, the Supervisory Board is authorized to resolve on amendments to the Articles of Incorporation, provided they are only editorial.

Authorization of the Executive Board, especially to issue and repurchase shares

Pursuant to a resolution of the Shareholders' Meeting of March 11, 2013, the Executive Board is authorized until March 10, 2018, subject to the approval of the Supervisory Board, to purchase up to 10 percent of the company's capital stock. Together with other shares in the company which the company has already acquired or still owns, or which are attributable to it pursuant to Sections 71d and 71e of the German Stock Corporation Act (AktG), the shares acquired under this authorization may not, at any time, exceed 10 percent of the capital stock. Shares in the company may not be purchased for trading purposes.

Subject to the principle of equal treatment (Section 53a German Securities Trading Act/WpHG), the purchase may take place via the stock exchange or via a public offering to all shareholders for the purchase or exchange of shares. In the latter case, notwithstanding the exclusion of tender rights permitted in specific circumstances, the principle of equal treatment (Section 53a AktG) must also be taken into account.

The Executive Board is authorized, subject to the approval of the Supervisory Board, to use the shares acquired under the above authorization, for the following purposes:

- to offer or transfer them to employees of Evonik Industries AG and employees or members of the management of its subsidiaries;
- to offer and/or grant them to third parties in connection with business combinations or the acquisition of companies, parts of companies or shareholdings in companies or other related depositable assets;
- to offer them to shareholders through an offering to all shareholders;
- to sell them via the stock exchange in accordance with the principle of equal treatment (Section 53a AktG);
- to sell them in a manner other than via the stock exchange or an offer to all shareholders insofar as shares are sold in return for cash at a price that is not significantly below the stock exchange price of shares of the same class within the meaning of Section 186 Paragraph 3 Sentence 4 of the German Stock Corporation Act (AktG);
- to use them, to introduce shares in the company—on its own or in conjunction with one or more shareholders—to German or foreign stock exchanges where they are not listed.

Pursuant to Section 4 Paragraph 6 of the Articles of Incorporation, the Executive Board is authorized until March 10, 2018, to increase the company's capital stock, subject to the approval of the Supervisory Board, by up to €4,660,000 by issuing new registered no-par shares against cash or contributions in kind (Authorized Capital).

This authorization may be exercised through one or more issuances. The subscription rights of shareholders have been excluded.

The new shares may only be issued to grant shares to employees of Evonik Industries AG and its subsidiaries. The new shares may also be issued to a bank or other company that fulfills the criteria of Section 186 Paragraph 5 Sentence 1 of the German Stock Corporation Act (AktG) and that assumes the shares with the obligation to use them exclusively to grant shares to employees (employee stock).

Insofar as is permitted by law, the employee stock may also be issued in such a manner that the contribution to be paid for the shares is covered by part of the net profit that the Executive Board and Supervisory Board can allocate to other revenue reserves pursuant to Section 58 Paragraph 2 of the German Stock Corporation Act (AktG). The employee stock can also be procured through securities loans from a bank or other company that fulfills the criteria of Section 186 Paragraph 5 Sentence 1 of the German Stock Corporation Act, where the new shares are used to repay the securities loan.

Further, the Executive Board is authorized, with the approval of the Supervisory Board, to determine the content of the rights accorded to these shares and the terms of issue.

Significant agreements concluded by the company that are contingent upon a change of control resulting from a takeover bid

Evonik Industries is a contracting party in the following agreements that are contingent upon a change of control resulting from a takeover bid:

- The company has agreed a €1.75 billion syndicated credit facility with its core banks, which had not been drawn as of December 31, 2013. In the event of a change of control resulting from a takeover bid, these banks could withdraw the credit facility. On the terms agreed, this applies if a new major shareholder (apart from RAG-Stiftung and its subsidiaries) acquires direct or indirect voting rights of more than 50 percent in Evonik Industries AG—including through a voting rights agreement with one or more other shareholders (pursuant to Section 30 Paragraph 2 of the German Securities Acquisition and Takeover Act (WpÜG).

- At the start of 2013, the company launched a debt issuance program to place bonds with a total volume of up to €3 billion. By December 31, 2013 one bond with a nominal value of €500 million had been issued under this program. The issue conditions contain a change-of-control clause. In the event of a change of control resulting from a takeover bid and a deterioration in the credit rating of Evonik Industries AG to non-investment grade within 90 days as a result of such change of control, the bondholders have the right to demand redemption of the bond at nominal value plus accrued interest. A change of control is deemed to have occurred if a person (apart from RAG-Stiftung or a (direct or indirect) subsidiary of RAG-Stiftung) or persons acting in a concerted manner directly or indirectly acquire(s) more than 50 percent of the voting rights in Evonik Industries AG.

- In October 2009, the company issued a bond with a nominal value of €750 million and a tenor of 5 years, which matures in October 2014. In the event of a change of control resulting from a takeover bid, the bondholders have the right to demand redemption of the bond by Evonik Industries AG at nominal value plus accrued interest. Under the terms, a change of control occurs if a new major shareholder (apart from RAG-Stiftung and its wholly owned subsidiaries) directly or indirectly acquires more than 50 percent of the capital stock or voting rights of Evonik Industries AG.

Agreements on payment of compensation by the company to members of the Executive Board or other employees in the event of a change of control

Change-of-control clauses are only agreed with members of the Executive Board in connection with long-term remuneration. A change of control is defined as cases when another company obtains control of Evonik Industries AG as defined in the German Securities Acquisition and Takeover Act (WpÜG) or there is a significant change in the company's shareholders as a result of a merger or comparable reorganization or business combination. In such cases, the long-term remuneration due to the eligible employees is calculated immediately and paid into their salary account with their next regular salary payment. From the 2013 tranche, such payment is calculated pro rata, based on the period that has elapsed between allocation of the remuneration component and the change of control relative to the full four-year performance period.

9. Declaration on corporate governance

The declaration on corporate governance in compliance with Section 289a of the German Commercial Code (HGB) has been made available to the public on the company's website: www.evonik.com/declaration-on-corporate-governance.

www.evonik.com/declaration-on-corporate-governance

Further, extensive information on corporate governance is contained in the Corporate Governance Report in this Annual Report.

See p. 18 ff.

10. Remuneration report

The remuneration report outlines the principles of the remuneration system for the members of the Executive Board and the Supervisory Board, together with the structure and level of their individual remuneration. This report contains the data required to comply with the German Commercial Code (HGB), including the principles set out in the German Accounting Standard No. 17 (DRS 17) and the International Financial Reporting Standards (IFRS).

10.1 Remuneration of the Executive Board

Changes on the Executive Board and extension of contracts

At its meeting on March 11, 2013, the Supervisory Board extended the appointment of Dr. Klaus Engel as Chairman of the Executive Board for a further five years until December 31, 2018. The appointment of Dr. Wolfgang Colberg ended at midnight on September 30, 2013, when he stepped down. At its meeting on June 21, 2013, the Supervisory Board appointed Dr. Ute Wolf to the Executive Board as Chief Financial Officer for a term of five years effective October 1, 2013. Further, Dr. Dahai Yu and Dr. Thomas Haeberle left the Executive Board on December 31, 2013. From January 1, 2014, the Executive Board was therefore reduced from six to four members.

Principles and objectives

The remuneration system for the Executive Board is designed to ensure that members receive adequate remuneration for their tasks and responsibilities, and to take direct account of the performance of each member of the Executive Board and of the company.

The remuneration is reviewed regularly by the Supervisory Board on the basis of remuneration reports from independent consultants. These reviews examine the structure and level of remuneration of the Executive Board, particularly in comparison with the external market, and also in relation to remuneration elsewhere in the company. If this reveals a need to adjust the remuneration system or the level or structure of remuneration, the Executive Committee of the Supervisory Board submits a corresponding proposal to the full Supervisory Board for a decision. The last review of remuneration was in June 2013. At this time, the targets for long-term remuneration were adjusted retroactively as of January 1, 2013 to ensure that the majority of the remuneration is long-term. Further, it was decided to adjust further remuneration components (fixed annual base salary and annual bonus) from January 1, 2014 so that all members of the Executive Board apart from the Chairman are remunerated on the same basis. Alteration of the basic remuneration system was not necessary.

The overall remuneration paid to members of the Executive Board comprises a fixed monthly base salary (fixed annual remuneration), a short-term variable component comprising an annual bonus, long-term variable remuneration, and the customary fringe benefits. Details are given below. The structure is as follows (as of December 31, 2013):

- Fixed annual base salary: approx. 28.5 percent
- Annual bonus (based on 100 percent attainment of targets): approx. 31.5 percent
- Long-term remuneration (based on the agreed target value): approx. 40.0 percent

Performance-unrelated components

Fixed annual base salary

The fixed and individually agreed **annual base salary** is a cash payment for the fiscal year and is paid in twelve equal installments. It takes account of the experience and scope of responsibility of each Executive Board member.

Benefits in kind and other fringe benefits

As benefits in kind and other fringe benefits, members of the Executive Board receive a company car with a driver, the installation of telecommunications equipment, and an entitlement to an annual medical check-up. They may receive a rent subsidy if performance of their duties requires them to rent a second apartment. Any benefits in kind are taxed at the rates set out in the applicable tax regulations.

Further, members of the Executive Board may receive additional remuneration for offices they hold in the interests of the company. Apart from fees for the attendance of meetings, these are deducted from their annual bonus or paid over to the company.

Performance-related components

Short-term variable remuneration

The performance-related **annual bonus** is dependent on the attainment of business targets measured by performance indicators (bonus factor) and the attainment of individual objectives (performance factor). The bonus factor and performance factor are multiplied. The level of the bonus factor depends on the achievement of the business targets derived from the corporate planning and may be between 0 and 200 percent. The business targets are ROCE, net income and the free cash flow. The company's accident performance in the financial year (number of accidents compared with the previous year) also has an influence.

The performance factor rewards the attainment of personal targets and can vary between 80 percent and 120 percent. The parameters are set individually on the basis of the individual performance targets. Assuming 100 percent attainment of the personal and business objectives, the contractually agreed bonus is paid. If the company's income falls short of the planned level, the bonus factor may—in the extreme case—be zero, regardless of personal attainment. In other words, it is conceivable that a bonus might not be paid for a specific year. The bonus is capped at 200 percent of the target bonus.

The business and personal targets set for Executive Board members for the bonus and performance factors are agreed annually in writing between the Supervisory Board and each member of the Executive Board and attainment is determined by the Supervisory Board.

Long-term variable remuneration (LTI)

LTI tranches 2009 through 2012

The reference base for **long-term remuneration** is generally a sustained rise in the value of the company. The tranches 2009 through 2012 reward achieving or exceeding the operating earnings targets set in the mid-term planning and their impact on the value of the company. Each tranche runs for five years from January 1 of the grant year.

Entitlements are based on individually agreed target amounts, provided that earnings targets are met. LTI payments are calculated in the year following the end of the performance period, when the necessary indicators are available. Payments are capped at three times the target amount, and can be zero if the defined lower threshold is not reached.

To determine the value of the company as a basis for ascertaining target attainment, the share price at the end of the performance period is used. For this purpose, the average price of shares in Evonik in the three months prior to the end of the performance period is calculated. In addition, dividends paid and any capital increases or decreases during the performance period are taken into account. The cumulative discrepancy between planned and actual attainment of the targets in the performance period and the dividends paid in the last year of the performance period are taken into account in the calculation. If there is no share price, the value of equity is determined on the basis of the last share transaction in the past twelve months of the performance period. If there was no share transaction in the last twelve months, a fictitious equity value is used. This is derived by applying a fixed EBITDA multiple to the company's business performance in the last full fiscal year.

Given the structure of the LTI Plans 2009 through 2012, they did not meet the definition of share-based remuneration pursuant to DRS 17.9 until Evonik Industries AG was listed on the stock exchange. Consequently, they were not classified as share-based remuneration. In each case, payment was contingent on attainment of the defined performance target and on the condition that the amount available for distribution was not zero. Accordingly, these tranches were only deemed to have been granted in the year in which the respective performance period ended. Granting of payments was further conditional on the fact that the stock exchange listing had not taken place. This final condition was met in 2013, resulting in the reclassification of this remuneration component as share-based remuneration. In accordance with DRS 17, the LTI tranches 2009 through 2012 are therefore regarded as granted as of this date and treated as share-based remuneration. The fair value of each tranche as of the date of the legally binding commitment was calculated and included in the total remuneration of the individual members of the Executive Board in 2013. The fair values are shown in the table of LTI tranches.

LTI tranche 2013

In view of the stock exchange listing of Evonik Industries AG, the Supervisory Board redesigned the LTI Plan for the period from 2013 so it differs from tranches 2009 through 2013. Performance is measured by the absolute performance of Evonik's share price and its performance relative to the MSCI World Chemicals Index^{SM}.

Based on the contractually agreed target amount, which is defined in euros, a number of virtual shares is calculated using the share price at the start of the performance period. This is based on the price in the last 60 trading days before the start of performance period. The performance period starts on January 1 of the grant year and runs for four years. Since there was no share price at the start of the performance period, as an exception, the virtual shares for the 2013 tranche were calculated from the share price in the first 60 trading days following admission to the stock exchange (April 25, 2013). At the end of the performance period, the starting price of Evonik shares is viewed against the share price at the end of the performance period, including any dividends per share actually paid in this period. This is then compared with the performance of the benchmark index (total shareholder return).

The relative performance may be between 70 and 130 percentage points. If the relative performance is below 70 percentage points, the relative performance factor is deemed to be zero. If the relative performance exceeds 130 percentage points, the relative performance is deemed to be 130 percent.

The payment is calculated by multiplying the relative performance by the number of virtual shares allocated and the average price of Evonik shares at the end of the performance period.

Eligible participants are informed of the outcome after the end of the performance period. They can then opt to accept the payment calculated or to extend the performance period once for a further year. In this case, a renewed calculation is performed at the end of the extended performance period. Partial exercise at the end of the original performance period is not permitted. The upper limit for these payments is set at 300 percent of the individual target amount.

The fair value of the LTI tranches 2009 through 2013 as of the date of the legally binding commitment and the total expense in 2013 are shown in the next table:

T023 LTI tranches

	2009[a]	2010[a]	2011[a]	2012[a]	2013[b]	
Name	€'000	€'000	€'000	€'000	No. of virtual shares	€'000
Dr. Klaus Engel	463	478	479	495	43,133	1,028
Dr. Wolfgang Colberg	208	287	383	396	–	–
Dr. Thomas Haeberle	–	–	216	297	25,880	617
Thomas Wessel	–	–	96	297	25,880	617
Patrik Wohlhauser	–	–	216	297	25,880	617
Ute Wolf	–	–	–	–	6,470	154
Dr. Dahai Yu	–	–	216	297	25,880	617
Total	**671**	**765**	**1,606**	**2,079**	**153,123**	**3,650**

[a] No details are given of other share-based remuneration amounts because a specific number of shares or share options was not issued, nor can the tranches be converted into a number of virtual shares.
[b] The date of the legally binding commitment corresponds to the grant date.

The total expense for all LTI tranches in 2013 was €3,465 thousand. The breakdown of the expense was as follows: €137 thousand for Dr. Engel, €1,364 thousand for Dr. Colberg, €1,040 thousand for Dr. Haeberle, €88 thousand for Mr. Wessel, €31 thousand for Mr. Wohlhauser, €39 thousand for Ms. Wolf, and €1,040 thousand for Dr. Yu. The high expenses for Dr. Colberg, Dr. Haeberle and Dr. Yu relate mainly to amounts determined in connection with termination agreements.

Company pension plan

The company pension arrangements for Dr. Klaus Engel and Dr. Wolfgang Colberg comprise a percentage of their annual base salary, which is dependent on length of service with the company and is capped at 60 percent. The pension commitments provide for lifelong retirement and surviving dependents' benefits.

A defined-contribution system is applicable for Dr. Thomas Haeberle, Thomas Wessel, Patrik Wohlhauser, Ute Wolf and Dr. Dahai Yu. This is a capital-based system funded by provisions. The company credits a fixed annual amount to their pension account. This comprises 15 percent of their target remuneration, i.e. base salary and target bonus (short-term remuneration assuming 100 percent target attainment). The guaranteed annual return is 5 percent. The pension benefit comprises the amount that has accrued on the account, i.e. contributions credited to the account plus accumulated interest. In the event of death or disability, the amount that would be available on the account on the member's 55th birthday, including projected contributions and interest, is calculated. Payment normally comprises a lifelong pension. Alternatively, Executive Board members may opt for disbursement of part of the capital (maximum 50 percent) in six to ten installments. Pension entitlements accrued prior to appointment to the Executive Board are either integrated into the system as an initial contribution or continue to be managed separately. If a member leaves the Executive Board prematurely, no further contributions are credited to the account. However, it continues to earn interest at the market interest rate, which is based on the average return earned by major German life insurers (at least 2.25 percent p.a.) until benefits are claimed.

Members of the Executive Board are entitled to pension benefits after they leave the company if they leave on or after reaching the age of 60 or if they leave as a result of permanent incapacity to work. In addition, Dr. Engel and Dr. Colberg may claim pension benefits from the date of premature termination or non-extension of their contracts on the Executive Board, providing they do not give due cause for such termination.

In 2013, the service cost for members of the Executive Board totaled €693 thousand (2012: €1,566 thousand) based on the German Commercial Code (HGB), and €1,152 thousand (2012: €1,961 thousand) based on IFRS.

The difference in service cost for pension commitments is attributable to the difference between the valuation method used to calculate the settlement amount in accordance with the German Commercial Code and the present value of pension obligations calculated in accordance with IFRS.

The present value of pension obligations for the members of the Executive Board was €13,455 thousand (2012: €17,772 thousand) based on the German Commercial Code (HGB), and €16,414 thousand (2012: €22,360 thousand) based on IFRS. The following table shows the service cost and present value of the pension obligations for individual members of the Executive Board.

T024 Service cost and present value of pension obligations

	HGB		IFRS	
Name	Service cost €'000	Settlement amount of pension obligations as of Dec. 31 €'000	Service cost €'000	Present value of the defined benefit obligation as of Dec. 31 €'000
Dr. Klaus Engel	192	8,872	483	10,582
Thomas Wessel	214	1,838	281	2,326
Patrik Wohlhauser	242	2,348	324	3,001
Ute Wolf (from Oct. 1, 2013)	45	397	64	505
	693	**13,455**	**1,152**	**16,414**

Provisions for pension obligations to former members of the Executive Board and their surviving dependents as of the reporting date were €28,002 thousand (2012: €15,360 thousand) based on the German Commercial Code (HGB), and €37,707 thousand (2012: €23,192 thousand) based on IFRS.

Rules on termination of service on the Executive Board

Cap on termination benefits in the event of premature termination of term of office

The contracts with all members of the Executive Board provide for a cap on termination benefits. If a member's term of office is prematurely terminated, payments may not exceed two years' remuneration, including variable remuneration components. In no case is remuneration payable for periods beyond the remaining term of contract. The contracts specify that no termination benefits are payable if an Executive Board member's contract is terminated for reasons for which he or she is responsible. In accordance with the provisions of the German Corporate Governance Code, calculation of the cap on termination benefits is based on total remuneration including fringe benefits in the previous fiscal year and, where appropriate, the anticipated total remuneration for the current fiscal year.

In the termination agreement with Dr. Colberg, agreement was reached to take account of current fixed and variable remuneration components, including contractually agreed fringe benefits. The remuneration increases already resolved by the Supervisory Board for the period from 2014 were taken into account for Dr. Haeberle and Dr. Yu. With respect to performance attainment for variable remuneration components, the empirical values for the previous fiscal years were used. This resulted in termination benefits slightly above the levels outlined above as agreed in their employment contracts.

The following individual benefits were granted to Dr. Colberg, Dr. Haeberle and Dr. Yu in connection with the termination of their service on the Executive Board:

T025 Termination benefits

Name	Fixed remuneration €'000	Fringe benefits €'000	Annual bonus €'000	Pension contributions €'000	LTI €'000	Total €'000
Dr. Wolfgang Colberg	340	11	755	–	1,000	2,106
Dr. Thomas Haeberle	1,200	48	2,360	422	3,000	7,030[a]
Dr. Dahai Yu	1,200	48	2,438	422	3,000	7,108

[a] At Dr. Haeberle's request, €1,000 thousand of this was converted into a pension module (deferred compensation).

In addition, from April 1, 2014 Dr. Colberg will receive a contractually agreed transition payment totaling €1,564 thousand over the period until he reaches the age of 60.

Post-contractual non-compete agreements

Post-contractual non-compete agreements have not been concluded with members of the Executive Board.

Change-of-control clause

Change-of-control clauses are only agreed with members of the Executive Board in connection with long-term remuneration. A change of control is defined as cases when another company obtains control of Evonik Industries AG as defined in the German Securities Acquisition and Take-over Act (WpÜG) or there is a material change in the company's shareholders as a result of a merger or comparable reorganization or business combination. In such cases, the long-term remuneration due to the eligible Executive Board members is calculated immediately and paid into their salary account. From the 2013 tranche, the payment is calculated pro rata based on the period between the grant date and the change of control and the 4-year performance period.

Remuneration of the Executive Board in fiscal 2013

The total remuneration paid to the members of the Executive Board for their work in 2013, including remuneration for the performance of other offices, was €25,997 thousand (2012: 10,235 thousand). This included bonus payments of €738 thousand for the previous year, which were not included in the provision for fiscal 2012.

Based on the principles outlined, the breakdown of remuneration for each Executive Board member in 2013 was as follows:

T026 Remuneration of the Executive Board in 2013

	Performance-unrelated remuneration		Performance-related remuneration					Total remuneration in 2013 in accordance with DRS 17
Name	Fixed remuneration €'000	Fringe benefits and similar €'000	Annual bonus €'000	LTI 2013[a] €'000	Special bonus for stock exchange listing €'000	Remuneration 2013 €'000	LTI 2009 to 2012[b] €'000	€'000
Dr. Klaus Engel	880	74	1,107	1,028	1,500	4,589	1,915	6,504
Dr. Wolfgang Colberg (until September 30, 2013)	510	151	1,152	–	1,300	3,113	1,274	4,387
Dr. Thomas Haeberle (until December 31, 2013)	520	40	1,153	617	1,000	3,330	513	3,843
Thomas Wessel	510	175	762	617	1,000	3,064	393	3,457
Patrik Wohlhauser	575	34	775	617	1,000	3,001	513	3,514
Ute Wolf (from October 1, 2013)	150	16	163	154	–	483	–	483
Dr. Dahai Yu (until December 31, 2013)	490	40	1,149	617	1,000	3,296	513	3,809
Total	**3,635**	**530**	**6,261**	**3,650**	**6,800**	**20,876**	**5,121**	**25,997**

[a] Fair value as of the legally binding commitment or grant date.
[b] Expressed as the accumulated fair value (LTI 2009 through 2012) as of the legally binding commitment due to first-time classification as share-based remuneration pursuant to DRS 17. This is performance-related remuneration.

At its meetings in June 2011 and May 2012, the Supervisory Board of Evonik Industries AG resolved in principle to pay the members of the Executive Board a special bonus in the event of a successful stock exchange listing.

At its meeting on March 11, 2013 the Supervisory Board initially adopted a resolution to grant the Executive Board a special bonus for the successful preparations for Evonik's planned stock exchange listings in 2011 and 2012. At the same meeting, the Supervisory Board also adopted a resolution that payments of the same amount would be made if at least 10 percent of shares in Evonik were placed privately in fiscal 2013 and listed on the Frankfurt stock exchange. Since this occurred in April 2013, corresponding payments were made to the Executive Board members in May 2013.

In 2013, no member of the Executive Board received benefits or corresponding promises from third parties in connection with his or her service on the Executive Board. Further, as of December 31, 2013 there were no loans or advances to members of the Executive Board.

Former Executive Board members, including members who left the Executive Board in 2013

Total remuneration for former members of the Executive Board and their surviving dependents was €1,154 thousand in 2013 (2012: €1,081 thousand).

10.2 Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is governed by Section 15 of the Articles of Incorporation of Evonik Industries AG.

The remuneration system takes account of the responsibilities and scope of activities of the members of the Supervisory Board. In addition to reimbursement of their expenses and value-added tax payable on their remuneration and expenses, the members of the Supervisory Board receive a fixed annual payment. Their remuneration does not include a variable component.

Different levels of fixed annual remuneration are paid to the Chairman (€200 thousand), Deputy Chairman (€130 thousand) and other members of the Supervisory Board (€90 thousand). The level of remuneration is also increased to reflect membership of the Executive Committee, Audit Committee, Finance and Investment Committee, Mediation Committee and the Nomination Committee, and for the chairperson of each committee.

Additional remuneration of €45,000 is paid for chairing the Executive Committee and the Audit Committee, while the deputy chairpersons receive €30,000 each and other members €30,000 each. The chairperson of the Finance and Investment Committee receives additional remuneration of €35,000, the deputy chairperson €27.5 thousand, and the other members €27.5 thousand each. The additional remuneration for the Nomination Committee and the Mediation Committee is €30,000 for the chairperson, €15,000 for the deputy chairperson and €15,000 each for the other members. Members of the Mediation Committee are only entitled to the additional remuneration if the committee meets during the year.

Further, members of the Supervisory Board receive a fee of €1 thousand for each meeting of the Supervisory Board and its committees that they attend. If several meetings are held on the same day, this fee is only paid once.

Members who only serve on the Supervisory Board for part of a fiscal year receive remuneration on a pro rata basis. This also applies for increases in the remuneration for the Chairman and Deputy Chairman of the Supervisory Board and any increased remuneration paid for membership of or chairing a committee.

Finally, third-party financial loss insurance cover is provided for each member of the Supervisory Board to cover their statutory liability arising from their work on the Supervisory Board. In the event of a claim, this provides for a deductible of 10 percent of the damage, up to one-and-a-half times the individual member's fixed annual remuneration.

The following table shows the breakdown of the amounts paid to individual members of the Supervisory Board:

T027 Remuneration of the Supervisory Board in 2013

Name	Fixed remuneration 2013 €'000	Attendance fees 2013 €'000	Total remuneration 2013 €'000
Günter Adam	148	9	157
Dr. Peter Bettermann	90	4	94
Karin Erhard	90	4	94
Dr. Hans Michael Gaul (until March 11, 2013)	31	2	33
Stephan Gemkow	118	8	126
Ralf Giesen	143	11	154
Prof. Barbara Grunewald (from March 11, 2013)	100	7	107
Ralf Hermann	148	9	157
Prof. Wolfgang A. Herrmann	90	4	94
Dieter Kleren	90	4	94
Steven Koltes	135	5	140
Dr. Siegfried Luther	135	7	142
Dr. Werner Müller	298	12	310
Jürgen Nöding[a]	130	11	141
Norbert Pohlmann	90	4	94
Dr. Wilfried Robers	120	8	128
Michael Rüdiger (from March 11, 2013)	104	6	110
Christian Strenger (until March 11, 2013)	30	2	32
Ulrich Terbrack	90	4	94
Dr. Volker Trautz	135	6	141
Michael Vassiliadis	188	7	195
Dr. Christian Wildmoser	148	13	161
Total	**2,651**	**147**	**2,798**

[a] Mr. Nödig is also a member of the Supervisory Board of Evonik Services GmbH.

There were no loans or advances to members of the Supervisory Board as of December 31, 2013, nor did Supervisory Board members receive any remuneration in 2013 for services provided personally, including consulting and referral services.

11. Report on expected developments

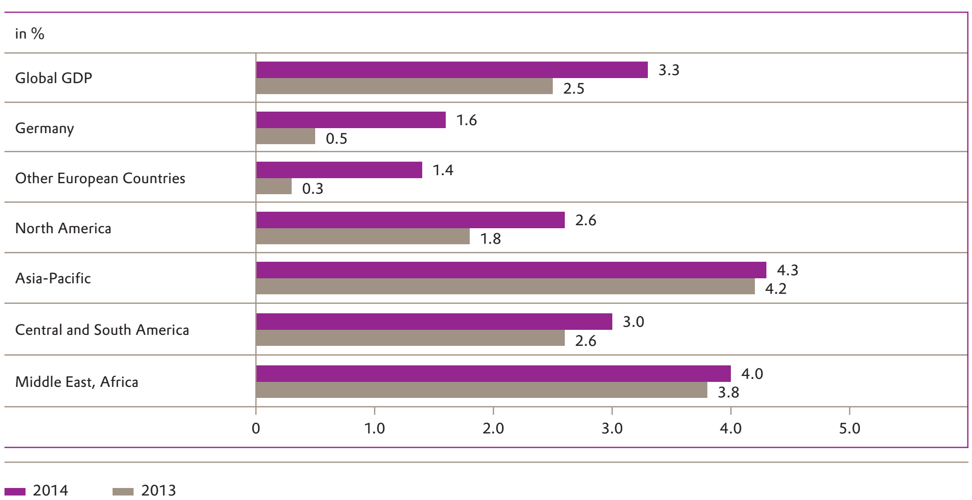
11.1 Economic background

Global economy expected to pick up slightly in 2014

On the basis of our internal analyses, which are derived from the evaluation of a variety of reports and our own estimates, we expect global growth to pick up in 2014. We anticipate that gross domestic product will increase by 3.3 percent. Factors that have had a clearly adverse impact in the past two years such as the sovereign debt crisis in Europe and the political uncertainty in the USA have become less significant. There will probably still be regional differences in economic trends but the industrialized countries in North America and Europe should play a part in the global economy recovery for the first time in a number of years.

The projection for 2014 is marked by considerable uncertainty. The global economy could be held back if measures to stimulate growth are withdrawn too quickly. In particular, if the expansionary monetary policy is throttled too fast, growth in North America could be far lower, and this could also result in slower than anticipated growth in the emerging markets.

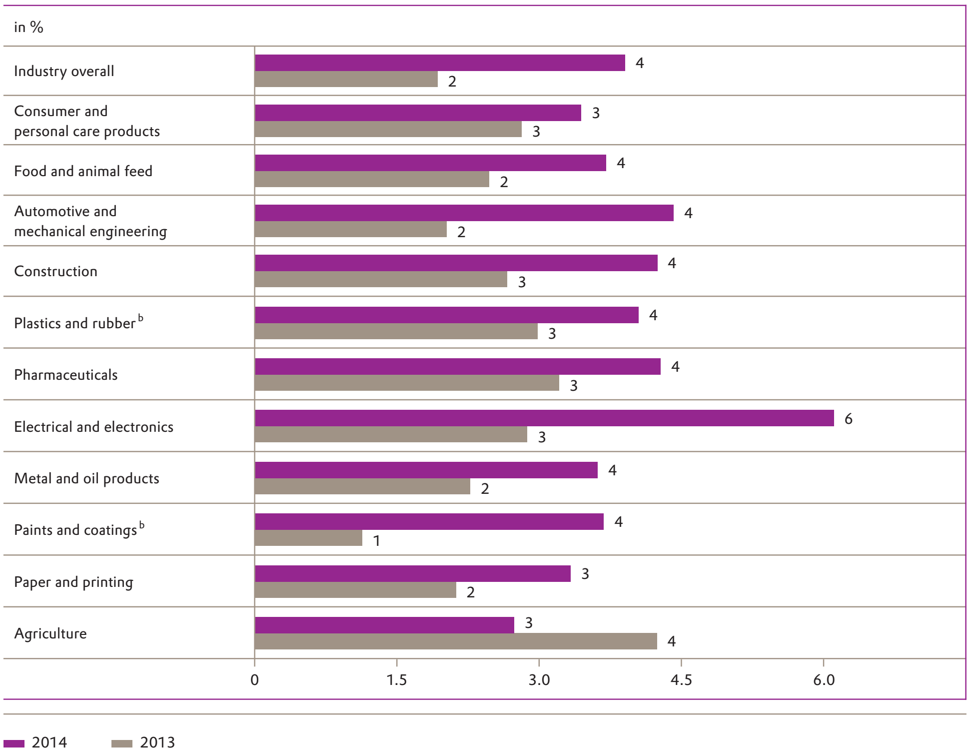
C26 GDP forecast for 2014



The German economy picked up during 2013 and we now predict higher growth momentum for 2014. Driven by the global economic upturn and rising domestic consumption, the German economy should grow faster than in 2013. In the second half of 2013 there were signs that the structural reforms implemented in the rest of Europe are starting to have an impact, so we expect renewed—albeit only moderate—growth in 2014.

The economic trend in the Asia-Pacific region and Central and South America stabilized at the end of 2013 and actually improved slightly. In view of this, we are modestly optimistic about the growth trend in these regions. That said, we see higher risks, especially in the emerging markets, in the light of uncertainty about how smoothly the United States will be able to taper its expansionary monetary policy, sluggish structural reform, and the mounting risk of a financial crisis in China.

C27 Forecast for Evonik's end-customer industries 2013/2014[a]



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

Key end-customer industries still suffering price pressure

Alongside the global economy, factors influencing Evonik's market environment include our end-customer industries. While the rise in output in these industries lagged GDP growth in 2013, the pace should pick up again and is expected to be slightly above global GDP. In cyclical end-customer industries such as the construction, automotive and mechanical engineering, and electronics sectors, we expect to see a slight rise in global growth in the wake of the economic recovery. Regionally however, the development is likely to remain subdued, especially in markets of significance to Evonik. Growth rates are likely to be low.

In key end-customer industries—pharmaceuticals, food and feed, and consumer and personal care products—only slight growth is expected following the upward momentum registered in 2013. Overall, the moderate pace of global growth and the unexpectedly low demand in the past two years have led to imbalances in the present supply and demand situation in some of our end-customer industries. Considerable pressure on producer price trends was observed in 2013, resulting in lower sales growth in many industries despite higher volumes. We do not expect this trend to reverse in all of our end-customer industries across the industrial value chain even if there is a further upturn in demand. We therefore anticipate differences in the impact on chemical-related volumes and prices in Evonik's business units.

Given that the economic upturn will be modest, we assume that global inflation will remain low. On the commodities markets, the sluggish cyclical momentum and expansion of supply will have an impact, so the price of Evonik-specific raw materials is only likely to rise slightly. Risks here still include geopolitical factors, which could adversely affect supply. In view of the differences in growth in the euro zone and the USA, we expect upward pressure on the euro to be limited in 2014.

Our forecast is based on the following assumptions:
- Global growth: 3.3 percent
- Euro/US dollar exchange rate: US$1.35
- Price of Brent crude: US$100

11.2 Outlook

Sales and earnings

We expect global growth to pick up slightly in 2014, driven mainly by the industrialized countries. However, there is still considerable uncertainty as to whether central banks will tighten monetary policy, which could impede development, especially in the emerging markets.

See p. 134 ff.

Provided that the trends outlined in the section "Economic background" materialize, we expect to report another solid business performance in 2014. The following guidance is based on our business in the structure as at year-end 2013; it does not take account of possible portfolio adjustments.

Assuming slightly brighter economic conditions, we anticipate that sales will rise slightly (2013: €12.9 billion). The positive volume trend registered in the second half of 2013 should continue in 2014, leading to a further rise in volumes, with support for this coming from completion of our first growth-driven investments. We expect selling prices to remain at least stable in large areas of our product portfolio but they will probably be below the average for 2013 in some major businesses as price levels were positively influenced by higher prices in the first six months of 2013.

See p. 51

Further relief on the cost front should come from the On Track 2.0 efficiency enhancement program. In addition, we expect to see the first positive effects of the new Administration Excellence initiative to optimize administrative structures. Downside factors could result from ramp-up expenses for growth investments and negative currency effects.

Overall we expect adjusted EBITDA to be between €1.8 billion and €2.1 billion (2013: €2.0 billion). When comparing the development of earnings in 2014, the price-induced high earnings level at the start of 2013 should be borne in mind.

The return on capital employed (ROCE) should once again be well above the cost of capital in 2014. Nevertheless, it is likely to be slightly lower than in 2013 (14.5 percent), mainly because of rising capital expenditures for our ambitious investment program, with capital employed increasing in the wake of start-ups but there is a time lag before earnings start to rise.

Financing and investment

As outlined in detail in the section on “Opportunities”, as part of our growth strategy we have initiated significant investment projects, especially in regions that are attractive from the viewpoint of the global economy. Overall, more than €6 billion has been earmarked for this between 2012 and 2016. €2.1 billion of this amount was spent in 2012 and 2013, and we are budgeting up to €1.4 billion for capital expenditures on property, plant and equipment in 2014. We will continue our disciplined approach to our investment program and will always review projects that have not yet started for changes in the market situation.

See p. 115

We assume that the €0.6 billion net asset position as of year-end 2013 will be temporary and that we will once again report net financial debt at the end of 2014 as a result of the capital required to fund our growth-driven investments.

Occupational and plant safety

In 2014 we will be rolling out our new safety concept Group-wide, paving the way for a further improvement in our safety performance in the long term. We do not expect to achieve such rapid progress in reducing accident frequency (accidents per 1 million working hours) as in 2013. In keeping with the experience of other companies, we are aware that this indicator can fluctuate considerably. Our long-term goal is a sustained value of under 1.0. As a first step, we have reduced the upper limit for this parameter, which we set some time ago, from 1.5 to 1.3. In addition, we are working on an additional performance indicator for occupational safety that would include injuries that do not result in absence from work.

For incident frequency we assume a slight improvement to under 48 (incidents in operational areas per 1 million working hours; reference base 2008).

This report contains forward-looking statements based on the present expectations, assumptions and forecasts made by the Executive Board and the information available to it. These forward-looking statements do not constitute a guarantee of future developments and earnings expectations. Future performance and developments depend on a wide variety of factors which contain a number of risks and unforeseeable factors and are based on assumptions that may prove incorrect.