MANAGEMENT REPORT

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Combined management report for 2015
This management report is a combined management report for the Evonik Group and Evonik Industries AG. Given the influence of the segments, statements relating to the development of the segments in the Evonik Group also apply for Evonik Industries AG. The consolidated financial statements for the Evonik Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the financial statements of Evonik Industries AG have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

An excellent performance in 2015—Responding vigorously to challenges in 2016

1. Basic information on the Evonik Group

- Strong market positions
- A balanced portfolio
- Innovations drive profitable growth

1.1 Business model

Strong market positions, a clear innovation culture, sustainable business activities

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.

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

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

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.

A decentralized corporate structure

To further improve our scope for profitable growth, we reorganized our management and portfolio structure effective January 1, 2015. The Executive Board now concentrates on Evonik's strategic development within a management holding structure. The three chemical manufacturing segments[2] are run by newly established management companies and have

Corporate structure

	Evonik			
Segments	Nutrition & Care	Resource Efficiency	Performance Materials	Services

1 We define these as ranking 1st, 2nd or 3rd in the relevant markets.
2 Two segments were renamed and some activities were assigned to different segments. The prior-year figures have been restated accordingly. See Note 9.1.

far greater entrepreneurial independence, so they can operate closer to their markets and customers and improve efficiency still further.

The Nutrition & Care segment produces specialty chemicals, principally for use in consumer goods for daily needs, and in animal nutrition and healthcare products.

The Resource Efficiency segment supplies high-performance materials for environment-friendly and energy-efficient system solutions for the automotive, paints, coatings, adhesives and construction industries and many other sectors.

The heart of the Performance Materials segment is the production of polymer materials and intermediates, mainly for the rubber, plastics and agriculture industries.

The Services segment offers services for the chemical segments and external customers at our sites and supports the chemicals businesses and the management holding company by providing standardized Group-wide business services.

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

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

Integrated technology platforms are a competitive advantage

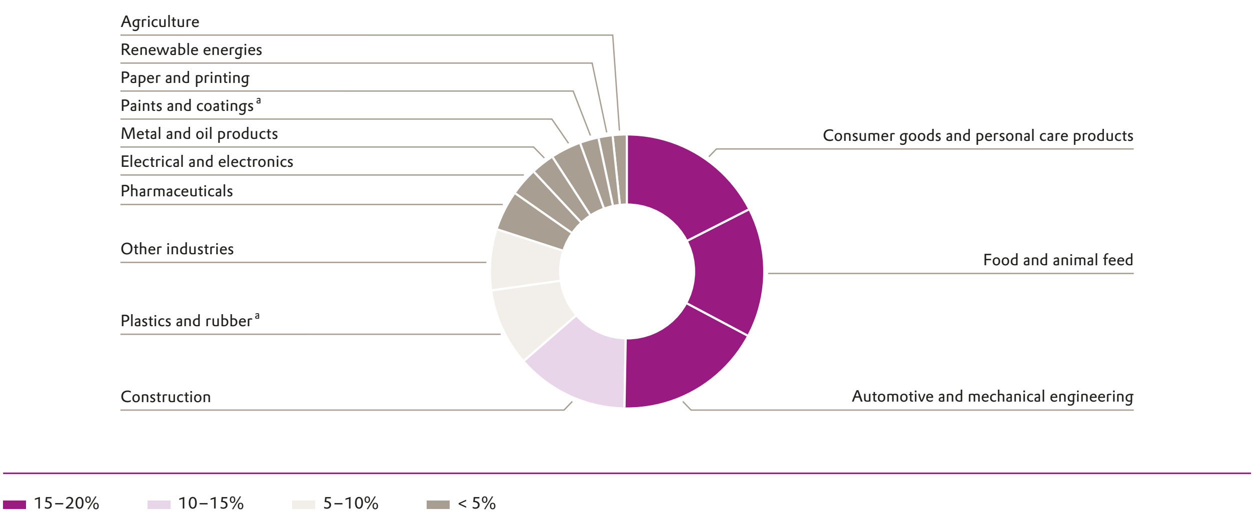
Our products are manufactured using highly developed technologies that we are constantly refining. In many cases Evonik has backwardly integrated production complexes where it produces key precursors for its operations in neighboring production facilities. In this way we offer our customers maximum reliability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

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

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.

Evonik's end-markets



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

Global production

Evonik has a presence in more than 100 countries and 82 percent of sales are generated outside Germany. We have production facilities in 24 countries on five continents and are therefore close to our markets and our customers. Our largest production sites—Marl, Wesseling and Rheinfelden (Germany), Antwerp (Belgium), Mobile (Alabama, USA), Shanghai (China) and Singapore—have integrated technology platforms used by various units.

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. We take a flexible and disciplined approach to extending our leading market positions around the world. All investment projects are regularly reviewed for changes in the market situation.

Innovations are the driving force of future growth. Through them, we gain access to new products and applications, enter attractive future markets and strengthen our market and technology leadership.

To raise scope for growth and innovations, we are continuously working to improve our **cost position.** The On Track 2.0 efficiency enhancement program is geared to optimizing production and related workflows, while the Administration Excellence program is designed to optimize our administrative functions[1] worldwide.

The cornerstones of our corporate culture are our **corporate values** "sparing no effort", "courage to innovate" and "responsible action", which represent the balance between economically successful, ecologically responsible and socially appropriate behavior.

Our sustainability strategy is based on the megatrends identified in our corporate strategy, supplemented by ecological and societal challenges. We are keenly committed to expanding the contribution made by our innovative solutions to **sustainable development.**

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.

As a responsible specialty chemicals company, we have also defined ambitious **non-financial targets.** We take our responsibility in the field of safety[2] particularly seriously. Our objective is to protect our employees and local residents as well as the environment from any potential negative impact of our activities. Accordingly, we set annual limits for occupational safety and plant safety indicators. For 2016 these are once again:

- The accident frequency[3] rate should not exceed 1.3.
- Incident frequency[4] should not exceed 48[5], taking 2008 as the reference base.

[1] See section headed Business review.
[2] See section on Sustainability.
[3] Number of accidents involving Evonik employees and contractors' employees under Evonik's direct supervision per 1 million working hours.
[4] This indicator comprises incidents resulting in the release of substances, fire or explosion, even if there is little or no damage.
[5] Number of incidents per 1 million hours worked in the production facilities operated by the segments, taking 2008 as the reference base (expressed in percentage points: 2008 = 100).

We also set ourselves ambitious environmental targets. The aim is to make a contribution to climate protection, minimize our ecological footprint, and steadily improve our environmental protection performance. In 2014, we set new targets for the period 2013 to 2020 (reference base: 2012):

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

In the area of sustainable waste management, we are continuing our efforts to minimize the use of resources.

1.3 Business management systems

Most important financial key performance indicators

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

Our key performance indicator is **adjusted EBITDA.** 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 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.

The return on capital employed (**ROCE**) is used as a further indicator of value-driven management of the company. 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, indicates relative value creation. This is calculated using a weighted average cost of capital, which reflects the return expectations of both shareholders, derived from the capital asset pricing model, and providers of debt capital.

Most important non-financial key performance indicators

Evonik also uses a wide variety of non-financial performance indicators. For example, our annual sustainability report[2] provides information on ecological and societal issues to supplement our economic reporting.

Traditionally, we accord special significance to **safety,** which is regarded as a holistic management task that has to be lived at all management levels. Our guiding principles on safety are binding for staff at all levels and were reinforced in 2015 by a global safety culture initiative. In accordance with corporate policy, all units at Evonik have an occupational safety target. In addition, all production units have a plant safety target. The relevant indicators are accident frequency and incident frequency.[3]

To protect the environment we specifically 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. That ensures more efficient use of resources and minimizes environmental impact. We regard specific greenhouse gas emissions as a particularly important environmental indicator, which we plan to use as a key non-financial performance indicator from fiscal 2017.

[1] Energy- and process-related emissions as defined by the Greenhouse Gas Protocol.
[2] This report is based on G4, the currently valid guidelines issued by the Global Reporting Initiative (GRI).
[3] See sections Principles and objectives and Sustainability.

2. Business review

- Successful development of the Nutrition & Care and Resource Efficiency growth segments
- Very good adjusted EBITDA margin of 18.2 percent, attractive return on capital employed (ROCE) of 16.6 percent
- Adjusted net income up 44 percent

2.1 Overall assessment of the economic situation

Strategically, our new Group structure has further improved our basis for profitable growth in the future. The selective expansion of our market-leading positions was also successful: The new production capacities that have come on stream made a clear contribution to our very good business performance. We are still implementing our growth investments in a disciplined manner.

Operationally, our business developed extremely well. In particular, our two growth segments, Nutrition & Care and Resource Efficiency, were able to raise volume sales further thanks to buoyant demand and increased production capacity. The positive price trend for some important products that started in the second half of 2014 continued uninterrupted until summer 2015 and prices then remained stable in the second half of the year. By contrast, selling prices fell considerably in the Performance Materials segment due to the sharp drop in the oil price. Overall, selling prices were on a level with the prior year.

Sales increased by 5 percent to €13,507 million in 2015. **Adjusted EBITDA** rose even faster, growing 31 percent to €2,465 million. Higher earnings contributions mainly came from the growth segments, and earnings in the Performance Materials segment were only down slightly year-on-year.

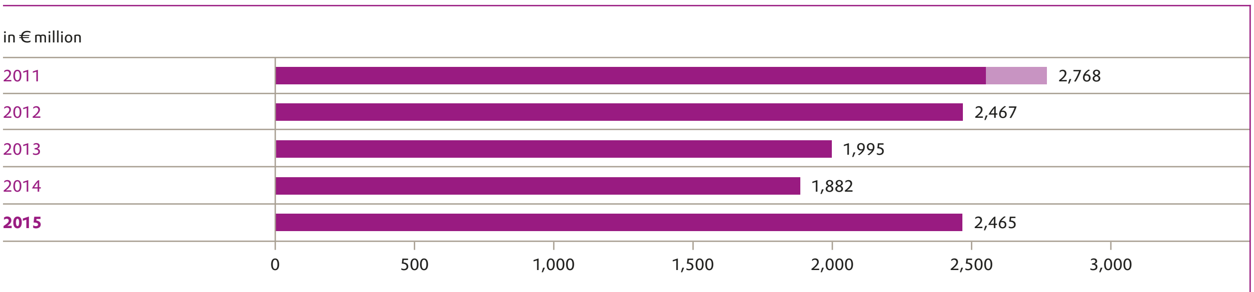
Thanks to our very successful business performance, earnings were high. The adjusted EBITDA margin improved substantially to 18.2 percent, which is also excellent by sector standards. The ROCE of 16.6 percent represents a very attractive return.

Net income improved 74 percent to €991 million, while adjusted net income advanced 44 percent to €1,128 million. To enable our shareholders to participate in this very pleasing business trend, at the Annual Shareholders' Meeting the Executive Board and Supervisory Board will be proposing a dividend payment of €1.15 per share.

Our **financial profile** remains good. At year-end 2015 we again had a net asset position. The cash flow from operating activities, continuing operations was a strong €1,968 million. After deduction of outflows for capital expenditures, the free cash flow was very high at €1,052 million. Evonik still has a sound investment grade rating (Moody's: Baa2, Standard & Poor's: BBB+).

Overall, we consider that we are well-positioned for the challenges that could result from the weak economic conditions and geopolitical tension in 2016.

Development of adjusted EBITDA in the Evonik Group



The figure for 2011 includes adjusted EBITDA of €219 million for the former Real Estate segment. 2014 restated.

2.2 Economic background

Weaker global economic momentum

Global economic conditions were slightly weaker than expected in 2015. We estimate that global economic growth was around 2.6 percent, which was lower than in the previous year (2.7 percent). At the start of 2015, growth of 3.0 percent had still been anticipated.

The main factors were the continued slowdown of economic activity in the emerging markets, which overshadowed the sound economic momentum in the industrialized economies.

In Europe, the economy picked up in 2015 thanks to the European Central Bank's expansionary monetary policy, the depreciation of the euro, and the low oil price. In Germany, consumer spending, in particular, was boosted by the good employment situation and lower oil price. By contrast, industry only posted modest growth.

During the year the US economy recovered from the temporary dip at the start of the year, with the main impetus coming from consumer spending. Although the appreciation of the dollar and lower investment in the oil and gas sector held back manufacturing industry, the US economy achieved full employment in 2015. The Federal Reserve raised its key interest rates in the fourth quarter for the first time since 2006, ushering in the reversal of its monetary policy.

The lower growth in the emerging markets was driven by a number of factors: slowing growth in China, declining commodity prices and a deterioration in the financial situation as a result of capital outflows and the depreciation of currencies. This had an especially big impact on commodity exporting countries. The recession in Brazil and Russia worsened.

In China, the slowdown in growth caused by the transition to a new economic model with a greater focus on the domestic market continued. Uncertainty about the economic development in China increased, especially in the second half of the year, resulting in higher volatility on the financial markets.

Solid development of end-customer industries

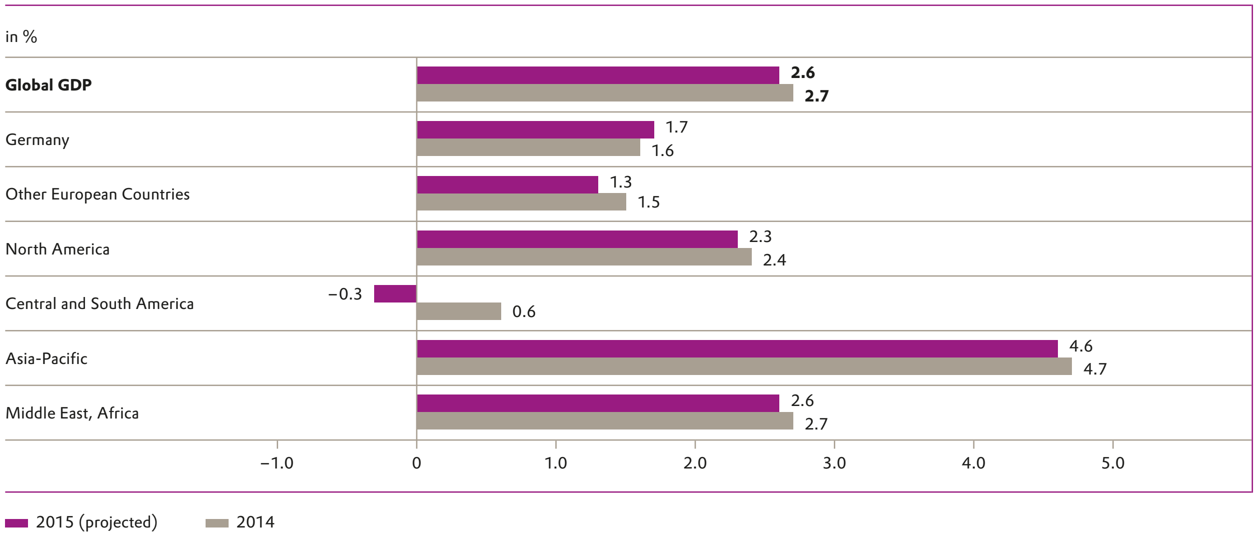
Worldwide, the development of Evonik's **end-customer industries** differed by region and by sector in the first half of 2015.

Demand for food and animal feed continued its very pleasing trend. There was a year-on-year rise in output of consumer and care products, mainly in North America but also to some extent in Europe. Following a strong first half, growth momentum in the electrical and electronics sector in Asia, North America and some parts of Europe weakened in the remainder of the year. Automotive production cooled in Asia, but continued to grow at a moderate pace in North America and Europe. Overall though, the general industrial trend in Europe and North America remained weak and output only increased slightly.

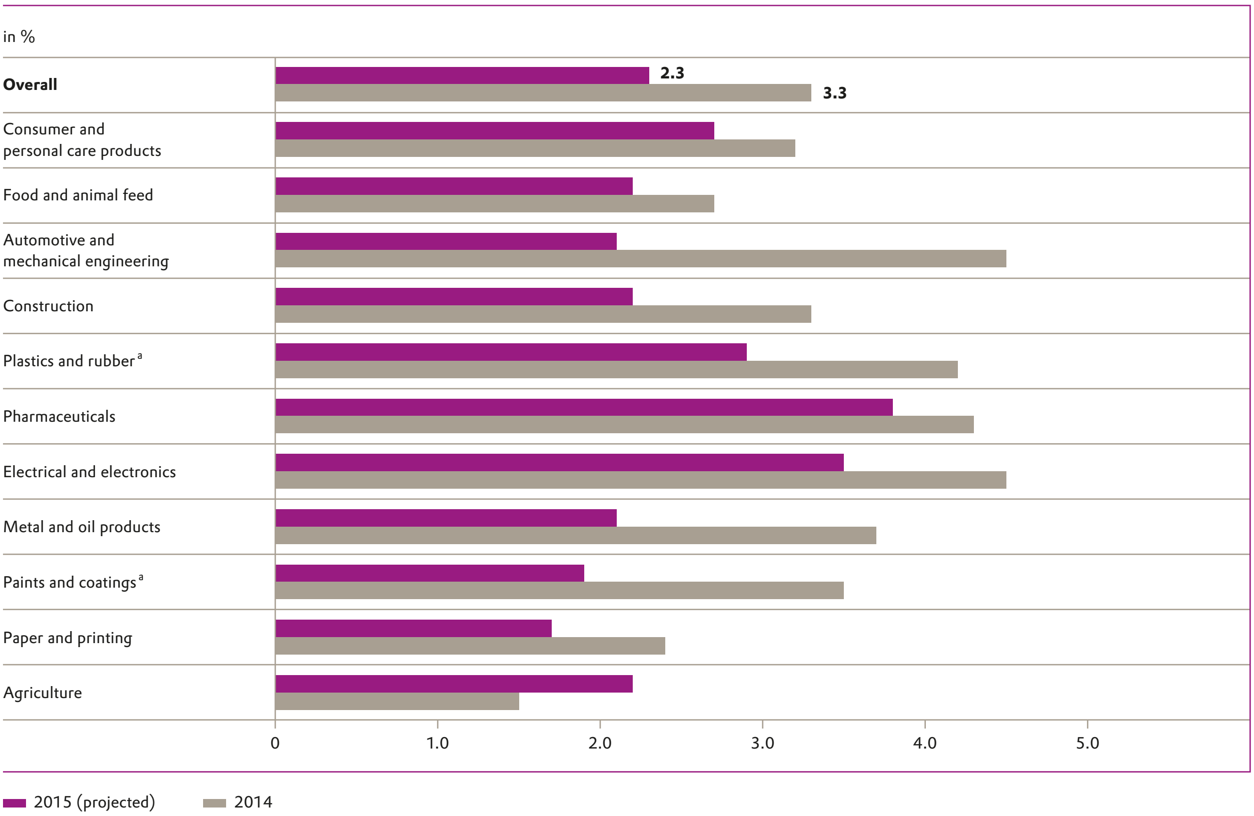
The average price of Evonik's raw materials was lower than in 2014. This was due to the substantial drop in the price of oil, which triggered a reduction in the price of most of Evonik's specific raw materials.

The euro continued to depreciate against Evonik's most important foreign currency, the US dollar, in 2015 and the average exchange rate was considerably lower than in the previous year at US$1.11 (2014: US$1.33).

Development of GDP 2014/2015



Development of Evonik's end-customer industries 2014/2015



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

2.3 Major events

At the end of June 2015, Evonik Industries AG divested its remaining 10.3 percent stake in the residential real estate company **Vivawest** GmbH to RAG Aktiengesellschaft for €428 million. Through this transaction, Evonik Industries AG has now completely withdrawn from its real estate activities in order to focus on specialty chemicals. The divestment gain is recognized in other operating income.

At its meeting on June 25, 2015, the Supervisory Board of Evonik Industries AG adopted a resolution on ending the term of office of Patrik Wohlhauser as a **member of the Executive Board** and Chief Operating Officer (COO) by mutual agreement effective June 30, 2015. At the same time, Dr. Ralph Sven Kaufmann was appointed to the Executive Board of Evonik Industries AG as the company's new COO with effect from July 1, 2015.

2.4 Business conditions and performance

A successful business trend

Despite the challenging business conditions, we achieved a significant year-on-year improvement in adjusted EBITDA in all four quarters. Although global growth was below expectations, high demand enabled our two growth segments, Nutrition & Care and Resource Efficiency, to report good volume trends, aided by new production capacity. Selling prices rose considerably in the Nutrition & Care segment but decreased in the Performance Materials segment, principally due to the lower oil price. Overall, selling prices were on the previous year's level.

Organic sales growth

Evonik posted organic sales growth of 1 percent as volumes were higher and prices were unchanged overall. Sales grew 5 percent to €13,507 million, driven by positive currency effects (5 percentage points), principally as a consequence of the depreciation of the euro versus the US dollar and the Chinese renminbi yuan. The other effects (–1 percentage point) include changes in the scope of consolidation.

Change in sales 2015 versus 2014

in %	
Volumes	1
Prices	0
Organic sales growth	**1**
Exchange rates	5
Other effects	–1
Total	**5**

Very good adjusted EBITDA

Adjusted EBITDA was €2,465 million, 31 percent above the prior-year figure. Alongside positive currency effects, contributory factors were sustained good demand, the positive price trend and lower raw material costs. The adjusted EBITDA margin increased from 14.6 percent to a very good level of 18.2 percent.

Adjusted EBITDA by segment

in € million	2015	2014	Change in %
Nutrition & Care	1,435	847	69
Resource Efficiency	896	836	7
Performance Materials	309	325	–5
Services	163	151	8
Corporate, other operations, consolidation	–338	–277	–22
Evonik	**2,465**	**1,882**	**31**

Prior-year figures restated.

The Nutrition & Care segment benefited from higher volumes and, above all, higher selling prices accompanied by lower raw material prices. Its earnings were therefore considerably higher than in the prior year. The Resource Efficiency segment improved earnings thanks to higher volumes, high capacity utilization and lower raw material costs. By contrast, the Performance Materials segment was hampered considerably by the reduction in selling prices, whereas lower raw material costs alleviated the situation. Overall, its earnings contribution was slightly lower than in the previous year. Earnings in the Services segment were higher than in the previous year. The adjusted EBITDA reported by Corporate, other operations, including consolidation, was –€338 million. This includes, among others, expenses for the Corporate Center and strategic research.

Sales and reconciliation from adjusted EBITDA to net income

in € million	2015	2014	Change in %
Sales	**13,507**	**12,917**	**5**
Adjusted EBITDA	**2,465**	**1,882**	**31**
Depreciation and amortization	–713	–626	
Adjusted EBIT	**1,752**	**1,256**	**39**
Adjustments	–88	–179	
thereof attributable to			
Restructuring	*–65*	*–86*	
Impairment losses/reversals of impairment losses	*–63*	*–37*	
Acquisition/divestment of shareholdings	*142*	*1*	
Other	*–102*	*–57*	
Income before financial result and income taxes (EBIT)	**1,664**	**1,077**	**55**
Financial result	–223	–235	
Income before income taxes, continuing operations	**1,441**	**842**	**71**
Income taxes	–422	–252	
Income after taxes, continuing operations	**1,019**	**590**	**73**
Income after taxes, discontinued operations	–17	–9	
Income after taxes	**1,002**	**581**	**72**
thereof attributable to non-controlling interests	11	13	
Net income	**991**	**568**	**74**
Earnings per share	**2.13**	**1.22**	

Prior-year figures restated.

Reconciliation to adjusted net income

in € million	2015	2014	Change in %
Adjusted EBITDA	**2,465**	**1,882**	**31**
Depreciation and amortization	–713	–626	
Adjusted EBIT	**1,752**	**1,256**	**39**
Adjusted financial result	–179	–209	
Amortization and impairment losses on intangible assets	39	59	
Adjusted income before income taxes [a]	**1,612**	**1,106**	**46**
Adjusted income taxes	–473	–313	
Adjusted income after taxes [a]	**1,139**	**793**	**44**
thereof adjusted income attributable to non-controlling interests	11	11	
Adjusted net income [a]	**1,128**	**782**	**44**
Adjusted earnings per share [a] in €	**2.42**	**1.68**	

[a] Continuing operations.

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 –€88 million in 2015. The adjustments include restructuring expenses of €65 million, mainly for optimization of the product portfolio in the Performance Materials segment and in connection with the new Group structure. The impairment losses/reversals of impairment losses totaling –€63 million relate to capitalized costs for a project in the Resource Efficiency and Performance Materials segments that was terminated following a routine review of investment projects, a production plant and intangible assets in the Performance Materials segment, and an equity investment in the Nutrition & Care segment. Income of €142 million from the divestment of shareholdings mainly comprised the divestment of the stake in Vivawest. Other adjustments chiefly comprise risk provisioning relating to a contract with a raw materials supplier, expenses for the reorganization and simplification of corporate structures in Europe, and expenses for an increase in provisions for the partial retirement program to comply with IAS 19. In the prior year, the adjustments totaling –€179 million mainly comprised restructuring expense, principally to optimize administrative structures and the product portfolio of the Nutrition & Care segment.

The **financial result** of –€223 million contains one-off factors of –€44 million mainly for interest expense in connection with the establishment of provisions. In the previous year, this comprised one-off expense of €26 million. Excluding these effects, the improvement in the financial result was higher, mainly because of the considerably lower cost of refinancing and the voluntary transfers to the contractual trust arrangement (CTA). **Income before income taxes, continuing operations** grew 71 percent to €1,441 million. The income tax rate was 29 percent, which was in line with the expected Group tax rate.

Income after taxes, discontinued operations was –€17 million and mainly relates to the remaining lithium-ion activities, which were divested in April 2015. The prior figure of –€9 million contained operating income from the lithium-ion business and the stake in STEAG, which was divested in September 2014.

The Evonik Group's **net income** rose 74 percent to €991 million.

Adjusted net income, which reflects the operating performance of the continuing operations, increased 44 percent to €1,128 million in 2015. Adjusted earnings per share therefore rose from €1.68 to €2.42.

Target for On Track 2.0 achieved—Administration Excellence well on schedule

At the start of 2012 we set up the On Track 2.0 efficiency enhancement program to achieve a continuous improvement in process efficiency, especially in the production function. The goal was to reduce production costs by €500 million following realization of this program in the period up to 2016. That has now been achieved. By the end of 2015, measures with the potential to cut costs by well over €550 million had been identified and adopted for implementation.

Following the successful stock exchange listing and Evonik's strategic 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 aims to implement measures with cost-improvement potential of around €230 million by the end of 2016. By year-end 2015 measures with cost-saving potential of around €100 million had already been implemented. In addition, more than 90 percent of the measures defined had been passed on to the responsible units for implementation.

Specific human resources measures have now been defined to achieve the headcount reductions associated with the savings and will be implemented in consultation with representatives of the workforce to avoid undue hardship.

Systematic optimization of the value chain and implementation of the efficiency enhancement programs support Evonik's strategy of profitable growth.

Efficient and effective procurement

Reliable supply, gaining access to new procurement markets, and ongoing optimization of material costs are still the key tasks for Evonik's procurement function. Procurement in the company's growth markets will increase further in the future.

There were a large number of unforeseeable production outages (force majeure) in 2015, especially in the European chemical industry. We essentially managed to secure supply to our sites through close cooperation with the suppliers affected and by drawing on alternative suppliers.

To optimize material costs, Evonik uses a total-cost-of-ownership (TCO) approach to procurement, together with cross-unit purchasing to leverage savings potential in the process as a whole and along the entire supply chain. Stepping up collaboration with the business entities is a key success factor for efficient and effective procurement processes.

The efficiency of the procurement organization has been optimized further through Administration Excellence. The main leverage was further integration of local and regional procurement into our global procurement structures, and systematic separation of strategic and operational activities within the procurement organization. Ongoing efficiency improvements will remain a core aspect of procurement in 2016. The main drivers will be automation and harmonization of global procurement processes, especially in the operating units.

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

In 2015 Evonik spent around €8.3 billion on raw materials and supplies, technical goods, services, energy and other operating supplies. Petrochemical feedstocks accounted for about 25 percent of the total. Overall, raw materials and supplies make up around 59 percent of procurement volume.

Using renewable resources remains very important to Evonik. In 2015, around 8 percent of raw materials were from renewable resources. The main applications for these raw materials are amino acids and starting products for the cosmetics industry.

Very good return on capital employed

Within our value-oriented management approach, our success is measured principally by **ROCE,** which was 16.6 percent in 2015 and therefore well above our cost of capital, which was confirmed as 10.5 percent before taxes in our regular review for the fiscal year.

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

in € million	2015	2014
Intangible assets	3,158	3,067
+ Property, plant and equipment, investment property	5,690	5,116
+ Investments	175	386
+ Inventories	1,782	1,681
+ Trade accounts receivable	1,923	1,749
+ Other interest-free assets	435	497
– Interest-free provisions	–999	–911
– Trade accounts payable	–1,050	–1,072
– Other interest-free liabilities	–584	–459
= Capital employed [a]	**10,530**	**10,054**
Adjusted EBIT	**1,752**	**1,256**
ROCE (adjusted EBIT/ capital employed) in %	**16.6**	**12.5**
Cost of capital (capital employed * WACC)	1,106	1,056
EVA® (adjusted EBIT – cost of capital)	**646**	**200**

Prior-year figures restated.

[a] Annual averages.

The average **capital employed** increased by €0.5 billion to €10.5 billion in 2015. Capital employed was increased by the rise in property, plant and equipment and higher trade accounts receivable, which resulted from further implementation of our growth investments. The divestment of the stake in Vivawest and impairment losses on property, plant and equipment had a counter-effect. The considerable improvement in ROCE was attributable to higher operating earnings, while the increase in capital employed had a counter-effect.

In the three chemical segments, ROCE is well above the cost of capital. The return on capital employed in the Nutrition & Care and Resource Efficiency segments is well above average. The ROCE for the Group is considerably lower because capital employed also includes identified hidden reserves from former business combinations.

ROCE by segment

in %	2015	2014
Nutrition & Care	41.5	27.1
Resource Efficiency	24.8	25.9
Performance Materials	11.9	14.6
Services	9.4	9.7
Evonik (including Corporate, other operations)	**16.6**	**12.5**

Prior-year figures restated.

Clear value creation

Economic Value Added (**EVA®**) is the difference between adjusted EBIT and the cost of capital, which is calculated by multiplying average capital employed by the average cost of capital (WACC). If EVA® is positive, the Group creates value (value spread approach). In 2015, we generated EVA® of €646 million. The hike of €446 million compared with the previous year was mainly attributable to the improvement in operating earnings.

2.5 Comparison of forecast and actual performance

Financial forecast clearly met

In our annual report for 2014 we forecast a slight rise in sales and slightly higher adjusted EBITDA than in the previous year. Thanks to the very good development of our growth segments, Nutrition & Care and Resource Efficiency, especially in the first half of the year, we raised our guidance at the end of the first and second quarters. After the first six months, we anticipated that at year end we would report sales of around €13.5 billion and adjusted EBITDA of around €2.4 billion. We clearly achieved this revised forecast, with sales up 5 percent at €13,507 million and a 31 percent rise in adjusted EBITDA to €2,465 million. Adjusted EBITDA greatly exceeded our original forecast. This was principally attributable to the more favorable price trend in the Nutrition & Care segment and the reduction in raw material costs resulting from the drop in the oil price.

Since the earnings improvement was better than expected, ROCE was well above the prior-year figure at 16.6 percent. It was also well above the cost of capital, as had been expected.

As a consequence of the disciplined implementation of our growth investments, our capital expenditures totaled €0.9 billion in 2015 so we did not fully utilize the budget of up to €1.1 billion.

In view of the capital required to fund our growth investments, payment of the dividend and the planned cash transfer to the CTA, we had expected to report net financial debt. However, we are able to report a net financial asset position of €1.1 billion thanks to the better-than-expected business performance, the sale of the shares in Vivawest and the fact that capital expenditures were lower than had been budgeted.

Non-financial safety indicators at a good level

Our significant non-financial performance indicators for occupational and plant safety continued their positive long-term trend. A further improvement in our safety indicators is especially important to us. We have therefore set ambitious long-term targets. However, these indicators can naturally fluctuate from year to year.

We had expected to achieve a slight improvement in the accident frequency indicator in 2015 and aimed to remain below our upper limit of 1.3. We clearly achieved this goal, with an accident frequency rate of 1.0.

We also aimed for a slight improvement in our incident frequency indicator, with a ceiling of 48. The indicator again came in at a good level of 55 and therefore exceeded our ambitious target despite a slight deterioration compared with the previous year (53).

Based on our systematic analysis of all accidents and incidents, action has already been initiated to bring about an improvement. We are stepping up measures to improve our performance, for example, through our safety culture initiative.

2.6 Segment performance

Nutrition & Care segment

The Nutrition & Care segment produces specialty chemicals, principally for use in consumer goods for daily needs, and in animal nutrition and healthcare products. 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 animal protein such as meat, eggs, milk and fish, 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.

Key data for the Nutrition & Care segment

in € million	2015	2014	Change in %
External sales	4,924	4,075	21
Adjusted EBITDA	1,435	847	69
Adjusted EBITDA margin in %	29.1	20.8	–
Adjusted EBIT	1,214	685	77
Capital expenditures	250	458	–45
Depreciation and amortization	212	157	35
Capital employed (annual average)	2,923	2,527	16
ROCE in %	41.5	27.1	–
No. of employees as of December 31	7,165	6,943	3

Prior-year figures restated.

Considerable sales growth

The Nutrition & Care segment posted an extremely successful business performance in 2015 and grew sales 21 percent to €4,924 million. Alongside slightly higher volumes, the main drivers were considerably higher selling prices and positive currency effects.

In particular, there was a substantial increase in sales of essential amino acids for animal nutrition. The strong trend to modern and sustainable animal nutrition continues to have a positive impact on this business. Thanks to the new production facility that came on stream in Singapore at the end of 2014, we were able to satisfy the significant rise in demand for our methionine products and raise volumes further. Having risen since fall 2014, prices have stabilized at a very attractive level since summer 2015. Considerably higher sales were also registered for healthcare products, with exclusive synthesis and pharmaceutical polymers for smart drug delivery systems proving particularly successful. Sales of personal care products were higher, especially in North America and the Asia-Pacific region, aided by the new capacity in China. In the baby care business, volumes declined, principally because competitors brought new production capacities on stream. Sales were therefore down year-on-year.

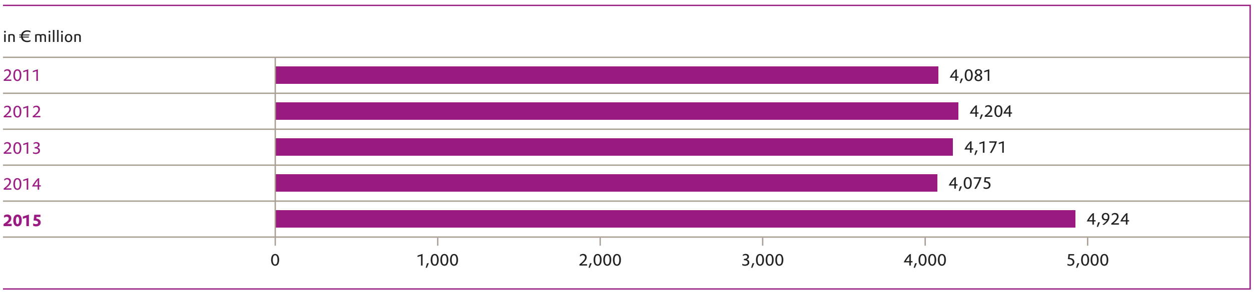
Substantial increase in adjusted EBITDA

The Nutrition & Care segment's adjusted EBITDA grew 69 percent to €1,435 million, driven mainly by higher selling prices and positive currency effects. The adjusted EBITDA margin improved significantly from 20.8 percent in 2014 to 29.1 percent.

Capital expenditures scaled back as planned—Attractive return on capital employed

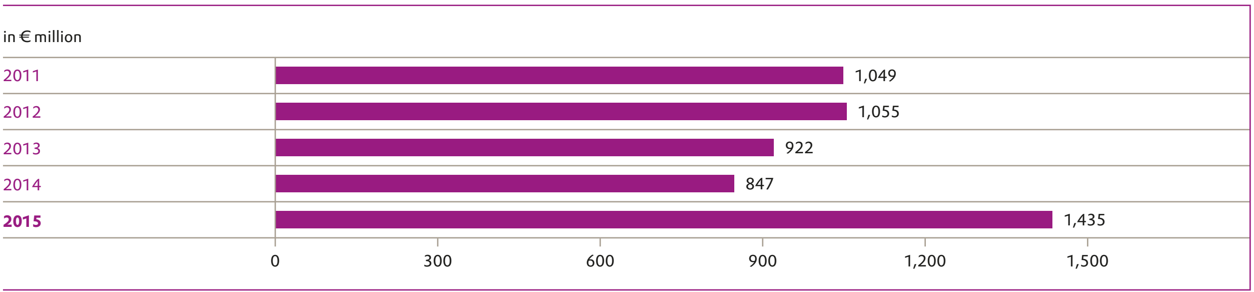
Capital expenditures in the Nutrition & Care segment amounted to €250 million. That was well below the prior-year figure of €458 million, which was boosted by high growth-driven investments. Nevertheless, capital expenditures were well above depreciation, which was €212 million.

Development of sales in the Nutrition & Care segment



Figures for 2011 through 2013 reflect the old structure; prior-year figures restated.

Development of adjusted EBITDA in the Nutrition & Care segment



Figures for 2011 through 2013 reflect the old structure; prior-year figures restated.

The average capital employed increased by €396 million to €2,923 million, principally because of the high capital expenditures in previous years. Thanks to the positive earnings trend, ROCE improved to 41.5 percent, up from 27.1 percent in 2014.

Investment projects to drive growth

Since demand for amino acids for modern animal nutrition is growing fast, selective capacity increases in this field are a major focus of investment in the Nutrition & Care segment. A new facility for biotechnological production of around 100,000 metric tons p.a. of Biolys® (L-lysine), an amino acid for animal feed, was completed in Castro (Brazil). This 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.

In addition, the segment invested in new production facilities for methionine formulations tailored specifically to the nutritional requirements of species other than poultry. A facility to produce Mepron® for dairy cattle has been erected in Mobile (Alabama, USA). Investment in this plant was in the low double-digit million euro range. Evonik has also developed AQUAVI® Met-Met, a dipeptide with two methionine molecules, for aquaculture of shrimp and other crustaceans. The first production facility is currently under construction in Antwerp (Belgium), and is scheduled to come on stream in April 2016. This investment is also in the low double-digit million euro range.

In view of the strong growth in the market for methionine, Evonik is planning to build a further world-scale production complex alongside the facility on Jurong Island (Singapore) that came into service in November 2014. In this new, fully backwardly integrated production complex as well, all key strategic precursors will be produced by Evonik.

As part of the global expansion of the production network for oleochemical specialty surfactants, all production technologies for the high-growth cosmetics and consumer goods industry were successfully started up at the new facility in Americana (Brazil).

Evonik has a global investment initiative to strengthen its integrated technology platform for specialty silicones in Germany and China. Total planned investment is in the triple-digit million euro range. The first capacity expansion in Essen (Germany) came into operation in 2015. The plants there will be extended further over the next few years and a new silicone platform will be constructed in Shanghai (China). The silicone platforms are the backbone of significant business activities in the Nutrition & Care and Resource Efficiency segments.

Resource Efficiency segment

The Resource Efficiency segment supplies high-performance materials for environment-friendly and energy-efficient system solutions for the automotive, paints, coatings, adhesives and construction industries and many other sectors. The resource efficiency megatrend is the basis for energy-efficient and environmentally compatible products and is therefore a key factor in the development of this segment's business.

Key data for the Resource Efficiency segment

in € million	2015	2014	Change in %
External sales	4,279	4,040	6
Adjusted EBITDA	896	836	7
Adjusted EBITDA margin in %	20.9	20.7	–
Adjusted EBIT	675	642	5
Capital expenditures	241	273	–12
Depreciation and amortization	222	194	14
Capital employed (annual average)	2,726	2,474	10
ROCE in %	24.8	25.9	–
No. of employees as of December 31	8,662	7,835	11

Prior-year figures restated.

Higher sales

Sales in the Resource Efficiency segment grew 6 percent to €4,279 million. Alongside positive currency effects, this was attributable to organic sales growth resulting from higher volumes and stable selling prices.

There was strong growth in sales of crosslinkers, which benefited above all from attractive end-markets such as construction and wind energy. Oil additives, which enhance the performance of engines and gears in the automotive, construction and transportation industries, were again very successful. Sales of silica also increased appreciably, mainly due to buoyant demand for products for the silicones and tire sectors. The catalysts business benefited from the first-time consolidation of the catalyst producer Monarch Catalyst Pvt. Ltd., Dombivli (India), which was acquired in June 2015. High demand for hydrogen peroxide products for traditional applications, especially in the paper and textile industries, resulted in higher sales. Sales of high performance polymers were around the prior-year level, although this still included the solimides business that was divested in September 2014.

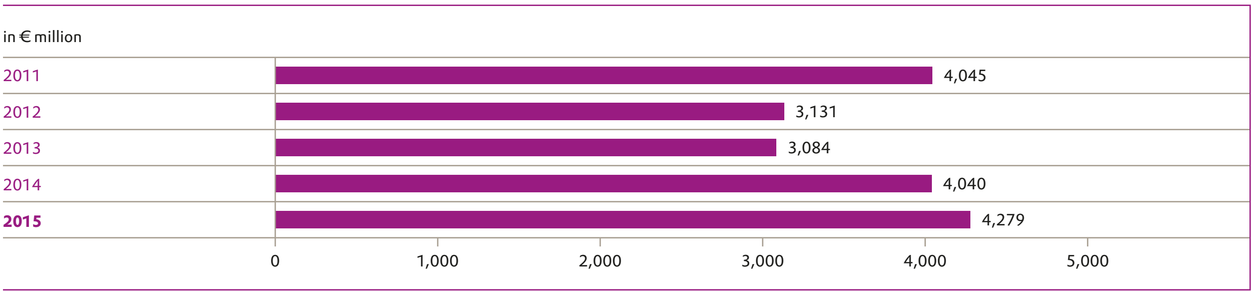
Improvement in earnings

Adjusted EBITDA in the Resource Efficiency segment advanced 7 percent to €896 million, mainly as a result of higher volumes, better capacity utilization, positive currency effects, and lower raw material costs. The adjusted EBITDA margin increased slightly to 20.9 percent.

High investment—Return on capital employed still very good

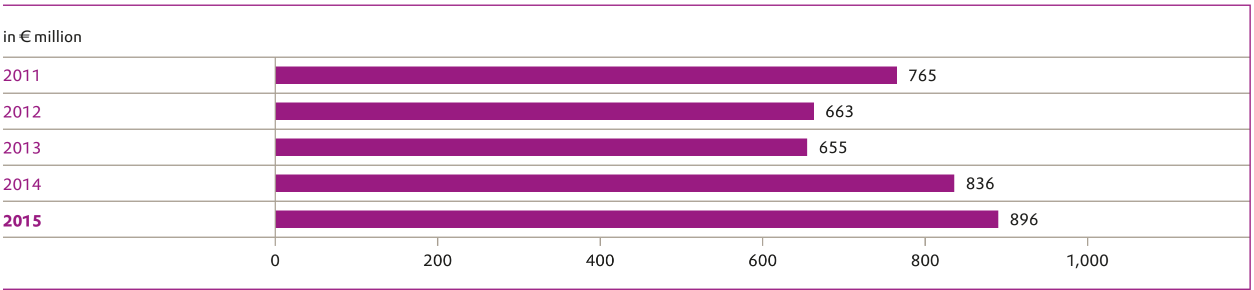
Capital expenditures in the Resource Efficiency segment remained high at €241 million, but were 12 percent lower than in the previous year. Nevertheless, they were slightly above depreciation, which amounted to €222 million. As a result of the expansion of production capacity, the average capital employed increased by €252 million to €2,726 million. ROCE was very good at 24.8 percent, but below the prior-year level of 25.9 percent due to higher capital expenditures, which increase capital employed but only impact adjusted EBIT successively as the new capacity comes into service.

Development of sales in the Resource Efficiency segment



Figures for 2011 through 2013 reflect the old structure; prior-year figures restated.

Development of adjusted EBITDA in the Resource Efficiency segment



Figures for 2011 through 2013 reflect the old structure; prior-year figures restated.

Investment projects to expand market positions

The Resource Efficiency segment has almost doubled production capacity for oil additives on Jurong Island (Singapore). This facility, which was inaugurated in May 2015, is now Evonik's biggest production plant for oil additives. The additional capacity enables this segment to meet rising demand from customers for more efficient lubricants.

By raising global capacity for precipitated silicas, the Resource Efficiency segment is supporting the growth of its global customers in the tire, construction, animal feed and nutrition industries. A new production facility is currently under construction near São Paulo (Brazil) and is scheduled to start operating in 2016. This will be the first production facility for highly dispersible silica (HD silica) for the South American tire industry. Pre-engineering work has started for a new production plant for precipitated silicas in North America, which is scheduled to be completed in early 2018. The entire project is still contingent upon approval by the relevant bodies. Progress is also being made with the expansion of capacity for specialty silicas, primarily for customers in the food, cosmetic and pharmaceutical sectors. In fall 2015, DSL. Japan Co., Ltd. (DSL), Tokyo (Japan), in which Evonik has a 51 percent stake, started up new capacity at the extended production facility for specialty silicas in Ako (Japan).

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

Strengthened by selective acquisitions

The Indian catalyst producer Monarch was acquired in June 2015. This strategic acquisition will strengthen the Resource Efficiency segment's market position in activated base and precious metal catalysts and extend its business into oil and fat hydrogenation catalysts.

In October 2015, the Resource Efficiency segment acquired the hydrogen peroxide producer PeroxyChem Netherlands B.V., Amsterdam (Netherlands). Its site in Delfzijl complements the present network of European production sites.

Performance Materials segment

The heart of the Performance Materials segment is the production of polymer materials and intermediates, mainly for the rubber, plastics and agriculture 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.

Key data for the Performance Materials segment

in € million	2015	2014	Change in %
External sales	3,435	3,827	–10
Adjusted EBITDA	309	325	–5
Adjusted EBITDA margin in %	9.0	8.5	–
Adjusted EBIT	174	204	–15
Capital expenditures	183	218	–16
Depreciation and amortization	132	109	21
Capital employed (annual average)	1,467	1,397	5
ROCE in %	11.9	14.6	–
No. of employees as of December 31	4,380	4,353	1

Prior-year figures restated.

Lower sales

Sales declined 10 percent to €3,435 million in the Performance Materials segment. Since volume sales were almost stable, the decline was principally due to the oil-driven reduction in selling prices. By contrast, exchange rates had a positive effect.

Performance intermediates, in particular, reported significantly lower sales than in the previous year. This was caused by a sharp decline in selling prices for products from the integrated C_4 platform in the wake of the reduction in the oil price. The downward trend gained momentum in the second half of the year. Methacrylate products benefited from good demand in the first half of the year. Polymethylmethacrylate (PMMA) for the automotive industry also developed well, but market conditions for PMMA sheet remained difficult. Alcoholates for the production of biodiesel posted another good performance.

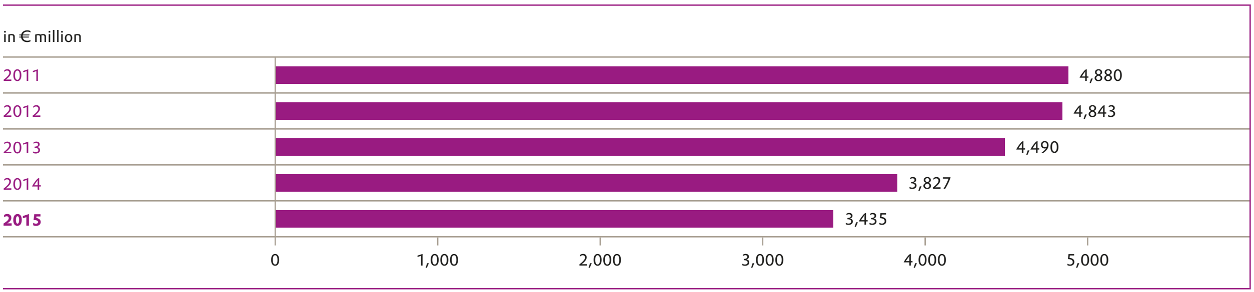
Adjusted EBITDA down year-on-year

Adjusted EBITDA slipped 5 percent year-on-year to €309 million. This was caused by lower selling prices, while the decline was checked by the reduction in the cost of oil-based raw materials. The adjusted EBITDA margin improved from 8.5 percent to 9.0 percent.

Targeted investment—Lower return on capital employed

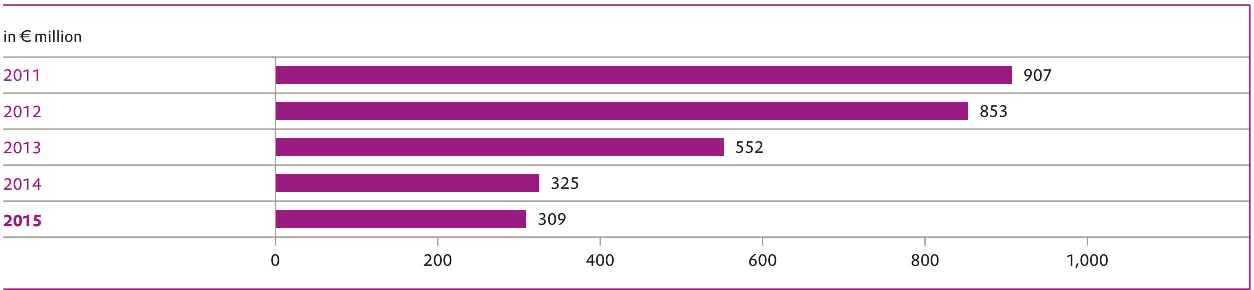
To secure its leading market positions, raise efficiency and broaden its technology base, the Performance Materials segment invested €183 million in property, plant and equipment in 2015. Capital expenditures therefore exceeded depreciation, which amounted to €132 million. The average capital employed increased by €70 million to €1,467 million as a result of the segment's selective capital expenditures. ROCE dropped from 14.6 percent to 11.9 percent, mainly as a consequence of the reduction in earnings.

Development of sales in the Performance Materials segment



Figures for 2011 through 2013 reflect the old structure; prior-year figures restated.

Development of adjusted EBITDA in the Performance Materials segment



Figures for 2011 through 2013 reflect the old structure; prior-year figures restated.

Global projects to expand capacity

As part of the Europe-wide expansion of capacity for C_4-based products, new plants came on stream in Marl (Germany) and Antwerp (Belgium). These have successfully raised capacity for the plasticizer alcohol isononanol, for butadiene and for MTBE, an anti-knock additive for fuel. Thanks to a unique new process, some product streams from refineries can be utilized for C_4 chemistry for the first time. Total investment was in the triple-digit million euro range.

To ensure sustainable and reliable long-term supply of potassium derivatives to customers, Evonik has established a production joint venture with Akzo Nobel to build and operate a membrane electrolysis plant for chlorine and potassium hydride solution in Ibbenbüren (Germany). Production is scheduled to start in the fourth quarter of 2017.

In Mobile (Alabama, USA) the Performance Materials segment has embarked on a substantial capacity increase for ACA (acrolein cyanohydrin-o-acetate). This drives forward the very successful exclusive partnership with a global leader in broadband herbicides. The new production plant, which involves total investment in the triple-digit million euro range, should start operating in early 2017.

From the second half of 2016 Performance Materials will have access to new capacity for sodium cyanide from a joint venture with the Mexican group IDESA. This will greatly strengthen its position in the growing Mexican market.

Services segment

The Services segment provides site management, utilities, and waste management, technical, process technology, engineering, and logistics services for the chemicals segments and external customers at our sites. It also provides standardized Group-wide administrative services to support the chemicals businesses and the management holding company.

Key data for the Services segment

in € million	2015	2014	Change in %
External sales	828	906	−9
Adjusted EBITDA	163	151	8
Adjusted EBITDA margin in %	19.7	16.7	–
Adjusted EBIT	53	49	8
Capital expenditures	177	153	16
Depreciation and amortization	107	101	6
Capital employed (annual average)	565	507	11
ROCE in %	9.4	9.7	–
No. of employees as of December 31	12,668	13,173	−4

Prior-year figures restated.

The Services segment generates sales both internally, with the specialty chemicals segments and Corporate Center (2015: €1,886 million), and with external customers. External sales contracted by 9 percent to €828 million in 2015. This was mainly due to the reduction in the price of energy, which the segment charges to external customers at our sites.

Adjusted EBITDA increased 8 percent to €163 million, mainly because of changes to the internal cross-charging system.

Capital expenditures in this segment increased 16 percent to €177 million. That was above depreciation, which amounted to €107 million. Numerous infrastructure projects were completed at German sites in 2015.

2.7 Regional development

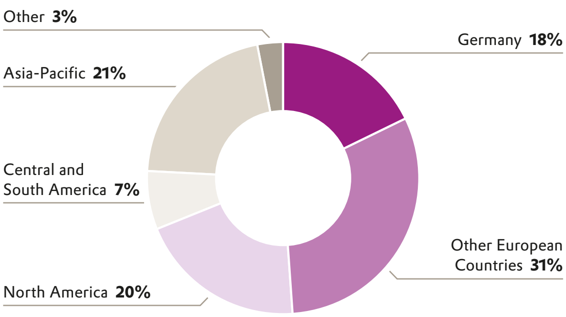
A global presence

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 2015, 82 percent of our sales were generated outside Germany.

In Germany, sales were 13 percent lower at €2,436 million in 2015. Sales declined considerably in the Performance Materials segment, mainly as a consequence of the oil price, but the Nutrition & Care and Resource Efficiency segments also reported lower sales.

Our German sites serve customers throughout Europe and in some overseas markets as well as domestic customers. To strengthen these sites, we increased capital expenditures to €427 million (2014: €419 million). A new production plant for C_4-based products came on stream in Marl in 2015, and in Essen we extended a production plant for specialty silicones. In addition, many infrastructure projects were completed, for example, a freight transport project in Marl and a new control center in Darmstadt.

Sales by region [a]



[a] By location of customer.

Sales in the other European countries slipped 2 percent to €4,148 million. This was caused by an oil price-induced drop in sales in the Performance Materials segment. By contrast, high demand enabled the Nutrition & Care and Resource Efficiency segments to raise sales. This region's share of Group sales fell to 31 percent. Capital expenditures in this region were €88 million, a decline of 34 percent year-on-year. A new production plant for C_4-based products was successfully brought into service in Antwerp (Belgium). In addition, the first production plant for a new source of methionine for shrimp and crustaceans is scheduled for completion at this site in April 2016.

Higher investment in the Americas

In North America, sales grew 15 percent to €2,647 million, mainly for currency reasons. The principal contributions to this came from the Nutrition & Care and Resource Efficiency segments. This region's share of Group sales increased to 20 percent. Capital expenditures rose 48 percent to €208 million. A new plant to produce Mepron® for dairy cattle was completed in Mobile (Alabama, USA). At the same time, work started on expansion of capacity for ACA (acrolein cyanohydrin-o-acetate) at this site. This is scheduled to come on stream in early 2017.

Sales totaled €954 million in Central and South America, an increase of 23 percent year-on-year. This was driven mainly by the Nutrition & Care and Resource Efficiency segments. This region's share of Group sales therefore increased slightly to 7 percent. Capital expenditures were 37 percent lower at €67 million. A new production plant for Biolys®, an amino acid for feed additives, was officially opened in Castro (Brazil). In addition, a new plant for precipitated silicas is currently under construction in São Paulo (Brazil). It is scheduled to come into service in 2016.

Substantial rise in sales in Asia-Pacific

Sales grew 17 percent to €2,860 million in the Asia-Pacific region. The Nutrition & Care and Resource Efficiency segments made equal contributions to this, while Performance Materials posted lower sales. This region's share of Group sales increased to 21 percent. Capital expenditures amounted to €86 million, below the previous year's high level of €323 million, which was dominated by construction of the new production complex for the amino acid DL-methionine in Singapore. A new production plant which opened at this site in 2015 has virtually doubled capacity for oil additives. The expansion of production capacity for specialty silicas at the facility in Ako (Japan) came on stream.

2.8 Earnings position

Considerable improvement in income before income taxes, continuing operations

Sales rose 5 percent to €13,507 million thanks to higher demand and positive currency effects. Despite higher sales volumes and cost-driving currency effects, the cost of sales declined by 2 percent to €9,096 million. The main positive factors were lower raw material costs, along with substantial cost-savings from the successful implementation of the On Track 2.0 efficiency enhancement program. The gross profit on sales therefore increased by 22 percent to €4,411 million.

Currency effects and the expansion of business following the start-up of new plants increased selling expenses by 12 percent to €1,447 million. Administrative expenses were €693 million, 15 percent higher than in 2014. The main reasons for this increase were a change in the system used to cross-charge services within the Group, higher additions to provisions for long-term incentive programs for executives (LTI Plan) [1] and other variable remuneration components, and currency effects. The rise was mitigated by savings made through the Administration Excellence program. To strengthen our innovative capability still further, we raised spending on research & development by 5 percent to €434 million.

[1] See Note 10.1.

Since the start of 2015, the effects of currency translation of operating monetary assets and liabilities and the associated hedging instruments have been presented as net amounts in other operating income and expenses. This avoids increases in income and expenses as a result of the high currency-driven volatility of hedging transactions and hedged items during the year, which essentially offset each other. The 78 percent increase in other operating income to €445 million in 2015 was mainly due to higher income from the disposal of assets, especially the sale of the stake in Vivawest. The 22 percent increase in other operating expenses to €603 million resulted mainly from provisions for risks arising from an agreement with a raw material supplier, and expenses for the reorganization and simplification of corporate structures in Europe. The result from investments recognized at equity was –€15 million and chiefly related to an impairment loss on an equity investment in the Nutrition & Care segment, whereas in the previous year, this item comprised income of €10 million from the former investment in Vivawest. Income before financial result and income taxes, continuing operations improved 55 percent to €1,664 million.

Income statement for the Evonik Group

in € million	2015	2014	Change in %
Sales	13,507	12,917	5
Cost of sales	–9,096	–9,308	–2
Gross profit on sales	**4,411**	**3,609**	**22**
Selling expenses	–1,447	–1,289	12
Research and development expenses	–434	–413	5
General administrative expenses	–693	–601	15
Other operating income	445	250	78
Other operating expenses	–603	–493	22
Result from investments recognized at equity	–15	14	–
Income before financial result and income taxes, continuing operations	**1,664**	**1,077**	**55**
Financial result	–223	–235	–5
Income before income taxes, continuing operations	**1,441**	**842**	**71**
Income taxes	–422	–252	67
Income after taxes, continuing operations	**1,019**	**590**	**73**
Income after taxes, discontinued operations	–17	–9	89
Income after taxes	**1,002**	**581**	**72**
thereof attributable to			
Non-controlling interests	11	13	–15
Shareholders of Evonik Industries AG (net income)	**991**	**568**	**74**

Prior-year figures restated.

Considerable increase in net income

The financial result improved 5 percent to –€223 million. This includes one-off factors of –€44 million, mainly for interest expense in connection with the establishment of provisions. In the prior year, these effects were –€26 million. Excluding these effects, there was a significant improvement in the financial result, principally as a consequence of far more favorable refinancing and the voluntary cash contribution to the contractual trust arrangement (CTA) for pensions. Income before income taxes, continuing operations rose 71 percent to €1,441 million. The 67 percent increase in income taxes to €422 million was mainly due to higher earnings.

Income after taxes, discontinued operations[1] was –€17 million and mainly relates to the remaining lithium-ion activities, which were divested in April 2015. The prior-year figure of –€9 million contains operating income from the lithium-ion business and the stake in STEAG, which was divested in September 2014. Income after taxes improved 72 percent to €1,002 million. Non-controlling interests in after-tax income

[1] See Note 5.3.

amounted to €11 million (2014: €13 million) and comprised the pro rata profits and losses of fully consolidated subsidiaries that are attributable to shareholders outside the Evonik Group.

The Evonik Group's net income rose 74 percent to €991 million.

2.9 Financial condition

Central financial management

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

Solid investment grade rating confirmed

In 2015 both Moody's and Standard & Poor's (S&P) confirmed their credit ratings for Evonik Industries AG. Moody's still rates Evonik as Baa2 with a positive outlook, while S&P's rating remains BBB+ with a stable outlook. Maintaining a sound investment grade rating is a central element in our financing strategy to ensure we remain a reliable partner for bond investors and banks in the long term.

Active management of pension obligations

Pension provisions make up the major portion of our total debt. They are non-current and depend on the discount rate. The €604 million decline in pension provisions was principally due to the fact that the discount rate at year end was higher than in the previous year. Unfunded pension obligations were reduced as scheduled in 2015 by a further voluntary cash contribution of €219 million[1] to the contractual trust arrangement (CTA), completing the program of transfers totaling €1.6 billion that commenced in 2010. At present, there are no plans to allocate further funds to the CTA.

Further increase in net financial assets

Financial debt increased by €626 million compared with year-end 2014 to €1,555 million, essentially as a result of the €750 million bond issued in January 2015. In the same period, financial assets increased by €1,324 million to €2,653 million, mainly because of the high free cash flow[2], proceeds from the new bond issue, and income from the divestment of the stake in Vivawest (€428 million) at the end of June. The dividend of €466 million for fiscal 2014 was paid in May 2015. Overall, **net financial assets** were €1,098 million, €698 million higher than at year-end 2014.

Net financial assets

in € million	Dec. 31, 2015	Dec. 31, 2014
Non-current financial liabilities[a]	–1,361	–639
Current financial liabilities[a]	–194	–290
Financial debt	**–1,555**	**–929**
Cash and cash equivalents	2,368	921
Current securities	262	387
Other financial investments	23	21
Financial assets	**2,653**	**1,329**
Net financial assets as stated on the balance sheet	**1,098**	**400**

[a] Excluding derivatives.

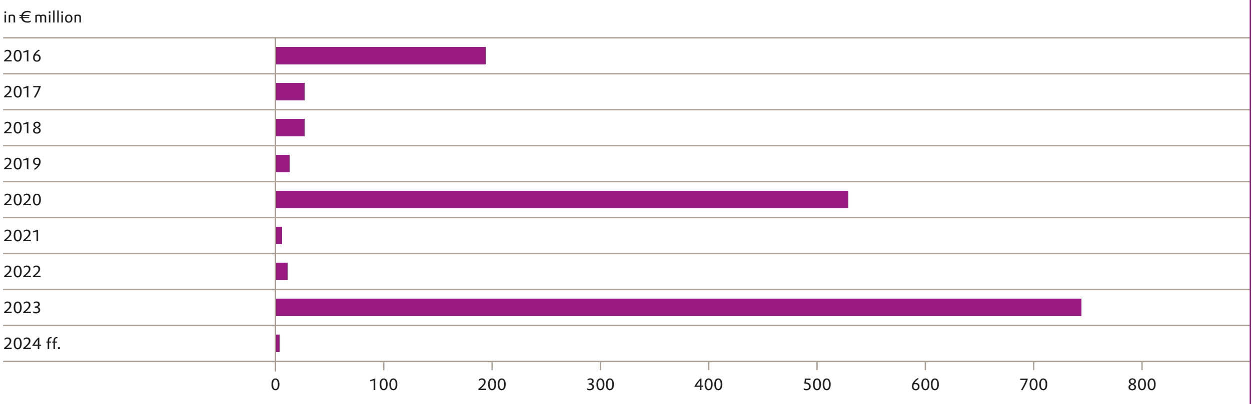
Corporate bonds as a central financing instrument

At year-end 2015, the financial debt of €1,555 million comprised two bonds with a total carrying amount of €1,241 million, decentralized bank loans totaling €282 million, and other financial liabilities of €32 million. Following the issuance of a bond with a nominal value of €500 million in 2013, another bond with a nominal value of €750 million was issued in 2015. This matures in 2023 and has a coupon of 1.000 percent. On the reporting date, €1.25 billion of the debt issuance program of up to €3 billion had been used to issue bonds.

Over 85 percent of the Group's financial liabilities are denominated in euros (2014: over 65 percent). Only Group companies outside the euro zone have financial liabilities in other currencies. The relevant currencies include the Chinese renminbi yuan (CNY) and the Brazilian real (BRL).

[1] Including a refund of €19 million for advance tax payments by the CTA.
[2] Cash flow from operating activities, continuing operations, less outflows for capital expenditures for intangible assets, property, plant and equipment.

Maturity profile of financial liabilities



As of December 31, 2015.

Further increase in the strong liquidity position

Alongside cash and cash equivalents of €2,368 million and investments of €262 million in current securities, Evonik's central source of liquidity is still a €1.75 billion revolving credit facility from a syndicate of 27 national and international banks. This credit facility is divided into two tranches of €875 million each. The second and last option to extend their term by one year was exercised in 2015 and they now run until September 2018 and 2020 respectively. This credit facility was not drawn at any time in 2015. It does not contain any covenants requiring Evonik to meet specific financial ratios.

Further, as of December 31, 2015, various unused credit lines totaling €368 million were available to meet local requirements, especially in the Asia-Pacific region.

Significant growth projects completed successfully

In the specialty chemicals sector Evonik is expanding in business areas and markets where it already has—or intends to build—a strong competitive position. Investment projects are aimed at utilizing potential for sustained profitable growth and value creation. Every project undergoes detailed strategic and economic analyses. In addition, there is a minimum return requirement for every project based on Evonik's cost of capital. We take a flexible and disciplined approach to extending our leading market positions. All projects are regularly reviewed for changes in the market situation. Examples of projects completed successfully in 2015 are a new lysine facility in Castro (Brazil), expansion of the production facilities for specialty silicas in Ako (Japan), and expansion of production capacity for butadiene in Antwerp (Belgium), isononanol in Marl (Germany) and the anti-knock agent MTBE in Marl and Antwerp.

Major projects completed or virtually completed in 2015

Segment	Location	Project
Nutrition & Care	Castro (Brazil)	Construction of a new lysine plant
	Essen (Germany)	Expansion of the silicone platform
	Mobile (Alabama, USA)	Construction of a new production facility for Mepron
Resource Efficiency	Ako (Japan)	Expansion of capacity for specialty silicas
	Singapore	Expansion of a facility for oil additives
Performance Materials	Marl (Germany) and Antwerp (Belgium)	Expansion of capacity for butadiene in Antwerp, the plasticizer alcohol isononanol in Marl, and the anti-knock agent MTBE in Marl and Antwerp

For further information on current capital expenditure projects, please see the section on Segment performance.

Capital expenditures amounted to €877 million in 2015, below the previous year's high figure of €1,123 million. In principle, the related cash outflows are delayed slightly by payment terms. In 2015, cash outflows for property, plant and equipment totaled €916 million (2014: €1,095 million).

The highest proportion of capital expenditures went to the Nutrition & Care and Resource Efficiency segments (29 percent and 27 percent respectively). A further 21 percent was allocated to the Performance Materials segment, and 20 percent was invested in the Services segment. The regional focus of capital expenditures was Germany, which accounted for 49 percent of the total, followed by North America (24 percent) and the Asia-Pacific region and other European countries, which each received 10 percent.

Financial investments totaled €90 million (2014: €114 million). They mainly comprised the acquisition of Monarch Catalyst Pvt. Ltd., Dombivli (India), and PeroxyChem Netherlands B.V., Amsterdam (Netherlands).[1]

A strong cash flow

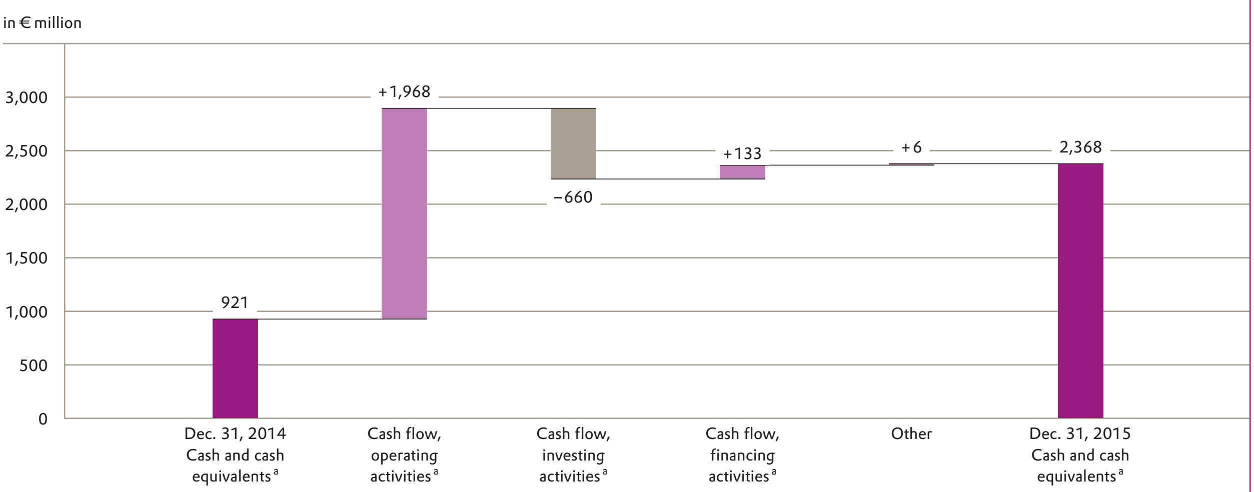
The cash flow from operating activities, continuing operations increased by €933 million to €1,968 million, principally due to the good operating performance. The cash flow from operating activities, discontinued operations related to the lithium-ion business, which has now been divested and, in the prior year, also to the stake in STEAG, which was sold in September 2014. In 2015, the cash flow from operating activities, discontinued operations was €3 million, compared with €31 million in 2014. Overall, the **cash flow from operating activities** increased by €905 million to €1,971 million.

Cash flow statement (excerpt)

in € million	2015	2014
Cash flow from operating activities, continuing operations	1,968	1,035
Cash flow from operating activities, discontinued operations	3	31
Cash flow from operating activities	**1,971**	**1,066**
Cash flow from investing activities, continuing operations	–660	–575
Cash flow from investing activities, discontinued operations	–	–1
Cash flow from investing activities	**–660**	**–576**
Cash flow from financing activities, continuing operations	133	–1,155
Cash flow from financing activities, discontinued operations	–	–
Cash flow from financing activities	**133**	**–1,155**
Change in cash and cash equivalents	**1,444**	**–665**

The cash flow from investing activities comprised an outflow of €660 million. This was mainly for capital expenditures on property, plant and equipment and investments, and the cash contribution to the CTA. It was countered by cash inflows, mainly from the disposal of investments, especially the shares in Vivawest. In 2014 the cash outflow for investing activities was €576 million.

Cash and cash equivalents December 31, 2015 versus December 31, 2014



[a] Continuing operations.

[1] See section on Segment performance and Note 5.2.

The cash flow from financing activities was €133 million. The cash inflow from the new bond was reduced principally by the repayment of financial debt and the payment of the dividend for 2014. In 2014, there was a cash outflow of €1,155 million, mainly for the redemption of a bond and the dividend for fiscal 2013.

The **free cash flow** was very high at €1,052 million in 2015 (2014: –€60 million). The significant improvement was mainly due to the very good operating performance and disciplined implementation of our growth-driven investments.

2.10 Asset structure

Increase in total assets

As of December 31, 2015, total assets were €1.3 billion higher at €17.0 billion. Non-current assets increased slightly year-on-year to €10.3 billion. While the value of investments recognized at equity decreased by €0.3 billion, mainly because of the sale of the stake in Vivawest in June 2015, property, plant and equipment increased by €0.3 billion to €5.8 billion as a result of growth-driven investments. Intangible assets increased slightly, by €0.1 billion, to €3.2 billion. In all, non-current assets decreased to 61 percent of total assets, down from 65 percent in the prior year. They are financed by liabilities with the same maturity structure.

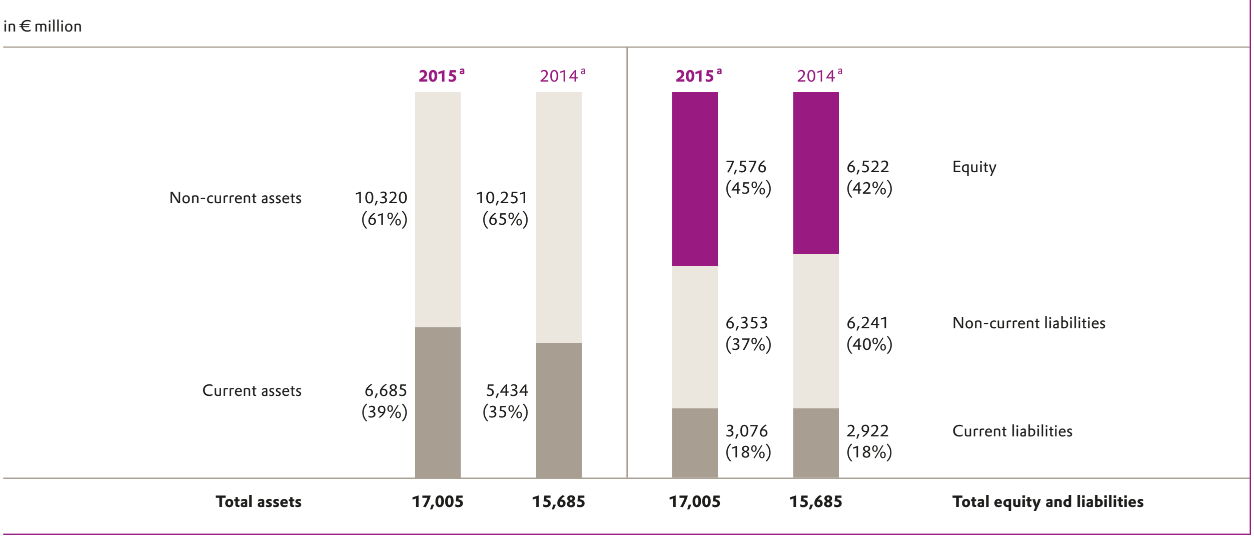
Current assets increased by €1.3 billion to €6.7 billion. This was primarily attributable to a strong rise of €1.4 billion in cash and cash equivalents to €2.4 billion, principally as a result of the issue of the new bond in January 2015 and the good operating performance. Owing to the increase in business, trade accounts receivable were €0.1 billion higher at €1.8 billion. Inventories and financial assets basically remained constant at €1.8 billion and €0.4 billion respectively. Current assets therefore rose to 39 percent of total assets (2014: 35 percent).

Equity increased by €1.1 billion to €7.6 billion as a consequence of the good business performance. The equity ratio rose from 41.6 percent to 44.6 percent.

Non-current liabilities increased by €0.1 billion to €6.4 billion, principally due to the increase in financial liabilities to €1.4 billion in the wake of the bond issue in January 2015. By contrast, provisions for pensions and other post-employment benefits decreased by €0.6 billion to €3.3 billion. Non-current liabilities decreased from 40 percent to 37 percent of total equity and liabilities.

Current liabilities increased by €0.2 billion to €3.1 billion. While trade accounts payable were virtually unchanged at €1.1 billion, other liabilities increased by €0.1 billion. Current liabilities accounted for an unchanged 18 percent of total equity and liabilities.

Balance sheet structure of the Evonik Group



[a] As of December 31.

3. Performance of Evonik Industries AG

- Management holding company concentrates on strategic development of the Group
- High net income of €1,205 million
- Proposed increase in the dividend from €1.00 to €1.15

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).

Since January 1, 2015, the Executive Board of Evonik Industries AG has concentrated on the strategic development of the Evonik Group through a management holding structure.

In this connection the plant management agreements between the company and five subsidiaries were terminated effective June 30, 2015. These plant management agreements had been performed on behalf of Evonik Industries AG and for the account of the subsidiaries. The substance of agreements of this type is that the companies remain the economic owners of the assets and liabilities of the plants, while the operator recognizes liabilities entered into in its own name and at the same time capitalizes a claim for reimbursement against the owners of the plants. As a result of the termination of these agreements, the balance sheet of Evonik Industries AG at year-end 2015 no longer contained any items of this type.

In the income statement, the arrangement merely gave rise to sales revenues from plant management fees. All other income and expenses were allocated to the companies that owned the plants and were recognized in their annual financial statements.

In connection with the strategic realignment of the Evonik Group, in the first half of the year Evonik Industries AG acquired the activities of subsidiaries within the scope of the management holding company or that serve to support it, through asset deals. Activities outside its scope were transferred to the subsidiaries.

Income statement for Evonik Industries AG

in € million	2015	2014
Sales	592	216
Increase in work in progress	1	–
Other operating income	1,431	425
Cost of materials	−235	−2
Personnel expense	−337	−206
Depreciation and amortization of intangible assets, property, plant and equipment	−15	−6
Other operating expenses	−1,294	−647
Operating result	**143**	**−220**
Income from investments	1,509	921
Write-downs of financial assets and current securities	−41	−121
Write-ups of financial assets and current securities	10	96
Net interest expense	−157	−86
Income before income taxes	**1,464**	**590**
Income taxes	−259	−123
Net income	**1,205**	**467**
Allocation to revenue reserves	−600	−1
Net profit	**605**	**466**

Balance sheet for Evonik Industries AG

in € million	Dec. 31, 2015	Dec. 31, 2014
Assets		
Intangible assets, property, plant and equipment	40	20
Financial assets	8,870	8,834
Non-current assets	**8,910**	**8,854**
Inventories	8	–
Receivables and other assets	2,720	4,354
Securities	249	377
Cash and cash equivalents	2,056	606
Current assets	**5,033**	**5,337**
Prepaid expenses and deferred charges	**8**	**7**
Total assets	**13,951**	**14,198**
Equity and liabilities		
Issued capital	466	466
Capital reserve	721	720
Revenue reserves	4,235	3,635
Net profit	605	466
Equity	**6,027**	**5,287**
Provisions	**850**	**2,278**
Payables	**7,074**	**6,633**
Total equity and liabilities	**13,951**	**14,198**

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

Sales increased substantially from €216 million to €592 million as a result of activities assumed by Evonik Industries AG, especially strategic procurement for the subsidiaries. Sales revenues include plant management fees of €31 million (2014: €48 million). The cost of materials rose from €2 million in 2014 to €235 million, due to the assumption of procurement activities. Personnel expense increased by 64 percent to €337 million, driven mainly by staff transfers in connection with the transfers of undertaking in the first half of 2015. The other operating income of €1,431 million contains income from the disposal of assets totaling €413 million, mainly from the divestment of the stake in Vivawest. Further, this item includes currency translation gains of €939 million (2014: €354 million). In the gross presentation, currency translation losses of €921 million (2014: €337 million) are shown in other operating expenses, separately from the currency translation gains. The net effect was a gain of €18 million (2014: €17 million).

Income from investments increased by 64 percent to €1,509 million, principally because of considerably higher income from profit-and-loss transfer agreements. The increase was mainly due to higher profit transfers from subsidiaries as a result of the good operating performance and to one-off payouts by investments. The write-downs of financial assets and current securities totaling €41 million and write-ups of financial assets and financial securities totaling €10 million mainly related to affiliated companies.

Net interest expense deteriorated considerably from €86 million to €157 million. This was mainly due to higher interest on pension provisions due to a change in the interest rate and an increase in headcount. 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 rose 148 percent to €1,464 million. Income taxes increased to €259 million due to the increase in income.

Net income was 158 percent higher at €1,205 million. €599,873,641.46 was allocated to revenue reserves, leaving a net profit of €605,000,000.00. A proposal will be put to the Annual Shareholders' Meeting that €69,100,000.00 of the net profit should be allocated to revenue reserves and €535,900,000.00 should be paid out, giving a **dividend** of €1.15 per share.

The total assets of Evonik Industries AG declined slightly from €14.2 billion in the previous year to €14.0 billion. Financial assets mainly comprise shares in subsidiaries. The receivables mainly comprise financial receivables of €2.5 billion (2014: €1.9 billion), principally in connection with loans and cash pooling activities. In 2014, receivables also included claims for reimbursement in connection with plant management (€2.1 billion). Cash and cash equivalents increased by €606 million to €2,056 million, mainly because of the sale of the shares in Vivawest and the bond issue.

Equity increased by €0.7 billion to €6.0 billion, mainly as a consequence of the high earnings. The equity ratio therefore improved from 37.2 percent in the prior year to 43.2 percent. The provisions of €2.3 billion in 2014 included €1.5 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 €6.8 billion (2014: €5.7 billion). €5.5 billion (2014: €5.2 billion) of this comprises liabilities to affiliated companies, mainly in connection with cash pooling activities. A further €1.3 billion (2014: €0.5 billion) relates to corporate bonds.

Opportunities and risks

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

Outlook[1] for 2016

We anticipate that in 2016 the net income of Evonik Industries AG will be below the high level of 2015, which was also boosted by the sale of the real estate investment and an increase in income from investments as a result of one-off payouts from investments.

Report on relations with affiliated companies

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

Financial statements
Supplementary information
Glossary

4. Research & development

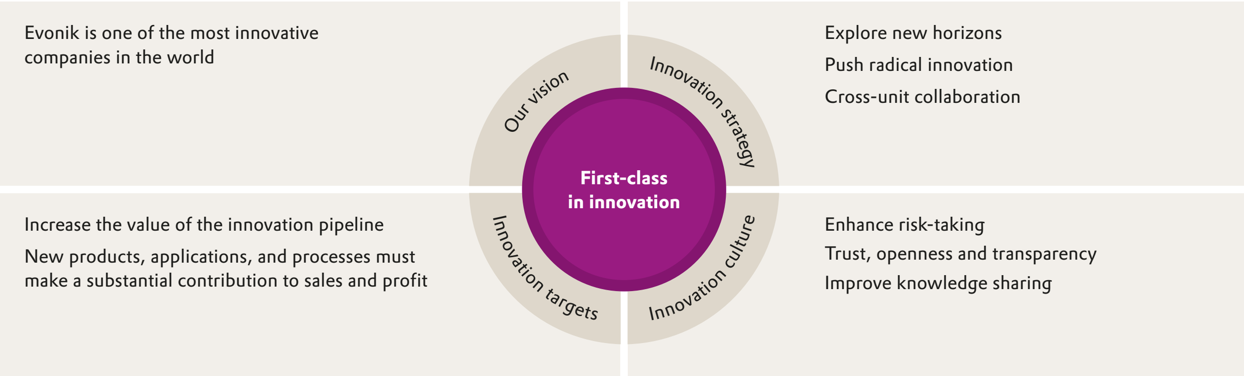
- Our vision: Evonik—one of the world's most innovative companies
- More than 500 R&D projects in the pipeline
- Innovations drive our profitable growth course

Innovation strategy firmly anchored in corporate strategy

Evonik—one of the world's most innovative companies. That is the vision that guides our research & development (R&D). As a major driver of profitable growth and value creation, our market-oriented R&D is firmly anchored in our corporate strategy. Innovations strengthen our leading market and technology positions and open up new high-growth business opportunities. The careful selection of our areas of innovation is guided by the megatrends of relevance for Evonik: health, nutrition, resource efficiency and globalization.

[1] For details of the assumptions, please refer to the Report on expected developments.

Our claim: First-class in innovation



Our R&D is aligned to three core strategic objectives: we aim to

- produce custom-tailored products and solutions in close collaboration with our customers and partners, to drive their success in international competition
- continuously improve our processes, and
- make a substantial contribution to profitable growth and to the future of Evonik.

Our open, learning innovation culture based on a business mindset is the key to achieving these goals. It ensures timely identification of good ideas which we can drive forward and turn into additional sales and earnings. To reinforce Evonik's innovative strength, we organize regular internal conferences under the motto Leading Innovation, which are attended by members of our top management.

Every year, we present an Innovation Award in various categories to honor outstanding research achievements. At the same time, we consistently terminate R&D projects if there are no prospects of success and take a constructive attitude to such cases.

We have a well-stocked innovation pipeline with a balanced mixture of more than 500 short-, mid- and long-term projects. These are managed with the aid of Idea-to-Profit, a multi-step innovation process developed by Evonik. Ingredients for the cosmetics industry, membranes, specialty materials for medical technology, feed and food additives, and composites have been identified as promising areas of innovation for Evonik. In addition, we aim to steadily extend our clear expertise in catalysis and biotechnology. To raise the pace of innovation, we want to align our R&D project portfolio even more closely to these fields, step up external knowledge sharing, and drive forward the internationalization of our R&D.

Evonik has an extensive patent strategy to protect new products and processes. The value and quality of our patent portfolio have increased steadily in recent years.

Innovative strength and patent protection at Evonik

	2015
No. of new patent applications filed	approx. 260
Patents held and applications filed	more than 25,000
Registered/pending trademarks	more than 7,000
No. of projects in the R&D pipeline	more than 500

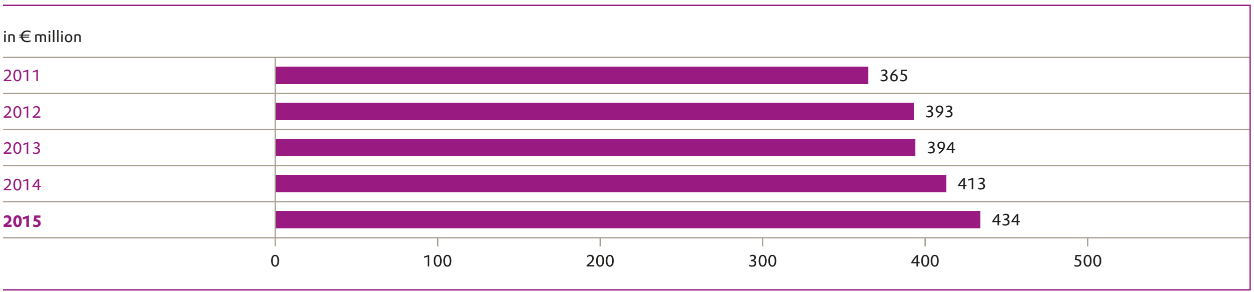
In view of the strategic importance of R&D, we have raised R&D expenses by an average of 6 percent a year since 2010. Given our growth strategy and our vision of being one of the world's most innovative companies, we want to maintain this ambitious level and intend to spend more than €4 billion on R&D in the next ten years.

The reorganization of our management and portfolio structure allows more differentiated management and development of our various businesses close to the market. This is also reflected in our innovation strategy: The Nutrition & Care and Resource Efficiency growth segments should receive an above-average share of our R&D funds in order to enter new markets through innovations and alliances. The Performance Materials segment focuses on process optimization and incremental product improvements.

Decentralized organization of R&D

Evonik's global R&D network comprises 35 locations with approximately 2,700 R&D employees. Around 90 percent of our R&D is performed by our segments. That includes, first and foremost, research geared specifically to their core technologies and markets and the development of new business.

R&D expenses



In addition, in close collaboration with our segments, our strategic innovation unit Creavis is involved in research in new high-tech areas outside the Group's present portfolio. Creavis focuses on mid- to long-term innovation projects that support Evonik's growth and sustainability strategy. For example, the Composites Project House has developed a new composite that combines the benefits of thermoplastics and thermosets. For this innovation Evonik received the 2015 Innovation Award presented by CFK Valley, a leading competency network for fiber composites. Creavis is currently developing a new high-performance surfactant produced using a biotechnological process.

As the driving force behind strategic innovations, the role of Corporate Innovation is to provide direction and leadership for the Evonik Group. This division is headed by the Chief Innovation Officer, who reports directly to the Chairman of the Executive Board. Furthermore, we bring together our in-house expertise in specialty chemicals, process technology and engineering at an early stage in projects to facilitate rapid transfer of new processes to efficient industrial production. In recent years, we have also integrated marketing and sales more closely into innovation processes.

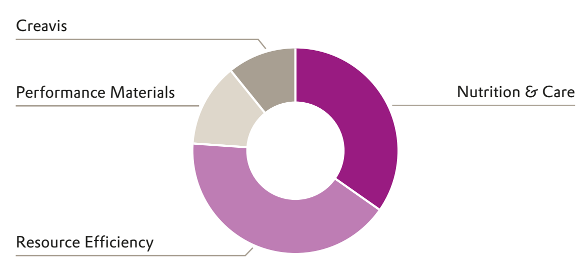
One important success factor for our R&D is close interaction with our customers, which gives us a deep knowledge of their specific markets and requirements. Often, this collaboration results in new products and applications which provide a sound basis for profitable growth. We are strengthening our position as a strategic partner for our customers by raising our R&D presence close to their local markets. At the same time, this enables us to position Evonik as an attractive employer and gain outstanding experts for the Group.

The progressive internationalization of our R&D can be illustrated by two examples. In 2015, Evonik opened new innovation centers in Midrand (South Africa) and Singapore to develop product solutions specifically for customers in the personal care sector in Subsaharan Africa, Southeast Asia, Australia and New Zealand. Similarly, the Health Care Business Line started to build up a worldwide network of service laboratories for medical products in 2015. The aim is to provide technical support for customers who use our biodegradable polymers. The first of these laboratories was opened in Shanghai (China) in summer 2015.

High commitment to R&D in 2015

R&D expenses amounted to €434 million in 2015, an increase of 5 percent compared with the previous year (€413 million). The ratio of R&D expenses to sales was 3.2 percent (2014: 3.2 percent).

Breakdown of R&D expenses



Moreover, in the past four years Evonik has spent €170 million on building laboratory capacity and pilot plants. The focus of this investment in R&D facilities was on new and extended innovation centers in Essen (Germany), Shanghai (China), Richmond (Virginia, USA) and Birmingham (Alabama, USA).

Examples of Evonik's most recent research successes include an innovative microencapsulation process for extended release of medication, and composites for lightweight structures. In addition, work has commenced on a new generation of lubricant additives.

Main products introduced in 2015

Product	Description	Application	Sector
VISCOBASE 11-524/526	High-viscosity synthetic base fluid with dispersing properties	Favorable alternative formulation for modern gear lubricants for cars, trucks and industrial gears	Automotive, industrial gears
VISCOPLEX 0-192	Easy-to-handle viscosity index improver based on comb polymers	Used in gear lubricant formulations to minimize energy losses in the drivetrain; reduces fuel consumption	Automotive
SILIKOPHEN® AC 950	Heat-resistant, low-toxic (aromatic-free) silicone resin that cures at ambient temperature	High-temperature coating of industrial plant; corrosion protection of high-volume components	Machinery and plant engineering, consumer durables and capital goods, automotive
SEPURAN® Noble	Membrane technology for gas separation; several thousand hollow fibers made from a high-performance polymer (polyimide) are used as membranes	Recovery and treatment of helium and hydrogen	Hydrogen: refineries, production of ammonia and methanol. Helium: medical institutes, MRT technology, welding and metal-working, electronics industry, oil and gas production
BREAK-THRU® SP 131 and BREAK-THRU® SP 133	Based on renewable raw materials, biodegradable, very good ecotoxicological profile; adjuvant to increase the efficacy of crop protection products	Crop protection	Agriculture
SITREN AirVoid® 360	Defoamer for cement- and gypsum-based construction applications	Dry mortar	Construction
Methacrylic acid anhydride (MAAH)	Market entry with improved product quality from a new plant	Synthesis	Specialty chemicals

Innovation drivers at Evonik

Interdisciplinary collaboration across organizational units and regions is regarded as very important at Evonik because it is a key source of innovative ideas. In the project houses at Creavis, experts work with specialists from the operating business on scientific tasks. At present the project houses, which are set up for a defined time period, are working on research in the innovation areas of medical technology and composites for lightweight engineering. The Business and Innovation Center in Richmond (Virginia, USA), which was inaugurated in summer 2015, is specifically designed for interdisciplinary research. It brings together R&D experts with specialists from the Marketing and Sales, Procurement, Controlling, HR, IT and Environment, Safety, Health and Quality functions.

In addition, we are steadily becoming more open to external partners. We cooperate with research institutes, universities and other industrial companies so that the latest findings in chemistry, biology and physics can rapidly be transported into our company. Through strategic partnerships we are linked to leading universities in the USA, China, and Saudi Arabia, and to Singapore's state-run research agency (A*STAR). Our support for our established partnership with the University of Duisburg-Essen in Germany comprises a junior professorship, ten scholarships for doctoral candidates and a large number of joint projects and colloquia. We recently entered into a preferred partnership with the Technical University of Munich (TUM) through a master research agreement. In addition, we regularly organize the Evonik Meets Science forum in Germany, China, Japan and the USA to strengthen networking with leading international research scientists. This is a platform for discussion between our experts and leading scientists from a wide range of disciplines and institutions.

Our corporate venture capital activities are a special way of networking and a strategic complement to our understanding of open innovation. We invest selectively in specialized technology funds and promising start-ups of strategic relevance to Evonik. This gives us an insight into innovative technologies and business activities aligned to our growth strategy at a very early stage of development. New projects and technologies are developed in joint projects. In this way we speed up our innovative process. We selectively extended our corporate venture capital portfolio in 2015.

Evonik Venture Capital: New investments in 2015

Name	Headquarters	Technology/business model	Strategic focus on the following Evonik competencies
JeNaCell GmbH	Jena (Germany)	Specialist in nanocellulose generated by biotechnological methods, which is used, for example, as a wound dressing to improve the treatment of burns. It can also be loaded with medical active ingredients for controlled release to the skin over time.	An excellent strategic fit with Evonik's expertise in biotechnology and delivery systems for active medical ingredients.
Wiivv Wearables Inc.	Vancouver (Canada)	Wiivv is one of the first companies in the world to use 3D printing for individualized mass production of biomechanically optimized insoles.	Evonik is a leading supplier of polyamide 12 for 3D printing, a highly innovative growth market with diverse applications.
Airborne Oil & Gas	IJmuiden (Netherlands)	Airborne Oil & Gas has a unique production technology for thermoplastic composite pipes for a whole range of applications in offshore oil and gas production.	The oil and gas industry is an attractive growth market for Evonik and an important area of innovation. In addition, it is the market leader in polyamide 12, which is marketed as VESTAMID® and used in pipelines for the production and transportation of oil and gas.
Synoste Oy	Espoo (Finland)	Synoste is a young medical technology company that has developed a novel implant to "lengthen" the legs of patients suffering from limb length discrepancy. Unlike conventional methods, after implantation the implant is activated by an external magnetic field and can correct differences of up to 7 cm.	As a technology leader in high-performance polymers, Evonik supplies polyetherether ketone (PEEK) for medical applications. Our VESTAKEEP® PEEK grades for implants, dental and medical applications set new standards in medical applications thanks to their outstanding biocompatibility and biostability.
GRC SinoGreen Fund III	Beijing (China)	GRC is a Chinese venture capital fund which focuses on investing in non-listed green-tech companies in Greater China (China, Taiwan and Hong Kong) that have unique technological competencies and high growth potential. The target sectors include energy and resource efficiency, environment-friendly mobility, sustainability and climate protection.	By investing in the GRC SinoGreen Fund III, Evonik has extended its venture capital activities to Asia. The company now has a presence in the most important venture capital markets: North America, Europe and Asia. Investments in venture capital funds are a fundamental element of the innovation strategy of Evonik Venture Capital because they offer excellent opportunities to speed up the development of new business and gain access to new growth areas.

Focus on sustainability

Our innovative products, systems and solutions make a contribution to sustainable development and we are continuously extending our work in this field. Our market-oriented R&D plays an important role in this. We are aligning our innovation pipeline increasingly to sustainable projects and solutions in response to rising interest from our customers. In this way, we enable them to improve their ecological footprint and successfully differentiate themselves from competitors. Examples of sustainable products recently launched by Evonik include a new ingredient based on renewable resources for shampoos and conditioners, an innovative silica-based insulating material, and a biological fungicide for agricultural applications.

Together with the Wuppertal Institute for Climate, Environment and Energy and the in-house Life-Cycle Management and Innovation Excellence Consulting groups, Creavis has developed the $I2P^3$ (idea to people, planet, profit) innovation management process, which allows an extensive sustainability assessment of new products and processes at an early stage in their development.

Fostering education and science

Fostering education and science is a core focus of the Evonik Foundation. In 2015 the Foundation supported 18 particularly gifted and committed science students at 17 universities in Germany and in collaboration with foreign universities. Regular meetings with these scholarship students, scientific colloquia and a mentoring program give them an early insight into the day-to-day work of a leading specialty chemicals company. Evonik is also one of the most committed sponsors of the German government's "Deutschlandstipendium" program, with 200 scholarships provided by the Evonik Foundation.

Market-oriented research & development

In 2015 our segments once again developed major innovative products and processes up to market maturity or market launch. In addition, they drove forward key future-oriented projects such as new materials and production processes for lightweight construction. Special attention was paid to sustainability and efficient use of resources.

Since summer 2015 our **Nutrition & Care segment** has been working with DSM Nutritional Products Ltd. on the development of algae-based omega-3 fatty acid products for animal nutrition. Both humans and animals need to absorb a certain amount of these essential long-chain polyunsaturated fatty acids through their diet to ensure healthy growth. At present, most of the omega-3 fatty acids required for aquaculture come from fish oil. The development partners aim to meet the rising global demand for omega-3 fatty acids more resource-efficiently using biotechnological production processes based on marine algae. The anticipated high-quality products are intended principally for applications in aquaculture and the nutrition of pets.

This segment has introduced two new environment-friendly adjuvants under the brand name BREAK-THRU® to improve the performance of crop protection products. These biodegradable adjuvants are based on renewable raw materials, and have an exceptionally good ecotoxicological profile. They improve the retention of agrochemicals on plants and their diffusion into the leaves. The result is a considerable reduction in the amount of crop protection products required. Both new developments therefore make a multiple contribution to more effective and environmentally friendly agriculture.

The **Resource Efficiency segment** has now entered the market for nitrogen (N_2) with its SEPURAN® membrane technology, building on its success in the treatment of biogas. The new SEPURAN® N_2 hollow fiber membranes allow particularly energy- and cost-saving recovery of nitrogen from air. Investment costs and energy consumption are lower than for both the conventional method—separation of air at low temperatures—and previous membrane processes. As an inert gas, nitrogen prevents fires and explosions, extends the shelf-life of food, and can also be used as a protective gas for processing chemicals and plastics. The nitrogen market is worth more than US$10 billion, making it the world's second biggest gas market after oxygen. Although SEPURAN® has only been on the market for four years, it is already making a positive contribution to earnings.

This segment is currently introducing iXsenic®, a new technology for ultra-high resolution displays developed by the Creavis strategic innovation unit. iXsenic® is an inorganic metal oxide semiconductor, which is applied as a solution in normal ambient conditions like a coating. The thin-layer transistors produced in this way allow higher resolution than the established semiconductor amorphous silicon. In addition, iXsenic® can be processed without a vacuum, leading to a simpler process with high yields and clear cost benefits. The Resource Efficiency segment has entered into a strategic partnership with a market-leading plant engineering company to ensure that the material, equipment and process are aligned for the production of displays. A manufacturer of displays is planning to use iXsenic® in a new production facility for flat screens in China.

Olefins, which are used to produce the plasticizer alcohol isononanol and the anti-knock agent MTBE, are an important precursor for our integrated C_4 production in Marl (Germany). Olefins mainly come from C_4 product streams from steam crackers as by-products of ethylene production. Thanks to a unique new process, our **Performance Materials segment** can now use product streams from fluid catalytic cracking (FCC) processes as a source of olefins. These product streams occur in refineries and are not dependent on the production of ethylene. Since FCC product streams contain unwanted by-products, in the past they were of limited use to the chemical industry. The Performance Materials segment has been using a new process to remove unwanted substances at its new C_4 plant in Marl (Germany) since summer 2015. This innovative process has strengthened the segment's position as a technology leader.

CAPLUS®, a new amine for scrubbing industrial gas streams, has been brought onto the market by Performance Materials. Unwanted acid gases such as carbon dioxide and/or hydrogen sulfide have to be removed from natural gas, synthetic gas, biogas and flue gas for various reasons. CAPLUS® scrubs these gases far more effectively than conventional amines and also increases the performance and working life of plants. Following success in the treatment of biogas and flue gas, the segment has now entered the important natural gas scrubbing market. The first commercial natural gas scrubber was converted in Southeast Asia. Performance Materials is currently introducing CAPLUS® to other well-known natural gas producers in the attractive growth regions of Southeast Asia, the Middle East/North Africa and South America. The International Energy Agency estimates that gas consumption will increase by 50 percent by 2035[1].

[1] Reference base: 2010.

5. Sustainability

- Committed employees are a key success factor for Evonik
- Ambitious environmental targets
- Evonik is well-positioned in sustainability indices and ratings

Responsible corporate management

Sustainability is a core element in our corporate claim "Power to create". Our products and solutions are used in many areas that play a significant role in improving people's lives and making efficient use of scarce resources. In fall 2015 the United Nations published 17 goals for global sustainable development, to be achieved by 2030. Our sustainability activities support these in many areas.

Evonik is committed to the ten principles of the UN Global Compact and is guided by the International Labour Standards issued by the International Labour Organization, and the OECD Guidelines for Multinational Enterprises. In addition, we are involved in many networks such as the Chemie^3 sustainability initiative of the German chemical industry, and the World Business Council for Sustainable Development (WBCSD), to which more than 200 companies worldwide belong. Together with our Code of Conduct, our Global Social Policy (GSP) and our Environment, Safety and Health (ESH) Values provide a framework for responsible corporate management.

Furthermore, we are committed to the WBCSD's Vision 2050: "9 billion people living well, within the limits of the planet."

Close links between sustainability and corporate strategy

We are convinced that sustainable business activities and responsible conduct by our management and staff at all levels are vital for the future of our company. Our sustainability strategy therefore takes up the megatrends identified in our corporate strategy—health, nutrition, resource efficiency and globalization—supplemented by ecological and societal challenges.

In view of this, we systematically drove forward the sustainability analysis of our business in 2015 in collaboration with the operational units. This analysis covers the entire value chain of our products and is based on a list of criteria including elements of the life cycle analysis of the supply chain, production and subsequent use of the product. This sustainability-oriented evaluation of our business supports Evonik's positioning on the capital markets because sustainability is becoming an increasingly significant element in many investors' investment policies.

Demand from our customers for products and solutions that balance economic, ecological and social factors is rising steadily. Sustainability is often an additional benefit for customers that can clinch purchasing decisions and is therefore a clear growth driver in certain businesses such as amino acids for animal nutrition and the personal care sector.

Sustainability management at Evonik

Accordingly, our market-oriented research & development pays special attention to sustainability and efficient use of resources. Evonik therefore has a good basis for innovative solutions that will strengthen its market-leading positions in the future, give it access to new growth markets, and make a tangible contribution to improving sustainable development.

Reorganization of sustainability management

The Executive Board bears overall responsibility for sustainability and direct responsibility is assigned to the Chief Human Resources Officer. In view of the importance of sustainability for Evonik, the associated topics are assigned to an independent corporate division at Group level. This division sets the strategic framework for Evonik's sustainability activities. It cooperates closely with the segments to implement this strategy.

Evonik in dialogue with significant stakeholder groups

At Evonik, sustainability management is characterized by close dialogue with stakeholders. This continuous exchange facilitates timely identification of trends and future requirements and gives us a better understanding of different perspectives. Overall, it helps Evonik to position itself as a company aligned to sustainable business practices.

To update our materiality analysis, in fall 2015 we again asked internal and external stakeholder groups for their views on the relevance of specific sustainability issues for Evonik. The results also form the basis for our Sustainability Report 2015, which will be prepared for the first time in accordance with the Global Reporting Initiative's G4 guidelines.

Important feedback about our sustainability performance also comes from talking with members of the investment community. Alongside financial criteria, more and more investors include ecological, social and governance factors in their investment decisions. Key stakeholder groups for Evonik are shown in the chart below.

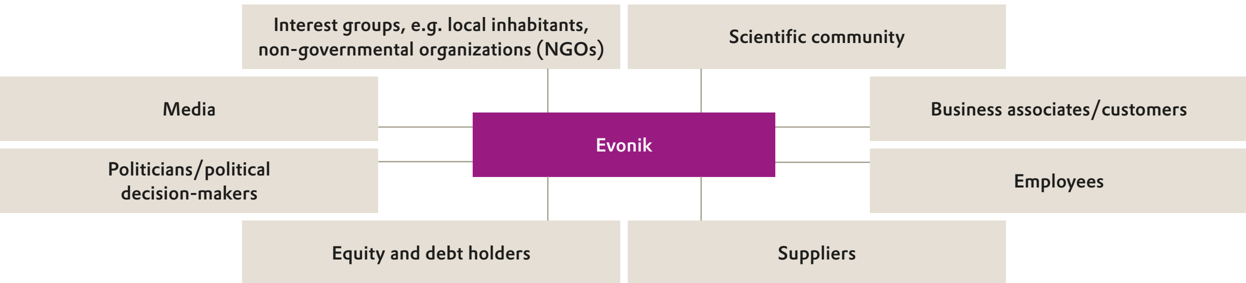
Evonik is well-positioned in leading sustainability indices and ratings

Evonik is included in the sustainability-oriented index families FTSE4Good Global, STOXX® Global ESG Leaders and Euronext Vigeo Eurozone 120. Important sustainability rating agencies such as Oekom Research, Sustainalytics and imug/EIRIS also rank the company among the leaders in the chemical sector.

In 2015 we took part in the assessment for the Dow Jones Sustainability Index (DJSI), which is performed by RobecoSAM. As a result, Evonik was included in the RobecoSAM Sustainability Yearbook 2016 as a Sustainability Leader with the distinction "Silver Class". This was the first time we took part and we gained a place straight away among the top ten of the approximately 70 chemical companies rated worldwide.

This provides further motivation for us to drive forward our sustainability activities. In the mid term, we aim to sharpen our sustainability strategy further, anchor it even more firmly in the company, and improve the transparency of our sustainability performance. Alongside this, our goal is to enhance our good position in relevant ratings and rankings and step up dialogue with significant stakeholder groups.

Evonik's stakeholder groups



5.1 Employees

Slight increase in headcount

At year-end 2015, the Evonik Group had 33,576 employees. The headcount in our continuing operations was 335 higher than at year-end 2014, principally as a result of acquisitions and investment in growth projects in the Resource Efficiency and Nutrition & Care segments. Implementation of the Administration Excellence program to enhance efficiency, some small optimization programs in the chemical segments, and divestment of the remaining carbon black activities had a counter-effect. At year-end 2014, the discontinued operations still contained Evonik Litarion GmbH, Kamenz (Germany), which was divested in April 2015.

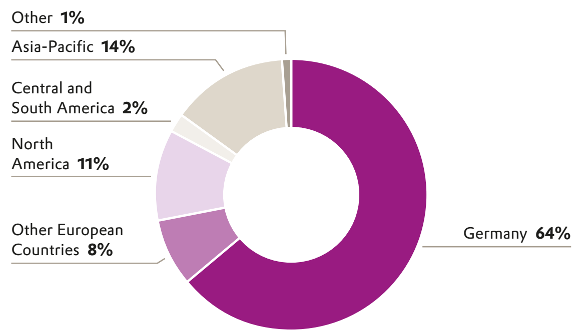
Employees by segment

	Dec. 31, 2015	Dec. 31, 2014
Nutrition & Care	7,165	6,943
Resource Efficiency	8,662	7,835
Performance Materials	4,380	4,353
Services	12,668	13,173
Other operations	701	937
Continuing operations	**33,576**	**33,241**
Discontinued operations	–	171
Evonik	**33,576**	**33,412**

Prior-year figures restated.

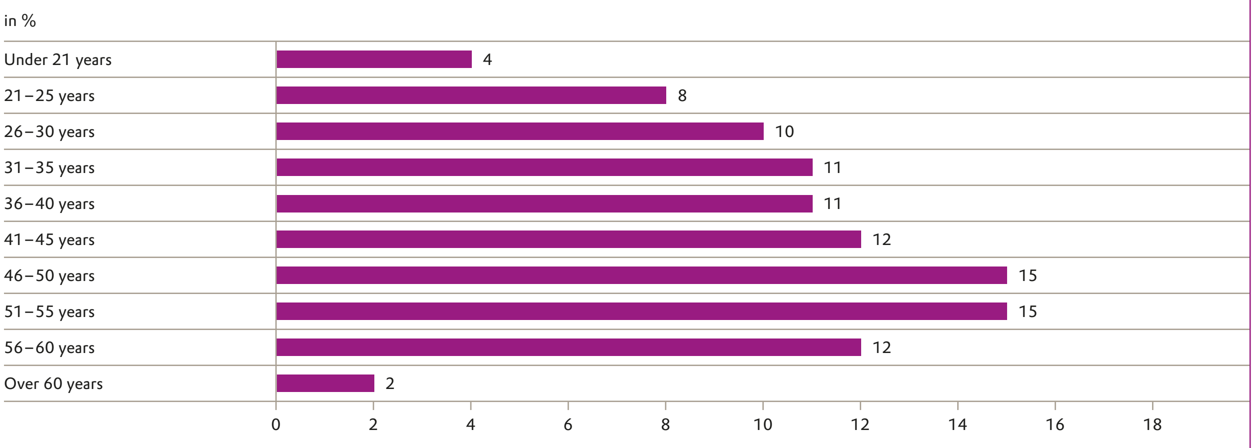
Nearly two-thirds of our workforce is employed in Germany. In line with our global positioning, other focal areas of employment are the Asia-Pacific region (2015: 14 percent) and North America (2015: 11 percent).

Employees by region, continuing operations



Around 24 percent of employees are female (2014: around 24 percent). The age structure is still biased towards the 46+ age group, which accounts for 44 percent of employees (2014: 44 percent). The average age of our employees was 41.7 years in 2015 (2014: 41.6 years).

Age structure in the Evonik Group, continuing operations



Active support for the reorganization of the Group

The strategic reorganization of the management and portfolio structure of the Evonik Group was supported from an early stage in the project by an agreement on key points that subsequently formed the basis for the reconciliation of interests with representatives of the workforce and provided security for the structural changes and safeguarding employment. In all, around 19,000 employees were transferred to the new companies. To secure the operational viability of the new organizational structures, employee representation structures were adjusted, Supervisory Boards were established in accordance with the 1976 Codetermination Act, the new members of our companies were granted the necessary powers, and agreements were concluded in respect of the multi-user sites where there will in future be several or additional Group companies.

Further optimization of the HR organization

The organization of the human resources departments was also adjusted and optimized to reflect the reorganization of the Group. The aim is to continue to provide uniform, effective and efficient human resources services and sustained support for the segments in the attainment of their business targets.

Personnel planning is geared to this goal. In 2015 we successfully established an all-round approach as a basic prerequisite for high-quality and foresighted human resources work that combines strategic and operational personnel planning and sets a uniform standard for the Group. As a consequence of Evonik's historic roots in a large number of separate companies, the HR systems landscape has so far been very diverse. The HR IT strategy now aims to systematically harmonize the systems landscape. Alongside efficient and effective processes, this should ensure greater transparency and measurability of the success of human resources work.

Exemplary leadership is the heart of our HR strategy

Our employees are a key factor in the successful and sustainable implementation of our corporate strategy. As a world-leading specialty chemicals company, innovative strength and entrepreneurship play a central role as drivers that enable us to meet our goals of growth and an increase in efficiency.

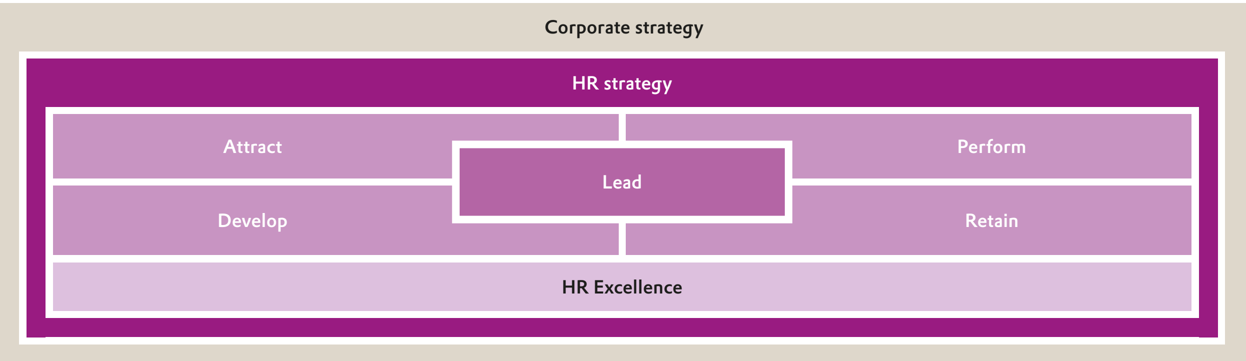
Based on this, our Group-wide human resources strategy is geared to a healthy performance culture, together with dialogue based on partnership and excellence in human resources processes. The strategic focus of our human resources work is on the principles of "Attract", "Develop", "Perform", "Retain", "Lead" and "HR Excellence". Special attention is paid to exemplary leadership because this is the key to the success in the other areas of action.

In our annual strategy review we defined action for these key areas in consultation with the operational business entities and regional organizations, taking into account relevant political and societal developments. The action defined was implemented through projects.

Attract

The focus here is on positioning Evonik globally as a strong employer brand. Alongside conventional and modern recruiting methods, activities include measures to ensure that new employees and executives get off to a good start in the company.

HR strategy



Employer branding—Positioning Evonik as an attractive employer

A strong and uniform global employer brand is an important success factor in the competition to attract the most talented employees and executives. Our promise "Exploring opportunities. Growing together." is an expression of our values as an employer: wide-ranging global development opportunities and team spirit. As part of our employer branding, we use creative and unusual methods to fire passion for Evonik in tomorrow's specialists at an early stage. For example, in 2015 we challenged students at ten universities in Germany to Battle of Brains, a digital quiz that attracted around 1,000 participants. High-quality prizes were awarded to the best three from each university and the winning entrant from each university was invited to attend the Evonik Student Network Day. In addition, around 100,000 impressions of Battle of Brains were registered in various media (including films on YouTube).

A variety of awards and surveys confirm that Evonik is already one of Germany's most attractive employers. For example, in 2015 we ranked third in the chemical and pharmaceutical sector in the employer ranking conducted by the German news magazine FOCUS. In China, Evonik was once again included in the list of the most popular employers published by the Top Employer Institute in 2015.

Modern recruiting tools extended

To build contact to relevant groups of potential employees at an early stage, we engage in selective cooperation with universities and higher education institutes around the world. These are selected in consultation with the relevant specialist departments.

In Germany, for example, we support particularly committed students at 15 universities as part of the German government's "Deutschlandstipendium" program. This includes offering them opportunities for internships and supporting them in the preparation of their dissertations and theses through specific projects at Evonik.

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

In view of the high and growing significance of social media, we have stepped up our activities in this area and further strengthened our presence in such media.

Our global talent recruitment initiative RISE is designed to attract talented external candidates for key positions and management posts. The core element of RISE, apart from suitability for a specific position, is the potential to take on more demanding assignments.

Develop

In this area, we concentrate on targeted development of talented employees. Group-wide we are therefore stepping up structured development opportunities for all employees aligned to requirements. This also lays the foundations for our sustained policy of filling key positions from within the company.

Vocational and further training for present and future specialists

Evonik still recruits specialists from within its own ranks and is committed to supporting their vocational training and ongoing development. This is also an element in meeting our corporate responsibility to society and our workforce. The number of apprentices and, above all, the number of apprentices hired by us at the end of their training will be aligned even more clearly to the personnel requirements of our organizational units in the future.

At year-end 2015, we had around 2,050 apprentices at 17 sites in Germany on more than 40 vocational training courses and combined vocational training and study programs. Around 340 of them were being trained on behalf of other companies. We have around 30 places on the "Start in den Beruf" pre-apprenticeship project, plus about 20 additional places for refugees. About 590 new apprentices started their training at Evonik in 2015. Apprentices accounted for around 9 percent of our workforce in Germany, which is still well above the national average. Overall, we invested some €65 million in vocational training in 2015.

Continuous professional development of our skilled personnel geared specifically to the needs of the company is another core element of our HR activities. A large number of training opportunities are offered through in-house courses and in cooperation with external training partners, either centrally or on a decentralized basis by the segments or individual sites. Focal areas in 2015 were competency management and leadership skills.

Talent management for executives

Evonik is committed to the established practice of filling executive and other key positions principally from within the company. Our talent management identifies, develops and fosters employees with potential across hierarchical levels and functions. Regular planning conferences with the close involvement of the Executive Board focus on development and succession planning for corporate talents and executives.

To ensure continued business-oriented identification and career development for talented employees, in 2015 we aligned our processes and personnel conferences to the management holding structure. Operational and functional units and the Corporate Center discuss key potentials within the Group with the Executive Board, along with the next steps in their development and target functions. Alongside employee development reviews and various panels, we use clearly defined indicators, which are reviewed regularly and were revised in 2015. In 2015 we introduced a new program for top-level development: members of Evonik's top management support personally selected executives in their professional development and act as sparring partners for their future career paths.

Perform

Here the focus is on a healthy performance culture as the basis for the company's success and the personal motivation of every individual employee. Globally, our activities in this area are based on appropriate human resources tools complemented by a wide variety of performance incentives. Fair, performance-related remuneration plays a central role in this, together with the annual performance and development review.

In 2015, personnel expenses, including social security contributions and pension expense, rose 14 percent to €3,121 million[1] as a result of the increase in our headcount and pay rises. Personnel expenses were therefore 23.1 percent of sales (2014: 21.3 percent).

Remuneration—Uniform global evaluation criteria

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

In addition, two years ago we introduced the "Share" employee share program for personnel in Germany, Belgium and the USA. The high participation rate of around 36 percent highlights our employees' confidence in Evonik's business development. In 2015 around 10,000 employees, including apprentices, took part in the "Share" program. They purchased nearly 280,000 shares and were allocated around 95,000 bonus shares through the company's subsidy program.

Pensions form part of overall compensation

Evonik helps employees provide for security after retirement. Different arrangements are offered depending on regional specifics and the conditions prevailing in individual countries. In Germany, Evonik has established a system of company pension plans that provide retirement, disability and surviving dependents' pensions through a reinsured support fund. Mandatory contributions to this fund, supplemented by optional contributions through deferred compensation arrangements, ensure that employees' pension provision extends beyond the level funded by their employer. Employer contributions to pension plans are also an important element of total annual remuneration outside Germany, for example in the USA and some European countries.

Retain

In spite of the necessary change processes a high level of employee retention is achieved through our corporate values and common corporate culture, which foster identification with the company.

Employee fluctuation 2015[a]

	Fluctuation rate in %	No. of employees who left the company
By gender		
Female	5.2	416
Male	4.5	1,133
By age		
Under 30	4.4	295
30 to 50	3.1	537
Over 50	7.7	717
Evonik	**4.7**	**1,549**

[a] Reference base: no. of employees in each category as of December 31, 2014.

Previous reporting base altered in sustainability reports from 2015: instead of unplanned fluctuation, the figure now shows total fluctuation.

[1] See Note 11.2.

Diversity is decisive

We place great emphasis on a good mix of employees to ensure diversity of nationality, gender, educational background and professional experience, as well as a wide-ranging age structure. We specifically support this through activities such as gender networks at our major Germany sites and various events and formats that bring together people, enrich discussions and help build bridges between different cultures and backgrounds. The Evonik WoMentoring initiative entered its second round in 2015. In addition, we again included binding diversity targets in the objectives agreed with our corporate executives.

Our diversity strategy also forms the strategic basis for our resolutions on implementing the new legislation on gender quotas[1], for which the German government set a deadline of September 30, 2015. These resolutions confirm that we will step up the measures already defined and established as part of our diversity strategy to foster women in management positions.

Employee survey—Online only for the first time

In our first fully online employee survey run under the motto "I'm in online" at the end of 2015, around 33,000 employees worldwide were asked for their input to actively shape the future of the Group. The survey included questions about the change process for the ongoing development of Evonik's organizational structure. As a new element, there were specific questions on occupational safety, which is a top priority for Evonik as a specialty chemicals company. The participation rate was an excellent 83.9 percent. In the follow-up process, the results of the survey will be translated into specific improvement measures in 2016.

Work-life balance

Healthy and motivated employees are vital for Evonik's success and an integral part of our corporate responsibility. Our well@work program covers all aspects that maintain and improve the employability and quality of life of our employees. For example, in the area of health management seminars are organized throughout Germany to provide information on a healthy diet, handling stress and appropriate physical exercise. Evonik also offers employees a wide range of sports activities—from yoga to conventional gym classes.[2]

Combining work and family life has also had very high priority for Evonik for years and is part of our overall well@work approach. In 2015 we embarked on a review of our performance in this area in order to uphold our validation by the Hertie Foundation as a family-friendly company. Core elements of our offering include support in child care and flexible worktime models.

At the end of 2015 we also started to revise our regional and country-specific approach to work-life balance.

Lead

In the area of leadership, Evonik builds on a uniform and concrete Group-wide understanding of leadership, centered on a trustful relationship between employees and managers.

To ensure that sincere and effective leadership is a distinctive quality at all Evonik sites, in 2015 we harmonized global training to prepare staff for leadership roles. The aim is to establish high-quality leadership aligned to our corporate culture as a hallmark of Evonik.

Strong leaders are essential for value-oriented management of the company. In 2015 nearly 70 corporate talents therefore once again made a contribution to the housing construction project in Vietnam in collaboration with Habitat for Humanity. As well as direct experience of value-oriented action, they gained inspiration, which they conveyed back into our company. In addition, in 2015 two pilot groups embarked on a program that explores ethical conduct, personal values and their relationship to the working environment. Nearly 30 corporate talents took part in this program in 2015.

[1] See Declaration on corporate governance.
[2] See section on Environment, safety and health.

5.2 Environment, safety and health

Ambitious environmental targets

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

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

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

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

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

In 2015, we made substantial progress in further reducing emissions at all stages in the value chain. A functioning environmental management system is the basis for this. Integrating it into our corporate processes is an ongoing task and an integral part of sustainability management at Evonik. At Evonik, accountability for plants, technical systems, products and processes is therefore assigned to the responsible members of staff, for example, through job descriptions and letters of delegation.

Our binding Group-wide Environment, Safety and Health (ESH) strategy, including a set of rules that has been audited externally, forms the basis for our action. Audits are conducted to monitor implementation by the segments, regions and sites. Alongside many internal audits in operating units, in 2015 we conducted 17 corporate audits. More than 95 percent of our global production is at sites that have been validated as conforming to ISO 14001, an internationally recognized environmental management standard.

Safety as a management task

We take our responsibility in the field of safety particularly seriously—during production and while shipping products to our customers. Our objective is to protect our employees and local residents, as well as the environment, against any potential negative impact of our activities. The Group-wide "Safety at Evonik" initiative introduced in 2014 has become firmly established as an ongoing process to develop our safety culture and a fundamental management approach to all aspects of occupational and traffic safety. Our guiding principles for safety and our safety culture provide a structure and guidance for our corporate targets and activities. Binding principles are applicable for all employees, from local personnel to our management, and provide clear and measurable guidance for their personal conduct and leadership.

Reduction in accident frequency

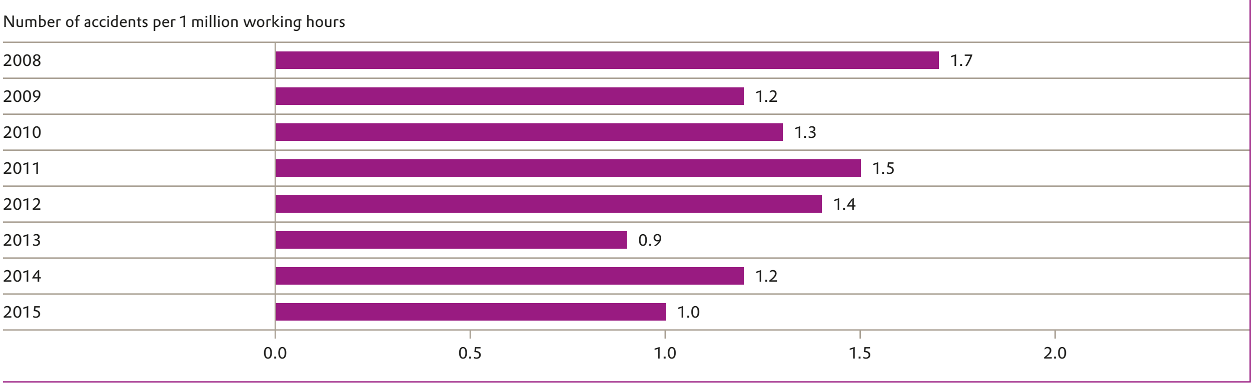
A special focus of our initiative is the safety of our employees—both at work and on the way to and from work—and the safety of contractors working at our sites. In 2015, we registered a further improvement in the **accident frequency indicator**[3] for our continuing operations to 1.0, compared with 1.2 in the previous year. This indicator has now been stable for several years at our long-term strategic goal of around 1.0. The accident frequency rate was well below the target of a maximum of 1.3 defined for 2015.

There were no fatal accidents at work involving our employees or contractors at our sites in 2015, nor were there any fatal traffic accidents involving employees on the way to and from work or on business trips.

The accident frequency indicator for contractors (number of work-related accidents involving non-Evonik employees resulting in absence from work per 1 million working hours) dropped back to 2.9 (2014: 3.6). We attribute this positive result to the steps taken to improve our contractor management principles in 2014. The processes to improve the monitoring and evaluation of contractors were implemented at all major German sites in 2015 and are now having an effect. A standard has also been drawn up for our international sites and will be implemented in 2016.

[1] Energy- and process-related emissions as defined by the Greenhouse Gas Protocol.
[2] Excluding site-specific factors in the use of surface water or groundwater.
[3] Number of accidents involving Evonik employees and contractors' employees under Evonik's direct supervision per 1 million working hours.

Accident frequency indicator



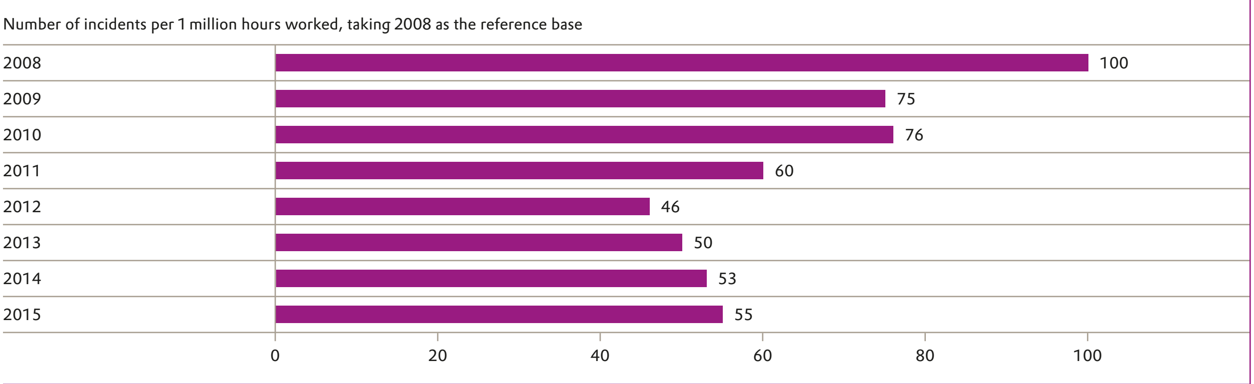
Incident frequency did not meet our target

Process safety at our plants is another focus of our initiative. The concepts to prevent fire and the release of hazardous substances are regularly analyzed in detail. The aim is timely identification of risks so we can develop appropriate measures that reliably prevent these risks. We monitor and evaluate plant safety using the **incident frequency indicator**[1], which covers incidents involving the release of substances, fire or explosion, even if there is little or no damage (process safety performance indicator defined by the European Chemical Industry Council, Cefic). This indicator deteriorated slightly to 55 points in 2015 (2014: 53), so we did not meet our target of maximum 48 points. The difference was attributable to one segment and individual sites and measures have already been taken to counter the situation.

Another common indicator of plant safety is also used in external comparisons. This is defined as the number of incidents per 1 million hours worked by all employees in the Group. Evonik's performance rated by this indicator was 1.3.

To ensure that our safety concepts to prevent the release of substances, fire and explosion meet uniformly high safety standards throughout the world, they are developed with the involvement of selected and experienced safety experts, who are assigned to our Global Process Safety Competence Center (GPSC) and form the Global Safety Expert Network led by the GPSC.

Incident frequency indicator



[1] Number of incidents per 1 million hours worked in the production facilities operated by the segments, taking 2008 as the reference base (expressed in percentage points: 2008 = 100).

High standard of climate reporting established

Potential to grow our business can be leveraged by systematic realignment of our portfolio of products and services, taking global megatrends into account. For Evonik, these include global climate change. We have a large number of innovative products that improve energy efficiency at subsequent stages in the value chain and therefore make an important contribution to reducing the use of resources and cutting emissions. Our lubricant and fuel additives are a good example. Hydraulic fluids containing our DYNAVIS® additives can increase the productivity of excavators by up to 30 percent and at the same time cut fuel consumption by up to 30 percent. Companies that are interested can calculate the exact savings for themselves using a special calculator on the DYNAVIS® website. Maximum comparability based on complete transparency is essential to make sustainable business activities measurable and traceable.

The Carbon Disclosure Project is currently the world's largest and most important initiative by the financial sector on climate change, bringing together more than 800 institutional investors with combined assets under management of over US$95 trillion.

This project examines all aspects of corporate policy and how it is put into practice in business. It covers both the completeness of reporting and the quality of the information relating to actual climate performance. In 2015, Evonik was able to improve on its very good results for 2014 (91/B). With a ranking of 98/B, Evonik once again did significantly better than the average of 72/C for the participating MDAX companies.

Lower CO_2 emissions[1]

CO_2 emissions declined slightly from 8.8 million metric tons in 2014 to 8.7 million metric tons in 2015 although output increased from 10.3 million metric tons to 10.4 million metric tons in this period. The decline in emissions was mainly due to implementation of specific measures to raise energy efficiency, an altered energy mix in Marl (Germany) as a result of lower availability of the coal-fired power plants due to maintenance shut-downs, and the divestment of the remaining carbon black activities in China. The 30 facilities operated by Evonik that fall within the scope of the European Union's Emissions Trading System (EU ETS) emitted 4.0 million metric tons of CO_2 in 2015. The reduction of 0.2 million metric tons compared with 2014 was mainly due to temporary reductions in coal-based energy generation and lower utilization of the hydrogen plant in Marl.

Environmental protection investment and operating costs

We invested €43 million in 2015 to achieve a further improvement in environmental protection. This comprised capital expenditures for investment projects undertaken in 2015 such as the expansion of capacity for specialty silicas in Ako (Japan), a large number of individual investments in effective end-of-pipe technologies, and environmental protection measures integrated into plants and processes. The high prior-year figure of €107 million was dominated by the start-up of major strategic investment projects in the Asian region. These included, in particular, the new methionine complex in Singapore and the new production facilities for isophorone and isophorone diamine in Shanghai (China).

Operating costs for environmental protection facilities rose considerably to €283 million in 2015 (2014: €259 million), principally due to the start-up of methionine production and the use of the environmental protection facilities at the site in Singapore.

Health management and contingency planning go hand-in-hand

To fulfill our responsibility to our employees, we have a wide range of measures to protect and maintain their health. These have a firm place in our Group-wide well@work program.[2]

Evonik's workplace health protection and promotion 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 devoted to different aspects and the company offers voluntary preventive measures. In 2015, for example, campaigns aimed at preventing colorectal cancer were run at many of our sites.

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 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.

1 Direct CO_2 emissions (Scope 1 emissions under the Greenhouse Gas Protocol) come from energy generation and production. Indirect CO_2 emissions come from purchased energy (Scope 2 emissions).

2 See also the section on Employees.

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's Group-wide internal opportunity and risk management (referred to generically as risk management in this section) forms a central element in the management of the company. Our risk detection system meets the requirements for publicly listed companies. The aims are to identify opportunities and risks as early as possible and to define measures to counter and minimize any risks and utilize opportunities. That includes risks which could jeopardize the future of the company. We only enter into entrepreneurial risks if we are convinced that in this way we can generate a sustained rise in the value of the company and, at the same time, permanently limit possible negative implications.

Structure and organization of risk management

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

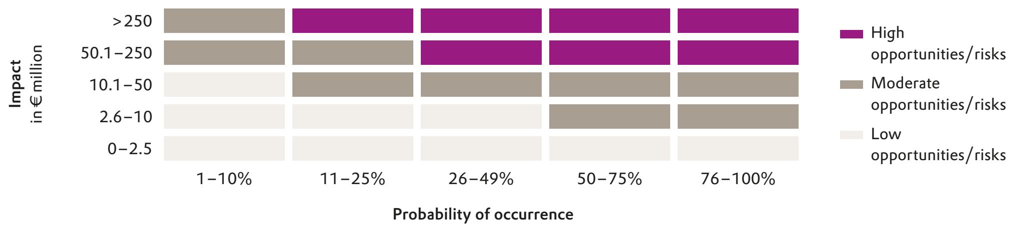
The segments, corporate divisions and service units bear prime responsibility for risk management. That comprises early identification of risks, estimating their implications, introducing suitable preventive and control measures and the related internal communication. Risk coordinators in the organizational units are responsible for agreeing on the relevant risk management activities. Risk management is therefore a key element in various management and decision-making processes (for example, controlling processes) at all levels in the Group. It includes strategic and operational planning, the preparation of investment decisions, projections, and timely and systematic reporting of risks.

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

In 2015, the companies included in our risk management system were identical to those in the scope of consolidation for the financial statements. At companies where we do not exert a controlling influence, we implement our risk management requirements primarily through our presence in management and supervisory bodies. Corporate Audit monitors risk management in our organizational units to make sure they comply with statutory and internal requirements and to ensure continuous improvement of risk management. The system used to identify emerging risks is included in the annual audit in compliance with the requirements for listed companies. This audit showed that Evonik's risk detection system is suitable for timely identification of risks that could pose a threat to the company's survival.

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

Opportunity/risk matrix



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

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

The management of risks and opportunities is based on their potential impact and probability of occurrence. All high risks are classified as material individual risks, as are moderate risks with an expected value of over €10 million in the mid term. The expected value is used exclusively as a basis for prioritization and to focus reporting on key issues.

7.2 Overall assessment of opportunities and risks

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

For 2015 we expected slightly more risks than opportunities. However, some major opportunities were realized during the year, resulting in a substantial increase in earnings, especially in the Nutrition & Care and Resource Efficiency segments. By contrast, the development of the Performance Materials segment was characterized by considerably more risks than opportunities. Key factors relating to the risk categories were the macro-economic environment and the specific market and competitive situation, especially in the markets for amino acids and C_4 chemicals. From the present standpoint, the risks for 2016 outweigh the potential opportunities, which are around the same level as last year.

Sections 7.3 and 7.4 present the opportunities and risks in each category in descending order of significance for the Evonik Group. Except where otherwise indicated, they apply for all segments.

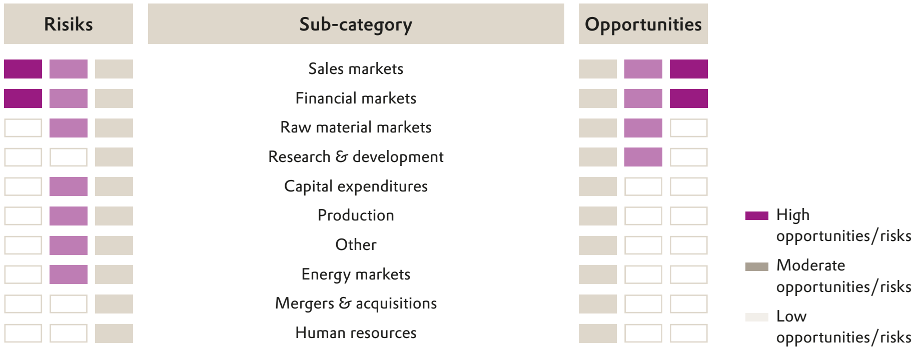
7.3 Planning/market risks and opportunities

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

1. Sales markets

The macro-economic environment is particularly relevant for an assessment of opportunities and risks. This applies both to the development of the global economy and to economic trends in specific regions such as Europe, China and other growth markets. There are also risks associated with geopolitical conflicts in some regions and countries.

Opportunity and risk classes within the planning/market category



Alongside the general demand situation, intensive competition in the various market segments harbors both opportunities and risks. In particular, competitors in low-wage countries increase competitive pressure through new capacities and aggressive pricing policies that can impair our selling prices and volume trends. To counter this we are broadening our foreign production base and gaining access to new markets in high-growth regions such as Asia and South America. 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 extending the services offered along the value chain. We are constantly developing attractive and competitive new products and technologies to mitigate the risk that chemical products could be replaced by new, improved or less expensive materials or technologies. Opportunities arise for our business from unmet demand in individual markets, for example if our competitors are unable to bring planned new capacity into service on schedule.

The specific market development for individual business activities is another focus in the assessment of opportunities and risks. This relates to both demand from specific markets and the competitive situation in various industries. Changes in demand can impact our business volume and sales. We address these risks proactively through permanent market monitoring, activities to retain customers and gain new accounts, and timely endeavors to develop innovative new applications and enter new markets. In principle, these opportunities and risks may affect all segments, but they are particularly relevant for the Nutrition & Care and Performance Materials segments. One potential risk factor for our amino acids business, for example in Asia, is the possible impact of substandard food quality and food safety, especially due to bird flu. We utilize opportunities for profitable future growth by gaining access to new markets as part of our strategic development. One attractive market for our portfolio of feed additives is aquaculture, for which we have developed innovative products. As a result of global population growth, rising affluence in emerging markets and overfishing of the world's oceans, the global aquaculture market is growing faster than other areas of livestock farming.

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

2. Financial markets

On the financial markets, the company is exposed to risks and opportunities associated with prices and to liquidity and default risks. Price-related opportunities and risks result from changes in exchange rates, interest rates and other prices. Liquidity risks relate to the ability of the company to meet its payment obligations, while default risks entail the risk of a loss if a debtor is fully or partially unable to meet its payment commitments.

Minimizing these risks is an important objective of our corporate policy. Group-wide policies and principles specify that all material financial risk positions have to be identified and evaluated. The risks are limited through selective use of derivative and non-derivative financial instruments, taking the cost/benefit profile into account. This may include the use of options for hedging purposes. For financial risk management purposes, Evonik applies the principle of separation of front office, risk controlling and back office functions and takes as its guide the banking-specific "Minimum Requirements for Risk Management" (MaRisk) and the requirements of the German legislation on corporate control and transparency (KonTraG). Binding trading limits, responsibilities and controls are thus set in accordance with recognized best practices. This forms the basis for selective hedging to limit risks.

The risks and opportunities associated with interest rates and exchange rates are managed centrally by the Finance Division of Evonik Industries AG, which also issues instructions on the management of liquidity and default risks. Financial derivatives[1] are used exclusively to reduce the risks resulting from operating and financing activities and therefore always relate to corresponding underlying transactions. Use of financial instruments for speculation is not permitted.

Forward exchange contracts, currency swaps and cross-currency interest rate swaps are used to manage currency risks. When setting interest terms, we pay attention to careful structuring of the fixed-to-floating interest ratio; interest rate swaps can be used to optimize the situation. Commodity swaps are used to hedge the risk of fluctuations in the price of coal, natural gas and petrochemical feedstocks. We also use forward contracts to secure the procurement of emissions allowances to meet statutory obligations.

A considerable portion of the Evonik Group's financial assets and liabilities and its sales are 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 planned, firmly agreed or recognized on the balance sheet as receivables and liabilities and are not denominated in the functional currency of the respective company are exposed to the opportunities and risks of changes in exchange rates. Risk positions resulting from trade accounts receivable and payable in foreign currencies are normally bundled and offset through intragroup hedging. The remaining net risk exposure is then fully hedged through currency derivatives. Cash pool positions and time deposits in foreign currencies are hedged analogously. Unlike these portfolio hedges, micro-hedges are concluded for non-current loans and for planned and firmly agreed foreign currency payments (for example, planned foreign currency sales, where the aim is to hedge 65 percent of the identified exchange rate risk, and exchange rate risks relating to planned investments). When hedging planned and firmly agreed risk positions with financial instruments, hedge accounting is used to synchronize the earnings effects of the recognized hedging instruments with those of the off-balance-sheet hedged items.

Evonik manages the opportunities and risks resulting from changes in interest rates in 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 therefore had no material exposure to changes in interest rates.

Changes in interest rates can have a significant influence on the present value of our pension obligations[2] and thus entail both risks and opportunities for the Group.

We use scenario analyses[3] to assess the possible impact of opportunities and risks relating to currencies and interest rates. In view of the rising importance of regions outside the euro zone, exchange rate risks and opportunities will increase in the long term.

Other price risks relating to the financial markets come mainly from investments in companies that are listed on the stock exchange, which IAS 39 specifies have to be recognized on the balance sheet at their stock market value. Since Evonik does not generally undertake such investments with a view to short-term purchase or sale, the unrealized changes in market value are only recognized in the income statement if they represent a significant or long-term loss of value. Otherwise, they are recognized as changes in equity with no impact on profit or loss until such gains or losses are realized through sale of the investment.

At the heart of Evonik's central liquidity risk management[3] is a Group-wide cash pool. In addition, the Group's financial independence is secured through a broadly diversified financing structure.

[1] Further details of the financial derivatives used and their recognition and valuation can be found in Note 10.2 to the consolidated financial statements.
[2] See Note 4 (e).
[3] 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.

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. Limits are set for each counterparty on the basis of internal or rating-based creditworthiness analyses.

Market opportunities and risks, and liquidity and default risks relating to financial instruments also arise from the management of our pension plan assets. Here, we take an active approach to risk management, which is combined with detailed risk controlling. Strategic management of the portfolios takes place via regular active/passive studies. To minimize risk, we use a range of derivative hedging strategies where appropriate. The broad diversification of asset classes, portfolio sizes and asset managers avoids cluster risks. However, unavoidable residual risks may remain in the individual investments.

Goodwill from business combinations is allocated to the segments. An impairment test is conducted annually for these reporting segments. Impairment losses on these intangible assets can result from a change in reporting structure, the weighted average cost of capital and, above all, lower cash flow expectations.

3. Raw material markets

For our business operations we require both high-volume commodities and smaller amounts of strategically relevant raw materials that have to meet highly demanding specifications. Across the entire spectrum of raw materials, Evonik is confronted with opportunities and risks relating to the increasing volatility of the availability of raw materials and their prices. Another risk may arise from single-source situations, although the extent of such risks is limited.

The operating business is dependent on the price of strategic raw materials, especially petrochemical feedstocks obtained directly or indirectly from crude oil. The price of crude oil therefore has a considerable influence on both the procurement prices of raw materials further down the value chain and energy costs. The price of renewable raw materials is also highly volatile and depends, among other things, on harvest conditions. Another factor influencing price risks is changes in exchange rates.

Some procurement risks are hedged by optimizing global procurement activities, for example, by accessing new markets for raw materials and concluding market-oriented agreements. The overriding aim of the procurement strategy is to secure the availability of raw materials on the best possible terms.

To further reduce the risks with regard to products that have intensive raw material requirements, our aim is to align the procurement and sales sides in order to pass fluctuations in raw material prices along to other stages in the value chain where necessary, for example through price escalation clauses. The sharp drop in the oil price in the past two years has made a significant contribution to reducing the cost of procuring raw materials.

Short- and mid-term bottlenecks in the availability of precursors and intermediates are also potential risks. We alleviate these where necessary by substituting suppliers. We constantly observe the business performance of suppliers of selected key raw materials to anticipate bottlenecks and avoid risks. 2015 was characterized to an usual extent by outages in the supply chain resulting from force majeure. Such events can generally be overcome by taking suitable steps in cooperation with the suppliers affected and alternative suppliers.

Rising volatility will require increased management of the various supply chain risks in the future.

Aspects such as safety, health, environmental protection, corporate responsibility and quality have a firm place in our procurement strategy. These sustainability aspects are also supported by standardized global assessments through the Together for Sustainability (TfS) sector initiative, which was co-founded by Evonik. Evonik's principal suppliers and the majority of critical suppliers have already taken part in these assessments, which are evaluated by EcoVadis, an impartial sustainability rating company.

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

4. Research & development

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

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Further opportunities are being generated by the increasing involvement of external partners (open innovation). We cooperate with research institutes and universities to ensure rapid translation of the latest research findings into our company. We also work with start-ups and other industrial companies to facilitate solutions at all stages in the value chain that set us apart from our competitors.

Through our venture capital program, we take stakes in companies whose know-how can support us in joint developments.

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

5. Investments

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

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

In addition, in emerging markets there is rising demand from the affluent middle class for personal care products and cosmetics. China and Brazil are important growth markets for personal care products because of their size and momentum. Evonik wants to participate in this growth through new local production capacities.

The resource efficiency megatrend is the basis for a large number of energy-efficient and environment-friendly products from Evonik. One example is precipitated silica, where we are a market leader. Combining these silicas with silanes allows the manufacture of tires with considerably lower rolling resistance than conventional auto tires, resulting in fuel savings of up to 8 percent. Here, future growth will be supported, among other factors, by the introduction of tire labeling regulations in further countries, for example in Brazil in 2016. To utilize the resultant opportunities, we are increasing our capacity for silica. A new production facility is therefore currently under construction in Americana (Brazil). This will be the first local producer of highly dispersible silica (HD silica) specifically for the South American tire industry. In South America the market for tires with low rolling resistance, and thus for HD silica, is growing far faster than the market for normal auto tires.

The investments described above are included in our mid-term planning. Delayed realization or abandonment of investment projects, for example because of the political situation in certain countries, would adversely affect planned growth and, in extreme situations, could result in impairment losses and the associated write-downs on facilities or plants under construction. By contrast, new projects could result in additional earnings in some areas.

6. Production

As a specialty chemicals company, Evonik is exposed to the 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. Nevertheless, there is a risk of unforeseeable individual incidents.

7. Other

To increase scope for growth and innovations, we are working steadily to improve our cost position, especially through the On Track 2.0 and Administration Excellence programs. Beside the potential to raise strategic flexibility and strengthen the operating units as a result of these programs and other restructuring projects, there are risks relating to their implementation. These include the risk of failing to meet the ambitious timelines, a loss of personnel with key expertise, failure to meet financial targets, and higher restructuring costs. Stringent project management, including involving relevant stakeholders, is used to counter these risks.

8. Energy markets

Evonik requires considerable amounts of energy from a wide variety of sources for its chemical facilities and infrastructure. The main sources are natural gas, coal and electricity. Oil only plays a subordinate role in Evonik's energy mix. At several major sites, Evonik generates some of its electricity requirements itself in resource-efficient co-generation plants. In 2015, we constantly monitored the trend on national and international energy markets, enabling us to respond cost-consciously.

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

A further significant drop in the price of oil and coal in the second half of 2015 and high supply on the global gas markets have led to a drop in electricity and natural gas prices, which has also been felt in Germany and Central Europe. Nevertheless, natural gas prices at Evonik's sites in Europe and Asia are still far higher than in the USA and Canada.

Risks could also arise from the continued rise in the price of emission allowances. In 2015, there was a largely uninterrupted upward trend in the price of allowances in European emissions trading, unlike the situation for primary and secondary energy sources. Looking at the regulatory environment, it remains to be seen which rulings will be applied in Germany after 2017 to allocate the cost of renewables among captive energy generators.

Overall, we are exposed to fluctuations in the market price and cost of various energy sources as a result of the specific demand/supply situation and political events. These entail both opportunities and risks.

9. Mergers & acquisitions

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

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

10. Human resources

Qualified specialists and managers are the basis for the achievement of our strategic and operational targets and thus a key competitive factor.

Both the loss of key personnel and difficulties in attracting and hiring skilled and talented staff could therefore constitute a risk in this context.

To ensure that we can recruit and retain qualified staff to meet our future requirements, we offer attractive employment opportunities worldwide, systematic personnel development, and competitive remuneration. In this way, we retain and foster high-performers and talented employees, and position Evonik as an attractive employer for prospective staff. We also maintain close links to universities and professional associations to help us recruit suitable youngsters. Both our employer branding and many internal activities are aligned to diversity. The aim is to make Evonik even more attractive to talented specialists and managers. Strategic human resources planning identifies requirements for a five-year period so timely steps can be taken to cover future personnel needs. We have thus largely limited potential human resources risks.

Opportunities and risks for the development of personnel expenses could come, for example, from future collective agreements.

7.4 Legal/compliance risks and opportunities

The opportunities and risks in this category are far more difficult to quantify than planning/market risks, as they not only have financial implications but often also involve reputational risks for the company and/or criminal law consequences. Provisions are set up on our balance sheet to cover the financial impact. These are reflected in our system as reducing risk. In view of this complexity, legal/compliance opportunities and risks are not normally assigned to the opportunity/risk matrix illustrated above, nor are they allocated to the risk quantification classes. Major opportunities and risks for the Group's earnings naturally arise from issues that result in the reversal of or an increase in provisions.

1. Law, regulatory framework and compliance

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

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

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

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

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

In connection with the divestment of its former energy activities, Evonik gave the purchaser various indemnities 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 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 now pending between the project company and the general contractor.

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

Following a fine imposed by the EU Commission in 2002 on various methionine producers (including Evonik), the Brazilian antitrust authorities have filed proceedings against Evonik in connection with the delivery of methionine to Brazil. Evonik is of the opinion that a fine cannot be imposed due to the statute of limitations.

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

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

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

Compliance means lawful and ethically correct business conduct. All employees are subject to the binding regulations on fair treatment of each other and of business partners set out in our Code of Conduct. Risks could therefore result from failure to comply with the corresponding regulations.[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.

2. Risks relating to the protection of intellectual property and know-how

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

Measures to minimize and avoid such risks are coordinated by the Corporate Security Division and the Intellectual Property Management unit. The Corporate Security Division has Group-wide responsibility for protecting Evonik's employees, facilities, shipments and know-how. That includes, for example, the threat of violence, political unrest, sabotage and industrial espionage. Intellectual Property Management provides Group-wide support for the development, protection, strategic use and commercialization of intellectual property, for instance through patents and brands. The approximately 150 employees in this unit are assisted by a global network of correspondent lawyers.

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

Evonik is exposed to risks in the fields of plant safety, product safety, occupational safety and failure to comply with environmental regulations. Group-wide policies on the environment, health and safety, and worldwide initiatives taken by the Group and the segments to steadily improve safety in our 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, the Group-wide environment and safety management system, which is validated as conforming to international standards, undergoes constant development and improvement. As a responsible chemical company, Evonik ensures that such processes are operated in accordance with the principles of the global Responsible Care initiative and the UN Global Compact.

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

7.5 Process/organization risks

1. General

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

[1] The Corporate Governance Report is contained in this annual report on page 56.

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

2. Internal control system for financial accounting

The main financial reporting risks are identified in the ICS through a quantitative and a qualitative analysis. Controls are defined for each risk area of the accounting process. Their efficacy is 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. The majority of companies have delegated the preparation of their financial statements to Financial Services. Through systematic process orientation, standardization and the utilization of economies of scale, this leverages sustained cost benefits and also improves the quality of accounting. Financial Services has developed a standardized control matrix for the internal control system for financial accounting. This is already applied to all Group companies in Germany for which Financial Services is responsible. Following successful introduction of the control matrix at the major operating companies in China, Southeast Asia and, in the course of 2015, the USA and Belgium, it will 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 more than 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 enables 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 allows close meshing of risk management with controlling and accounting processes.

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

Structure of issued capital

The capital stock of Evonik Industries AG is €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

In connection with Evonik's employee share programs, there are restrictions on the ability of participating employees to dispose of their shares for a certain time period. In particular, they are required to hold their shares in each case until the end of the next-but-one calendar year after the year of allocation.

The Executive Board is not aware of any other restrictions on voting rights or the transfer of shares.

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 the shareholder structure. In compliance with Section 160 Paragraph 1 No. 8 of the German Stock Corporation Act (AktG), the notes to the financial statements of Evonik Industries AG contain an overview of all voting rights notifications submitted to the company.

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.

As of December 31, 2015, the Executive Board had only received notification of one direct shareholding exceeding 10 percent of the voting rights: RAG-Stiftung holds 67.91 percent of the company's shares.

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

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.

Changes to the Articles of Incorporation are normally resolved by the Annual Shareholders' Meeting. Section 20 Paragraph 2 of the Articles of Incorporation states that, unless mandatory provisions require otherwise, resolutions shall be adopted by a simple majority of the votes cast and—unless, besides a majority of the votes, a majority of the capital is required by law—by a simple majority of the capital stock represented.

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. A simple majority vote is sufficient.

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 53 a AktG), the purchase may take place via the stock exchange or via a public offer 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 53 a AktG) must also be taken into account.

The Annual Shareholders' Meeting on May 20, 2014 adopted an amendment to Section 4 Paragraph 6 of the Articles of Incorporation authorizing the Executive Board until May 1, 2019, subject to the approval of the Supervisory Board, to increase the company's capital stock by up to €116,500,000 (Authorized Capital 2014).

This authorization may be exercised through one or more issuances.

The new shares may be issued against cash and/or contributions in kind. The Executive Board is authorized, subject to the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights when issuing new shares in the following cases:

- capital increases against contributions in kind
- if the capital increase is against cash and the proportionate share of the capital stock attributable to the new shares does not exceed 10 percent of the capital stock, and the issue price of the new shares is not significantly below the stock market price of shares already listed on the stock exchange
- to exclude fractional amounts arising from the subscription ratio
- insofar as is necessary to grant holders and/or creditors of warrants or conversion rights or obligors of warrant and/or conversion obligations subscription rights to new shares to the extent that they would be entitled to them after exercise of their warrants and/or conversion rights or fulfillment of their warrant or conversion obligations
- to grant shares to employees (employee stock), provided that the new shares for which subscription rights are excluded do not in aggregate account for a proportionate share of the capital stock in excess of 1 percent
- for the execution of a scrip dividend.

The proportionate amount of the capital stock attributable to the shares for which subscription rights are excluded, together with the proportionate amount of the capital stock attributable to treasury stock or to conversion and/or warrant rights or obligations arising from debt instruments, which are sold or issued after May 20, 2014 under exclusion of subscription rights, may not exceed 20 percent of the capital stock. If the sale or issue takes place in application—analogously or mutatis mutandis—of Section 186 Paragraph 3 Sentence 4 of the German Stock Corporation Act (AktG), this shall also be deemed to constitute exclusion of subscription rights.

The Executive Board is authorized, subject to the approval of the Supervisory Board, to define further details of capital increases out of the Authorized Capital 2014. The authorized capital has not yet been utilized.

In connection with the authorization of May 20, 2014 to issue convertible and/or warrant bonds with a nominal value of up to €1.25 billion up to May 1, 2019, the capital stock is conditionally increased by a further €37,280,000 (Conditional Capital 2014).

The conditional capital increase will only be conducted insofar as holders or creditors of warrant or conversion rights or obligors of warrant or conversion obligations arising from warrant bonds and/or convertible bonds issued or guaranteed on the basis of the authorization resolved at the Annual Shareholders' Meeting of May 20, 2014, exercise their warrants or conversion rights or, insofar as they have an obligation to exercise the warrants or conversion obligations, meet the obligation to exercise the warrant or conversion obligations and other forms of settlement are not used.

The new shares are entitled to a dividend from the start of the fiscal year in which they are issued.

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

Evonik Industries AG 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, 2015. 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)).
- The company has a debt issuance program to place bonds with a total volume of up to €3 billion. By December 31, 2015 two bonds with a total nominal value of €1.25 billion 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.

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 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 employees is calculated immediately and paid into their salary account with their next regular salary payment. 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 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 at www.evonik.com/declaration-on-corporate-governance.

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

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 complies with the German Commercial Code (HGB), including the principles set out in German Accounting Standard No. 17 (DRS 17), the International Financial Reporting Standards (IFRS), and the requirements of the German Corporate Governance Code.

10.1 Remuneration of the Executive Board

Changes on the Executive Board

The appointment of Mr. Patrik Wohlhauser ended on June 30, 2015 with his resignation from the Executive Board. At its meeting on June 25, 2015, the Supervisory Board appointed Dr. Ralph Sven Kaufmann to the Executive Board as Chief Operating Officer for three years from July 1, 2015. At its meeting on September 24, 2015, the Supervisory Board extended the appointment of Mr. Thomas Wessel as Chief Human Resources Officer for a further five years until August 31, 2021.

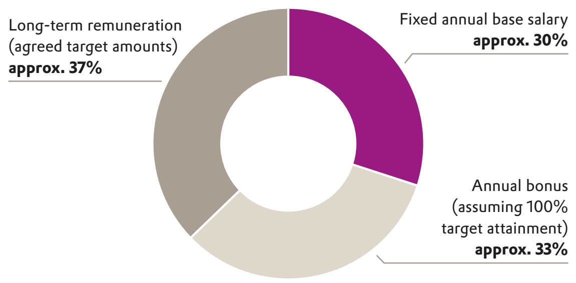
Principles and objectives

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 structure of the remuneration system for the members of the Executive Board of Evonik Industries AG is geared to sustained value creation and performance-oriented management of the company. It comprises a fixed monthly base salary, which takes account of the tasks and services performed by the respective member, and a variable short-term component comprising an annual bonus which is dependent on the attainment of annual performance targets. This is supplemented by a long-term component linked directly to the increase in the value of the company as an incentive for sustained commitment to the company, and the customary fringe benefits.

The remuneration is reviewed regularly by the Supervisory Board, where appropriate 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 external review of the remuneration system for appropriateness was in September 2015. Following this review, it was decided that from January 1, 2016 the fixed annual base salary should be increased by €150 thousand for the Chairman of the Executive Board and by €100 thousand for all other Executive Board members.

The chart shows the breakdown of the main remuneration components in 2015, i.e. excluding benefits in kind, other fringe benefits and company pension plans.

Structure of remuneration of members of the Executive Board[a]



[a] Excluding fringe benefits and retirement pensions.

Performance-unrelated components

Fixed annual base salary

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

Benefits in kind and other fringe benefits

As benefits in kind and other fringe benefits, members of the Executive Board receive, in particular, a company car with a driver, the installation of telecommunications equipment, and an entitlement to an annual medical check-up. Executive Board members may receive a rent subsidy if performance of their duties requires them to rent a second apartment. Benefits in kind are presented in this remuneration report at the values defined in the tax regulations.

Further, members of the Executive Board may receive additional remuneration for offices at Group companies that they hold in the interests of Evonik. Apart from fees for the attendance of meetings, insofar as such fees are paid to Executive Board members, such payments are deducted from their annual bonus or paid over to the company. In this remuneration report, remuneration for offices held in the interests of the company is included in other fringe benefits.

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 agreed business targets, and may be between 0 and 200 percent. ROCE, adjusted net income and adjusted EBITDA are defined as business targets. The ROCE target is measured against the mid-term cost of capital, the net income target is derived from a comparison with the prior year, and the EBITDA target is derived from corporate planning. The company's accident performance in the financial year (number and severity of accidents compared with the previous year) also has an influence.

The performance factor rewards the attainment of the personal objectives and can vary between 80 percent and 120 percent. The reference indicators are aligned individually to the performance objectives for each member of the Executive Board and normally have a multi-year context within the target-setting framework.

If the personal and business targets are achieved in full, 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 in writing at the start of each fiscal year between the Supervisory Board and each member of the Executive Board and the level of attainment is determined by the Supervisory Board after the end of the year.

Long-term variable remuneration (LTI)

The members of the Executive Board receive long-term variable remuneration in the form of Long-Term Incentive (LTI) Plans. Following Evonik's stock exchange listing, the structure of the LTI Plans was redefined as from the 2013 tranche. The general reference base for **long-term remuneration** is a sustained rise in the value of the company.

LTI tranches 2010 through 2012

The tranches 2010 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 target attainment 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 last 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 2010 through 2012, they did not meet the definition of share-based payment pursuant to DRS 17.9 until Evonik Industries AG was listed on the stock exchange. Consequently, they were not classified as share-based payments. 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 a share-based payment. In accordance with DRS 17, the LTI tranches 2010 through 2012 are therefore regarded as granted as of this date and treated as share-based payments. The fair value of each tranche as of the date of the legally binding commitment was calculated.

LTI tranches 2013 and subsequent years

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 the tranches 2010 through 2012. Performance is now 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 the 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 average share price at the end of the performance period, including any dividends per share actually paid in this period. This is 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 is above 130 percentage points, the relative performance factor is set at 130.

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 on a one-off basis 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 values of the LTI tranches 2010 through 2015 as of the date of the legally binding commitment are shown in the next table:

LTI tranches

	2010[a]	2011[a]	2012[a]	2013[b]		2014[b]		**2015[b]**	
	in €'000	in €'000	in €'000	No. of virtual shares	in €'000	No. of virtual shares	in €'000	No. of virtual shares	in €'000
Dr. Klaus Engel	478	479	495	43,133	1,028	45,208	1,023	47,510	1,488
Dr. Ralph Sven Kaufmann	–	–	–	–	–	–	–	14,253	447
Christian Kullmann	–	–	–	–	–	13,562	307	28,506	893
Thomas Wessel	–	96	297	25,880	617	27,125	614	28,506	893
Patrik Wohlhauser	–	216	297	25,880	617	27,125	614	28,506	893
Ute Wolf	–	–	–	6,470	154	27,125	614	28,506	893
Total	**478**	**791**	**1,089**	**101,363**	**2,416**	**140,145**	**3,172**	**175,787**	**5,507**

[a] No details are given of other share-based payments 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 2015 was €4,753 thousand. The breakdown of the expense was as follows: €1,204 thousand for Dr. Engel, €102 thousand for Dr. Kaufmann, €329 thousand for Mr. Kullmann, €752 thousand for Mr. Wessel, €1,837 thousand for Mr. Wohlhauser, and €529 thousand for Ms. Wolf.

Company pension plan

The company pension arrangements for Dr. Klaus Engel comprise a percentage of his fixed annual base salary, which is dependent on length of service with the company and is capped at 60 percent. This pension commitment provides for a lifelong retirement pension and surviving dependents' benefits.

A defined-contribution system is applicable for Christian Kullmann, Thomas Wessel, Patrik Wohlhauser and Ute Wolf. 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 (variable 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 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's contract as a member of the Executive Board ends before benefits are payable, no further contributions are credited to the account. However, it continues to earn interest at the common market interest rate based on the average return earned by major German life insurers (at least 2.25 percent p.a.) until benefits are claimed. Currently, no pension arrangements have been agreed for Dr. Ralph Sven Kaufmann.

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 62 (depending on their individual pension arrangements) or if they leave as a result of permanent incapacity to work. In addition, Dr. Engel can claim pension benefits from the date of premature termination or non-extension of his contract on the Executive Board, providing he does not give due cause for such termination. Mr. Kullmann, Mr. Wessel and Mr. Wohlhauser have similar claims based on pension entitlements accrued prior to their appointment to the Executive Board.

In 2015, the service cost for members of the Executive Board totaled €875 thousand (2014: €2,977 thousand) based on the German Commercial Code (HGB) and €2,261 thousand (2014: €1,526 thousand) based on IFRS.

Service cost and present value of pension obligations

	German Commercial Code (HGB)				IFRS			
	Service cost		Settlement amount of pension obligations as of Dec. 31		Service cost		Present value of the defined benefit obligation as of Dec. 31	
in €'000	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Dr. Klaus Engel	114	2,215	14,102	12,148	712	488	16,945	17,162
Dr. Ralph Sven Kaufmann (from July 1, 2015)	–	–	–	–	–	–	–	–
Christian Kullmann (from July 1, 2014)	217	121	2,787	2,068	414	160	3,732	3,523
Thomas Wessel	236	251	3,027	2,332	384	280	3,810	3,563
Patrik Wohlhauser (until June 30, 2015)	73	254	–	2,917	402	322	–	4,539
Ute Wolf	235	136	998	600	349	276	1,312	986
Total	**875**	**2,977**	**20,914**	**20,065**	**2,261**	**1,526**	**25,799**	**29,773**

The difference in service cost for pension commitments is attributable to differences in the valuation methods 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 members of the Executive Board was €20,914 thousand (2014: €20,065 thousand) based on the German Commercial Code (HGB) and €25,799 thousand (2014: €29,773 thousand) based on IFRS.

Provisions for pension obligations to former members of the Executive Board and their surviving dependents as of the reporting date were €38,704 thousand (2014: €28,801 thousand) based on the German Commercial Code (HGB) and €50,951 thousand (2014: €43,816 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

In conformance with the German Corporate Governance Code, the employment 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. 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.

The termination benefit paid to Patrik Wohlhauser does not exceed the cap.

In addition, from April 1, 2016 Mr. Wohlhauser will receive contractual transition payments totaling €1,795 thousand (past service cost) until he reaches the age of 60. These will be offset against any other earnings he receives in the future.

Post-contractual non-compete agreements

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

Termination benefits

in €'000	Fixed remuneration	Benefits in kind	Annual bonus	Pension contributions	Long-term remuneration	Total
Patrik Wohlhauser	450	11	878	141	900 [a]	2,380 [b]

[a] The termination benefit takes account of the LTI tranches 2011 and 2012 and—on a pro rata basis—2016. The LTI tranches 2013 through 2015 will be upheld.
[b] At Mr. Wohlhauser's request, €975 thousand of this amount has been allocated for future pension benefits ("deferred compensation").

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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 Takeover 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 four-year performance period.

Remuneration of the Executive Board in fiscal 2015

The total remuneration paid to the members of the Executive Board for their work in 2015, including remuneration for the performance of other offices, was €15,608 thousand (2014: €10,677 thousand). In 2015 provisions for bonus payments of €332 thousand for 2014 were reversed.

Based on the principles outlined, the breakdown of remuneration for each Executive Board member in 2015 was as follows:

Remuneration of the Executive Board

	Performance-unrelated remuneration				Performance-related remuneration				Total remuneration in accordance with DRS 17	
	Fixed remuneration		Benefits in kind and other fringe benefits		Annual bonus		LTI [a]			
in €'000	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Dr. Klaus Engel	1,100	1,100	22	49	1,959	1,419	1,488	1,023	4,569	3,591
Dr. Ralph Sven Kaufmann [b]	300	–	28	–	585	–	447	–	1,360	–
Christian Kullmann [c]	600	300	55	27	1,139	358	893	307	2,687	992
Thomas Wessel [d]	600	600	77	91	1,045	700	893	614	2,615	2,005
Patrik Wohlhauser [e]	300	600	17	34	522	869	893	614	1,732	2,117
Ute Wolf	600	600	45	89	1,107	669	893	614	2,645	1,972
Total	**3,500**	**3,200**	**244**	**290**	**6,357**	**4,015**	**5,507**	**3,172**	**15,608**	**10,677**

[a] Fair value as of the legally binding commitment or grant date.
[b] 2015: pro rata from July 1, 2015.
[c] 2014: pro rata from July 1, 2014.
[d] Correction to the remuneration report 2014: remuneration of €33 thousand received for other offices but not stated in the remuneration report for 2014.
[e] 2015: pro rata up to June 30, 2015.

In 2015, 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, 2015 there were no loans or advances to members of the Executive Board.

Finally, third-party financial loss insurance cover is provided for each member of the Executive Board to cover their statutory liability arising from their work on the Executive 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.

Remuneration report in accordance with the German Corporate Governance Code

The German Corporate Governance Code recommends that listed companies should also disclose the remuneration of the Executive Board on the basis of a defined table showing the granting and allocation of benefits.

Benefits granted

	Dr. Klaus Engel Chief Executive Officer				Dr. Ralph Sven Kaufmann Chief Operating Officer (from July 1, 2015)			
in €'000	2014	**2015**	**2015 (min)**	**2015 (max)**	2014	**2015**	**2015 (min)**	**2015 (max)**
Fixed compensation	1,100	1,100	1,100	1,100	–	300	300	300
Fringe benefits	49	22	22	22	–	28	28	28
Total	**1,149**	**1,122**	**1,122**	**1,122**	**–**	**328**	**328**	**328**
One-year variable compensation	1,150	1,150	–	2,300	–	325	–	650
Multi-year variable compensation	1,023	1,488	–	3,750	–	447	–	1,125
LTI 2014 through 2017	*1,023*	–	–	–	–	–	–	–
LTI 2015 through 2018	–	*1,488*	–	*3,750*	–	*447*	–	*1,125*
Total	**3,322**	**3,760**	**1,122**	**7,172**	**–**	**1,100**	**328**	**2,103**
Service cost	488	712	712	712	–	–	–	–
Total compensation	**3,810**	**4,472**	**1,834**	**7,884**	**–**	**1,100**	**328**	**2,103**

	Christian Kullmann Chief Strategic Officer (from July 1, 2014)				Thomas Wessel Chief Human Resources Officer			
in €'000	2014	**2015**	**2015 (min)**	**2015 (max)**	2014[a]	**2015**	**2015 (min)**	**2015 (max)**
Fixed compensation	300	600	600	600	600	600	600	600
Fringe benefits	27	55	55	55	91	77	77	77
Total	**327**	**655**	**655**	**655**	**691**	**677**	**677**	**677**
One-year variable compensation	325	650	–	1,300	650	650	–	1,300
Multi-year variable compensation	307	893	–	2,250	614	893	–	2,250
LTI 2014 through 2017	*307*	–	–	–	*614*	–	–	–
LTI 2015 through 2018	–	*893*	–	*2,250*	–	*893*	–	*2,250*
Total	**959**	**2,198**	**655**	**4,205**	**1,955**	**2,220**	**677**	**4,227**
Service cost	160	414	414	414	280	384	384	384
Total compensation	**1,119**	**2,612**	**1,069**	**4,619**	**2,235**	**2,604**	**1,061**	**4,611**

	Patrik Wohlhauser Chief Operating Officer (until June 30, 2015)				Ute Wolf Chief Financial Officer			
in €'000	2014	**2015**	**2015 (min)**	**2015 (max)**	2014	**2015**	**2015 (min)**	**2015 (max)**
Fixed compensation	600	300	300	300	600	600	600	600
Fringe benefits	34	17	17	17	89	45	45	45
Total	**634**	**317**	**317**	**317**	**689**	**645**	**645**	**645**
One-year variable compensation	650	325	–	650	650	650	–	1,300
Multi-year variable compensation	614	893	–	2,250	614	893	–	2,250
LTI 2014 through 2017	*614*	–	–	–	*614*	–	–	–
LTI 2015 through 2018	–	*893*	–	*2,250*	–	*893*	–	*2,250*
Total	**1,898**	**1,535**	**317**	**3,217**	**1,953**	**2,188**	**645**	**4,195**
Service cost	322	402	402	402	276	349	349	349
Total compensation	**2,220**	**1,937**	**719**	**3,619**	**2,229**	**2,537**	**994**	**4,544**

[a] Correction to the remuneration report 2014: remuneration of €33 thousand received by Mr. Wessel for other offices but not stated in the remuneration report for 2014.

Allocation

in €'000	Dr. Klaus Engel Chief Executive Officer 2014	2015	Dr. Ralph Sven Kaufmann Chief Operating Officer (from July 1, 2015) 2014	2015	Christian Kullmann Chief Strategic Officer (from July 1, 2014) 2014	2015	Thomas Wessel Chief Human Resources Officer 2014	2015	Patrik Wohlhauser Chief Operating Officer (until June 30, 2015) 2014	2015	Ute Wolf Chief Financial Officer 2014	2015
Fixed compensation	1,100	1,100	–	300	300	600	600	600	600	300	600	600
Fringe benefits	49	22	–	28	27	55	91	77	34	17	89	45
Total	**1,149**	**1,122**	**–**	**328**	**327**	**655**	**691**	**677**	**634**	**317**	**689**	**645**
One-year variable compensation [a, b, c]	1,128	2,070	–	585	326	1,170	632	1,108	652	585	606	1,170
Multi-year variable compensation	835	420	–	–	–	–	–	–	–	–	–	–
LTI 2009 through 2013	*835*	*–*	–	–	–	–	–	–	–	–	–	–
LTI 2010 through 2014	*–*	*420*	–	–	–	–	–	–	–	–	–	–
Total	**3,112**	**3,612**	**–**	**913**	**653**	**1,825**	**1,323**	**1,785**	**1,286**	**902**	**1,295**	**1,815**
Service cost	488	712	–	–	160	414	280	384	322	402	276	349
Total compensation	**3,600**	**4,324**	**–**	**913**	**813**	**2,239**	**1,603**	**2,169**	**1,608**	**1,304**	**1,571**	**2,164**

[a] In some cases, fees for other offices held, which are contained in fringe benefits, are offset against one-year variable compensation; 2014: Dr. Engel €26 thousand, Wessel €53 thousand (including correction of €33 thousand), Wolf €46 thousand; 2015: Wessel €30 thousand. The correction made for Mr. Wessel for 2014 is also offset against his one-year- variable compensation in 2015.
[b] The one-year variable compensation for 2014 corresponds to the actual payments made in 2015 for 2014 (a correction has been made for any discrepancies between the actual payments in 2015 and the estimate made for 2015 in the 2014 remuneration report).
[c] The one-year variable compensation for 2015 has not yet been finalized; estimate based on assumptions made for provisions.

Former Executive Board members, including members who left the Executive Board in 2015

Total remuneration of former members of the Executive Board and their surviving dependents was €2,729 thousand in 2015 (2014: €1,374 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).

Additional remuneration of €45 thousand is paid for chairing the Executive Committee and the Audit Committee, while the deputy chairpersons receive €30 thousand each and other members €30 thousand each. The chairperson of the Finance and Investment Committee receives additional remuneration of €35 thousand, 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 thousand for the chairperson, €15 thousand for the deputy chairperson and €15 thousand 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.

Remuneration of the Supervisory Board

	Fixed remuneration		Remuneration for membership of a committee		Attendance fees		Total	
in €'000	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Günter Adam (until December 10, 2015)	90	90	58	58	10	10	158	158
Martin Albers (from October 1, 2015)	23	–	2	–	1	–	26	–
Prof. Barbara Albert (from July 1, 2014)	90	45	–	–	5	2	95	47
Dr. Peter Bettermann (until June 30, 2014)	–	45	–	–	–	3	–	48
Karin Erhard	90	90	30	20	9	7	129	117
Carmen Fuchs (from December 10, 2015)	8	–	–	–	–	–	8	–
Stephan Gemkow	90	90	28	28	9	8	127	126
Ralf Giesen (until April 30, 2014)	–	30	–	19	–	4	–	53
Prof. Barbara Grunewald	90	90	30	30	9	9	129	129
Ralf Hermann	90	90	58	58	10	9	158	157
Prof. Wolfgang A. Herrmann	90	90	–	–	5	5	95	95
Dieter Kleren	90	90	–	–	5	5	95	95
Steven Koltes	90	90	45	45	8	5	143	140
Frank Löllgen (from May 1, 2014)	90	60	28	18	8	7	126	85
Dr. Siegfried Luther	90	90	45	45	10	10	145	145
Dr. Werner Müller	200	200	103	103	16	13	319	316
Jürgen Nöding (until September 30, 2015)[a]	68	110	23	30	7	11	98	151
Norbert Pohlmann	90	90	8	–	6	5	104	95
Dr. Wilfried Robers	90	90	30	30	9	10	129	130
Michael Rüdiger	90	90	35	35	9	9	134	134
Ulrich Terbrack	90	90	–	–	5	5	95	95
Dr. Volker Trautz	90	90	45	45	8	6	143	141
Michael Vassiliadis	130	130	58	58	12	10	200	198
Dr. Christian Wildmoser	90	90	58	58	14	13	162	161
Total	**1,959**	**1,970**	**684**	**680**	**175**	**166**	**2,818**	**2,816**

[a] Mr. Nöding was also a member of the Supervisory Board of Evonik Services GmbH until July 31, 2014.

The remuneration and attendance fees paid to the Supervisory Board in 2014 and 2015 is presented on a cost basis. For members who joined or left the Supervisory Board during 2014 and 2015, the amounts are calculated on a pro rata basis.

As of December 31, 2015 there were no loans or advances to members of the Supervisory Board. In 2015, the members of the Supervisory Board did not receive any remuneration for services provided personally, especially consulting and referral services.

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.

11. Report on expected developments

- Slightly weaker global economic development
- Slightly lower sales and adjusted EBITDA of between €2.0 billion and €2.2 billion expected
- ROCE expected to be well above the cost of capital again

11.1 Economic background

Weaker global economic growth momentum anticipated for 2016

We anticipate that **global economic conditions** will once again be characterized by differing regional growth trends in 2016. The continued economic upturn in the industrialized economies will probably be held back by slower growth in the emerging markets. Overall, we expect a slight reduction in global momentum in 2016, with the growth rate dropping to 2.5 percent, compared with 2.6 percent in 2015.

We assume that in 2016 the industrialized economies will continue to benefit from an expansionary monetary policy and that the oil price will boost consumer spending. In view of this, we expect the fragile upturn in Europe to continue, although momentum will be lower than in 2015.

We anticipate that the German economy will grow by 1.8 percent in 2016, with consumer spending remaining the main growth driver. By contrast, we expect little impetus to come from capital expenditures and foreign trade.

We still see the USA as the keystone of global economic growth, but we expect the growth rate to drop to 2.2 percent in 2016. Domestic consumer spending will probably make the biggest contribution here, while capital spending and foreign trade are likely to be lower than in 2015.

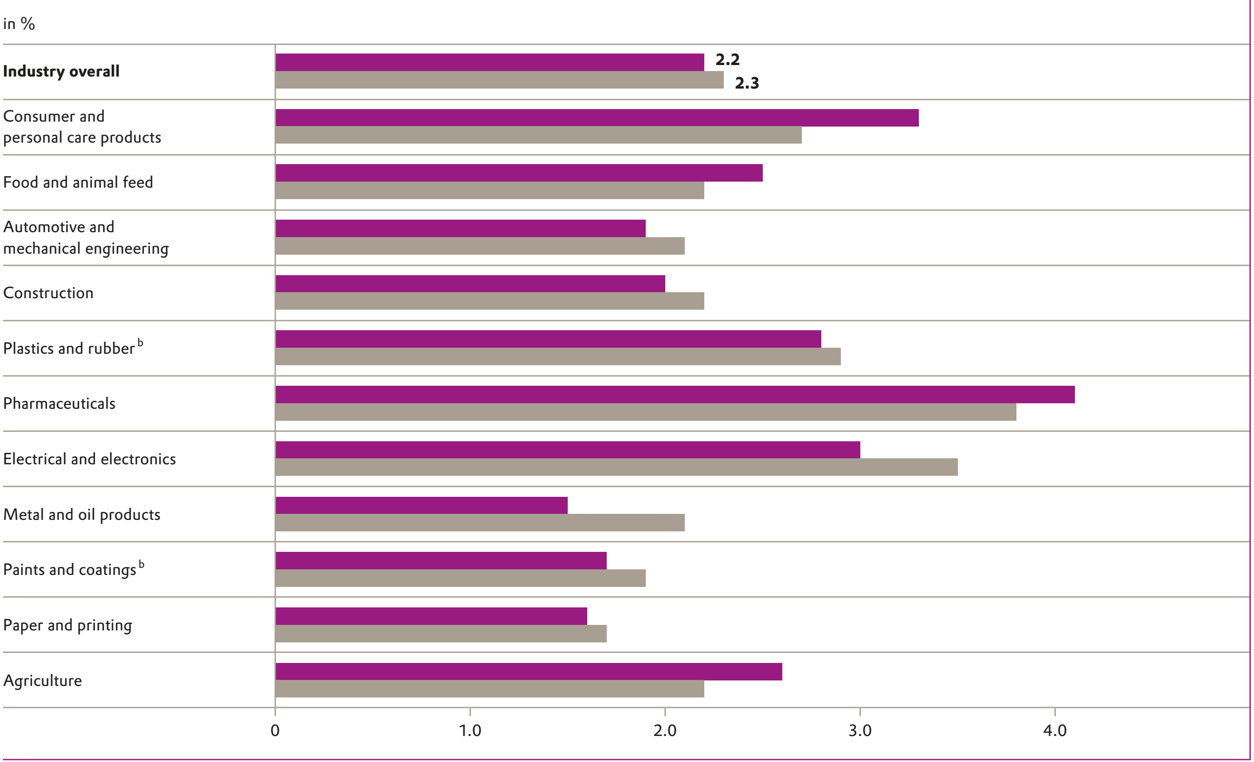
The present challenges in the emerging markets will presumably continue in 2016 and could even be exacerbated by the Fed's monetary policy. If the Fed raises interest rates as planned in 2016, this could accelerate the outflow of capital from emerging markets and increase the cost of financing their high levels of debt. Overall, we expect economic growth in the emerging markets to be around the 2015 level, but the downside risks remain high.

We assume that growth will slow further in China. Given the Chinese government's willingness to take action to support the economy, we expect gross domestic product to rise by 6.5 percent in 2016.

However, the projection for the global economy is still marked by considerable uncertainty. Apart from geopolitical conflicts, action by central banks could cause the global economic development to differ from our expectations.

GDP forecast for 2016

Forecast for Evonik's end-customer industries 2016 [a]



2016 2015 (projected)

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

Along with global economic momentum, trends in our end-customer industries influence the development of Evonik's market environment. While the general industrial trend was weak in 2015 with low growth in output, and only a few industries registering moderate growth, looking ahead to 2016 we only anticipate slight additional impetus in view of the fragile macro-economic environment. Cyclical end-customer industries such as the construction, automotive, mechanical engineering, and electrical and electronics sectors will probably report slower growth. There could be some isolated positive impetus on a regional basis, especially in Europe, which is Evonik's most important market. In other key end-customer industries such as pharmaceuticals, food and animal feed, and the consumer goods and personal care sectors, we assume that the pace of growth will continue.

The development of our end-customer industries is likely to have a varied impact on industrial value chains and our business. We anticipate that global inflation will remain at the present low level as a result of slower growth and price pressure from commodities. Moreover, significant deflationary trends could emerge in some areas.

We expect that the weaker cyclical momentum and current increase in supply will continue to have an impact on the raw material markets. Evonik's specific raw materials will be slightly more expensive compared with the end of 2015/early 2016, but overall we expect our internal raw material cost index to remain below the average for 2015. This scenario is based on the assumption that the average oil price will be slightly lower in 2016 than in 2015. Risks here still include geopolitical conflicts, which could adversely affect supply.

11.2 Outlook

Basis for our forecast:

- Global growth of 2.5 percent
- Euro/US dollar exchange rate around the same level as 2015 (approx. US$1.10)
- Internal raw material cost index lower than in prior year

Sales and earnings

The anticipated weak global growth momentum outlined in the section headed “Economic background” will also affect the development of our business in 2016.

Following a very successful year in 2015, we expect to report slightly lower **sales** in 2016 (2015: €13.5 billion). Thanks to our strong market positions, balanced portfolio and concentration on high-growth businesses, we assume continued high demand for our products and appreciable volume growth despite the difficult macro-economic conditions. The new production capacities taken into service in recent years and further intensification of sales activities should also contribute to this. We expect selling prices to develop solidly across most of our product portfolio. However, lower selling prices are anticipated for some businesses in the Nutrition & Care and Performance Materials segments, leading to the forecast slight reduction in overall sales.

Nevertheless, we are confident that our business will continue to develop successfully in 2016 and expect to report **adjusted EBITDA** of between €2.0 billion and €2.2 billion (2015: €2.47 billion).

For the majority of businesses in the Nutrition & Care segment we are expecting a stable or slightly positive business trend compared with the previous year. We assume that the price of essential amino acids for animal nutrition will normalize from the very high prior-year level. Moreover, the baby care business will be affected by persistently high competitive pressure.

We expect that the Resource Efficiency segment will continue the previous year’s successful business development despite weaker global growth.

In the Performance Materials segment, the year-on-year decline in the oil price, in particular, will result in a further reduction in selling prices, putting downward pressure on this segment’s operating performance.

The continued systematic implementation of our On Track 2.0 and Administration Excellence efficiency enhancement programs will also contribute to earnings in 2016. The earnings impact of lower raw material prices on individual businesses will vary, but should largely balance out across the portfolio as a whole.

The return on capital employed (**ROCE**) should again be above the cost of capital in 2016, although it will be slightly lower than in 2015 (16.6 percent) due to the overall reduction in earnings.

Financing and investments

We anticipate that **capital expenditures** will be around the 2015 level (€0.9 billion) and thus slightly higher than depreciation and amortization. The **free cash flow** should therefore be clearly positive again, but will fall short of the high level reported for 2015 (€1.1 billion) owing to the weaker operating earnings trend.

Occupational and plant safety

We assume that the **accident frequency**[1] indicator will be stable in 2016 (2015: 1.0) and expect it to be below the upper limit of 1.3 defined for 2015. Our long-term goal is still a sustained value of less than 1.0. We are retaining our target of a maximum of 48 for the plant safety indicator **incident frequency**[2] in 2016 and expect it to be between 48 and 53, a slight improvement compared with 2015 (55).

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.

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

[2] Number of incidents per 1 million hours worked in the production facilities operated by the segments, taking 2008 as the reference base (expressed in percentage points: 2008 = 100).