The first annual report published under the Evonik brand.

Annual Report 2007

The First.

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EVONIK INDUSTRIES

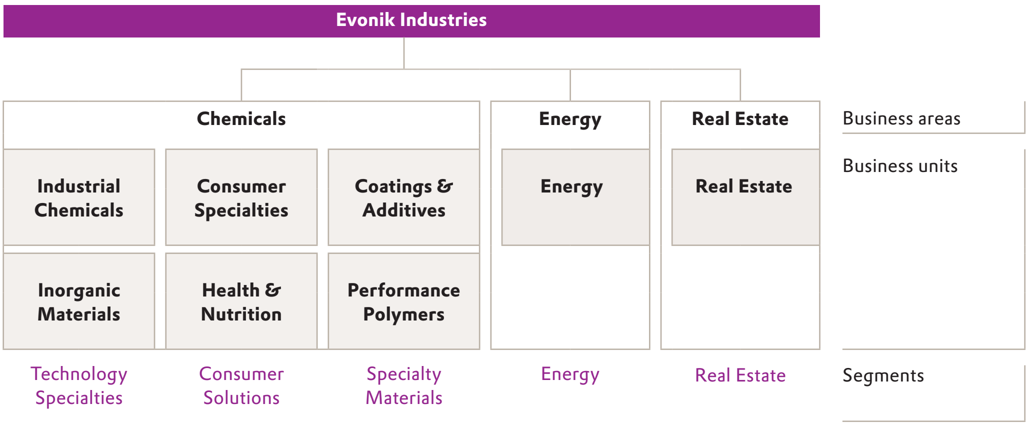
Overview

Evonik Group: Key figures

		2007	2006
Sales	in € million	14,430	14,125
EBITDA (before non-operating result)	in € million	2,221	2,157
EBITDA margin	in %	15.4	15.3
EBIT (before non-operating result)	in € million	1,348	1,179
Return on capital employed (ROCE)	in %	9.5	8.4
Net income	in € million	876	1,046
Total assets	in € million	19,800	20,953
Equity ratio	in %	25.7	20.6
Cash flow from operating activities	in € million	1,215	1,142
Capital expenditures[1]	in € million	1,032	935
Depreciation and amortization[1]	in € million	862	943
Net financial debt	in € million	4,645	5,434
Employees as of December 31		43,057	46,430

[1] Intangible assets, property, plant, equipment and investment property.

A clear structure



Overview of our business areas

Chemicals

Evonik Industries is a global leader in specialty chemicals. Our six business units, grouped in the Technology Specialties, Consumer Solutions and Specialty Materials segments, have a diversified product portfolio ranging from high-performance plastics to additives for paints and coatings, from exclusive synthesis to superabsorbers. With around 34,000 employees at more than 100 sites, Evonik has chemical production facilities in 28 countries. More than 80 percent of sales are generated in markets where we are positioned among the leaders and 20 percent of sales come from products, processes and applications developed in the past five years.

Energy

Our Energy Business Area is the second largest German generator of power from hard coal and has over 9,000 Megawatts (MW) installed output worldwide, including around 7,300 MW in Germany. We rank among the world leaders in the construction of state-of-the-art coal-fired power plants, for instance, the new power plant in Duisburg-Walsum, Germany, which will have over 45 percent efficiency. We are also well-positioned in renewable energies, a promising global growth market. As a full-service supplier, we bundle our engineering and consulting services so we can offer customers in Germany and abroad all-round solutions. The technical expertise and know-how of our roughly 4,900 employees convinces our customers.

Real Estate

Evonik Industries is one of the largest private-sector housing companies in Germany with around 60,000 residential units and a 50 percent stake in THS Treuhandstelle GmbH, which has over 75,000 residential units. The regional focus of our Real Estate Business Area, which has around 500 employees, is the Ruhr district, the Aachen region and the “Rhine corridor” comprising the cities of Düsseldorf, Cologne and Bonn. Key indicators such as occupancy rates and tenant turnover are better than the sector average. Because we use smart housing concepts to improve the quality of life for our tenants, while active management of operating costs minimizes their ancillary costs.

Key financial data by segment

	Technology Specialties		Consumer Solutions		Specialty Materials		Energy		Real Estate	
in € million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
External sales	4,898	4,812	2,871	2,813	3,027	2,881	2,799	2,574	409	464
EBITDA	756	754	409	396	488	454	538	500	174	169
EBIT	454	400	219	195	288	236	448	391	118	117
Capital employed (annual average)	3,906	3,935	2,558	2,661	2,858	2,906	3,014	2,837	1,867	1,775
EBITDA margin in %	15.4	15.7	14.2	14.1	16.1	15.8	19.2	19.4	42.5	36.4
ROCE in %	11.6	10.2	8.6	7.3	10.1	8.1	14.9	13.8	6.3	6.6

This is the first annual report published under the Evonik brand. Evonik is the creative industrial group from Germany with operations in more than 100 countries worldwide. Our Chemicals, Energy and Real Estate Business Areas rank among the market leaders. Now we are heading for the capital markets, supported by our growth potential and sustained earnings power.

Evonik. Power to create.

The first overview.

Dr. Werner Müller briefs executives at
8.30 p.m. on September 11, 2007

"Our new industrial group, which we aim to place on the capital markets, is called Evonik. Ladies and gentlemen, let me welcome you for the first time to Evonik Industries AG."

Ladies and gentlemen:

It is now about seven months since we rebranded our company Evonik Industries. September 12, 2007 marked the beginning of a new era in our history under a new name. The start of Evonik's promising future was the culmination of a four-year transformation process driven by enormous creative energy and determination. That process has now been brought to a successful close. The idea of creating a new industrial group, which was sparked a good 50 months ago, has become reality. And already, even a short time after its launch, the name Evonik stands for a modern and creative industrial group positioned among the leaders in attractive markets.

The promising position from which Evonik embarked on this new era in its history was the result of much hard work. We are putting our trust in the core competencies that have already brought us so far: creativity, specialization, self-renewal and reliability have grown through our day-to-day work in recent years and give Evonik a competitive edge. One of the many examples from 2007 was the nomination of our lithium ion team for the German Future Award. That honored the development and implementation of an idea that has the capability to revolutionize energy storage around the world. This innovative ceramic separator does not simply pave the way for safer and more powerful electric vehicles. For the first time, it allows large-scale storage of energy from regenerative sources such as wind and solar power. In this way, Evonik is able to meet a fundamental social need and simultaneously gain a promising position in a rapidly growing market.

The main driver for future-oriented developments like these is our impressive innovative strength, especially in our Chemicals Business Area. Products, processes and applications developed in the past five years account for about 20 percent of this business area's sales and we have more than 20,000 patents resulting from development work at 35 R&D sites around the world. In 2007 we once again invested more than €300 million in research and development.

Evonik is very well-positioned: we are a major player in the attractive and highly profitable specialty chemicals sector. More than 80 percent of sales are generated in businesses where we rank among the market leaders. Evonik's Energy Business Area is the second largest producer of power from hard coal in Germany and we can point to international success with our major coal-fired power plants. Finally, through our Real Estate Business Area, which owns around 60,000 residential units and has a 50 percent stake in THS Treuhandstelle GmbH with a portfolio of over 75,000 housing units, Evonik is one of Germany's largest private-sector housing companies.

The outstanding competitive position of our activities provides a basis for attractive growth opportunities and facilitates business stability. Long-term supply agreements with key account customers ensure a sustained return on investment and stable earnings in the Energy Business Area. Similarly, our focus on residential real estate ensures constant and predictable cash inflows. Our broad customer base, widely diversified end-markets and products that are difficult to substitute make our specialty chemicals operations less sensitive to cyclical trends.

In its first year, the Evonik Group's financial performance far exceeded our expectations. In view of the good operating trend, we raised our forecasts twice during the year and Group sales grew by 2 percent, ending the year at around € 14.4 billion. EBIT increased by 14 percent to a good € 1.3 billion, putting it well above the previous year's level.

Capital expenditures for intangible assets, property, plant and equipment of around € 1 billion in 2007 represent a sizeable investment in the future and were well above depreciation, which amounted to € 862 million. This is a further sign of Evonik's consistent focus on profitable growth.

In fiscal 2007 Evonik generated a high cash flow from operating activities of around € 1.2 billion, together with further inflows of over € 1 billion from the divestment of non-core activities. That financed our considerable capital expenditures and enabled us to reduce net financial debt to around € 4.6 billion, a substantial reduction of € 0.8 billion compared with year-end 2006. Evonik also has a sound financial base and balance sheet structure.

We intend to continue along this successful route. We see enormous opportunities, mainly driven by the three mega-trends: energy efficiency, health & wellness and globalization & demographic change. We have identified the relevant future markets for these trends and aim to build on our strong business position in these areas by developing smart new leading-edge products to solve tomorrow's problems and strengthening our presence in attractive growth regions.

The markets offering the highest growth potential are Asia, Eastern Europe and Latin America. The economic development of these regions will lead to a substantial increase in their demand for energy. Increasing affluence will also raise demand for more sophisticated everyday products.

Within Asia, China is of pivotal significance for us. In future, we will have even more production facilities close to our customers in this country: In fall 2007 we held the groundbreaking ceremony for the second largest investment ever undertaken by our Chemicals Business Area, the MATCH—Methacrylates to China—project. Total investment of € 250 million has been earmarked for this project over the next few years. MATCH stands for a large integrated facility to produce specialized polymers and performance monomers. These products are vital for the production of acrylic glass, for example for flat-panel displays and mobile phones, for which there is high demand in the world's fast-growing economies.

In the energy sector, rising global demand for power is leading to investment in new and more efficient power plants around the world. Evonik has an excellent position here. In Duisburg-Walsum, Germany, we are presently building Europe's most advanced coal-fired power plant, which will have net efficiency of over 45 percent. Significant growth potential is also emerging beyond our present installed basis. Internationally, Evonik has a world-class reputation for planning, financing, building and operating state-of-the-art power plants. That excellent reputation and our seasoned and experienced engineers, who have already completed projects in more than 120 countries, give us a unique selling proposition that facilitates access to other selected growth markets. In view of that, our power plants in Turkey and on the Philippines are potential bridgeheads for further foreign projects. At the same time, we aim to broaden our leadership in biomass, mine gas and geothermal energy beyond Germany.

Size, market leadership and a technological edge are essential for sustainable and profitable growth. However, it is even more important to leverage the potential offered by our businesses. Evonik is therefore focused consistently on value creation. Our goal for the coming years is to achieve a further improvement in our business performance, financial profile and profitability. The strategic allocation of resources in the Group will play a key role in this. Clear criteria are used to prioritize the selected growth projects. That is backed up by active portfolio management: We invest in businesses with high potential to create value and divest activities that do not meet our internal targets. Over the past four years, we have therefore divested activities with sales of over € 10 billion in order to concentrate on our core areas of business.

Alongside the ongoing strategic development of the Evonik Group, in the past year we had to devote a good deal of persuasive effort to a concept designed to give Evonik a promising future and at the same time provide perspectives for Germany's hard-coal mining industry. Milestones were the establishment of the RAG-Stiftung (RAG Foundation), the transfer of RAG's shares to this foundation and the adoption of new legislation on financing the German hard-coal sector which dissolved the decades-old joint liability arrangement between the mining and industrial operations. RAG-Stiftung is headed by Wilhelm Bonse-Geuking, a very experienced and highly respected person who also supports our company as Chairman of our Supervisory Board. I would specifically like to thank him for that.

On behalf of my colleagues on the Executive Board, I would like to take this opportunity at the end of Evonik Industries' first fiscal year to thank everyone who contributed to the success of this transformation process and thus to the establishment of our creative industrial group. We would also like to thank all our employees, whose enormous commitment has played a considerable part in putting our idea into practice. Let us now look ahead to the future: Evonik is well-prepared for the capital markets.

Dr. Werner Müller, Chairman of the Executive Board of Evonik Industries AG

Executive Board. From left to right:
Dr. Alfred Tacke (Energy), Heinz-Joachim Wagner (CFO), Ulrich Weber (Human Resources),
Dr. Peter Schörner (Real Estate and Controlling), Dr. Werner Müller (Chairman),
Dr. Klaus Engel (Chemicals), Dr. Alfred Oberholz (Chemicals)

When did you last do something for the first time?

An idea is an original thought. One that no-one has thought before. An idea has power; it generates creativity and originality. It is the spark that triggers new concepts, while enthusiasm is the force that drives them forward. In the beginning, we had the idea of a creative industrial group. That was the spark that ignited our enthusiasm and drives us forward. Our goals are clearly defined: to grow and create value. We aim to be one of the most creative industrial groups in the world and make a mark with our brand. And that includes gaining a place at the forefront of people's hearts and minds.

Our aim is to achieve above-average growth in all our business activities. By utilizing our strengths. And pursuing a clear strategy. That is how we intend to shape our idea of the future.

Our origins were sparked by a new idea.
Now we are looking ahead to the future.

What makes us strong?

Our core competencies.

Our core competencies are the foundations on which Evonik is built and give us a competitive edge.

Creativity

Creating markets through creative ideas. We regard creativity as the basis for innovative products and solutions. And that is the basis for profitable growth in the future.

Specialization

Securing an edge through distinctive specialization. We concentrate on what we are particularly good at. That creates top quality and market leadership.

Self-renewal

Shaping the future through continual self-renewal. Because there is always scope for improvement. And because we believe that change is positive. Therefore we proactively drive change.

Reliability

Being the partner of choice through reliability. For us, that means keeping our promises. To our customers, investors and employees.

What shapes our course?

A clear strategy.

Our strategy of growth and value creation is based on our core competencies and comprises four key elements:

Active portfolio management

We actively manage our portfolio. Our primary focus is on organic growth in businesses with high potential to create value. We want to expand our presence in the growing Asian, Eastern European and Latin American markets. At the same time, we are building on our profitable operations in Germany, Western Europe and North America. We examine promising opportunities for acquisitions and divest operations that cannot generate the required returns.

Strategic allocation of resources

We utilize our resources efficiently. We prioritize growth projects and base investment decisions throughout the Group on clear and uniform criteria. That includes using business-specific return parameters to analyze their potential to create value and their fit with our overall corporate strategy.

Operational excellence

We want to be first-class all the time and create superior benefits for our customers. We constantly optimize our structures and processes to achieve cost reductions and a sustained improvement in efficiency. Our strategies and activities are implemented reliably and consistently.

Management based on stringent financial criteria

We run the Group on the basis of stringent financial criteria. Value creation and profitable growth are our most important goals; ROCE and EBITDA are our top performance measures. At the same time, we concentrate on optimizing cash flow. We want to be able to offer our shareholders an appropriate dividend.

What drives us?

Our idea of the future.

What will tomorrow's world be like? What are the latest technologies and where are they taking us? What will society need in ten or twenty years time? What does an ageing population mean? Addressing such issues is essential to ensure timely identification of trends and future markets. That's what Evonik does. We have an idea of the future.

Energy Efficiency

Global demand for energy is rising. But resources are limited. Securing energy supply yet reducing environmental impact and global warming—leading edge products from Evonik make that possible. Because they help utilize energy more efficiently. And drive future growth.

Health & Wellness

We all want to stay healthy and retain our youthful looks as we grow older. Evonik helps people realize that dream. By developing active ingredients for cosmetics and pharmaceuticals.

Globalization & Demographic Change

Rapid growth in the emerging markets is offering many people access to improved living standards. And that will raise demand for high-quality products in such regions. That's why Evonik is stepping up its presence in growth markets. Because we can meet our customers' demands best by being close to them.

The first membrane that makes lithium ion batteries safe to use in autos.

Nominated for the German Future Award 2007. Because the idea that led to the development of Evonik's SEPARION® ceramic membrane is unique. And paves the way for new, large-scale applications.

Our idea of the future

More powerful. More durable. And even safer. To make engines in autos, ships and planes more efficient and cut out CO_2 emissions. And develop new energy-saving ideas with less impact on the environment. Examples are the development of highly efficient stationary and mobile energy storage technology for wind power and solar energy. To foster mobility and secure energy supply in the future.

The first luminescent film that protects children in the dark.

Children are small and easy to overlook. Especially in the dark and bad weather. Now Evonik places kids right at the centre of our vision. With a bright new electroluminescent film.

Our idea of the future

Lighting up the darkness. Increasing safety and providing orientation. Illuminating emergency exits, with special marked doors and clearly visible signs. Promotional signs that beam out their message and wallpaper that changes its color to match our mood. Perhaps special lighting effects may soon be playing a leading role on the world's stages. A brilliant one of course.

The first offshore pipe that can withstand earthquakes.

Offshore oil and gas pipes—sometimes 2,000 meters deep in the ocean. Exposed to extremely tough conditions. Now an innovative new polymer meets those requirements. A polymer developed by Evonik.

Our idea of the future

Bringing oil, gas and water to consumers from the remotest parts of the world. Through the deepest oceans, across earthquake zones and permafrost regions. Safely and reliably. Using a material that stands up to all these conditions. Because it is resistant to low temperatures, high pressure and other external influences. Because it has better resistance to chemicals and corrosion. A material that is already a viable alternative to conventional steel pipes.

Germany's first power plant fuelled by hard coal with efficiency of over 45 percent.

Sometimes, less really is better! For example, if less coal is used to produce more electricity. As in Evonik's new power plant in Duisburg-Walsum, Germany. That will greatly reduce CO_2 emissions.

Our idea of the future

Securing power supply yet reducing the use of resources. Minimizing the use of fossil fuels yet maximizing output. And constantly reducing emissions of greenhouse gases. Preferably worldwide. Because raising the efficiency of power plants from the global average of 31 percent to 45 percent—a level that is already technically feasible—would cut CO_2 emissions by two billion metric tons a year.

The first house that cuts the use of primary energy resources by 87 percent.

First the three-liter auto, now the three-liter house. Achieved by Evonik's energy-efficient modernization program. A program that cuts carbon dioxide emissions as well as energy consumption.

Our idea of the future

Houses without chimneys. Because we can already build homes that generate more energy than they use. By combining modern materials with smart technology. By combining efficient heat recovery with new energy-saving equipment. A pioneering contribution to climate protection. We have taken the first step.

First impressions.

Creating the future

Putting an idea into practice is always the most challenging step. And that was just as true for our idea of a creative industrial group. Yet we achieved it fairly quickly. And it has been worthwhile. Evonik is well-prepared for the capital markets.

2003

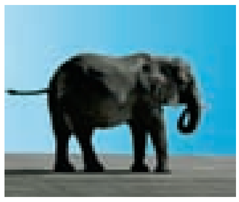
The background: RAG, formerly focused on coal mining, has evolved into a highly complex corporation with myriad subsidiaries and sub-entities, often with overlapping operations. What is missing is a clear focus on growth areas.

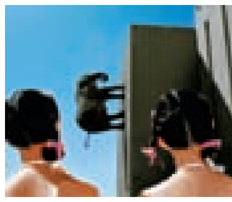
Early 2004

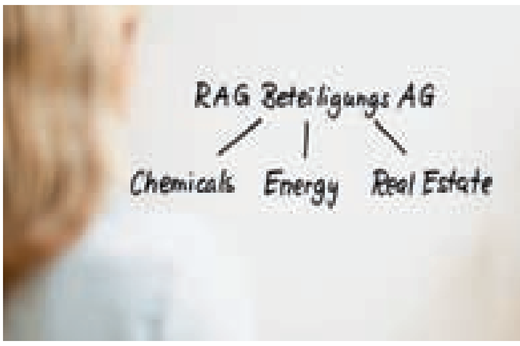
A change of strategy: The Group decides to focus on profitable growth sectors—Degussa (chemicals), Steag (energy) and RAG Immobilien (real estate). The underlying principle is a sustained focus on value. Accompanied by an extensive divestment program.

August 31, 2007

A brand new advertising campaign in Germany: launch of an eye-catching series of adverts under the slogan “Who makes that happen?” In newspapers, on television, on hoardings: elephants climbing walls, a plane lifted into the air. At first, it is a riddle with no answer. That comes two weeks later.







September 14, 2006

New legal status: The Supervisory Board approves the decision to change RAG Beteiligungs-GmbH into a joint stock company bundling the industrial activities—today’s Chemicals, Energy and Real Estate Business Areas. That paves the way for it to be placed on its feet as an independent industrial group.

July 2007

A foundation is born: RAG-Stiftung is established. Its task is to prepare Evonik Industries AG for the capital markets and manage the exit from hard-coal mining in Germany by 2018.

September 12, 2007

A milestone in the history of German industry. Because a new, creative industrial group is unveiled. And its new name gives it a face. An identity. The waiting period is over.

9 a.m.
The company's head office is still covered in wraps—as it has been for weeks. But the wait is nearly over. Soon the wraps will be off and the new name will be unveiled.

11.41 a.m.

The great unveiling! Fanfares. Professional climbers scale the building and remove the wraps. Now everyone knows the name of the latest—the newest—addition to the corporate landscape: Evonik Industries. Power to create. And the dynamic new logo shines out in the new corporate color: Evonik Deep Purple.

10 a.m.

Press conference at headquarters: The room is bursting, the excitement is tangible. The entire Executive Board is present. Today's highlight: the unveiling of the company's new name—Evonik Industries AG.

11.50 a.m.

After months of preparation, the goal is in sight: Dr. Werner Müller, Chairman of the Executive Board, presents Evonik, the creative industrial group from Germany.

We do that: Parallel to the unveiling ceremony, the next series of adverts is launched—with the answer to the riddle! Now it is clear who is behind the adverts: Evonik. Power to create.

Taking off: A hot-air balloon is launched at the Hanau-Wolfgang site. On board is Evonik employee Uwe Schneider, German Champion, European Champion and World Vice-Champion in hot air ballooning.

Flying the flag in Antwerp: At about the same time, the Evonik flag is hoisted at the company's biggest site outside of Germany.

2 p.m.
Evonik has arrived: Many sites have prepared something special to introduce the company's new name and brand. The Herne power plant inflates a balloon.

Evonik goes international: Regional president Ulrich Sieler unveils the new company at the sites in Japan (left). In the USA, John Rolando, regional president at the time, unveils the new name in Parsippany. The Greensboro site is linked up live via the internet.

9 p.m.
The first day as Evonik Industries AG is nearly over. The company has unveiled its new name everywhere in the world. An idea has become reality. And that idea now has a name.

September 14, 2007

Kick-off at Borussia Dortmund: the soccer team's first match in its new kit with the Evonik logo. And it beats Werder Bremen 3:0. Before the match most of the 50,000 season-ticket holders picked up their new fan jerseys—a gift from Evonik.

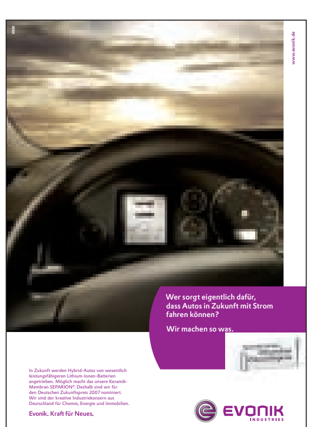
September 15, 2007

Major investment in Asia: Dr. Klaus Engel and Dr. Alfred Oberholz of Evonik's Executive Board attend the groundbreaking ceremony for a new integrated production facility dedicated to the production of specialized polymers and performance monomers in Shanghai, China. Total investment of around €250 million makes this the second largest investment ever undertaken by Evonik's Chemicals Business Area.

October 18, 2007

Nominated for the German Future Award 2007: Evonik's lithium ion technology team headed by Prof. Paul Roth, Dr. Gerhard Hörpel and spokesman Dr. Andreas Gutsch is nominated for the German Future Award for the pioneering development of a flexible ceramic separator. Known as SEPARION®, this product has the potential to make lithium ion batteries safer, more powerful and more durable. This new development is suitable for large-scale mobile and stationary applications. For example, for use in hybrid vehicles or for the storage of regenerative energy.

If you're good at something, you should let people know: Evonik used this advert to tell the German public it had been nominated for the German Future Award.



December 2007

Evonik is open for investors: To maximize the proceeds raised on the capital markets, Evonik and RAG-Stiftung examine the possibility of getting an investor on board before Evonik is floated on the stock market.

Joint liability arrangement dissolved: New legislation on financing the German hard-coal mining industry finally dissolves the decades-old joint liability arrangement between the mining and industrial operations.

Our first year.

Combined management report for 2007

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).

Off to a good start

Performance and business conditions

Overview

Economically, Evonik's first fiscal year far exceeded our expectations. In view of the good operating performance, especially in the Chemicals Business Area, we were able to revise our outlook for the full year upwards after six months and again after nine months. Thanks to a significant hike in global volumes, Evonik grew its operating result appreciably and clearly created value. The high cash flow was used to fund substantial investments and to reduce net debt considerably.

With a view to the organizational and strategic development of the Group, we continued our systematic focusing on our core businesses and streamlined our structures further. We bundled our sales and marketing potential in 2007, giving us a very strong customer focus, which we are constantly striving to improve. Evonik's portfolio comprises three profitable business areas—Chemicals, Energy and Real Estate—which operate in attractive markets. Non-core activities such as mining technology and gas distribution were divested in 2007. Having introduced leaner management and administrative functions for the entire Group and optimized the structure of the Real Estate Business Area effective January 1, 2007, we reorganized our Chemicals Business Area at year-end 2007. Amalgamating the twelve business units to form six effective January 1, 2008 will further increase efficiency and strengthen our market focus.

Evonik is systematically aligned to profitable growth. We provide key answers to the economic mega-trends energy efficiency, health & wellness, globalization & demographic change and thus gain a foothold in future markets. We continued to pave the way for this in fiscal 2007. A large integrated facility to produce high-performance specialty polymers for the attractive Asian market is currently under construction in Shanghai, China. In the coming years, we also intend to strengthen our good position in the growing photovoltaics market through investment running into triple-digit millions of euros. We are currently erecting Europe's most modern coal-fired power plant with rated output of 750 Megawatts in Duisburg-Walsum, Germany, and plan to build further power plants in Turkey and Southeast Asia in the mid term.

Research, development and innovation are key elements in Evonik's strategy of sustained value creation and profitable growth. Products, processes and applications developed in the past five years account for about 20 percent of sales in the Chemicals Business Area. Innovative ideas and concepts are giving us access to new markets.

Following its successful start in 2007, Evonik is well-prepared for the capital markets.

Good business development

Evonik's worldwide operations developed very satisfactorily as a result of positive global economic conditions. **Sales** increased 2 percent to €14.4 billion despite the divestment of non-core operations and adverse exchange rate movements. The Chemicals Business Area generated organic growth of 9 percent. Thanks to strong global demand, this business area was able to recoup at least some of the rise in raw material costs by raising prices to customers. However, negative currency and consolidation effects meant that the Chemicals Business Area only grew sales by 3 percent overall. The Energy Business Area reported 9 percent higher sales than in the previous year thanks to volume and price trends. In the Real Estate Business Area sales slipped year-on-year owing to lower property sales.

The operating result (**EBIT** before non-operating result) improved 14 percent to €1,348 million, with all three business areas contributing to this. The Chemicals Business Area benefited from higher demand, an improvement in selling prices, lower depreciation and successful restructuring, enabling it to lift EBIT 16 percent year-on-year. The Energy Business Area grew EBIT by 15 percent, mainly due to the strong development of the foreign power plants, and the proceeds from the reduction of its stake in the power plant in the Philippines. Optimization of processes and organizational structures led to a slight improvement in EBIT in the Real Estate Business Area.

Sales and reconciliation from EBIT to net income

in € million	2007	2006	Change in %
Sales	**14,430**	**14,125**	**2**
EBIT (before non-operating result)	**1,348**	**1,179**	**14**
– Non-operating result, continuing operations	– 370	– 517	
= Operating income	**978**	**662**	**48**
– Net interest expense	– 451	– 470	
= Income before income taxes, continuing operations	**527**	**192**	**174**
+ Income before income taxes, discontinued operations	630	1,311	
= Income before income taxes (total)	**1,157**	**1,503**	**– 23**
– Income taxes, continuing operations	– 158	– 33	
– Income taxes, discontinued operations	– 28	– 318	
= Income after taxes	**971**	**1,152**	**– 16**
– Minority interests	– 95	– 106	
= Net income	**876**	**1,046**	**– 16**

The non-operating loss of €370 million is the net balance of non-operating expense and non-operating income items which are by nature one-off or rare. The non-operating expenses principally comprise impairment charges on the Degussa brand following the introduction of the new Evonik brand, expenses for the restructuring of the Group, preparations to enter the capital markets and further impairment write-downs, mainly on the assets of the Consumer Solutions segment. Non-operating income came primarily from the reversal of provisions for property transfer tax, which were no longer needed. The previous year's non-operating loss included, in particular, expenses for restructuring and the divestment of non-core operations.

Operating income therefore increased by 48 percent to €978 million. The €19 million improvement in net interest expense to €451 million was principally attributable to the reduction in net financial debt. The continuing operations therefore posted a sharp hike in income before income taxes to €527 million, up from €192 million in the previous year. The discontinued operations reported income of €630 million, principally the proceeds from the divestment of the mining technology and gas distribution businesses. The previous year's figure of €1,311 million mainly comprised book gains on the sale of the construction chemicals and food ingredients operations.

Given the very high income from discontinued operations in 2006, income before income taxes slipped 23 percent to €1,157 million in 2007. The income tax rate of 30 percent for the continuing operations was below the Group tax rate of 39 percent due to a tax credit of €49 million reflecting the lower tax rate used to calculate deferred taxes following the changes to the German corporation tax system introduced in the Corporation Tax Reform 2008. Income taxes for discontinued operations were impacted by tax-free divestment gains. Net income (after income taxes and minority interests) declined 16 percent to €876 million.

Well above forecasts

Following the divestment of non-core operations in the previous year, at the start of 2007 Evonik assumed that full-year sales and EBIT would be lower than in 2006. This assessment was based partly on the fact that as from January 1, 2007 it had to bear further costs for the Corporate Center which had previously been assigned to RAG Aktiengesellschaft. The corresponding costs were €111 million in 2006.

In the light of the good operating performance, this forecast was revised upwards after the first six months and we predicted a slight year-on-year rise in both sales and EBIT over the full year. Since the good earnings performance continued in the third quarter, the forecast was raised again after the first nine months to an improvement in EBIT in the upper single-digit percentage range. In the end we significantly exceeded our original forecast: sales grew by 2 percent and EBIT was up 14 percent at year-end.

We also anticipated a clearly positive free cash flow. This target was exceeded as well, with a free cash flow of €886 million.

At the same time, we predicted that the return on capital employed (ROCE) would be lower due to an increase in capital employed. The ROCE of 9.5 percent at year-end was well above both our cost of capital and the previous year's level. In 2007 economic value added—defined as the positive difference between ROCE and the cost of capital, based on capital employed—was €207 million.

Economic background

Continued growth in the global economy despite cyclical slowdown

The global economic upswing continued in 2007, albeit with a loss of momentum. While the pace of growth remained high in the emerging markets, there was a slowdown in the industrialized countries. This was mainly due to declining growth in the USA, but also to lower growth rates in the euro zone and Japan. The global economy grew by 4.9 percent overall, principally due to the unbroken momentum in China, India and Russia. This was supported by the stable development of the major European economies with Germany and the UK again reporting good growth rates of 2.5 percent and 3.1 percent respectively. The mortgage and real estate crisis in the USA and further rises in energy prices had a downside impact. At year-end 2007 crude oil briefly topped US$100 per barrel for the first time ever.

In **Germany**, economic growth far exceeded the subdued forecasts—based on the rise in value-added tax—to end the year at 2.5 percent. Although consumer demand and exports declined slightly, there was a renewed improvement in the balance of trade so the economy as a whole was buttressed by sound capacity utilization. That in turn boosted the labor market. Unemployment dropped by an appreciable 1.7 percentage points to 8.7 percent. The very favorable trend in Germany stabilized the economic situation in Europe and the country was once again able to demonstrate the international competitiveness of its economy.

It is generally anticipated that growth in Germany will slow to 1.8–2.0 percent in 2008. However, the unemployment rate should continue to decline thanks to the sustained stable economic trend.

Continued economic growth was also registered by most other **euro zone** countries and the growth rate was down just 0.2 percentage points year-on-year at 2.6 percent. The main drivers were the Netherlands, Spain and Ireland, which were basically able to repeat their good prior-year performance. Above-average growth rates were again reported by most of the new EU member states.

The upswing is expected to flatten further in 2008. On the assumption that prices remain high and the US dollar remains weak, the euro zone is only expected to post 1.8 percent growth. In the EU as a whole, declining investment spending and exports could reduce growth to 2.0 percent.

By contrast, the upward trend is continuing in **Russia**. The growth rate rose by a further 1 percentage point to 7.7 percent and was once again well above the global average. As a major producer country, Russia benefited from the sharp rise in energy prices and the sustained strength of domestic demand. However, it still did not manage to bring down the high inflation rate. Russia's economy will probably escape the general slowdown, with growth remaining almost as high as in the previous year at around 7.5 percent in 2008.

The US economy is experiencing an economic downswing. Housing construction slipped into a real recession and consumer spending dropped further. At the same time the overall economic growth rate dropped markedly for the fourth consecutive year to just 2.1 percent in 2007, compared with 2.9 percent in 2006. Nevertheless, the US labor market remained in good shape and the unemployment rate is still around 4.5 percent.

The outlook for the US economy remains subdued with the negative impact of the real estate crisis likely to dominate the trend for some time. Investment in residential construction is still declining. In all, growth of around 2.0 percent is forecast for 2008.

As a major emerging market, Brazil reported growth of 4.8 percent, which was above the global average, and aims to raise this to 5.0 percent in 2008–2010. However, according to the forecasts a slight drop to 4.5 percent is probable this year. Overall, though, the outlook remains positive and a sustained uptrend is predicted.

Japan's economic performance was slightly below expectations despite a further rise in consumer spending. Formerly the growth driver of the world economy, this country reported 1.9 percent growth, which was well below the average. Capital spending by the corporate sector provided virtually no impetus and even export momentum declined further, despite the prolonged depreciation of the yen. Modest growth of just under 2.0 percent is forecast for 2008 as well.

China and India have been mainstays of the steady global economic growth for years. The Chinese economy grew by a further 11.4 percent, but inflation also increased by a good percentage point to 4.4 percent. The government and central bank are therefore trying to check the rate of expansion. Even so, growth of around 10.5 percent is forecast for this year and this level will probably be exceeded as in the past, not least because of the constant rise in domestic demand.

In India, the pace of growth also remained exceptionally high. Real GDP grew by 8.8 percent. Like China, India reported an increase in inflation to around 7 percent. Growth is expected to remain impressive at around 8.6 percent in 2008. Since exports account for a low proportion, the expected slowing of the global economy is unlikely to have a significant adverse impact on India's growth.

Trends in the chemical sector

Buoyed by the sustained expansion of the global economy, demand for chemical products rose substantially. In Germany, the chemical industry lifted total output 4.5 percent year-on-year, driven mainly by pharmaceuticals, detergents and personal hygiene products, and by fine and specialty chemicals. There was a further hike of 10 percent in exports following the previous year's boom. Orders from outside the euro zone rose slightly faster than those from the euro zone. There was a particularly impressive rise in deliveries to Western Europe, Eastern Europe and Asia (excluding Japan). By contrast, exports to Japan dropped considerably, while those to the USA also slipped slightly.

The growth in the German chemical industry was also driven by domestic orders, especially from the electrical, electronics and automotive sectors and manufacturers of rubber and plastic products.

Worldwide, the chemical industry is on an expansionary path. It grew by 3.0 percent in the European Union and nearly 8.0 percent in Asia, despite another weak year for the industry in Japan. In line with the global economic trend, the emerging markets are the main forces driving demand and output. For example, chemical production increased by 3.0 percent in Latin America. The key drivers here—as in the Middle East, where substantial petrochemical capacity is being built—are countries with rich raw material reserves which benefited from the high price of oil, gas and other mineral resources in 2007. By contrast, chemical output in the USA has stagnated in recent years.

The cyclical uptrend in the German chemical industry is expected to slow slightly in 2008, with real growth in output of around 3 percent forecast. After years of stagnation and downsizing, an appreciable increase in the number of employees in the sector is predicted. Given the continued growth in the global economy, demand for chemical products should remain stable while expansion of the global chemical industry is likely to continue, albeit at a lower level.

Trends in the energy sector
Mild weather and persistently high oil prices resulted in a 5 percent reduction in primary energy consumption in Germany in 2007 compared with the previous year. Total consumption was around 472 million metric tons hard coal equivalents. Consumption of oil and gas declined while more coal was used to generate heat and electricity. The proportion of renewables in the energy mix rose from 5.4 percent in 2006 to 6.6 percent in 2007.

In 2007 German power consumption was only marginally higher than in 2006, increasing by 0.1 percent to 617.5 Terawatt hours (TWh), while gross power generation was around 637 TWh. Nuclear power generation dropped by 16 percent to 141 TWh as some nuclear power stations were out of service for all or part of the year. By contrast, power generation from hard coal increased by 5 percent to 145 TWh and power generation from lignite rose by 3.3 percent to 156 TWh. Renewables raised their share of power generation by around 20 percent to over 86 TWh and the use of wind energy was up by nearly 30 percent to 39.5 TWh.

The continued high demand for raw materials in the emerging markets determined trends on the international commodity markets in 2007. The price of crude oil (OPEC basket) increased continually from just under US$55 per barrel in the first quarter to over US$87 per barrel in December. The price of coal for power generation on the Rotterdam exchange doubled within a year. Freight rates were very high in 2007 due to capacity shortages but are expected to drop back in 2008. High steel prices, combined with a rise in global demand from power stations, led to a rise in the price of components for power plants. Prices were also driven upward by limited plant engineering capacity.

The price of CO_2 allowances was below €1 per metric ton in the last nine months of 2007 because more allowances than needed were available for the first trading period (2005–2007) and they could not be carried over to the next trading period (2008–2012). The statutory regulations governing the second trading period took effect in August 2007. The main changes compared with the first trading period are a revised allocation process and a reduction of 46 million metric tons CO_2 equivalents p.a. in the allowances allocated. The energy sector has to bear the brunt of this reduction. A further tightening of allocation of emissions allowances is expected from 2013. In particular, it is expected that the energy sector will have to take part in an auction for all the emissions allowances it requires.

Further relevant statutory changes in Germany in 2007 were an ordinance on usage of the electricity grid, incentive-based regulation of grid usage, legislation to reduce anti-competitive practices and regulations relating to the resolutions adopted by the government at its strategy meeting in Meseberg.

Trends in the residential real estate sector
The German housing market is dominated by owner-occupiers and private landlords. Since 2004, an increasing number of foreign institutional investors have been acquiring property portfolios and real estate companies from former public-sector housing corporations and other owners, resulting in a sharp rise in transactions involving major portfolios of residential real estate. Purchase prices have risen steadily since 2000 and remained high in 2007 despite rising interest rates and short-term resale.

General demand for housing is directly linked to the number of private households and their disposable incomes. Given the ongoing reduction in the average size of households, the number of households is rising and driving demand for residential property. This trend is highly regional: there is a difference in the trend in both net rents (excluding utility charges) and the number of households in different towns and communities. Ancillary charges are becoming an increasingly important factor in rental decisions. While net rents for residential units remained almost unchanged year-on-year, rising by just 1 percent, ancillary charges increased by 2.7 percent.

The future at our fingertips: Slowing down the ageing process is becoming more and more important. While people don't mind growing older, they don't want to lose their youthful looks. Evonik produces ceramides, substances that are identical to the skin and support its natural functions to prevent wrinkles.

Although construction spending increased by a total of 2 percent in 2007, investment in residential real estate declined slightly. Investment brought forward to counter the abolition of subsidies for owner-occupiers at the start of 2006 and the rise in value-added tax at the start of 2007 led to a reduction of nearly 50 percent in the number of construction permits issued in 2007. Construction of new apartments and owner-occupied homes is thus currently below the mid-term demand forecast.

Business activities

Renamed Evonik Industries

RAG Beteiligungs-AG was renamed Evonik Industries AG on September 12, 2007. The announcement of the new name was accompanied by an extensive corporate advertising campaign, launched ahead of the introduction of the new name to present our company to the general public. Since then, the Chemicals, Energy and Real Estate Business Areas have operated under a common brand: Evonik.

A clear strategy and an efficient structure

Evonik is a modern industrial group based in Germany with operations around the world. Our Chemicals, Energy and Real Estate Business Areas are systematically building on their position at the forefront of their sectors. Evonik is managed in accordance with the clear principles of modern value management, focusing on profitable growth and value creation.

Our core competencies—defined in 2007—are creativity, specialization, continual self-renewal and reliability. We regard creativity as the basis for innovative products and solutions. Our goal is to secure an edge by concentrating on business activities where we are particularly good. We consciously drive the principles of continual self-renewal and striving for improvement. Our aim is to be a reliable partner for our customers, investors and employees.

We have identified the global economic mega-trends as the future growth drivers for our business. One major issue is energy efficiency, in other words, expanding and enhancing the efficient generation and use of energy. Our objective is to conquer the future markets in this field: Evonik markets products and customer solutions that help utilize energy more efficiently, thus saving natural resources and cutting

CO_2 emissions. Another central mega-trend in Evonik's view is progressive globalization, combined with demographic change and increasing affluence in emerging markets and newly industrialized countries, which are fostering the growth of new groups of consumers. Demand for high-quality personal care products, cosmetics, pharmaceuticals, and health-care products is rising worldwide, not just in these countries. Evonik aims to benefit from the growing interest in health & wellness by marketing a wide range of smart and creative products and solutions.

Since January 1, 2008 our operations have been grouped in eight business units which are assigned to five segments: Technology Specialties, Consumer Solutions, Specialty Materials, Energy and Real Estate. The business units act as entrepreneurs within the enterprise and report directly to the Executive Board. The other operations mainly comprise the Shared Service Center, which provides cross-locational services such as purchasing and payroll accounting. The Shared Service Center supports the business units and the Corporate Center in Essen, Germany, which undertakes the strategic management of the Group.

Our portfolio comprises three profitable business areas positioned in attractive markets. At the same time, they offer a high degree of stability and thus reduce risk. Active portfolio management, accompanied by efficient capital allocation, has top priority for Evonik: we invest primarily in businesses with sustained and profitable growth prospects. Businesses that do not meet our profitability requirements and are not expected to do so in the future are divested.

The **Chemicals** Business Area operates in attractive areas of specialty chemicals, a field in which it ranks among the top global players. We are already positioned among the market leaders in more than 80 percent of our activities and we are systematically increasing this position. To achieve that, our priorities include powerful marketing, expanding our presence in attractive growth regions and focusing on the impetus generated by our innovations. Market-oriented research and development and work on future technologies are essential for profitable growth.

The core competencies of the **Energy** Business Area are planning, financing, building and operating highly efficient fossil-fuel power plants. As a grid-independent power generator, we operate eight coal-fired power plants and two refinery power plants in Germany. Internationally, Evonik's success includes major coal-fired power plants in Columbia, Turkey and the Philippines. Installed output is over 9,000 Megawatts (MW), including around 7,300 MW in Germany. We are a pioneer of efficient modern generation technology for hard coal that reduces pressure on raw materials. Evonik is well-positioned to benefit from the fast-growing future market for renewable energy sources and is one of the German market leaders in mine gas, biomass and geothermal energy.

The **Real Estate** Business Area manages a portfolio of 60,000 company-owned housing units concentrated in the federal state of North Rhine-Westphalia. It also has a 50 percent stake in Treuhandstelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlebezirk GmbH (THS), which owns more than 75,000 residential units. Evonik is thus one of the leading private-sector housing companies in Germany. The business focuses on letting housing to private households.

Organizational changes
Since the start of 2007, the Executive Board of Evonik has been supported in the management of the company by a Corporate Center. Accordingly, the corporate management functions of the three business areas were transferred to the new Corporate Center. Similarly, administrative functions such as procurement, IT, accounting, law, taxes and human resources for the individual Group companies are provided in full or in part by our Shared Service Center, Evonik Services GmbH. The employees required for the Corporate Center and Shared Service Center have been drawn from the former Corporate Centers of the RAG Aktiengesellschaft and its subsidiaries and from other Group companies.

In the Chemicals Business Area, the site service functions previously assigned to the central service unit were reallocated among the three operating segments effective January 1, 2007. As of July 1, 2007, the former Exclusive Synthesis & Catalysts Business Unit was transferred from the Technology Specialties segment to the Consumer Solutions segment. To improve comparability, the figures for the chemicals segments have been restated as of January 1, 2006.

Effective January 1, 2008, the twelve business units in the Chemicals Business Area were amalgamated to form six new business units[1]. The new structure will substantially improve the efficiency and market focus of the entire Group. The segment reporting already reflects this new structure.

Global activities
Evonik operates worldwide and has production sites in more than 28 countries. The largest sites such as Marl, Wesseling and Rheinfelden in Germany, Antwerp in Belgium, Mobile in Alabama, USA and Shanghai in China, have integrated production structures used by various business units. That means, for example, that by-products or waste from one production facility can be used as starting materials for a different product. The business units can also use the site energy supply and infrastructure cost-effectively. For technical or logistics reasons, some production facilities are located close to our customers or on their sites (fence-to-fence facilities). There are also many smaller sites around the world that are only used by one business unit.

Effective procurement
Evonik's procurement activities are focused at the Shared Service Center. Systematic pooling of purchasing generates competitive advantages and strategic responsibility for procurement enables us to leverage sustained synergies. Attending specialist events, screening raw material markets and networking with our suppliers ensure timely identification of market trends and developments so we can utilize them for the benefit of our business units. This is supported by the organizational structure of the procurement function. Lead buyers are responsible for the procurement of specific goods and services while supplier relations managers pool our knowledge of selected key suppliers.

Evonik spent around €7 billion on raw materials, technical equipment and services in 2007. Raw materials account for around 60 percent of total procurement volume. In keeping with the structure of the Group, different raw materials are of strategic importance for different business units. Of especial importance for the Group as a whole are petrochemical feedstocks, especially steam cracker products and their derivatives, silicon and silicone compounds and renewable raw materials. There has been a sharp rise in the price of petrochemical feedstocks as a direct consequence of oil price trends. Silicon prices were also driven upward by strong demand and rising energy costs while the increase in the price of renewable raw materials was principally due to higher demand for use as fuels as well as food. Evonik is therefore conducting research and development work in the field of renewable raw materials to secure long-term access to raw materials.

[1] The organizational chart is printed inside the front cover.

Long-term supply agreements cushioned the generally difficult market situation during the reporting period. As well as securing market-oriented price stability, these essentially ensure reliable supply to our facilities. The procurement function has a network of close links throughout the Group, enabling it to provide timely information to the business units on procurement market trends as a basis for price negotiations with customers.

The procurement of logistics services was also marked by rising energy prices and a general shortage of supply. New regulations on truck drivers' working hours, high demand for shipping freight space, floods and periods of low water on inland waters and, last but not least, the strike by train drivers in Germany confronted us with a constant stream of new challenges in the procurement of logistics services. Here too, we were able to obtain competitive advantages by bundling our activities and through our role on various professional associations. The ComLog procurement alliance with Bayer and Lanxess extends the radius beyond the Evonik Group.

To optimize procurement we are constantly reviewing our processes and raw material sources. The focus here is on optimizing processes through standardization and the utilization of electronic media such as Elemica and cc-hubwoo. We are also gaining access to new markets, for example in Asia and Eastern Europe.

Portfolio optimization: successful completion of further divestments

In May 2007 we divested the **mining technology** company DBT GmbH, Lünen, Germany, to the US mining supplier Bucyrus International, Inc., South Milwaukee, WI. The purchase price at the time was US$740 million, including an interest in Bucyrus International. The divestment of our 76.88 percent stake in the **gas distribution** company Saar Ferngas AG, Saarbrücken, Germany, to the ArcelorMittal Group, Luxembourg, was closed in November 2007. The purchase price was €367 million. The previous intention of selling this affiliate to RWE AG, Essen, Germany, was prohibited by the German antitrust authorities in March 2007. Both operations are reported as discontinued operations in fiscal 2007.

Two further operations that we are planning to divest were also transferred to discontinued operations in 2007. In December 2007 we signed an agreement on the sale of our **tar refining** affiliate Rütgers Chemicals GmbH, Castrop-Rauxel, Germany, to a subsidiary of the financial investor TRITON, St. Helier, Jersey, UK. The closing of this deal has been delayed by a fire at the start of February 2008, which entailed a temporary production shutdown, but we expect the transaction to be completed in the first half of 2008. The **initiators** business is also earmarked for divestment. Its organic peroxides and persulfates are used in the polymers industry for the manufacture of plastics and in other applications such as electronics and cosmetics.

We also divested a number of smaller non-core businesses in 2007. Further details can be found in Note (5.2) to the consolidated financial statements.

Changes in ownership structure

Until November 2007, RAG Aktiengesellschaft was the direct owner of all shares in Evonik Industries AG. The separation of the subsidized German coal mining activities from the industrial activities of the RAG Group comprised the sale of 94.9 percent of the shares in Evonik to RAG-Stiftung (RAG Foundation). The remaining 5.1 percent were transferred to Evonik Beteiligung Verwaltungs GmbH & Co. KG. The domination and profit-and-loss transfer agreement between RAG Aktiengesellschaft and Evonik Industries AG ended by mutual consent on December 31, 2007.

Research and development to secure the future
Research, development and innovation are key elements in Evonik's strategy of sustained value creation and profitable growth. Our research is geared to the market and aims to maintain and strengthen our good competitive position in specialty chemicals and power generation technology. In fiscal 2007 we raised our R&D spending to €307 million. Worldwide we had more than 2,300 R&D staff working at over 35 sites.

The Chemicals and Energy Business Areas have differing R&D models. The Energy Business Area concentrates predominantly on projects to raise energy efficiency and reduce CO_2 emissions in collaboration with other companies and institutes. By contrast, 85 percent of research in the Chemicals Business Area is undertaken by the business units and is geared specifically to their markets and key technologies. The remaining 15 percent is allocated to central projects focusing on strategically significant future technologies and the establishment of new business activities in high-growth markets. This strategic R&D is bundled at Creavis Technologies & Innovation.

New technology platforms are developed by Project Houses, which are set up for three years and work closely with the business units and external partners. Our Science-to-Business Centers (S2B Centers) are a logical extension of the Project Houses, based on the idea of vertical integration of all R&D activities along the value-added chain. Accordingly, the S2B Centers bring together academic researchers, suppliers and customers across a variety of disciplines and sectors under one roof to focus on aspects ranging from basic research through the development of processing and production steps to functional systems solutions. This significantly reduces the time from the development of a basic idea to the commercialization of the final product.

We have allocated total investment of €50 million each for our Nanotronics and Bio S2B Centers over a period of five years. The Nanotronics S2B Center is dedicated to developing systems solutions based on nanomaterials for the electronics sector. The Bio S2B Center focuses on white biotechnology. Alongside work on substitutes for traditional chemical processes, the focus is on developing products with completely new properties and high added value which are difficult or impossible to produce using conventional chemical methods. In the mid-term, we expect the nanomaterials and white biotechnology activities to generate additional sales running into triple-digit millions of euros. The nanotronics and biotechnology projects receive funding from the federal state of North Rhine-Westphalia and are co-financed by the European Union.

The development of new chemical products and systems normally requires the interaction of a wide range of capabilities. We have therefore defined six Areas of Competence to systematically manage the development process. These cover 80 percent of the markets served by the Chemicals Business Area. They bring together several technology platforms, bundling know-how in the following future-oriented fields:

- Inorganic Particle Design (inorganic powders with custom-tailored particle morphology and surface chemistry such as fumed and precipitated silicas and carbon blacks)
- Coating & Bonding Technologies (raw materials and technologies for coatings and adhesive formulations)
- Interfacial Technologies (e.g. the synthesis of surfactants)
- Designing with Polymers (the entire process chain involved in the production of polymers)
- Biotechnology (utilization of renewable raw materials and biotechnological processes such as fermentation)
- Catalytic Processes (production and application of homogeneous, heterogeneous and biocatalysts, e.g. rhodium catalysts, in the manufacture of plasticizers).

These platforms pool and combine our expertise, experience and technologies for use by all business units. This leverages considerable synergies for the development of new products and system solutions and places our innovation process on a broader basis.

Innovation is our driving force: SEPARION®, a ceramic separator membrane developed by Evonik, is a key element in the development of bigger lithium ion batteries. And that is good news for the automotive industry because SEPARION® makes lithium ion batteries safer, more powerful and more efficient than conventional batteries.

Evonik maintains open and trustful cooperation with scientists and institutions so that the results of top global research can rapidly be utilized by the company. We therefore sponsor university professorships in Germany and have some 300 cooperation agreements with universities around the world. The professorships we fund focus on sustainability issues in the areas of chemistry, biology and physics and solutions for future energy technology. For instance, Evonik sponsors a chair at Westfälische Wilhelms-University in Münster, Germany, dedicated to research in the field of energy storage by large-scale lithium ion batteries. This is an area of fundamental importance for more widespread use of these products in modern electric and hybrid autos. We invested nearly €15 million in cooperation agreements. The latest project is a three-year research agreement with the Leibniz Institute for Catalysis (LIKAT) at Rostock University on collaboration in catalysis projects.

In fall 2007, Evonik's Chemicals and Energy Business Areas, together with BASF, Bosch, Volkswagen and Li-Tec, Evonik's partner in the production of large-scale lithium ion batteries, established an R&D initiative in collaboration with the German Ministry of Education and Research (BMBF) to develop lithium ion batteries to mobilize regenerative energy for the future and raise efficiency in the conversion of fossil and regenerative fuels. The BMBF is providing support of around €60 million for this three-year project.

Evonik submitted patent applications for more than 300 new discoveries in 2007. We have more than 20,000 patents and pending patents and around 7,500 registered or pending brand names and trademarks.

Evonik significantly exceeded its ROCE target

We manage Evonik on the basis of an integrated system of value-oriented indicators. These are used to assess the business performance of the operational units and the Group. Through these value-based parameters, Evonik endeavors to generate positive cash flows and create value by achieving the highest possible return on capital employed.

Due to Evonik's structure, the indicators have to take account of the differences between the various operations yet be comparable across the business areas. Comparability is ensured through a mixture of standardized financial targets and key performance indicators which are defined uniformly for all reporting levels in the Group. Business-specific indicators—known as value drivers—take account of the success factors of the individual businesses.

The value-driven performance indicator system is therefore divided into three different levels. Starting from the goals of creating value and generating positive cash flows, cash flow parameters and profitability (ROCE and economic value added) form the apex of the pyramid. These indicators are derived from uniformly defined financial parameters taken from the income statement, balance sheet and cash flow statement. The central parameters are EBIT (earnings before interest, taxes and non-operating result), EBITDA (EBIT before depreciation, amortization, impairment charges and non-operating result) and operating income (EBIT after non-operating items). In the value-driver tree, these indicators are supported by key performance indicators (KPIs) which are used for operational management. They are the main factors that the operational units can leverage to secure Evonik's success.

ROCE measures the return on capital employed based on the Group's cost of capital. If ROCE is above the cost of capital, the company makes a positive contribution to economic value added and thus creates value. ROCE is calculated from the ratio of EBIT to average capital employed. Economic value added is calculated by multiplying capital employed by the difference between ROCE and the cost of capital.

Cost of capital (WACC)

in %	before taxes	after taxes
Chemicals	9.0	5.4
Energy	7.5	4.5
Real Estate	5.3	4.2
Evonik	**8.0**	**5.1**

The cost of capital for the business areas is calculated using the capital asset pricing model and WACC (weighted average cost of capital) based on sector-specific peer groups. The underlying assumptions are subject to continual review. From the mean WACC calculated for the individual business areas, a WACC of 8 percent before taxes is derived for the Group.

In fiscal 2007 Evonik achieved an ROCE of 9.5 percent, which was above both the cost of capital and the previous year's ROCE of 8.4 percent. Economic value added was €207 million in 2007 (2006: €56 million). All three business areas earned a return above their cost of capital and thus made a positive contribution to economic value added in 2007.

Capital employed and ROCE

in € million	**2007**	2006
EBIT	**1,348**	**1,179**
Intangible assets	4,294	4,574
+ Property, plant and equipment/ investment property	7,032	7,263
+ Investments	443	381
+ Inventories	1,768	1,737
+ Trade accounts receivable	2,290	2,211
+ Other non-interest-bearing assets	2,575	2,728
– Interest-free provisions	– 2,305	– 2,853
– Trade accounts payable	– 1,178	– 1,076
– Other interest-free liabilities	– 622	– 761
– Liabilities held for sale	– 38	– 160
= Capital employed[1]	**14,259**	**14,044**
ROCE (EBIT/capital employed) in %	**9.5**	**8.4**

[1] Annual averages.

ROCE by segment

in %	**2007**	2006	WACC
Technology Specialties	11.6	10.2	9.0
Consumer Solutions	8.6	7.3	9.0
Specialty Materials	10.1	8.1	9.0
Energy	14.9	13.8	7.5
Real Estate	6.3	6.6	5.3
Evonik Group	**9.5**	**8.4**	**8.0**

The three chemicals segments lifted ROCE significantly year-on-year thanks to an improvement in their operating results and a slight reduction in capital employed. While the returns reported by the Technology Specialties and Specialty Materials segments were well above their cost of capital, the Consumer Solutions segment did not quite meet its cost of capital. The Energy segment improved its ROCE despite a rise in capital employed in connection with current capital expenditure projects. The return was well above the cost of capital. In the Real Estate segment, ROCE was down on the previous year but above the cost of capital.

High EBITDA margin

Another key management yardstick is the EBITDA margin (EBITDA relative to sales). Since this is a relative figure, it provides a key basis for internal and external comparison of cost structures and profitability. Depreciation, amortization and impairment write-downs are not included in EBITDA, so the EBITDA margin can be taken as an approximation of the return on sales-related cash flows.

EBITDA rose 3 percent to €2,221 million. The Group's EBITDA margin increased slightly from 15.3 percent to 15.4 percent. All segments were basically able to match or slightly improve on the previous year's high EBITDA margins, while Real Estate reported a significant improvement as lower sales were accompanied by a slight increase in EBITDA.

EBITDA margin by segment

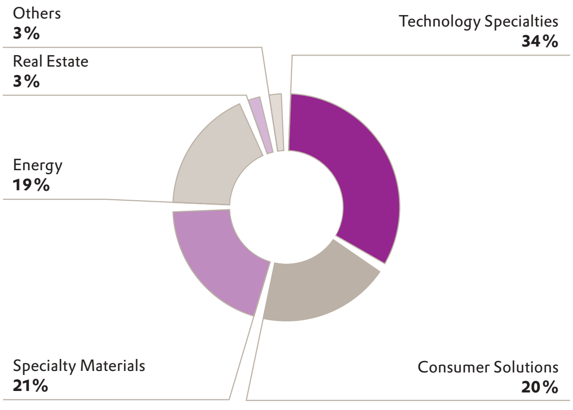
in %	2007	2006
Technology Specialties	15.4	15.7
Consumer Solutions	14.2	14.1
Specialty Materials	16.1	15.8
Energy	19.2	19.4
Real Estate	42.5	36.4
Evonik Group	**15.4**	**15.3**

Earnings position

Higher demand

The Evonik Group grew sales by 2 percent to €14,430 million. The Chemicals Business Area lifted sales by 3 percent to €10,796 million, with a rise of 6 percentage points coming from higher volumes and 3 percentage points from increased selling prices. However, these rises were mitigated by adverse exchange rate movements and changes in the scope of consolidation, which each trimmed sales by 3 percentage points. In the Energy Business Area, sales advanced 9 percent to €2,799 million due to higher volumes, mainly because of the start-up of the power plant at Mindanao in the Philippines at the end of 2006 and higher prices. By contrast, the Real Estate Business Area reported a 12 percent drop in sales revenues year-on-year to around €409 million due to lower property sales.

Sales by segment



The other operating income of €955 million (2006: €965 million) includes the reversal of provisions that were no longer required, principally for property transfer tax. The rise in material costs to €7,836 million was due partly to higher output and partly to an increase in raw material costs in the Chemicals Business Area. The internal raw material cost index, which shows the change in the price of major raw materials, mainly in the Chemicals Business Area, rose by an annual average of 6 percent. Particularly high rises were registered in the price of oil-based feedstocks (olefins and their derivatives, carbon black feedstock) and inorganic raw materials (lyes, silicon and silicon derivatives). Personnel expenses totaled €2,773 million, below the previous year's high level of €2,948 million, which included expenses for personnel adjustments in connection with the restructuring of the Group.

Income statement for the Evonik Group

in € million	2007	2006
Sales	14,430	14,125
Change in inventories of finished goods and work in progress	32	– 94
Other own work capitalized	81	77
Other operating income	955	965
Cost of materials	– 7,836	– 7,536
Personnel expense	– 2,773	– 2,948
Depreciation, amortization and impairment losses	– 1,119	– 1,334
Other operating expenses	– 2,842	– 2,669
Income before the financial result and income taxes, continuing operations	**928**	**586**
Financial result	– 401	– 394
Income before income taxes, continuing operations	**527**	**192**
Income taxes	– 158	– 33
Income after taxes, continuing operations	**369**	**159**
Income after taxes, discontinued operations	602	993
Income after taxes	**971**	**1,152**
of which attributable to		
Minority interests	95	106
Equity holders of Evonik Industries AG (net income)	876	1,046

Depreciation, amortization and impairment losses amounted to €1,119 million (2006: €1,334 million). Alongside depreciation and amortization, this includes impairment write-downs on the Degussa brand following the introduction of the new Evonik brand and on assets in the Consumer Solutions segment. The year-on-year decline was partly due to lower depreciation charges on assets capitalized as part of the purchase price allocation for the acquisition of Evonik Degussa GmbH. The other operating expenses of €2,842 million include administrative expenses of €421 million and selling expenses of €600 million. This item also includes expenses for the restructuring of the Group and for preparations to place Evonik on the capital markets.

Net income below the previous year's high level

Income before the financial result and income taxes improved 58 percent to €928 million. The financial result declined by €7 million to €401 million as a result of lower income from companies accounted for at equity and other investments. By contrast, net interest expense improved by 4 percent to €451 million due to the reduction in net debt.

Income before income taxes from the continuing operations improved significantly from €192 million to €527 million. Analogously to this, income tax expense increased to €158 million. The income tax rate of 30 percent was below the Group tax rate of 39 percent, principally due to tax income of €49 million from the revaluation of deferred taxes in Germany to reflect the changes to the corporation tax system. The continuing operations increased after-tax income by 132 percent to €369 million.

The income of €602 million reported by the discontinued operations mainly reflects the proceeds from the divestment of the mining technology and gas distribution businesses and operating income from these businesses until their divestment. This item also includes the results of the tar refining and initiators businesses, which are classified as held for sale. The previous year's figure of €993 million mainly comprised book gains from the sale of the construction chemicals and food ingredients operations. After deduction of income taxes and minority interests, **net income** was €876 million and thus below previous year's high level, which was boosted by divestments.

Financial condition

Efficient financial risk management
Evonik is exposed to financial risks in the course of its normal business and the related financial activities. As part of our risk management, financial management is designed to guarantee transparency and flexibility and provide a reliable basis for planning in order to limit the market, liquidity and default risks affecting both the value of the company and its profitability. The top priority is to ensure that the Group has sufficient liquidity at all times. In this way, we can largely check negative fluctuations in cash flows and earnings without having to forego the opportunities offered by positive market trends.

For this purpose we have established a systematic central financial and risk management system which contains binding definitions of the scope for action, responsibilities and controls based on recognized best practices. Financial risk management is designed to identify and evaluate all financial risk positions in the Group. Action is then defined to limit the risk potential. In this we strictly observe the principle of separating financial management and financial controlling functions. Our guidelines for this are the "Minimum Requirements for Trading Activities of Credit Institutions" (MaRisk) and the requirements of the German legislation on corporate control and transparency (KonTraG).

All financial instruments used by the Group are exposed to a possible loss of value due to price fluctuations. To make a realistic assessment of this risk, the value at risk is determined regularly for a time horizon of one month. This figure quantifies the potential market losses on all primary and derivative financial positions in the event of extreme changes in the underlying interest rates and exchange rates.

Financial risk management is based on Group-wide treasury management systems and binding policies and principles. Hedging is used to reduce risk. This includes the use of derivative financial instruments to hedge underlying transactions. Financial derivatives are used for hedging purposes only, in other words, they are only used in connection with transactions originated by business operations that have a risk profile exactly opposite to that of the financial derivatives. The financial derivatives used are common market products such as forward rate agreements, currency options, interest swaps and share options.

Commodity risks result from changes in the market prices of raw materials. At Evonik, commodity management is delegated to the business units. They identify procurement risks and take effective measures to minimize them. For example, price volatility is smoothed through price escalation clauses and swap transactions.

Credit risks are systematically examined when contracts are concluded and monitored continuously afterwards. Following an analysis of creditworthiness, we set maximum limits for transactions with each contracting party. These are normally based on the ratings issued by international rating agencies and our own internal credit analysis. Credit risk management also covers financial derivatives, where the risk of default is equivalent to the positive fair value. This risk is minimized by setting high standards for the creditworthiness of counterparties.

Details of the financial derivatives used and their recognition and valuation can be found in Note (10.3) to the consolidated financial statements.

Broadly diversified financing structure
As part of the complete acquisition of Evonik Degussa GmbH, we agreed a syndicated credit facility of originally €5.25 billion for five years with a group of national and international banks. Following the achievement of contractually defined milestones such as the dissolution of the joint liability arrangement between RAG Aktiengesellschaft and Evonik Industries AG, the shares in Evonik Degussa GmbH, which had previously served as collateral for this credit facility, were released at the start of 2008. Since then the credit line has been unsecured. The agreements on this credit facility contain covenants stipulating the attainment of specific financial ratios, mainly debt to EBITDA and interest coverage. In fiscal 2007 our ratios were well above the minimum levels set.

Within the Evonik Group, cash and cash equivalents are concentrated in a cash pool at Evonik Industries AG. To meet short-term financing requirements, €2.25 billion is available as a tranche of our syndicated credit facility, which expires in 2011. This was drawn at times during 2007 but was not in use as of December 31, 2007. In addition, Evonik has significant bilateral credit agreements totaling some €740 million, including €535 million concluded directly by Evonik Industries AG. These credit facilities were utilized at times in 2007 and €163 million was in use on December 31, 2007.

€198 million of the project financing concluded for STEAG-EVN Walsum 10 Kraftwerksgesellschaft mbH in 2006 to fund the "Walsum 10" power plant project had been drawn as of December 31, 2007. Utilization of this loan will increase as the project proceeds.

As of December 31, 2007 Evonik had net financial debt of €4,645 million (2006: €5,434 million). The main components of corporate financing are a loan of €779 million under the syndicated credit facility of Evonik Industries AG (last repayment installment due in 2011), a €1.25 billion corporate bond issued by Evonik Degussa GmbH which matures in 2013, real estate financing totaling €0.9 billion and project financing amounting to €1.2 billion, chiefly for the Energy Business Area.

The €600 million credit facility utilized by the Real Estate Business Area in the previous year was repaid in full.

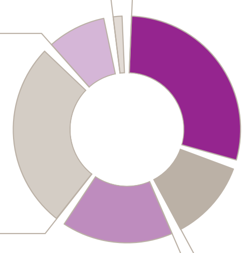
Evonik has no off-balance-sheet financing that could have a material impact on its present or future earnings, financial position, liquidity or other balance sheet items.

Higher capital expenditures

Selective investment is used to improve on our good competitive position, strengthen our business and grow in markets where we see growth potential and opportunities to generate high returns. All investments are exposed to a detailed strategic and economic analysis and have to meet business-specific minimum-return requirements which include covering the cost of central functions. Structured investment budgets are used to manage the allocation of funds. Alongside the funds required to uphold business, these take account of the strategic classification of the operations and their profitability. Major strategic projects are accorded special significance. They undergo an extended, comparative analysis with other businesses. This is designed to ensure the prioritization of major investments that meet top return expectations—after taking account of the specific risk factors—and are aligned to the strategic focus of Evonik and the relevant operational unit.

Evonik increased capital expenditures by 10 percent to €1,032 million in 2007. The Technology Specialties segment received the largest share (30 percent), followed by the Energy segment (28 percent). 17 percent of the total was invested in the Specialty Materials segment, Consumer Solutions received 13 percent and the Real Estate segment 10 percent. Regionally, the focus was on Germany, which accounted for 72 percent of the total. The largest single project is the erection of a coal-fired power plant in Duisburg-Walsum, Germany. Other European countries accounted for 9 percent of total capital expenditures, 7 percent went to North America, and 10 percent to Asia.

Capital expenditures by segment



Capital expenditures[1)]

in € million	2007	2006	Change in %
Technology Specialties	306	256	20
Consumer Solutions	139	189	– 26
Specialty Materials	179	174	3
Total Chemicals	**624**	**619**	**1**
Energy	284	226	26
Real Estate	103	78	32
Other	21	12	75
Evonik Group	**1,032**	**935**	**10**

1) For intangible assets, property, plant and equipment and investment property.

Major projects completed or virtually completed in 2007

Segment	Location	Project
Technology Specialties	Barra do Riacho, Brazil	Expansion of hydrogen peroxide capacity
	Bitterfeld, Germany, and Antwerp, Belgium	Expansion of capacity for chlorosilanes
	Rheinfelden, Germany	New monosilanes facility and deposition reactor for polycrystalline silicon
	Wesseling, Germany	Replacement of filter presses including efficiency improvements
	Paulínia, Brazil	Expansion of capacity for carbon blacks
	Marl, Germany	Condensing back-pressure turbine
	Xinzghuang, China	Extension of the R&D center
Consumer Solutions	Kaba, Hungary	New threonine facility
	Slovenská Ľupča, Slovak Republic	New tryptophan facility
Specialty Materials	Herne, Germany	New isophorone production line
	Marl, Germany	Expansion of the C_{12} production line for specialty polyamides
	Fortier, US	New methacrylic acid plant
	Mobile, US	New polymethacrylimide plant
	Taichung, Taiwan	New production facility for optical-grade PMMA
	Shanghai, China	New polymerization plant for polyamide
Energy	Lünen, Germany	Amalgamation of blasting agent production
	Voerde, Germany	Modernization of control technology
	Lünen and Voerde, Germany	Projects to reduce CO_2 emissions
Real Estate	Cologne, Germany	Purchase and construction of properties
	North Rhine-Westphalia	Optimization of the energy efficiency of properties

For further information on current capital expenditure projects, please see the segment and regional reports.

Additions to financial assets were €144 million, a significant drop compared with the previous year's figure of €3,536 million, which mainly comprised the acquisition of the remaining shares in Evonik Degussa GmbH.

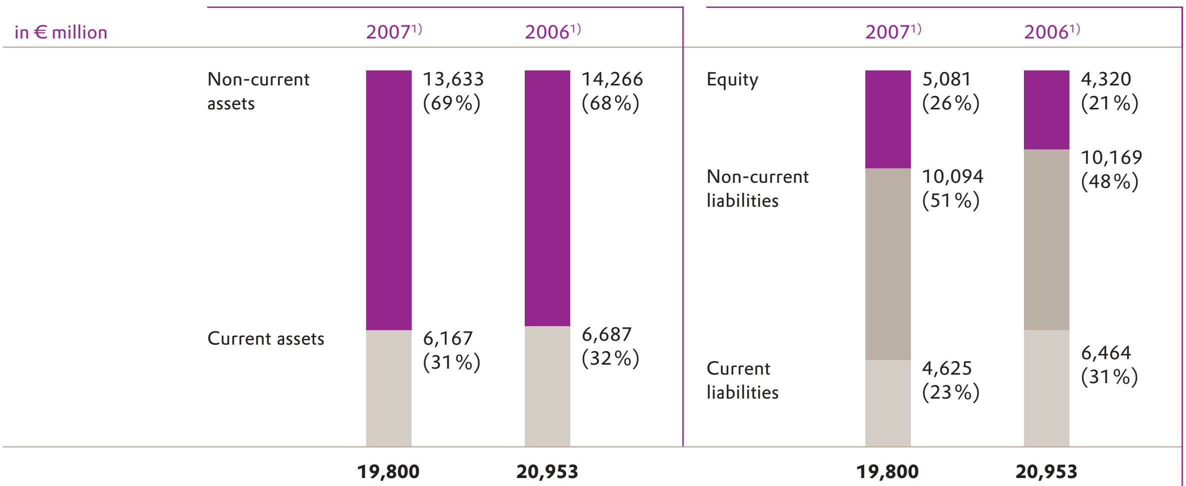
Higher cash flow

The cash flow from operating activities increased by 6 percent to €1,215 million in line with the operating trend. The cash outflow for investing activities of €329 million was lower than the outflow of €828 million recorded in the previous year, mainly for the purchase of the remaining shares in Evonik Degussa GmbH. In 2007, cash outflows for investing activities of €1,166 million were financed to a large extent by cash inflows from the divestment of businesses totaling €1,075 million. We used the cash flow from operations to reduce debt by a significant €741 million. Overall, the cash outflow for financing activities was €1,007 million.

Cash flow statement for the Evonik Group (excerpt)

in € million	**2007**	2006
Cash flow from operating activities	1,215	1,142
Cash flow from investing activities	– 329	– 828
Cash flow from financing activities	– 1,007	– 308
Cash and cash equivalents on December 31	319	444

Evonik Group: Balance sheet structure



[1] As of December 31.

Asset structure

Reduction in total assets

The change in total assets and the structure of the balance sheet were mainly influenced by the divestment of the mining technology and gas distribution activities and the reclassification of the discontinued tar refining and initiators operations to assets held for sale. Total assets decreased by €1.2 billion to €19.8 billion due to divestments. Non-current assets declined by €0.6 billion to €13.6 billion and current assets contracted by €0.5 billion to €6.2 billion. The ratio of non-current assets to total assets rose slightly to 69 percent. Non-current assets are financed by liabilities with the same maturity structure.

Equity increased by €0.8 billion to €5.1 billion. This was attributable partly to good net income and partly to the €445 million increase in the capital reserves of Evonik Industries AG recognized in the consolidated financial statements due to the transfer from RAG Aktiengesellschaft of the shares in THS and other assets of Unternehmensverband Steinkohlenbergbau. Since December 2007 THS has been part of the Real Estate Business Area and is included in the consolidated balance sheet at equity. The equity ratio improved from 20.6 percent to 25.7 percent.

Non-current liabilities declined to €10.1 billion. A reduction of €1.3 billion in current financial liabilities contributed to the sharp drop of €1.8 billion in current liabilities to €4.6 billion.

Performance of the business areas

Chemicals Business Area

The Chemicals Business Area operates in attractive areas of specialty chemicals, a field in which it ranks among the top global players. We are already positioned among the market leaders in more than 80 percent of our activities and we are systematically increasing this position. To achieve that, our priorities include powerful marketing, expanding our presence in attractive growth regions and focusing on the impetus generated by our innovations. Market-oriented research and development and work on future technologies are essential for profitable growth. The Chemicals Business Area comprises three segments: Technology Specialties, Consumer Solutions and Specialty Materials.

Highlights

More than 80 percent of sales are generated in businesses where we rank among the market leaders

Broad customer base, diversified end-markets and products that are difficult to replace

Over 100 production sites in 28 countries around the world

Products, processes and applications developed in the past five years account for about 20 percent of sales

More than 20,000 patents and pending patents

Market-oriented research and development and modern innovation management

Technology Specialties
This segment bundles Evonik's extensive expertise in chemical process technology.

Consumer Solutions
Even small amounts of this segment's custom-tailored substances and system solutions can give products the added benefits that often clinch a sale.

Specialty Materials
This segment brings together Evonik's high-performance materials activities and is characterized by superior materials, processing and applications expertise.

Technology Specialties

Most of the products manufactured by the Technology Specialties segment are sold to companies in the chemicals, plastics, rubber and paper industries for top-of-the-range end-applications. These include organic and inorganic specialties, which are used as key inputs in the agrochemical and plastic sectors and in the manufacture of solar silicon. Hydrogen peroxide is a major bleaching and oxidation agent for the paper and pulp industry. Particle and filler systems based on carbon blacks and fumed silicas are mainly used to reinforce rubber in the tire industry. The Technology Specialties segment comprises the Industrial Chemicals and Inorganic Materials Business Units.

This segment pools Evonik's expertise in chemical process technology. One application of its unique knowledge of particle and filler technology is in energy-saving low rolling resistance tires. Evonik is the only supplier in the world from which tire producers can source all the necessary filler components. The acquisition of the remaining shares in DEC (Degussa Engineered Carbons) in the USA and the increase in carbon black capacity in Brazil permanently strengthened its position in 2007, especially in the Americas. Another growth area comprises preproducts for the production of solar silicon: Evonik is the world's largest producer of ultra-pure chlorosilanes. This segment's future-oriented technology includes an innovative method of producing propylene oxide from hydrogen peroxide, a field in which Evonik has enormous expertise. Coupled with a new direct synthesis route for hydrogen peroxide, on which Evonik is currently working, this process will significantly reduce the cost of producing this product, which is a key starting material, for example for the plastics industry.

Evonik is the leading producer of plasticizers and plasticizer alcohols and is expanding its position by increasing production capacity for the plasticizer alcohol 2-propylheptanol (2-PH). In the NAFTA region it is also building a new production facility for alcoholates for use as catalysts in the production of biodiesel. Further production capacity in South America is currently being evaluated. Evonik's catalyst for the production of biodiesel is the global market leader. Technology Specialties will strengthen its sound market position further in the future.

Technology Specialties: Key data

in € million	**2007**	2006	Change in %
External sales	4,898	4,812	2
EBITDA	756	754	0
EBIT	454	400	14
Capital expenditures[1]	306	256	20
Depreciation and amortization[1]	301	342	– 12
Capital employed (annual average)	3,906	3,935	– 1
ROCE in %	11.6	10.2	
EBITDA margin in %	15.4	15.7	
Employees as of December 31	15,932	14,151	13

[1] For intangible assets, property, plant and equipment and investment property.

An improvement in earnings
The Technology Specialties segment lifted sales by 2 percent to €4,898 million. After adjustment for changes in the scope of consolidation, chiefly non-core activities divested in fiscal 2006, sales were up 4 percent. Higher volumes and an increase in selling prices to pass on the sharp rise in raw material costs over the past couple of years boosted sales by 3 percentage points each, while exchange rate movements held back the rise in sales.

Technology Specialties: Change in sales

in %	
Volumes	3
Prices	3
Changes in scope of consolidation	– 2
Exchange rates	– 2
Total	**2**

EBIT climbed 14 percent to €454 million thanks to far higher demand, improved selling prices and the success of restructuring and cost-containment drives. At the same time, there was a decline in the depreciation of assets capitalized as part of the purchase price allocation for the acquisition of Evonik Degussa GmbH. The Technology Specialties segment reported EBITDA of €756 million, which was on a par with the previous year. The EBITDA margin slipped slightly from 15.7 percent to 15.4 percent. ROCE improved to 11.6 percent as the improvement in EBIT was accompanied by a slight drop in capital employed.

Industrial Chemicals Business Unit

in € million	2007	2006	Change in %
External sales	2,451	2,382	3
EBITDA	363	353	3
EBIT	293	273	7

Inorganic Materials Business Unit

in € million	2007	2006	Change in %
External sales	1,859	1,781	4
EBITDA	361	362	0
EBIT	253	252	1

Sales advanced 3 percent to €2,451 million in the Industrial Chemicals Business Unit and EBIT rose 7 percent to €293 million. Plasticizers and plasticizer alcohols posted a successful performance, boosted by the favorable business climate generated by high global demand. Functional chemicals and alcoholates, which are used as catalysts in the production of biodiesel, also reported higher earnings thanks to a considerable rise in demand.

Sales rose 4 percent to €1,859 million in the Inorganic Materials Business Unit and EBIT increased slightly year-on-year to €253 million. Business picked up perceptibly around the world. Pigments and functional specialty silanes registered a particularly strong rise in demand and higher earnings, while chlorosilanes benefited from higher volume sales in the growing fiber optics and photovoltaics industries. However, this business unit's earnings trend was dampened by higher raw material costs, which could not be fully recouped by raising selling prices, and by the drop in the US dollar and the yen. Inorganic Materials strengthened its position in the strategically important North American market by acquiring the remaining 50 percent stake in the carbon black joint venture DEC (Degussa Engineered Carbons).

The Technology Specialties segment also includes large multi-user sites, for example Marl, Shanghai, Antwerp and Mobile, the service functions at these sites, and strategic research. In 2007 these activities generated sales of €588 million, with a major contribution coming from services provided for external companies at the Marl site. EBITDA came to €33 million. After taking into account the applicable depreciation relating to the purchase price allocation, the EBIT generated by these activities was minus €93 million.

Capital expenditures

Capital expenditures increased from €256 million to €306 million in the Technology Specialties segment and were slightly above depreciation, which came to €301 million. In 2007 the Industrial Chemicals Business Unit completed the expansion of capacity for butadiene, 1-butene and isotridecanol. Construction work on two major projects started at the end of 2007. In Chongqing, China, Industrial Chemicals is building a production facility for cyanuric chloride, an intermediate used in the agrochemicals, textile, paper and plastics industries. This facility will cost €24 million and is scheduled for completion at the end of 2008. It will double current capacity in China to 60,000 metric tons p.a. and strengthen our global market position. When the plant comes on stream in 2009, China will be the central location for our global cyanuric chloride business. Similarly, the business unit has decided to raise production capacity for the plasticizer 2-propylheptanol (2-PH) by 60,000 metric tons p.a. to strengthen its leading position in plasticizer alcohols. This new plant should be completed by end-2009. The **Inorganic Materials** Business Unit started up its extended carbon black facility in Paulínia, Brazil, in the first half of 2007, doubling production capacity in this country to 100,000 metric tons p.a. An extensive program of modernization and investment in replacement equipment was completed at the site in Wesseling, Germany, where fumed silica is produced. The construction work on the monosilanes plant and a deposition reactor for polycrystalline silicon in Rheinfelden, Germany, was virtually completed at the end of 2007. Together with the capacity increases in Antwerp (Belgium), Bitterfeld and Rheinfelden in Germany and Yokkaichi (Japan), Inorganic Materials has therefore paved the way for further growth in chlorosilanes and Aerosil.

Research & development

In the **Industrial Chemical** Business Unit, the growing area of triacetone amine derivatives forms the basis for the development and commercialization of a new group of products. TEMPO derivatives obtained from triacetone amines by oxidation are used principally in the petrochemical industry. As performance additives they prevent fouling in the production of monomers. This new development has already been introduced in many facilities as a service package under the brand name SiYPro, which stands for Simplify Your Process. This brand comprises a range of completely new solutions to raise the availability of petrochemical facilities. New high-performance technology for the production of hydrogen peroxide is now being used successfully in Barra do Riacho, Brazil, following a pilot phase in Weissenstein, Austria. This technology allows efficient and economical expansion of existing capacity without the need to build new facilities. The **Inorganic Materials** Business Unit has extended its portfolio of custom-tailored metal oxides. New applications and solutions allow accurate control of surface chemistry, facilitating corrosion protection and the creation of easy-to-clean and anti-graffiti effects. Moreover, user-friendliness has been optimized by developing dispersions for a wide range of customer application profiles, for example to improve the scratch-resistance of coatings in the automotive industry and optimize the quality of ink-jet printing. The rollout of the new Inxel range of pigment preparations started. These readily dispersible products are easier to incorporate into paint and coating systems. Moreover, as granular formulations they meet the requirements for low-dust workplaces. Further progress in furnace technology allows production of carbon blacks with an extremely small surface area and specific structures for a special tire compound that reduces air diffusion in truck tires. The resulting constant air pressure improves safety, while constantly low rolling resistance helps cut fuel consumption and thus contributes to environmental protection. Inorganic Materials was presented with Evonik's internal Innovation Award[1)] for the development of environment-friendly SIVO®SOL coating technology. SIVO®SOL technology uses water as a solvent and, unlike common treatment processes for metals, it does not use heavy metals or inorganic fluorine compounds.

1) See page 80 (Innovation awards).

Progress rolls onward: Tires with low rolling resistance are better for the environment. Incorporating carbon blacks into special tire rubber compounds reduces air diffusion and ensures consistently low rolling resistance. And that helps save fuel, thanks to Evonik's carbon blacks production technology.

Consumer Solutions

The Consumer Solutions segment's main customers are manufacturers of consumer goods, especially personal care, hygiene, pharmaceutical and nutrition products. Even small quantities of the custom-tailored substances and system solutions marketed by the Consumer Specialties and Health & Nutrition Business Units can give customers' products the added benefits that often clinch a sale. Strategic success factors include intensive research and development and working closely with customers. These business units often work side-by-side with leading producers of end-products within the framework of development alliances.

The high-quality products marketed by Consumer Solutions include superabsorbent polymers for diapers. Its extensive expertise in interfacial chemistry generates sophisticated solutions for personal care products and industrial applications, for example, to stabilize foam. Ingredients for fabric softeners round out the product portfolio. Evonik is the only supplier in the world from which customers can source four essential amino acids for animal feeds: DL-methionine, L-lysine, L-threonine and L-tryptophan. Customized substances and active ingredients, especially amino acids, are also key starting products for the pharmaceutical industry.

This segment's future growth will be supported by the new mega-trends: health & wellness and globalization & demographic change. The emerging markets in Eastern Europe and Asia are greatly increasing demand for toiletries and hygiene products, while rising living standards in these regions are altering dietary habits, with a clear shift towards increased consumption of animal produce such as poultry. Thanks to the successful horizontal integration of its exclusive synthesis facilities and the switch to a biotechnological method of producing amino acids for pharmaceuticals, Evonik is extremely well-positioned for the future of this important market.

Consumer Solutions: Key data

in € million	**2007**	2006	Change in %
External sales	2,871	2,813	2
EBITDA	409	396	3
EBIT	219	195	12
Capital expenditures[1]	139	189	– 26
Depreciation and amortization[1]	190	208	– 9
Capital employed (annual average)	2,558	2,661	– 4
ROCE in %	8.6	7.3	
EBITDA margin in %	14.2	14.1	
Employees as of December 31	7,969	7,953	0

[1] For intangible assets, property, plant, equipment and investment property.

Higher earnings
2007 was a good year for Consumer Solutions overall but the two business units developed differently. There was high global demand for the segment's products and it was able to raise some selling prices. Leaving aside changes in the scope of consolidation, especially the businesses divested in 2006, sales advanced 8 percent to €2,871 million.

Consumer Solutions: Change in sales

in %	
Volumes	9
Prices	2
Changes in scope of consolidation	– 6
Exchange rates	– 3
Total	**2**

Higher volumes and successful restructuring lifted EBIT by 12 percent to €219 million. Consumer Solutions raised EBITDA by €13 million to €409 million and the EBITDA margin increased slightly to 14.2 percent. The clear improvement in ROCE came from the rise in EBIT and a reduction in capital employed.

Sales in the Consumer Specialties Business Unit increased 5 percent to €1,640 million. EBIT slipped 9 percent year-on-year to €125 million. The superabsorbents market is still dominated by overcapacity, which is putting considerable pressure on volume sales and prices. At the same time, there has been a further increase in the cost of key raw materials such as propylene. By contrast, there was a substantial rise in demand for our care specialties for cosmetics and household products, which made a higher contribution to earnings.

Consumer Specialties Business Unit

in € million	**2007**	2006	Change in %
External sales	1,640	1,555	5
EBITDA	190	209	– 9
EBIT	125	138	– 9

Health & Nutrition Business Unit

in € million	2007	2006	Change in %
External sales	1,205	1,048	15
EBITDA	224	173	30
EBIT	149	87	72

The Health & Nutrition Business Unit grew sales by 15 percent to €1,205 million and EBIT improved 72 percent to €149 million. The feed additive DL-methionine was buoyed by a perceptible rise in global demand. The strategic refocusing of the exclusive synthesis business, which includes relocating production of low value-added intermediates to Asia and restructuring, was visible in a clear earnings improvement. Moreover, pharmaceutical companies are continuing to outsource production of active ingredients. In the catalysts business higher demand for precious metals and fixed bed catalysts, coupled with optimized internal processes, resulted in higher earnings.

Some multi-user sites, together with the related site services, are allocated to the Consumer Solutions segment. These activities generated sales of €26 million in 2007. In the previous year, other operations mainly comprised the water chemicals and industrial chemicals operations, which have now been divested. EBITDA was minus €5 million. Including the applicable depreciation on purchase price allocations, these activities generated EBIT of minus €56 million.

Capital expenditures

Capital expenditures in the Consumer Solutions segment were €139 million and thus below the previous year's level of €189 million. They were also below depreciation, which amounted to €190 million. Capital spending in the Consumer Specialties Business Unit comprised debottlenecking and modernization of production facilities for superabsorbents in Greensboro, NC, USA. At year-end 2007 the Health & Nutrition Business Unit started operation of a large-scale threonine facility with initial capacity of 20,000 metric tons p.a. in Kaba, Hungary, in response to the dynamic growth of the threonine market. A tryptophan plant was completed in Slovenská Ľupča, Slovak Republic, in the summer. L-threonine and tryptophan are essential amino acids used to optimize the cost-efficiency of animal feed formulations and reduce nitrogen loads in animal husbandry. Tryptophan has only been produced commercially for this market segment in the past few years. The market is relatively new and annual growth is in the double-digit range. In summer 2007 Health & Nutrition also expanded its exclusive synthesis capacity in response to long-term supply agreements with customers in the pharmaceutical industry. A total of €12 million was invested in the two new production plants for active ingredients in Hanau-Wolfgang and Dossenheim in Germany. Health & Nutrition now has extremely well-equipped plants to supply international pharmaceuticals manufacturers with products that conform to C-GMP (Current Good Manufacturing Practice) standards.

Essential progress: Essential amino acids produced by Evonik's Health & Nutrition Business Unit optimize nutrition and help keep livestock healthy. These feed additives are essential because they are not produced naturally by humans and animals.

Research & development

The Consumer Specialties Business Unit has increased its leadership in organic silicone derivatives, for example through the development of radiation-curing silicone release coatings for the labeling industry. This system permits the use of recyclable film instead of the previous non-recyclable paper substrates. New hydrophobic concepts have rapidly gained a good position in the fast-growing dry mortar industry and innovative compounding technology based on special silicone derivatives facilitates the production of scratch-resistant plastic surfaces for the automotive sector.

Newly developed stabilizers for polyurethane foam are encouraging the clear growth in the use of polyurethane-based insulating materials. The custom-tailored topologies of such silicones also allow efficient processing into viscoelastic foams that are used, for example, in mattresses. For the fermentation processes used to produce the amino acids threonine and lysine, the Health & Nutrition Business Unit has developed new production strains that increase yields and productivity.

Specialty Materials

This segment's products are used to manufacture durable capital goods and industrial products. It focuses mainly on the automotive, coating and colorants and construction sectors and a wide range of other high-end applications in fields such as aviation engineering, displays, pharmaceuticals and lifestyle articles. Its high-quality polymers are used as transparent plastics in the semiconductor industry, lightweight structural components in the construction sector and resins and coatings additives in the colorants sector. Evonik also markets specialty monomers as starting products for polymers. Formulations are often customized to meet specific requirements. The Specialty Materials segment comprises two business units: Coatings & Additives and Performance Polymers.

This segment brings together all Evonik's activities in the area of high-performance materials, which rank among the market leaders as a result of their superior materials, processing and applications expertise. Its cost-leadership is based on integrated production at large networked methylmethacrylate (MMA), isophorone, C_{12} and silicone complexes. To strengthen its global leadership in MMA, Evonik is currently building a further integrated production facility with capacity of around 100,000 metric tons p.a. in Shanghai, China. A fourth production line for isophorone and its derivatives came on stream at the Herne site in Germany in 2007. The Coatings & Additives Business Unit has thus strengthened its global leadership in this field. Its regional expansion strategy is rounded out by further capital expenditures and various other activities such as the start-up of a new production facility for PMMA molding compounds at the joint venture with Forhouse Corporation (Taiwan).

The segment is focused on growing through new applications and innovations, many of which are triggered by direct dialog with customers. Environment-friendly developments include new solvent-free coatings additives and climate-friendly acrylic sheeting for energy-saving greenhouses.

Specialty Materials: Key data

in € million	2007	2006	Change in %
External sales	3,027	2,881	5
EBITDA	488	454	7
EBIT	288	236	22
Capital expenditures[1)]	179	174	3
Depreciation and amortization[1)]	197	223	– 12
Capital employed (annual average)	2,858	2,906	– 2
ROCE in %	10.1	8.1	
EBITDA margin in %	16.1	15.8	
Employees as of December 31	8,384	8,267	1

[1)] For intangible assets, property, plant, equipment and investment property.

Substantial improvement in earnings

Boosted by an appreciable rise in demand, Specialty Materials lifted sales 5 percent to €3,027 million. These favorable conditions enabled it to continue aligning prices to reflect the substantial rise in raw material costs in recent years, but the weakness of the US dollar had a negative impact.

Specialty Materials: Changes in sales

in %	
Volumes	6
Prices	2
Changes in scope of consolidation	0
Exchange rates	– 3
Total	**5**

EBIT increased by 22 percent to €288 million thanks to higher volumes and prices. At the same time, there was a decline in the depreciation of assets capitalized as part of the purchase price allocation for the acquisition of Evonik Degussa GmbH. The Specialty Materials segment lifted EBITDA 7 percent to €488 million and its EBITDA margin improved from 15.8 percent to 16.1 percent. ROCE rose from 8.1 percent to 10.1 percent, mainly because of the clear improvement in EBIT, accompanied by a reduction in capital employed.

Sales grew 6 percent to €1,535 million in the Coatings & Additives Business Unit and EBIT rose 18 percent to €244 million. High demand for isophorone and its derivatives was satisfied in full thanks to the start-up of the new production line in spring 2007. TEGO® additives also generated higher earnings, enjoying strong growth impetus from the switch from solvent-based to water-based or UV-curing coatings, partly in connection with the EU’s new Chemicals Regulation REACH. Business with oil additives increased perceptibly, with demand rising strongly in Europe. Pharmaceuticals polymers also posted an improvement in earnings as a result of a hike in demand.

Coatings & Additives Business Unit

in € million	2007	2006	Change in %
External sales	1,535	1,445	6
EBITDA	303	266	14
EBIT	244	206	18

Performance Polymers Business Unit

in € million	**2007**	2006	Change in %
External sales	1,442	1,383	4
EBITDA	189	188	1
EBIT	120	121	– 1

Sales were up 4 percent at €1,442 million in the Performance Polymers Business Unit and EBIT matched the previous year's level of €120 million. In the PMMA business, the new strategy of focusing consistently on specialties is paying off: higher volumes, especially of acrylic sheeting for sound-proofing and other specialty applications, increased earnings. High demand was also registered for monomers, molding compounds and C_{12} products. However, this business unit's earnings were negatively impacted by the lower US dollar exchange rate and the sharp rise in the price of methanol towards year-end.

Some multi-user sites and the related site services are allocated to the Specialty Materials segment. In 2007, these activities generated sales of €50 million and EBITDA of minus €4 million. After depreciation on the purchase price allocation from the acquisition of Evonik Degussa GmbH, the EBIT reported by these activities was minus €76 million.

Capital expenditures

Specialty Materials invested a total of €179 million in 2007 (2006: €174 million). Capital expenditures were thus below depreciation, which amounted to €197 million. The Coatings & Additives Business Unit started up its new isophorone production line in Herne, Germany, marking the successful completion of a major investment project at a cost running into double-digit millions of euros. Evonik is one of the world market leaders in isophorone chemistry. These products are used, for example, in the production of light and weather-resistant automotive coatings, high-quality interior components for cars and solvent-free coatings for industrial floors. Applications in the construction industry include anti-corrosion agents for bridges, scaffolding and locks. Isophorone products are also used in epoxy resin systems, for example for rotor blades on wind turbines. In Singapore, Coatings & Additives is currently investing more than €10 million in a production facility for oil additives. Start-up is scheduled for the first half of 2008 and the new facility will enable Evonik to meet demand for VISCOPLEX® additives for top-performance lubricants in Asia, the Middle East and Africa for at least ten years. The Performance Polymers Business Unit successfully started up a new production plant for PMMA molding compounds in Taichung, Taiwan, in collaboration with its Taiwanese joint venture partner Forhouse Corporation. The plant produces high-quality PMMA for optical applications in display technology. The growth rate for liquid crystal flat-panel displays is currently over 10 percent. The first construction phase comprises annual production capacity of 40,000 metric tons and is designed as a fence-to-fence production venture. Alongside the PMMA production plant, the site includes a facility to manufacture lighting modules for thin-film transistor liquid crystal displays (TFT LCDs) from PMMA. This integrated supply chain will ensure smooth supply of ultra-high-purity optical-grade materials to customers. This investment expands Evonik's position as the leading global supplier of PMMA. At its site in Mobile, Alabama, USA, the business unit is currently building a production facility for the polymethacrylimide rigid foam ROHACELL®. Investment is around US$10 million and the new plant is scheduled to come on stream in mid-2008. ROHACELL® is a core material in sandwich constructions comprising extremely rigid, lightweight molded components with high stress resistance. Performance Polymers started construction of a new integrated production facility at the multi-user site in Shanghai, China, in September 2007. Investment in this complex will be in the region of €250 million, making it the second largest individual investment ever undertaken by the Chemicals Business Area. The new world-scale facility is expected to come on stream in mid-2009 after a two-year construction phase. In addition to capacity for around 100,000 metric tons p.a. MMA, this integrated facility will produce methacrylic acid, specialty methacrylates and PMMA molding compounds. The segment is thus creating an optimized, integrated complex that is so far unique in the world to supply customers in the optical electronics, adhesives, coatings and automotive sectors. This will strengthen Evonik's position as the world's leading producer for the attractive and growing MMA market.

Research & development

The **Coatings & Additives** Business Unit has continued to develop new powder coating concepts to market maturity. These facilitate curing of powder coatings at low temperatures. The technology has been introduced by key customers in innovative projects involving temperature-sensitive substrates. Energy consumption and specific CO_2 emissions have been cut by more than 10 percent in major production processes. Polyester developed for can-and-coil coating systems for the Asian market was successfully launched. Our Dynavis® additive system allows formulation of customized hydraulic fluids that increase the performance of hydraulic systems by up to 25 percent. A field test against a conventional hydraulic fluid under real conditions demonstrated that our product reduced fuel consumption by an excavator by nearly a fifth for the same amount of work. The business unit was presented with Evonik's internal Innovation Award[1)] for this development. The **Performance Polymers** Business Unit developed special molding compounds with modified abrasion properties or as filled or reinforced compounds to meet customer specifications for a variety of applications following the market launch of its HT-resistant plastic VESTAKEEP®. Intensive technical support was provided for customers in the test and registration phases. Building on the market success of the high-viscosity melt-resistant extrusion molding compounds based on polyamide 12 developed for the oil industry, this highly innovative concept has been transferred to pipes for other industrial applications, opening up completely new growth markets for our polyamide 12. In collaboration with machinery manufacturer KraussMaffei we have developed the CoverForm process. In this one-step process, components such as mobile phone displays are given a scratch-resistant coating with an acrylate-based reactive system developed by Evonik in the injection mold. This technology simplifies the production process and makes it cheaper.

Winning quality: Soccer boots have to be tough. That's why Adidas uses Evonik's VESTAMID® molding compound for the soles on its Predator® boots. Thanks to this polymer the boots are sturdy yet lighter and more flexible than conventional designs. Unbreakable VESTAMID® pins are also used to anchor the replaceable studs into the soles.

[1)] See page 80 (Innovation awards).

Performance of the business areas

Energy Business Area

The core competencies of the Energy Business Area are planning, financing, building and operating highly efficient fossil-fuel power plants. As a grid-independent power generator, we operate eight coal-fired power plants and two refinery power plants in Germany. Internationally, Evonik's success includes major coal-fired power plants in Columbia, Turkey and the Philippines. Rated output is over 9,000 Megawatts (MW), including around 7,300 MW in Germany. We are a pioneer of efficient modern generation technology for hard coal that reduces pressure on raw materials. Evonik is well-positioned in the fast-growing future market for renewable energies and is one of the German market leaders in mine gas, biomass and geothermal energy. The Energy Business Area comprises the Energy segment.

Highlights

Technological leader in the planning, financing, construction and operation of coal-fired power plants

Installed output of over 9,000 MW worldwide, including around 7,300 MW in Germany

International success includes coal-fired power plants in Columbia, Turkey and the Philippines

Years of international experience and an excellent reputation for engineering services

One of Germany's leaders in power generation from biomass, mine gas and geothermal energy

Energy

Evonik's commercial power and heat generation business and services for power plants are grouped in the Energy segment. Its core competencies are planning, financing, building and operating highly efficient fossil-fuel power plants. The Energy segment is a grid-independent operator with eight coal-fired power plants and two refinery power plants in Germany. Internationally the segment already has successful coal-fired power plants in Columbia, Turkey and the Philippines and is currently examining further options for foreign power plants. Rated output is over 9,000 MW , including around 7,300 MW in Germany. Long-term supply agreements with key account customers ensure a sustained return on investment and stable revenue streams. Evonik has a strong position in the high-growth future-oriented market for renewable energy sources and is one of the German market leaders in mine gas, biomass and geothermal energy.

Evonik is the market leader in efficient modern generation technology for hard coal that makes efficient use of raw materials. It is currently building a 750 MW power plant fuelled by hard coal in Duisburg-Walsum, Germany, which will have net efficiency of over 45 percent—more than five percent above the present top performer in Germany and at the forefront of international efficiency measured on a comparable basis. Providing "Clean Competitive Energy from Coal ", this power plant will use 15 percent less fuel and emit 15 percent less carbon dioxide (CO_2) than the average coal-fired power plant in Germany.

Evonik's activities in this field cover the entire value-added chain in the hard coal sector. The supply of hard coal is ensured through our own global trading operations. The Energy segment also has a strong position in the disposal and recovery of power plant residues. Moreover, Evonik is a significant provider of district heating in Germany. Many years of global experience and an excellent reputation for engineering services facilitate access to other selected growth markets. This segment's activities in the field of renewable energy have very good development potential and options to strengthen it further are currently under consideration. Evonik also utilizes its expertise in mine gas in international climate protection projects to give it access to further emissions trading allowances.

Energy: Key data

in € million	**2007**	2006	Change in %
External sales	2,799	2,574	9
EBITDA	538	500	8
EBIT	448	391	15
Capital expenditures[1)]	284	226	26
Depreciation and amortization[1)]	87	88	– 1
Capital employed (annual average)	3,014	2,837	6
ROCE in %	14.9	13.8	
EBITDA margin in %	19.2	19.4	
Employees as of December 31	4,629	4,890	– 5

1) For intangible assets, property, plant, equipment and investment property.

External sales by business line

in € million	**2007**	2006	Change in %
Power	1,381	1,112	24
Renewable Energies	293	280	5
Trading	881	794	11
Other	244	388	– 37
Energy	**2,799**	**2,574**	**9**

An improvement in earnings

Sales were up 9 percent at €2,799 million in the Energy segment. The improvement was due to higher volumes, especially thanks to the start-up of the Mindanao power plant in the Philippines at the end of 2006, and higher coal prices as coal costs were passed on to customers on the basis of contractual agreements. Downside factors included exchange rates, especially the weakness of the US dollar. EBIT improved 15 percent to €448 million.

The Power Business Line grew sales by 24 percent to €1,381 million thanks to higher volumes and prices. This was accompanied by a substantial rise in EBIT. The main drivers were the successful development of foreign power plants, which benefited principally from the inclusion of revenues from the Mindanao power plant in the Philippines for the first full year. Additionally, a one-off divestment gain was booked in November 2007 for the sale of 34 percent of the shares in the Philippine project company to a local partner. A reduction in its stake, possibly to 51 percent, is in keeping with Evonik's policy of reducing its stake in foreign power plants and operating them in conjunction with strong local partners.

The Renewable Energies Business Line operates a total of ten biomass plants which converted around 400,000 metric tons of scrap lumber into 308 Gigawatt hours power and 314 Gigawatt hours heat in 2007. Mine gas (CH_4) is used to generate heat and electricity. This destroys the environmentally harmful properties of the gas, which is 21 times more damaging to the climate than CO_2. At the same time, it contributes to sustainable use of resources by reducing the use of primary energy resources. The aim is to introduce this technology internationally in the future. Sales increased 5 percent to €293 million in 2007. Earnings fell slightly short of the previous year.

Volume sales

	2007	2006	Change in %
Power (GWh)	47,554	42,881	11
Renewable Energies (GWh)	3,639	2,782	31
Trading (million metric tons coal)	39.2	41.2	– 5

Energy sales comprise electric and thermal energy. Thermal energy is converted into the equivalent amount of electric power.

The Trading Business Line mainly markets coal for power plants, thus securing the supply of German and imported coal for power plants operated by the company and third parties. Since coal prices and freight rates were considerably higher than in the previous year, sales advanced 11 percent to €881 million. EBIT was €27 million and thus fell short of the previous year's level of €31 million. EBITDA was down year-on-year at €29 million compared with €33 million.

The Energy segment lifted EBITDA 8 percent year-on-year to €538 million. The EBITDA margin slipped slightly from 19.4 percent to 19.2 percent. Despite higher capital employed, this segment improved ROCE from 13.8 percent to 14.9 percent.

Capital expenditures
Construction work started on Europe's most modern hard-coal power plant in Duisburg-Walsum, Germany, in 2007. This 750 MW power plant, which is being built by a project company in which Evonik has a 51 percent stake, will have net efficiency of over 45 percent, ensuring more effective use of resources and reducing CO_2 emissions. The second partner in the project company is the Austrian company EVN AG. Most of the roughly €820 million investment volume comprises the delivery and erection of the power plant, which is scheduled to come into operation in 2010. Successful measures were also completed to improve the efficiency of the power plants in Voerde and Lünen in Germany. Conversion of the steam generators and turbines has increased efficiency and helped bring a significant reduction in CO_2 emissions. A new ultra-modern production facility for blasting agents was completed in Lünen in fall 2007. The production of blasting agents is an economically and logistically attractive way of utilizing by-products from power plants. By contrast, plans to build a new coal-fired power plant at the Herne site have been put on ice since the high cost of building power plants and the EU Commission's proposal that all CO_2 emissions allowances should be allocated by auction mean that there is no reliable basis for planning such investments at present. Overall, capital expenditures increased by 26 percent to €284 million and were once again above depreciation, which amounted to €87 million.

More efficient ideas: A new 750 MW coal-fired power plant is currently under construction in Duisburg-Walsum, Germany. Its unrivalled net efficiency of 45 percent will be 5 percent above the best performance of comparable power stations in Germany, putting Evonik's advanced technology at the cutting edge of power generation from hard coal.

Research & development
Research in the Energy segment focuses on safe, economical and environmentally compatible energy supply. Together with utility companies such as E.ON, RWE, Vattenfall and EnBW, universities and major research centers, Evonik is involved in the COORETEC R&D program established by the German Ministry of Economics and Technology to develop technology to reduce CO_2 emissions. Through this project, Evonik aims to make an effective contribution to reducing CO_2 by developing efficiency-enhancing technology.

To raise the efficiency of hard-coal power plants, steam temperatures need to be above 700°C. This can only be achieved by using nickel-based steel alloys. Research conducted by the COORETEC program on this includes investigating the properties of nickel-based alloys, for example, their tenacity, deformation and vitrification properties, corrosion behavior and non-destructive testing. Another project we are working on with partners to raise efficiency levels is COMTES 700, a European project funded by the Research Fund for Coal and Steel (RFCS). This project also aims to raise permissible steam temperatures to over 700°C. Alongside conventional power plant technology, Evonik's commitment extends to thermal utilization of biomass and biogas, geothermal energy and energy storage using compressed air.

Further R&D projects include optimizing day-to-day operating efficiency in the management of power plants and identification of faults before they occur.

Performance of the business areas

Real Estate Business Area

The Real Estate Business Area manages a portfolio of around 60,000 company-owned housing units concentrated in the federal state of North Rhine-Westphalia. It also has a 50 percent stake in THS, which owns more than 75,000 residential units. Evonik is thus one of the leading private-sector housing companies in Germany. Business focuses on letting housing to private households, which essentially generates regular and stable cash flows. The Real Estate Business Area and Real Estate segment are identical.

Highlights

One of Germany's largest private-sector housing companies

Owns around 60,000 residential units

50 percent stake in THS, which has over 75,000 residential units

High-quality portfolio and vacancy rates below the sector average

Regional focus and outstanding market insight

Real Estate: Key data

in € million	**2007**	2006	Change in %
External sales	409	464	– 12
EBITDA	174	169	3
EBIT	118	117	1
Capital expenditures[1]	103	78	32
Depreciation and amortization[1]	50	52	– 4
Capital employed (annual average)	1,867	1,775	5
ROCE in %	6.3	6.6	
EBITDA margin in %	42.5	36.4	
Employees as of December 31	457	630	– 27

[1] For intangible assets, property, plant, equipment and investment property.

Real Estate

The Real Estate segment manages a portfolio of around 60,000 company-owned housing units concentrated in the federal state of North Rhine-Westphalia in Germany. It also has a 50 percent stake in Treuhandstelle (THS), which owns more than 75,000 residential units. Evonik is thus one of the leading private-sector housing companies in Germany. Business focuses on letting housing to private households, which essentially generates regular and stable cash flows.

Evonik comes out above the sector average on the key quality indicators in this market: vacancy rates and tenant turnover. We attach great importance to ongoing development of the portfolio and intelligent housing concepts covering the entire lifecycle of properties. That includes optimizing energy efficiency, for example, by modernizing properties using energy-saving concepts such as the “three-liter house”. Evonik upgrades and refurbishes property, demolishes buildings where there is no alternative and builds new housing where this makes sense. Great importance is attached to the enhancement and upkeep of residential streets and districts.

Active portfolio management is also important. The business model is rounded out by selected property development activities on company-owned land which help to upgrade urban areas.

Real Estate intends to expand its leading position. It is planning to purchase further properties offering attractive prospects of creating value in areas of North Rhine-Westphalia with future potential such as the “Rhine corridor” including the cities of Düsseldorf, Cologne and Bonn. Portfolio management includes the steady sale of residential units amounting to around 4 percent of the company’s housing stock every year. Property development plans comprise the construction and sale of up to 200 residential units p.a.

A slight improvement in earnings

This segment was given a far leaner structure at the start of 2007 through the refocusing on the core residential real estate business. At the same time, maintenance and modernization activities were optimized. The agreed sale of major commercial properties has brought the divestment of the commercial real estate activities to a successful conclusion. The segment also sold its stake in Gesellschaft für Wohnen (GEWO) Datteln mbH.

Segment sales dropped by 12 percent to €409 million, mainly because fewer residential units were sold as part of the portfolio management and property development activities.

Significant cost savings resulting from the optimization of processes and organizational structures enabled this segment to raise EBIT by 1 percent to €118 million. Average monthly rents excluding utility charges were increased by around 2 percent to

€4.14 per square meter and an improvement in maintenance efficiency reduced net annual maintenance costs to around €12 per square meter. Publicly subsidized residential units declined from around 51 percent to around 47 percent of the total. As expected, the vacancy rate increased from 3.5 percent in 2006 to 4.6 percent in 2007, but this was mainly due to planned vacancies for operational reasons.

Careful analysis of the entire stock of residential real estate is undertaken regularly for portfolio management purposes. Key criteria are the attractiveness of locations, the quality of the residential units and the cost-efficiency of the operational structures. The objective is to expand the portfolio in areas with good economic prospects. At the same time, properties in unattractive regions and those requiring extensive modernization are identified with a view to divestment. In 2007 earnings from the portfolio management business were boosted by the proceeds from the divestment of GEWO Datteln.

The property development activities, which are run as a complement to the property management business, focus on construction projects on company-owned sites. Far less property development work was undertaken in 2007 as a result of work brought forward in connection with the abolition of subsidies for owner-occupied property at the start of 2006 and the increase in value-added tax at the start of 2007. The handover of new units decreased by 32 percent to 123.

Segment EBITDA rose 3 percent to €174 million and the EBITDA margin advanced to 42.5 percent. ROCE dropped from 6.6 percent to 6.3 percent due to a rise in capital employed as a result of the addition of the stake in THS.

Capital expenditures

The Real Estate segment invested €103 million compared with €78 million in the previous year. The increase was primarily attributable to an increase in property purchases and construction work. Capital expenditures are geared to a long-term increase in the value of the residential real estate portfolio. Thus, selective expenditures were made to modernize properties to secure or increase rental revenues and to raise energy efficiency. This segment also built and purchased housing with future potential at attractive locations in North Rhine-Westphalia, for example along the "Rhine corridor" stretching from Düsseldorf to Bonn.

Three-liter house

In April 2007 we completed our first "three-liter house". A complex of 24 apartments from the 1960s was converted into an energy-saving building in just ten months. This involved installing the following technology, which is rarely used for standard apartment buildings at present: a mini co-generation plant, decentralized ventilation units with heat recovery, extra-thick insulation of outer walls and special windows with insulated shutters. A photovoltaic system was installed on the southern side of the roof. The building now uses 87 percent less primary energy resources and CO_2 emissions have been reduced to zero. Data on this house are continually monitored and evaluated to gain an insight into the technical and economic impact for future modernization projects.

THS

A 50 percent stake in THS[1)] was transferred to Evonik in August 2007. Following the amendment of German legislation on housing for mineworkers in December 2007, Evonik is now able to exercise a significant influence over THS and has included it at equity since then. THS manages more than 75,000 residential units, some of which are publicly subsidized, mainly in North Rhine-Westphalia but also in the federal states of Saxony, Saxony-Anhalt and Thuringia. As well as managing these residential units, THS's activities include building housing for sale to owner-occupiers and the modernization, conversion and extension of older buildings. One special focus is the modernization of former mineworkers housing, some of which is subject to conservation orders. As well as maintaining the fabric of the buildings, in its modernization THS places great value on ecological aspects, maintaining established structures within such complexes and urban development issues.

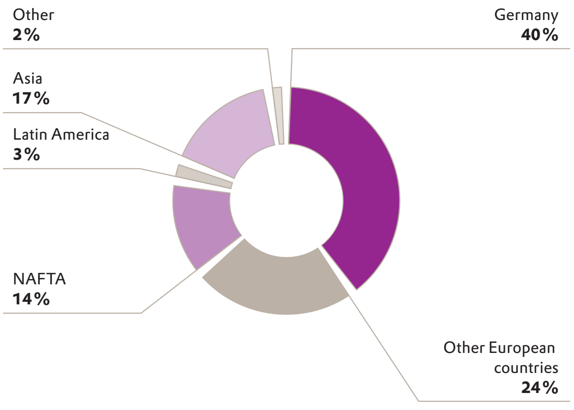
1) Further details can be found in Note (5.2) to the consolidated financial statements.

Regional development

A global presence
60 percent of sales were generated outside Germany in 2007. Foreign sales were thus 1 percentage point higher than in the previous year. Sales in **Germany** were around the previous year's level at €5,823 million. We undertook selective investment to modernize and expand our production facilities in 2007. The largest individual project, accounting for total investment of €820 million, is the construction of Europe's most modern power plant fuelled by hard coal in Duisburg-Walsum, Germany. Overall, capital expenditures amounted to €741 million in 2007, a rise of 17 percent compared with 2006.

Growth market in Eastern Europe
Sales in **other European countries** declined by 1 percent to €3,472 million, mainly as a result of the divestment of non-core operations in 2006. There was a slight decrease of 1 percentage point in this region's share of total sales to 24 percent. Capital expenditures rose 11 percent to €89 million. In Eastern Europe, a tryptophan facility came on stream in the Slovak Republic, a threonine plant was taken into service in Hungary and a tube filling line for skin-care products started operating in Russia. We aim to double sales of chemicals in the growing Eastern European market by 2010 through a mixture of organic growth, alliances and selective acquisitions. The Russian market proved especially dynamic. The automotive, tires, coatings and colorants, construction, electronics and agricultural sectors are the fastest growing areas in this country, representing rising potential for our high-quality products. Our growth strategy for Eastern Europe also includes stepping up our network of contacts with universities.

Sales by region[1]



[1] By point of sale.

New capacity
First-time consolidation of Degussa Engineered Carbons lifted sales 1 percent to €2,057 million in **North America**. As in the previous year, this region accounted for 14 percent of total sales. Capital expenditures amounted to €74 million, below the year-back figure of €89 million. We are currently erecting a production facility for ROHACELL® in Mobile, Alabama, USA, and are also planning to build a production facility for alcoholates at this site. This will have annual capacity of 60,000 metric tons and is scheduled to come on stream at the start of 2009. It will serve customers throughout NAFTA. This investment strengthens our commitment to the production of alternative fuels from renewable raw materials: alcoholates are used as a catalyst in the manufacture of biodiesel.

Mobilizing nature: Rapeseed oil and other vegetable oils are key ingredients in biodiesel. Another essential ingredient is a catalyst for transesterification. Catalyst MS30 from Evonik thus plays a role in protecting the environment.

Sales increased 10 percent to €490 million in Central and South America and this region accounted for an unchanged 3 percent of total sales. Capital expenditures amounted to €17 million and were thus below the year-back figure of €25 million. In Brazil, start-up of a new facility doubled our carbon black capacity to 100,000 metric tons p.a. This capacity increase permits us to respond better to demand from customers in the tires and technical rubber goods industries. We regard Latin America as a particularly attractive growth region. The automotive and especially the tire industry are growing steadily, partly due to rising exports. Some tire producers in this region export the majority of their output, mainly to North America.

Further expansion in Asia

Asia remains a very attractive market for Evonik because of its high growth rates. We lifted sales in this region by 12 percent to €2,354 million in 2007. The power plant in Mindanao, Philippines, which started operating in late 2006, made a major contribution to this. Asia increased its share of total sales to 17 percent. Capital expenditures were unchanged year-on-year at €106 million. We are continuing our extensive investment in China: as well as building a cyanuric chloride facility in Chongqing, we are expanding our site at Shanghai Chemical Industry Park, where we are building a new polymerization and compounding plant, which should start supplying products to customers in Asia during 2008. We are also building a new integrated production complex, which is scheduled for completion by mid-2009. This integrated facility for the production of methylacrylate includes facilities for methacrylic acid, butylmethacrylate, specialty methacrylates and PMMA molding compounds. Total investment is around €250 million. In Taiwan, we started up a new facility for high-quality polymethylmethacrylate (PMMA) for optical applications in displays in conjunction with our joint venture partner Forhouse Corporation. This is a fence-to-fence production facility: in the future, the PMMA will be processed into lighting modules for flat-panel displays at the same site.

Performance of Evonik Industries AG

Evonik Industries AG, Essen, Germany, is the parent company of the Evonik Group. It holds direct and indirect stakes in all subsidiaries in the Group. At year-end 2007, its previous sole shareholder RAG Aktiengesellschaft (RAG), Essen, Germany, sold 94.9 percent of its shares in the company to RAG-Stiftung (RAG Foundation). 5.1 percent of the shares in Evonik had already been transferred by RAG to Evonik-Beteiligung Verwaltungs GmbH & Co. KG on November 19, 2007. RAG is the sole limited liability partner in this company while WestLB, through its stake in Dusskapital Achtzehn Beteiligungsgesellschaft mbH, is the general partner with no share in the company's capital. The domination and profit-and-loss transfer agreement between RAG Aktiengesellschaft and Evonik Industries AG was extinguished by mutual consent effective December 31, 2007.

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).

As part of the realignment of the Evonik Group, Evonik Industries AG has been structured as a strategic holding company. Accordingly, the corporate management functions required for the Evonik Group were transferred from RAG and the parent companies of the business areas within the Evonik Group (Evonik Degussa GmbH, Evonik Steag GmbH and Evonik Immobilien GmbH) to Evonik Industries AG. The transfer of employees involved the transfer of employee-related assets and liabilities. In this connection, Evonik Industries AG acquired assets totaling €9 million and personnel provisions of €49 million.

Other operating income includes book gains of €449 million from the merger of RAG Projektgesellschaft mbH and Unternehmensverband Steinkohlenbergbau e.V. into Evonik Industries AG. In the gross view, currency translation gains are included in other operating income and the corresponding expense items are included in other operating expenses. The net effect is a gain of €2 million. Personnel expenses have been incurred for the Corporate Center since the start of 2007.

The net interest expense relates principally to borrowing in the company's function as cash pool for the Group. This item also contains interest income and expense from the Group-wide cash pool, which is concentrated at Evonik Industries AG. The income from subsidiaries of €1,093 million mainly comprises

Income statement for Evonik Industries AG

in € million	**2007**	2006
Other operating income	652	41
Personnel expense	– 53	0
Depreciation of property, plant and equipment, amortization of intangible assets	– 4	0
Other operating expenses	– 467	– 46
Operating result	**128**	**– 5**
Net interest expense	– 235	– 208
Write-downs of financial assets and reversals of write-downs	61	– 64
Dividends and similar income	1,093	2,181
Income before taxes	**1,047**	**1,904**
Income taxes	– 25	– 74
Income before profit transfer	**1,022**	**1,830**
Profit transferred under profit-and-loss transfer agreement	– 342	– 221
Net income	**680**	**1,609**
Allocation to revenue reserves	– 680	– 1,609
Net profit	**0**	**0**

Balance sheet for Evonik Industries AG

in € million	Dec. 31, 2007	Dec. 31, 2006
Assets		
Intangible assets, property, plant and equipment	5	0
Financial assets	8,999	7,775
Non-current assets	**9,004**	**7,775**
Receivables and other assets	1,949	2,791
Securities	262	0
Cash and cash equivalents	15	84
Current assets	**2,226**	**2,875**
Prepaid expenses and deferred charges	2	0
Total assets	**11,232**	**10,650**
Equity and liabilities		
Issued capital	466	466
Capital reserve	720	720
Revenue reserves	3,343	2,663
Equity	**4,529**	**3,849**
Provisions	**112**	**6**
Liabilities	**6,591**	**6,795**
Total equity and liabilities	**11,232**	**10,650**

the earnings of the parent companies of the three business areas: Evonik Degussa GmbH, Evonik Steag GmbH and Evonik Immobilien GmbH. It also includes the proceeds from the divestment of the mining technology business. The previous year's high income of €2,181 million was dominated by high book gains from the divestment of the construction chemicals activities and the revaluation of shares in Evonik Degussa GmbH. Income before income taxes therefore slipped considerably to €1,047 million, down from €1,904 million in the previous year. After deduction of income taxes and transfer of €342 million to RAG Aktiengesellschaft under the profit-and-loss transfer agreement, net income was €680 million and was transferred in full to revenue reserves.

Evonik Industries AG's total assets increased slightly to €11.2 billion. Financial assets mainly comprise shares in the parent companies of the three business areas, with the increase in this item in fiscal 2007 being due essentially to intragroup mergers. The receivables and liabilities reflect its financing role as the holding company for the Group. Equity increased to €4.6 billion due to transfers to revenue reserves. The equity ratio improved from 36.1 percent to 40.3 percent. Payables include financial liabilities of €6.5 billion, including €0.8 due to banks. The counter item comprises financial assets of €1.9 billion.

Non-financial performance indicators

Corporate responsibility

We define corporate responsibility as how we conduct our business and how we live up to our values. We seize opportunities and avoid risks that stem from economic, ecological and social trends. Corporate responsibility at Evonik centers on balancing economic, ecological and social factors to achieve long-term business success and thus secure the future of our company. Business success is thus both the objective of our corporate activity and the precondition for it.

We are convinced that linking the way in which we perceive that responsibility more closely to our core business and giving it a strategic focus plays a key role in securing our long-term business success. We are currently devising a corporate responsibility strategy for Evonik as an integral part of our corporate strategy.

Evonik is a member of "econsense", the sustainable development forum of German business. Through our Chemicals Business Area, we are also a member of the World Business Council for Sustainable Development and support the Responsible Care initiative of the International Council of Chemical Associations, which promotes sustainable use of resources.

Environment, safety and health

Ensuring that products, production processes and business activities do not harm people's health or safety and fostering a responsible attitude to the environment and natural resources are fundamental aspects of responsible business conduct in our view.

We pursue a systematic policy on environmental protection that is designed to meet the specific requirements of our different business areas. The Group-wide Environment, Safety and Health (ESH) guidelines introduced in 2007 are binding on all operating units worldwide to ensure compliance with all applicable environmental regulations. Internal audits are conducted to monitor and evaluate compliance with these guidelines. Measures are also in place to ensure that investment proposals take account of environmental, health and safety considerations.

In previous years, the business areas used their own independent systems to manage their ESH activities. The new guidelines have given us a Group-wide ESH system to manage our activities in this field, collect relevant data and define and pursue demanding targets.

Occupational safety

Occupational safety is an area where success is visible. In 2007 Evonik reduced the frequency of accidents (number of accidents per million hours worked) from 4.1 to 3.4 in its continuing operations. While the ultimate goal naturally has to be zero, we have set an interim target of reducing accident frequency to less than 3.0 by 2014. This will be supported by special technical and organizational measures, especially behavioral methods centering on the conduct of each employee.

REACH—the EU Chemicals Regulation

The EU Chemicals Regulation REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) came into force on June 1, 2007. Evonik supports the objective of improving the protection of health and the environment in the handling of chemicals and actively campaigned from the outset for a practicable regulation. We took timely internal and external action to ensure that we could implement REACH on time. That has included setting up an internal project management organization, compiling data, implementing IT solutions, writing to customers and organizing workshops for customers and suppliers on compliance with REACH. Evonik will be registering about 850 substances and submitting pre-registration applications for around 3,000.

Trading in emissions allowances

Many facilities operated by Evonik's Energy and Chemicals Business Areas fall directly within the remit of the European regulations on trading in CO_2 emissions allowances. In 2007 these facilities emitted around 30.1 million metric tons of CO_2. The Energy Business Area accounted for around 26.7 million metric tons and the Chemicals Business Area for around 3.4 million metric tons. Since the scope of the regulations has now been widened, they have applied to further chemicals plants since the start of 2008.

Energy efficiency and climate protection

One leitmotif of our philosophy of corporate responsibility is the global need to utilize energy resources responsibly and thus as efficiently as possible. Energy efficiency has become a mega-trend. Evonik markets products and solutions that help customers around the world utilize energy more efficiently and thus save natural resources and cut CO_2 emissions.

Our **Chemicals** Business Area facilitates energy-saving and a substantial increase in energy efficiency at many levels: we are constantly improving our own production processes and supply innovative products to help customers in industry and end-consumers use less energy. We see especial potential in the use of renewable raw materials instead of crude oil. Moreover, catalytic processes and production methods such as fermentation that are based on vegetable raw materials normally take place at lower temperatures and lower pressure. Consequently they utilize less energy than conventional physical-chemical processes. Here are just two examples of our wide range of products that help reduce energy consumption. Low rolling resistance tires produced with our technology and materials have up to 40 percent less rolling resistance than conventional tires. In this way we are contributing to a global reduction in fuel consumption, which could substantially reduce CO_2 emissions. Our ROHACELL® high-performance polymer is far lighter than common engineering materials yet meets all requirements for tenacity, stability and temperature resistance. It is used in planes, helicopters, autos and ships to reduce weight, which can cut fuel consumption.

The **Energy** Business Area is building a power plant in Duisburg-Walsum in Germany using the state-of-the-art technology to generate power from hard coal. When it is completed in 2010 it will be the most modern coal-fired power plant in Europe with net efficiency of over 45 percent. This will be achieved by higher steam temperatures, higher vapor pressure and a more efficient 181 meter high cooling tower to utilize the steam energy in the turbines. High net efficiency means that the power plant will utilize less resources and cut CO_2 emissions. Our renewable energies business also makes a highly efficient contribution to environmental protection. For example, in 2007 our ten biomass power plants generated 308 Gigawatt hours of power and 314 Gigawatt hours of heat from about 400,000 metric tons of scrap lumber. Similarly, generating heat and power from mine gas saves resources and reduces emissions of greenhouse gases. We intend to utilize this know-how in future-oriented markets such as Russia, China and Poland in the future.

The **Real Estate** Business Area is working on a large number of solutions to optimize future energy consumption in its present housing stock and equip new residential units with modern energy-saving technology such as geothermal or solar power.

All three business areas will enjoy a wide range of new market opportunities in the future through products and customized solutions that bring a further increase in energy efficiency. To exploit these opportunities more effectively and network the business areas, we will be conducting a feasibility study for a possible Energy Efficiency Science-to-Business Center in 2008. The Nanotronics and Bio Science-to-Business Centers are successful models of how scientific findings can be rapidly translated into innovative products.

Innovation

Innovations form the basis for our sustained success. We gain a technical edge and competitive advantages because we regard sustainability as a central aspect of our innovation strategy. We take our cue from our customers' needs and wishes and regard open and constructive dialog with cooperation partners throughout the world as a matter of course. Added to that, we cooperate with partners from universities and have trusting development alliances with other companies. That allows rapid identification and use of innovative potential.

Innovation awards

Nurturing innovative capability and creative potential within Evonik is very important to us. To provide additional impetus for such developments we present a Not Invented Here Award for the transfer and development of ideas across business unit boundaries. The award is made for products, applications and solutions that have been successfully transferred from one area of the Group to another. €25,000 is presented in each of three categories: Technology, Management and Daily Business. The award is made to everyone involved in the transfer of knowledge: the originators of the idea, those who apply it and those who facilitate the transfer process.

In addition, Evonik has presented an internal Innovation Award since 2001. This singles out outstanding innovations in the Chemicals Business Area in three categories: New Processes, New Applications and New Products. The award for each category is endowed with €40,000. The selection criteria are originality, creativity, innovation, economic and ecological advantages and benefits for society. The award winners in 2007 were concerned in the broadest sense with energy efficiency and environment-friendliness.

Award winners in the "New Processes" category

Photovoltaics—converting solar energy into electricity—has been booming in recent years. The German solar industry alone generated sales of €3.7 billion in 2005, a more than tenfold increase in just five years, and the experts are forecasting further double-digit growth in the next few years. However, solar silicon, the most important raw material for the manufacture of solar modules, has become increasingly scarce and could slow growth in this sector.

A team from the Inorganic Materials Business Unit, SolarWorld AG and various universities has therefore developed a completely new production process for solar silicon, which was tested in a pilot plant at Evonik's Rheinfelden site. The test was a great success: At the beginning of 2008 a new facility will start operating in Rheinfelden to produce 850 metric tons p.a. solar silicon. This new plant will raise supply of this raw material yet use only 10 percent of the energy required for established processes.

Award winners in the "New Applications" category

Hydraulic fluids are key components in hydraulic systems: they transfer energy from high-pressure pumps, for example to pistons, and simultaneously act as lubricants that protect equipment from wear and corrosion. However, the efficiency of hydraulic systems depends on external conditions such as operating temperature. Hydraulic additives from Evonik ensure that the viscosity of hydraulic fluids used in excavators only decreases marginally as temperatures rise. They therefore improve the efficiency of the hydraulic system, cut operating costs and facilitate significant fuel savings of over 10 percent. At the same time, they reduce CO_2 emissions. The research that led to the "Maximum Efficiency Hydraulic Fluid" (MEHF) performance level has now been honored with the Evonik Innovation Award and an Innovation Award presented by the scientific publisher ICIS in the "Environmental Category".

Award winners in the "New Products" category

Inorganic sol-gel coatings are extremely tough so they outlive many other coatings. Yet despite their good properties they have so far been unsuitable for many applications because they contain large quantities of solvents, making them environmentally unfriendly. A team from the Inorganic Materials Business Unit has pioneered more widespread use of sol-gel coatings by developing SIVO® SOL technology. This new technology is a modular sol-gel concept based on silane chemistry and fine inorganic SiO_2 particles, which customers in the coatings industry can use to formulate coatings. The big advantage of SIVO®SOL technology is that it uses water as a solvent. Unlike conventional processes for the treatment of metals, it does not contain heavy metals or inorganic fluorine compounds. Shortly after the market launch of this technology, Evonik's customers were able to present the first commercial applications, for example, as a base coat for metals in the construction and transport sectors.

SEPARION® nominated for the German Future Award
Some of our solutions enjoy special recognition in the public domain as well. SEPARION®, a ceramic separator membrane, grew out of a fundamental research project in the field of nanomaterials involving a pioneering collaboration concept between Evonik, the German Research Society (DFG) and seven universities. In view of the high innovative potential and commercial significance of these membranes, Evonik has so far invested €50 million in the development and commercialization of new separators and other materials for batteries, including the construction of pilot plants and production facilities. SEPARION® membrane is a contribution to sustainable technology for alternative motors. In 2007 this development was nominated for the German President's Future Award for Technology and Innovation. Evonik is the world's only supplier of such technology, which is expected to be ready for large-scale commercialization in 2010.

Customer focus and customer retention

As well as high innovative prowess, the keys to business success are trust and outstanding collaboration with customers and business partners. We foster such relations at many levels. Customer focus and customer satisfaction are important to us. Improving quality by resolving conflict situations, ensuring availability and reducing response times are ongoing processes. Our effective customer relationship management is backed up by a range of strategic research alliances with industrial customers. We build production facilities close to our customers. Our customer focus is recognized beyond the bounds of the company. At the end of January 2008 the Consumer Specialties Business Unit was voted best global supplier to Henkel's detergent and cleaning agents division. This award, which was presented for the first time, honors the top quality of Evonik's products and specifically praises our proactive approach to developing new ideas and solutions to support this customer's growth.

MSI Academy
Improving marketing and sales competencies is an important and ongoing process at Evonik and is supported by our in-house MSI Academy (Academy for Marketing, Sales and Innovation). The MSI Academy develops standards for first-class marketing and sales methods and processes for all business units and trains staff in the necessary competencies. The MSI Academy benefits Evonik's customers in two respects. Firstly, increased customer insight strengthens joint innovation projects geared to ensuring growth for both Evonik and its customers. Secondly, the MSI Academy passes on its knowledge of methodology to customers on request, enabling them to improve their own MSI skills.

Fence-to-fence facilities
Fence-to-fence facilities are another way in which we ensure high customer loyalty. These are production facilities adjacent to our customers' production plants which supply products to them directly by pipeline. This simplifies handling and delivery of the products and any by-products and avoids unnecessary transportation.

Code of Conduct

As a global company, Evonik has to comply with a wide range of national and supranational laws. Evonik manages its global business so as to ensure that all applicable legislation, voluntary commitments and other binding regulations are observed. In our first year, we drafted and introduced a Code of Conduct for all Group employees. This outlines our main corporate policy principles and standards. It provides a guide to employees' fundamental ethical and legal obligations and gives them a reliable basis for correct conduct.

The Code of Conduct is a mandatory part of all employees' employment contracts. Supplementary information and training materials are currently being prepared to make sure that all employees are familiar with the Code of Conduct and are able to apply it.

Employees

As a result of the restructuring of the Evonik Group, some 2,600 employees were transferred from Group companies, RAG Holding and RAG Coal International to the new Corporate Center and the Shared Service Center at the start of 2007. We utilized this to continue the review and harmonization of the various regulations applicable at the companies from which they were transferred, especially collective agreements on pay and conditions. The focus was on creating a uniform remuneration system for all exempt and managerial staff at the Corporate Center and Shared Service Center. Numerous constructive agreements were concluded with employee representatives to ensure that the necessary cost-cutting and personnel adjustment process proceeds in a socially acceptable manner.

Human resources (HR) strategy
A milestone in our HR work in 2007 was adapting our HR strategy to the new corporate structures. That has added value for our business and our employees. In future, the HR strategy will be reviewed annually and aligned to meet the challenges facing Evonik and its businesses. It takes equal account of internal and external conditions and key trends affecting HR strategy. The present HR strategy has five strategic target areas from which individual goals, projects and actions have been derived. These are: competency development, positioning as an attractive employer, HR management, change management and shaping a value-based corporate culture.

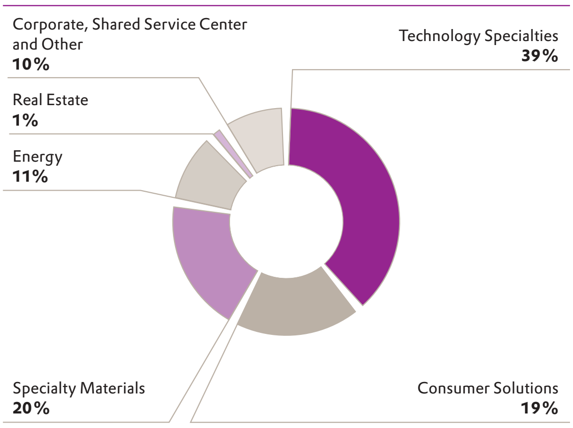
Demographic change
Rising life expectancy, low birth rates and insufficient immigration are the key factors in Germany's demographic development. An ageing and shrinking population confronts the corporate sector with a need for innovative concepts. How should one address the problem of a declining supply of labor accompanied by the rising average age of the workforce? Demographic change is nothing new for personnel policy in Evonik's three business areas. The challenges identified through a differentiated analysis of demographic change form an integral part of our HR strategy.

Evonik is piloting an innovative new personnel planning model known as "ASpire". A networked, all-round approach is used to map both quantitative and qualitative changes in our headcount and future personnel requirements. The future impact of decisions on HR strategy are examined with the aid of scenario techniques which allow far-reaching analysis. In this way, we can draw conclusions on potentially effective measures aligned specifically to the requirements of our business units and sites and thus efficiently address the challenges posed by demographic change. To supplement this, we have set up a working group with representatives from all business areas. This working group sees itself as a source of impetus for new projects, in the sense of a best practice platform, and an initiator to facilitate the integration of demographic considerations into the relevant HR issues and processes.

Looking beyond its own boundaries, Evonik is one of the three leading companies in the "Demographic Change" Laboratory of the European Union's Alliance for CSR (Corporate Social Responsibility). The implications of demographic change and the rapidly ageing population are central issues addressed by the Alliance for CSR.

Remuneration and incentive system
In the ongoing development of the remuneration systems within Evonik, we are giving priority to raising the weighting of performance-based pay and systematic harmonization, taking account of local market conditions. The result is an attractive, uniform and market-oriented remuneration system for all executives. A common remuneration system has also been established for all exempt employees and managers at Evonik Industries AG and Evonik Services GmbH. The long-term competitiveness of our remuneration system for managers and exempt employees is ensured by continuous external benchmarking of their functions. The remuneration of the vast majority of non-exempt employees is already profit and performance-linked.

Employees by segment



Lifetime work accounts

The phased increase in the retirement age to 67 in Germany means that employees will be retiring when they are far older than is currently the case. Lifetime work accounts offer employers a flexible tool to manage the retirement of older staff without having to accept a reduction in know-how. At the same time, they can be used as a staff retention tool and to reduce age structures. Lifetime work accounts can also enhance the attractiveness of an employer by giving employees a tool that allows them a say in when they exit the labor force. This tool has already been introduced in the Chemicals and Energy Business Areas and rollout to the Real Estate Business Area is scheduled for 2008. An agreement on the introduction of lifetime work accounts was signed with representatives of employees working in the Corporate Center and Shared Service Center at the start of 2008.

Vocational training

Providing a stable framework was our central priority in bringing together vocational training within the new corporate structures in 2007. Our commitment to training is still well above the average for German industry: we invest around €60 million p.a. in vocational training and trainees account for around 9 percent of our German workforce. A constant supply of qualified youngsters is important to secure the future of our company. In this way, our Chemicals Business Area, for example, plays an important part in fulfilling the national agreement made by the German chemical industry on "Training for the Future". Last year, Evonik's German companies trained more than 2,450 young people on more than 40 recognized training courses. Our vocational training is concentrated at our sites in the Rhine-Ruhr-Lippe and Rhine-Main regions and the federal states of Saarland and Baden-Württemberg. Evonik regards providing young people with a sound initial training and teaching them the skills they need for working life as an investment in Germany and a responsibility to society.

Business Academy

Evonik's executives share the responsibility for shaping the company's strategies and objectives. A Business Academy has been established to ensure an intensive interchange between the Executive Board and corporate executives. As a forum for learning and communication, it was especially important as a platform for discussing issues of strategic relevance and supporting the development of the cultural identity of the Evonik Group in 2007. Through management dialog and training programs the Business Academy offers executives space for joint reflection as well as sharing practical and theoretical input from Evonik and beyond.

Competency model

The competency model introduced in 2007 outlines what Evonik expects of its employees. It is a guide to the conduct of employees and is designed to foster business success. The model comprises customer focus, communication and cooperation skills, entrepreneurial spirit and performance-orientation, innovation and renewal, leadership ability and intercultural business focus. It illustrates what each competency means for different target groups—specialists, senior experts, managers and top management.

Employee Survey
As a follow-up to the previous year's successful Employee Survey, more than 250 activities were undertaken at around 90 units and sites around the world, principally in the areas of information/communication, management and job security. From these we developed a number of Group-wide programs such as the "Go for Leadership Excellence" initiative to ensure top-quality management. On the basis of interviews and workshops with 80 participants, activities have been developed to assist new and experienced managers in the creation of a corporate culture that fosters and rewards outstanding achievement.

Recruitment
The central objective of our recruitment activities is to make Evonik a preferred employer among all target groups of relevance for our business. That centers on developing and strengthening a strong and consistent brand as an employer, derived directly from the corporate brand. Evonik's core competencies—creativity, specialization, self-renewal and reliability—are therefore at the heart of its image as an employer. Suitable tools such as an internet careers site, application management system and special programs for interns and students on placements at the company are used to communicate these and other factors that position Evonik as an attractive employer to the relevant target groups.

Training program to foster expertise and achievement
Evonik introduced a new Group-wide training offer to foster expertise and achievement in 2008, in line with its new competency model and the need for both specific and interdisciplinary qualifications. The aim is to offer all employees an opportunity to acquire practical skills and experience of relevance to their work and update their qualifications. At the same time, internal training encourages networking within the Evonik Group.

Work/life balance
Sustained performance is essential for sustained success. Evonik's employees are offered a wide range of opportunities to maintain a good work/life balance for the benefit of the company as well as the individual. Flexible working hours and lifetime work accounts help our employees' plan their lives while health and fitness programs support their well-being. This concept includes the families of our workforce, for example, through the provision of childcare facilities, international exchange programs for school students, and advice and practical assistance for those faced with the need to care for relatives.

Workforce
In 2007 Evonik's headcount was influenced by the ongoing optimization of our portfolio in connection with the restructuring of the Group. At year-end 2007 the Group had 43,057 employees (2006: 46,430). The decline of 3,373 was mainly due to the divestment of the mining technology and gas distribution activities classified as discontinued operations. The continuing operations had 41,550 employees (2006: 41,402).

Employees by segment

	Dec. 31, 2007	Dec. 31, 2006
Technology Specialties	15,932	14,151
Consumer Solutions	7,969	7,953
Specialty Materials	8,384	8,267
Energy	4,629	4,890
Real Estate	457	630
Other operations	4,179	5,511
Continuing operations	**41,550**	**41,402**

Events after the end of the reporting period

Major events since the reporting date
As a result of fire damage at Rütgers Chemicals GmbH's site in Castrop-Rauxel, Germany, on February 6, 2008, closing of the contract of sale to the British company TRITON will be delayed. However, we expect the divestment of this tar refinery to be completed in the first half of 2008. The damage caused by the fire, which also affected the production facilities, is fully covered by insurance.

Following an earth tremor in the federal state of Saarland on February 23, 2008, work at the Ensdorf coal mine belonging to RAG Aktiengesellschaft has been halted for the time being. A prolonged stoppage or complete shutdown of this mine would affect Evonik's three power plants in this region. The use of alternative sources of coal, especially imported coal, is currently being examined for this eventuality.

Effective February 27, 2008, Montan-Grundstücksgesellschaft mbH (MGG) was sold to DSK Beteiligungs-GmbH, a subsidiary of RAG Aktiengesellschaft. RAG exercised its preferential right to purchase the shares in MGG on the same financial terms as another buyer. In the consolidated financial statements for 2007 MGG was classified as an asset held for sale.

At the start of March 2008 we acquired the remaining 49 percent of shares in our joint venture Degussa Lynchem Co. Ltd., Dalian, China, from our Chinese partner. Official approval is still pending but is expected by end-March. The acquisition strengthens our global exclusive synthesis business and continues our successful strategy of horizontal integration. This includes producing intermediates and starting products for active ingredients and non-patented active ingredients at competitive cost in China. At its European sites, the Health & Nutrition Business Unit concentrates on more advanced intermediates and patented active ingredients. Our customers thus benefit from the technology portfolio at our European sites and from our long-standing experience of complying with administrative and patent regulations for patented active ingredients and intermediates.

Risk report

Risk strategy
Evonik is exposed to a variety of opportunities and risks in the course of its business activities. Risk management, which we understand as extensive management of opportunities and risks, forms a central element in our value-based management philosophy designed to secure present and future potential for success. Risk management processes are integrated into planning, management, controlling and reporting procedures at all levels in the Group. We only enter into entrepreneurial risks when we are convinced that they can generate a sustained rise in the value of the company and that we are able to control any possible implications.

Structure and organization of opportunity and risk management
Risk management facilitates timely identification of opportunities and risks, the evaluation of their impact and the establishment and monitoring of suitable measures and precautions to ensure that they do not jeopardize the continued operation of the company. Evonik has an internal monitoring system in place across the Group. Alongside organizational measures and internal control systems, this includes the Corporate Audit Department as a process-unrelated controlling and consulting body.

Our risk management system is organized on a decentralized basis in line with our decentralized organizational structure. The business units, Corporate Center and service units bear prime responsibility for the early identification, management and communication of risks. Risk Coordinators within these organizational units are responsible for coordinating the relevant risk management activities. The Group Risk Manager is responsible for managing and coordinating the processes and systems. He is the central contact and is responsible for documentation, coordination and information for the entire Group and for ongoing development of the risk management system.

Managing opportunities and risks forms a central element of controlling processes. These include strategic and operational planning, strategy meetings of the Executive Board, dialog on objectives, the preparation of investment decisions, monthly reporting and ad hoc reports. The organizational units also conduct an annual risk inventory with the aid of standard software tools, including an extensive checklist of potential risk factors. In this way, all risks are systematically identified and documented and their probability of occurrence and the potential consequences are assessed. The organizational units are required to specify risk limitation measures for all risks identified in the risk inventory process and evaluate their efficacy and level of implementation. The annual inventory is supplemented by quarterly risk reports which outline any change in the risks identified and any new risk factors. The Evonik Group has issued a binding Policy on risk management.

In fiscal 2007 the Corporate Audit Department continued its inspection of the risk management systems in various organizational units and established that they comply with statutory and in-house requirements. In addition, the system used to identify emerging risks is included in the annual audit in the same way as for listed companies. This showed that Evonik's risk detection system is suitable for timely identification of risks that could pose a threat to the company's survival.

Overall risk assessment
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.

Market and competition risks
Due to the fields in which it operates, the Evonik Group is exposed to constantly changing national and international political, societal, demographic, legal and economic operating conditions. To counter the resultant risks we monitor these conditions closely, anticipate market trends and consistently develop our portfolio in conformance with our corporate strategy. One major risk factor is the intensive competition in some market segments. In the Chemicals Business Area, competitors in low-wage countries in particular increase competitive pressure through aggressive pricing policies. To counter this we are stepping up our regional diversification, broadening our production base, cutting production costs and gaining access to new markets in high-growth regions such as China and Eastern Europe. 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, customer relationship management and an improvement in the cost position and services offered. We are constantly developing attractive and competitive new products to guard against the risk that chemical products could be replaced by new, improved or less expensive materials or technologies. In the Energy Business Area, energy policy could have a negative impact, for example, through regulatory intervention in the market and climate policy restrictions. Specifically, these risks include future regulatory action to achieve a further reduction in CO_2 emissions, even though our efforts are already directed at reducing specific CO_2 emissions from power plants by improving efficiency and introducing innovative technologies. Since the cost of building, operating and maintaining power plants depends to a large extent on the competitive situation in the market for the supply of power plants and their components, the Energy Business Area is exposed to the risk that it may not be possible to build and operate a new power plant economically or in conformance with competitive conditions. The Real Estate Business Area uses a strategic mixture of modernization, demolition and new construction, supplemented by selective acquisition of attractive residential properties, to avoid the risk of a possible deterioration in the value and earning power of its portfolio due to regional or demographic factors. At the same time, opportunities for further profitable expansion of this business area are used. In response to the increased competition from foreign investors on the German residential real estate market we are sharpening our profile as an alternative partner for local authorities and improving operational management of our residential real estate portfolio.

Production and environmental risks
As an industrial group, Evonik is exposed to a risk of interruptions in operation, quality problems and unexpected technical difficulties, as well as to product safety, occupational safety and environmental risks. Group-wide policies on project and quality management, product safety, occupational safety and environmental protection are an effective way of reducing these risks. Production stoppages due to plant failures are insured. Further, production processes and workflows, which are certified as conforming to international standards, are constantly being upgraded and improved, careful maintenance is carried out on all installations and employees receive appropriate initial and advanced training. In addition, especially when new production facilities are erected in countries like China, the Chemicals Business Area is exposed to a risk that intellectual property cannot be adequately protected, even through patents. Adequate provisions have been made for any necessary remediation of contaminated sites. As a responsible company with significant chemical activities, Evonik ensures that such processes are operated in accordance with the principles of the chemical industry's global Responsible Care initiative.

Procurement risks
The availability of starting products and intermediates and dependence on commodity and energy prices are further potential risk factors. The Chemicals Business Area is particularly dependent on the development of the price of crude oil and petrochemical feedstocks derived directly or indirectly from oil. It is also dependent on exchange rates, which have a major influence on both commodity and energy costs. We counter these risks by optimizing global purchasing activities and entering into long-term supply contracts where possible or finding alternative suppliers. We also investigate the possibility of using substitute raw materials for various production processes and are working to develop alternative production technologies. Should procurement costs nevertheless rise, it is not always possible to pass them on directly to our customers due to the competitive situation. However, a rising number of supply agreements include price formulas so that changes in raw material costs can be reflected in our prices. One challenge in the light of the Energy Business Area's portfolio of power plants is the declining availability of German ballast coal. We are addressing this through process and technology-based measures and the procurement of alternative fuels.

Sales and marketing risks
Overall, customer concentration is low in the Chemicals and Real Estate Business Areas, although some operating units are dependent on key account customers. A decline in demand from the sectors served by the Chemicals Business Area or a deterioration in the competitive position of its customers could adversely affect the chemicals business. We respond to these risks by permanent monitoring of the market, acquiring new customers, developing customer strategies and efforts to establish new applications and gain access to new markets as early as possible.
In 2007, the business units managed to pass on most of the rise in raw material and energy costs to their customers. In the Energy Business Area we see risk potential in the expiration of long-term electricity supply agreements, although these are offset by declining power generating capacity in Germany and the high probability of securing follow-on agreements.

Interest and exchange rate risks
In the course of its business, Evonik is exposed to the risk of changes in exchange rates and interest rates. Currency risks relate to both the sourcing of raw materials and the sale of end-products. The aim of our currency management is to protect the operating business from fluctuations in earnings and cash flows due to changes in exchange rates on the currency markets. This applies first and foremost to the US dollar. The exchange rate risk caused by a rise in the euro against the US dollar, which would make exports to the dollar zone more expensive, is hedged through forward rate agreements and currency options.
The aim of interest-rate management is to protect net income from the negative effects of fluctuations in market interest rates. The risk of changes in interest rates is managed by utilizing primary and derivative financial instruments, especially interest-rate swaps and cross-currency interest-rate swaps, to achieve an appropriate balance of fixed and variable interest rates, bearing in mind the cost-benefit ratio.

To mitigate these risks we use hedges, which include the use of financial derivatives. These are used exclusively for hedging purposes, in other words, they are only used in connection with transactions originated by business operations that have a risk profile exactly opposite to that of the financial derivatives. The type and extent of the transactions to be hedged are defined in a financial policy that is mandatory for the entire Group. Both contractually agreed and forecast transactions are hedged.

A detailed overview of interest rate and currency management and the use of derivative financial derivatives is given in Note (10.3) to the consolidated financial statements and Note (26) to the annual financial statements of Evonik Industries AG.

Liquidity risks

At the heart of our central liquidity risk management is a Group-wide cash pool. Managing liquidity risks centrally ensures timely provision of the funds needed to finance current operating business and current and future investment at all Group companies in the required currency. Sufficient credit lines are available to cover unforeseen liquidity bottlenecks, including a €2.25 billion revolving credit facility available via Evonik Industries AG.

A detailed overview of liquidity risks and their management can be found in Note (10.3) to the consolidated financial statements.

Acquisition and divestment risks

The strategic development of Evonik may entail the expansion of specific operations. In many cases, such decisions are implemented by acquiring a full or majority interest in business entities. An intensive examination of potential acquisition targets (due diligence) is undertaken before they are acquired. Key aspects of this are strategic focus, management quality and development potential. New subsidiaries are systematically integrated into the Group and its risk management processes. Through our value-based controlling process and portfolio analysis, we continuously review the sustained profitability of all operating units and their fit with the Group's strategy. Any resultant restructuring or divestment requirements are systematically implemented. The preparation, implementation and subsequent monitoring of investment decisions are undertaken on the basis of defined accountability rules and permitting processes. Post-transaction management closely monitors any liability and guarantee risks resulting from divestments.

Legal risks

Risks arising from legal proceedings can never be ruled out. In particular, acquisitions and divestments may lead to guarantee claims against Evonik. Through its operating business, the Group is exposed to liability risks in connection with possible claims for damages resulting from product liability, patent law, tax law, competition law, antitrust law and environmental law on the one hand and the infringement of statutory requirements on the other. We have developed a concept involving high quality and safety standards to ensure a controlled approach to such risks. Insurance cover has been purchased for the financial consequences of any damage that may nevertheless occur as a result of damage to property, product liability claims and other risks. Where necessary, provisions have been set up for such risks.

Human resources risks

The skills and knowledge of our highly qualified managers and employees are vital to achieve the strategic and operational objectives of the organizational units. To ensure that we can recruit and retain qualified staff to meet our future requirements we offer attractive remuneration systems and systematic personnel development, giving employees a wide range of opportunities to develop and enhance their personal and professional abilities. We also maintain close links to universities and professional associations to help us recruit talented youngsters.

Information technology risks

Group-wide rules and regulations provide details of how to handle information and the secure use of information systems. Internal communication media are used to heighten employees' awareness of the need for security in the handling of information technology (IT). The latest security technology is used to maximize data security.

Outlook

Global economic slowdown
Following the adverse effect on the financial sector, the ongoing financial markets crisis now threatens to spill over to the real economy. This could put a significant brake on global economic growth in 2008. Europe could now find itself facing the effects of lower growth and higher inflation as a result of the global credit crunch, which has already had a downside impact on trends in the United States. By contrast, continued strong impetus should come from China, India and Russia.

Opportunities and risks
Evonik has the capacity to maintain its performance, even in the face of tougher market conditions. Opportunities arise from our good position in relevant markets. At the same time, the start-up of new production capacities, the launch of new products and the introduction of new applications for established products will boost our business. Further opportunities could arise from declining raw material prices and a reduction in production costs resulting from higher capacity utilization. In our view, the risks to our development comprise a deterioration in the global economy, a further sharp rise in raw material and energy costs, an appreciation of the euro, an increase in the cost of materials and the availability of services.

Strengthening our market and technological leadership
More than 80 percent of sales reported by our Chemicals Business Area come from business activities where we rank among the world leaders. We have production at over 100 sites in 28 countries, a broad customer base, serve widely diversified end-markets and have products that are difficult to replace. That reduces our dependence on cyclical trends. Alongside clear proximity to our customers, research and development form a central element in our aim of strengthening and expanding our market and technological leadership. Products, processes and applications developed in the past five years account for about 20 percent of sales in the Chemicals Business Area. We aim to participate in the dynamic growth in Asia, Eastern Europe and Latin America by offering smart new products.

In the long term our Energy Business Area will benefit from the global rise in demand for energy and the increased trend to efficient solutions that save resources. Locations for which permits are likely to be issued position us well to profit from the possible expansion of our portfolio of power plants in Germany. We also see attractive international opportunities. Our long-standing experience and the excellent reputation of our engineering services facilitate access to selected new growth markets. We also intend to pursue our successful development in the growing market for renewable energy resources.

The Real Estate Business Area has a high-quality portfolio with low vacancy rates, including a high regional concentration which provides benefits in management and market insight, enabling it to generate stable, predictable and recurrent cash flows.

Business outlook remains good
We are forecasting a slight rise in sales year-on-year in 2008. EBITDA and EBIT both developed particularly positively in 2007 and exceeded our expectations. Moreover, they were boosted by income from portfolio adjustments which are not expected to recur in 2008. After adjustment for these effects, EBITDA and EBIT are expected to increase slightly year-on-year in 2008. Income before income taxes for the continuing operations should be higher than in 2007 due to lower non-operating expenses. We will not be able to match the high income from discontinued operations reported for 2007 as this was attributable to book gains on the divestment of the gas distribution and mining technology activities. Net income is therefore expected to be lower.

The capital expenditure budget for 2008 is around €1.5 billion. The largest projects under way are the construction of a coal-fired power plant in Duisburg-Walsum, Germany, and an integrated production facility for high-performance specialty polymers in Shanghai, China.

In view of the expected development of EBIT and planned investments, we assume that the return on capital employed (ROCE) will exceed the cost of capital, which is currently 8 percent, and that we will therefore create value in 2008.

Looking ahead to 2009, we anticipate that sales, EBITDA and EBIT could be slightly higher than in fiscal 2008. We also expect to report an improvement in ROCE.

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.

Our first results.

Consolidated financial statements 2007

Consolidated financial statements 2007
Evonik Industries AG
(formerly RAG Beteiligungs-AG), Essen

Income statement

Evonik Group

in € million	Note	**2007**	2006
Sales	(6.1)	14,430	14,125
Change in inventories of finished goods and work in progress		32	– 94
Other own work capitalized		81	77
Other operating income	(6.2)	955	965
Cost of materials	(6.3)	– 7,836	– 7,536
Personnel expense	(6.4)	– 2,773	– 2,948
Depreciation, amortization and impairment losses	(6.5)	– 1,119	– 1,334
Other operating expenses	(6.6)	– 2,842	– 2,669
Income before financial result and income taxes, continuing operations		**928**	**586**
Interest income	(6.7)	97	144
Interest expense	(6.7)	– 548	– 614
Result from investments recognized at equity	(6.8)	34	51
Other financial income/expense	(6.9)	16	25
Financial result		**– 401**	**– 394**
Income before income taxes, continuing operations		**527**	**192**
Income taxes	(6.10)	– 158	– 33
Income after taxes, continuing operations		**369**	**159**
Income after taxes, discontinued operations	(5.3)	602	993
Income after taxes		**971**	**1,152**
thereof attributable to			
Minority interests		95	106
Equity holders of Evonik Industries AG (net income)		876	1,046
Earnings per share (basic and diluted) in €	(10.1)	**+ 1.88**	**+ 2.24**

Prior-year figures restated.

Balance sheet

Evonik Group

in € million	Note	Dec. 31, 2007	Dec. 31, 2006
Intangible assets	(7.1)	4,159	4,483
Property, plant and equipment	(7.2)	5,566	5,605
Investment property	(7.3)	1,503	1,630
Investments recognized at equity	(7.4)	619	279
Financial assets	(7.4)	1,302	1,639
Deferred tax assets	(7.13)	364	497
Other income tax assets	(7.13)	29	26
Other receivables	(7.6)	91	107
Non-current assets		**13,633**	**14,266**
Inventories	(7.5)	1,806	1,809
Other income tax assets	(7.13)	44	69
Trade accounts receivable	(7.6)	2,372	2,354
Other receivables	(7.6)	406	411
Financial assets	(7.4)	488	285
Cash and cash equivalents	(7.7)	319	444
		5,435	**5,372**
Assets held for sale	(5.3)	732	1,315
Current assets		**6,167**	**6,687**
Total assets		**19,800**	**20,953**

in € million	Note	Dec. 31, 2007	Dec. 31, 2006
Issued capital		466	466
Reserves		4,178	3,405
Equity attributable to equity holders of Evonik Industries AG		**4,644**	**3,871**
Minority interests		437	449
Total equity	(7.8)	**5,081**	**4,320**
Provisions for pensions and other post-employment benefits	(7.9)	3,894	4,070
Other provisions	(7.10)	1,099	1,271
Deferred tax liabilities	(7.13)	761	961
Other income tax liabilities	(7.13)	191	112
Financial liabilities	(7.11)	3,993	3,572
Other payables	(7.12)	156	183
Non-current liabilities		**10,094**	**10,169**
Other provisions	(7.10)	1,188	1,310
Other income tax liabilities	(7.13)	206	226
Financial liabilities	(7.11)	971	2,306
Trade accounts payable	(7.12)	1,294	1,265
Other payables	(7.12)	487	499
		4,146	**5,606**
Liabilities associated with assets held for sale	(5.3)	479	858
Current liabilities		**4,625**	**6,464**
Total equity and liabilities		**19,800**	**20,953**

Prior-year figures restated.

Statement of changes in equity

Evonik Group

Note (7.8)

in € million	Issued capital	Capital reserve	Accumulated income/loss
As of January 1, 2006	**466**	**723**	**1,984**
Capital increases/decreases			
Profit transfer/dividends			– 235
Transactions with equity holders			– 235
Income after taxes			1,046
Other comprehensive income			
Total income/loss recognized in equity			1,046
Other changes		– 1	– 9
As of December 31, 2006	**466**	**722**	**2,786**
Capital increases/decreases		445	
Profit transfer/dividends			– 345
Transactions with equity holders		445	– 345
Income after taxes			876
Other comprehensive income			
Total income/loss recognized in equity			876
Other changes		– 2	– 15
As of December 31, 2007	**466**	**1,165**	**3,302**

Reserves				Attributable to equity holders of Evonik Industries AG	Minority interests	Total equity
Accumulated other comprehensive income						
Unrealized gains/losses on available-for-sale securities	Unrealized gains/losses on hedges	Revaluation reserve for acquisitions in stages	Currency translation adjustment			
14	**16**	**40**	**– 10**	**3,233**	**2,017**	**5,250**
				0	12	12
				– 235	– 73	– 308
				– 235	– 61	– 296
				1,046	106	1,152
5	27		– 197	– 165	– 30	– 195
5	27	0	– 197	881	76	957
11	2	– 2	– 9	– 8	– 1,583	– 1,591
30	**45**	**38**	**– 216**	**3,871**	**449**	**4,320**
				445	30	475
				– 345	– 61	– 406
				100	– 31	69
				876	95	971
1	35	20	– 254	– 198	– 34	– 232
1	35	20	– 254	678	61	739
	– 2	– 2	16	– 5	– 42	– 47
31	**78**	**56**	**– 454**	**4,644**	**437**	**5,081**

Cash flow statement

Evonik Group

in € million	Note	2007	2006
Income before financial result and income taxes, continuing operations		928	586
Depreciation, amortization, impairment losses/reversal of impairment losses		1,099	1,293
Gains/losses on disposal of non-current assets		– 95	– 138
Other non-cash income/expense		– 14	–
Change in inventories		– 11	– 75
Change in receivables/other assets		– 189	455
Change in provisions		– 277	– 372
Change in liabilities (excluding financial liabilities)		– 15	– 385
Cash outflows for interest		– 278	– 225
Cash inflows from interest		30	57
Cash inflows from dividends		52	35
Cash outflows for income taxes		– 132	– 176
Cash flow from operating activities, continuing operations		**1,098**	**1,055**
Cash flow from operating activities, discontinued operations		117	87
Cash flow from operating activities	(8.1)	**1,215**	**1,142**
Intangible assets, property, plant and equipment, investment property			
Cash outflows for investments		– 1,068	– 1,084
Cash inflows from divestments		118	273
Acquisitions, equity investments and loans			
Cash outflows for investments		– 98	– 3,538
Cash inflows from divestments		957	3,496
Change in current securities and deposits		– 238	25
Cash flow from investing activities	(8.2)	**– 329**	**– 828**
Cash inflows/outflows relating to capital contributions		30	12
Cash outflows for payments to minority interests		– 61	– 73
Profit transfer for prior year/dividends paid[1]		– 235	– 70
Cash inflows from the addition of financial liabilities		389	4,625
Cash outflows for repayment of financial liabilities		– 1,130	– 4,802
Cash flow from financing activities		**– 1,007**	**– 308**
Change in cash and cash equivalents		**– 121**	**6**
Cash and cash equivalents as of January 1		**467**	**457**
Change in cash and cash equivalents		– 121	6
Changes in exchange rates and other changes in cash and cash equivalents		3	4
Cash and cash equivalents as of December 31	(8.3)	**349**	**467**
Cash and cash equivalents included in assets held for sale		– 30	– 23
Cash and cash equivalents as reported on the balance sheet as of December 31	(7.7)	**319**	**444**

[1] Profit transfer/dividends paid without tax charge (stand-alone view)		– 220	– 102

Prior-year figures restated.

Notes to the consolidated financial statements of Evonik Industries AG for 2007

(1) Segment report

Evonik Group by operating segments

Note (9.1)

in € million	Technology Specialties 2007	Technology Specialties 2006	Consumer Solutions 2007	Consumer Solutions 2006	Specialty Materials 2007	Specialty Materials 2006
External sales	4,898	4,812	2,871	2,813	3,027	2,881
Internal sales	635	621	92	91	126	112
Total sales	**5,533**	**5,433**	**2,963**	**2,904**	**3,153**	**2,993**
EBITDA (before non-operating result)	756	754	409	396	488	454
EBITDA margin in %	15.4	15.7	14.2	14.1	16.1	15.8
Depreciation and amortization	– 301	– 342	– 190	– 208	– 197	– 223
Result from investments recognized at equity	– 5	15	19	19	8	7
EBIT (before non-operating result)	454	400	219	195	288	236
Non-operating result	– 16	– 318	– 61	– 62	– 47	– 32
Operating income	438	82	158	133	241	204
Capital employed (as of Dec. 31)	4,027	3,804	2,484	2,556	2,811	2,826
Capital employed (on average)	3,906	3,935	2,558	2,661	2,858	2,906
ROCE in %	11.6	10.2	8.6	7.3	10.1	8.1
Assets included in capital employed	5,207	5,220	3,068	3,109	3,441	3,401
Investments recognized at equity	26	113	80	69	53	49
Capital expenditures	306	256	139	189	179	174
Other significant non-cash income and expenses	– 331	– 472	– 210	– 350	– 238	– 237

Evonik Group by regions

Note (9.2)

in € million	Germany 2007	Germany 2006	Rest of Europe 2007	Rest of Europe 2006
External sales	5,823	5,813	3,472	3,496
Non-current assets	9,143	9,515	718	765
Capital expenditures	741	632	89	80

Prior-year figures restated.

Energy		Real Estate		Total reportable segments		Corporate, other operations, consolidation		Total Group (continuing operations)	
2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
2,799	2,574	409	464	14,004	13,544	426	581	14,430	14,125
51	164	0	4	904	992	– 904	– 992	0	0
2,850	**2,738**	**409**	**468**	**14,908**	**14,536**	**– 478**	**– 411**	**14,430**	**14,125**
538	500	174	169	2,365	2,273	– 144	– 116	2,221	2,157
19.2	19.4	42.5	36.4	16.9	16.8			15.4	15.3
– 87	– 88	– 50	– 52	– 825	– 913	– 37	– 30	– 862	– 943
11	10	0	0	33	51	1	0	34	51
448	391	118	117	1,527	1,339	– 179	– 160	1,348	1,179
– 21	49	47	– 55	– 98	– 418	– 272	– 99	– 370	– 517
427	440	165	62	1,429	921	– 451	– 259	978	662
3,046	2,911	2,025	1,795	14,393	13,892	– 17	206	14,376	14,098
3,014	2,837	1,867	1,775	14,203	14,114	56	– 70	14,259	14,044
14.9	13.8	6.3	6.6	10.8	9.5			9.5	8.4
4,115	3,914	2,173	1,989	18,004	17,633	542	850	18,546	18,483
60	50	398	0	617	281	2	– 2	619	279
284	226	103	78	1,011	923	21	12	1,032	935
– 137	– 182	28	– 56	– 888	– 1,297	– 291	– 148	– 1,179	– 1,445

North America		Asia		Central and South America		Other		Total Group (continuing operations)	
2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
2,057	2,039	2,354	2,106	490	445	234	226	14,430	14,125
705	647	533	484	103	88	26	26	11,228	11,525
74	89	106	107	17	25	5	2	1,032	935

(2) General information

RAG Beteiligungs-AG was renamed Evonik Industries AG on September 12, 2007.

Evonik Industries AG is an international corporation based in Germany operating in the Chemicals, Energy and Real Estate Business Areas; see Notes (1) and (9). The company's registered office is Rellinghauser Strasse 1–11, Essen, Germany, and it is registered in the Commercial Register at Essen District Court under the number HRB No. 19474.

Evonik Industries AG was previously a direct subsidiary of RAG Aktiengesellschaft (RAG), Essen, Germany. The following companies had direct and/or indirect stakes in RAG: E.ON RAG Beteiligungsgesellschaft GmbH (E.ON), RWE Aktiengesellschaft (RWE), ThyssenKrupp AG (ThyssenKrupp) and Arcelor Luxembourg S.A. (Arcelor).

In connection with the separation of the mining and industrial activities of the RAG Group, the shares in RAG held by E.ON, RWE and ThyssenKrupp were transferred to RAG-Stiftung, Essen, Germany, (RAG Foundation) effective November 30, 2007. The shares in RAG held by Arcelor were transferred to RAG-Stiftung and RAG-Beteiligung Verwaltungs GmbH & Co. KG on October 25, 2007. RAG-Stiftung is the sole limited liability partner in this company and WestLB AG (WestLB)—through its stake in Dusskapital Zwanzig Beteiligungsgesellschaft mbH—is the general partner but has no stake in its capital.

At the end of fiscal 2007, RAG in turn sold 94.9 percent of its shares in Evonik Industries AG to RAG-Stiftung. 5.1 percent of the shares in Evonik had already been transferred from RAG to Evonik-Beteiligung Verwaltungs GmbH & Co. KG on November 19, 2007. RAG is the sole limited liability partner in this company and WestLB—through its stake in Dusskapital Achtzehn Beteiligungsgesellschaft mbH—is the general partner but has no stake in its capital. The domination and profit-and-loss transfer agreement between RAG and Evonik Industries AG was extinguished by mutual consent as of December 31, 2007.

Evonik Industries AG is included at equity in the consolidated financial statements prepared by RAG-Stiftung in accordance with the German Commercial Code (HGB). The consolidated financial statements are published in the electronic Federal Gazette.

The present consolidated financial statements of Evonik Industries AG and its subsidiaries (referred to jointly as “Evonik” or the “Group”) were approved for publication by the Executive Board of Evonik Industries AG as of the date of signature. These consolidated financial statements are also published in the electronic Federal Gazette.

(3) Basis of preparation of the financial statements

(3.1) Compliance with IFRS

As permitted by Section 315 a Paragraph 3 of the German Commercial Code, the present consolidated financial statements have been prepared on the basis of the International Financial Reporting Standards (IFRS) and comply with these standards. The IFRS comprise the standards issued by the International Accounting Standards Board (IASB), London, UK (International Financial Reporting Standards or International Accounting Standards) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC; formerly the Standing Interpretations Committee), as adopted by the European Union. Additional disclosures are made in accordance with national regulations pursuant to Section 315 a Paragraph 1 of the German Commercial Code.

(3.2) Presentation of the financial statements

The consolidated financial statements cover the period from January 1 to December 31, 2007 and are presented in euros. All amounts are stated in millions of euros (€ million) except where otherwise indicated.

The recognition and valuation principles and items presented in the consolidated financial statements are in principal consistent from one period to the next. Deviations from this principle are outlined in Note (3.4). To enhance the clarity of presentation, some balance sheet and income statement items are combined and explained in detail in the Notes.

The income statement is prepared using the total cost format. Expenses are grouped by type. Assets and liabilities are classified by maturity. They are classified as current if they are due or expected to be realized within 12 months from the reporting date. The statement of changes in equity shows changes in the issued capital, reserves attributable to equity holders of Evonik Industries AG and changes in minority interests in the reporting period. Transactions with equity holders in their capacity as owners are also shown separately here. The cash flow statement provides information on the company's cash flows. The cash flow from operating activities is calculated using the indirect method. The Notes contain basic information on the financial statements, supplementary information on the above items and further information such as the segment report.

(3.3) Newly issued IFRS

Accounting standards that have taken effect
The IASB has revised or issued a number of standards and interpretations that became mandatory for the first time in 2007:

- IFRS 7 "Financial Instruments: Disclosures"
- Amendment to IAS 1 "Presentation of Financial Statements: Capital Disclosures"
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"
- IFRIC 10 "Interim Financial Reporting and Impairment".

The only new standard that had to be applied for the first time which had a material impact on the consolidated financial statements in fiscal 2007 was IFRS 7 "Financial Instruments: Disclosures".

This standard extends the disclosure requirements for financial instruments. It requires disclosure of both qualitative and quantitative information on the extent of the risks arising from financial instruments and how they are controlled by the management. This new standard supersedes IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" which was only applicable for financial institutions and the previous disclosure requirements set out in IAS 32 "Financial Instruments: Disclosure and Presentation".

Early application of accounting standards
In 2006 the IASB issued IFRS 8 "Operating Segments", which only becomes mandatory from fiscal 2009. Earlier application is permitted on a voluntary basis. New accounting standards may only be applied if they have been officially adopted by the European Union. IFRS 8 was issued in this way in November 2007. The Executive Board of Evonik Industries AG is convinced that application of IFRS 8 makes more relevant data available. Evonik therefore made use of the option of earlier application.

IFRS 8 contains disclosure requirements for the operating segments of an entity. It also requires disclosure of information on the entity's products and services, the regions in which it operates and significant customer relationships. IFRS 8 completely replaces IAS 14 "Segment Reporting". Under IFRS 8 the segment report must be prepared along the same lines as the internal reporting to the company's management (management approach). Information on the impact of this standard is given in Notes (3.4) and (9.1).

New accounting standards that have not been applied early
As of December 31, 2007 the IASB has also issued a number of accounting standards which did not have to be applied for fiscal 2007 and which Evonik did not chose to apply voluntarily in its consolidated financial statements as of an earlier date. Further, the application of these accounting standards assumes that they have been officially adopted by the European Union.

The following new accounting standards were published in 2006:

- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"
- IFRIC 12 "Service Concession Arrangements".

Other accounting standards issued by the IASB in 2007:

- Amendment to IAS 23 "Borrowing Costs"
- IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 14 "IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- IAS 1 (revised) "Presentation of Financial Statements".

The new accounting standards will probably be applied for the first time—insofar as they are relevant for the Group's consolidated financial statements—from the date on which they come into force.

In November 2006, the IASB issued IFRIC 11 "IFRS 2: Group and Treasury Share Transactions". IFRIC 11 outlines how to apply IFRS 2 to share-based payments where an entity grants equity instruments in its own company or another Group company. This interpretation requires that where an entity uses its own equity instruments, the transaction must be recorded as equity-settled, regardless how the entity has obtained the equity instruments. It also provides guidance on whether share-based payment for goods and services involving equity instruments of an entity's parent company should be accounted for as cash-settled or equity-settled. This interpretation is applicable for fiscal years beginning on or after March 1, 2007. Earlier application is permitted. This interpretation is not currently relevant for Evonik's consolidated financial statements.

In November 2006 the IASB also issued IFRIC 12 "Service Concession Arrangements". This addresses the measurement and recognition of the rights and obligations arising from service contracts at companies that provide public services on behalf of a public-sector organization, for example, the construction, operation and maintenance of roads, airports, prisons and utility infrastructures. This interpretation is applicable for fiscal years beginning on or after January 1, 2008. Earlier application is permitted. This interpretation is not currently relevant for Evonik's consolidated financial statements.

In March 2007 the IASB published amendments to IAS 23 "Borrowing Costs". The principal change is the deletion of the previous option permitting the recognition of borrowing costs as an expense if they were directly attributable to the acquisition, construction or production of a qualifying asset. In future, such borrowing costs must be capitalized as acquisition or production costs for the relevant assets. The amendment to IAS 23 is applicable to borrowing costs for qualifying assets capitalized for the first time on or after January 1, 2009. This change will not have a material impact on Evonik's consolidated financial statements.

The IASB published IFRIC 13 "Customer Loyalty Programmes" in June 2007. This interpretation addresses the measurement and recognition of such programs. It specifies that in future they must be divided into two components, one relating to the goods or services provided, which must be recognized in income as sales, and one referring to the loyalty bonuses granted to the customer, which must be accrued as a liability until they are claimed by the customer or expire. This interpretation is applicable for fiscal years beginning on or after July 1, 2008. Earlier application is recommended. This interpretation is not currently relevant for Evonik's consolidated financial statements.

Further, in July 2007 the IASB published interpretation IFRIC 14 "IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". This interpretation clarifies the valuation of the asset ceiling for plan assets and defined benefit obligations and any statutory or contractual minimum funding requirements for such plans as of the reporting date. This interpretation is applicable for fiscal years beginning on or after January 1, 2008. Earlier application is recommended. The quantitative effect of this interpretation on the consolidated financial statements is currently being calculated.

In September 2007 the IASB published a revised version of IAS 1 "Presentation of Financial Statements". The most important change comprises the separate presentation of changes in equity that do not relate to transactions with the company's equity holders. These must be presented in one statement of comprehensive income or as two statements, a separate income statement and a statement of comprehensive income. The new version of IAS 1 is applicable for the first time for fiscal years starting on or after January 1, 2009. Earlier application is permitted. This amendment to IAS 1 will affect the presentation of the above components of the financial statements.

(3.4) Restatement of prior-year figures

An enterprise may only alter its recognition and valuation principles or the items stated in prior years if this is required due to a standard or interpretation or results in the disclosure of more relevant information in the financial statements. Such changes must generally also be presented retroactively for the prior period.

Discontinued operations

If the criteria for recognition as discontinued operations set out in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are met, the relevant operations are stated separately from continuing operations on the face of the income statement. The amounts recognized for discontinued operations in previous periods have to be adjusted accordingly.

In fiscal 2007, Evonik recognized its tar refining and initiators activities for the first time as discontinued operations. The construction chemicals, mining technology and food ingredients businesses were classified as discontinued operations in previous years, see Note (5.3). Consequently, only the prior-year figures for the tar refinery and initiators operations had to be adjusted in the income statement. From fiscal 2007 the cash flow statement includes the cash flows of discontinued operations. The prior-year figures have been restated accordingly.

Revenue recognition in the Real Estate segment
The Real Estate segment was reorganized at the start of fiscal 2007. The refocusing of this segment exclusively on activities in the area of residential real estate was accompanied by streamlining of management structures and local management tiers and harmonization of business processes. At the same time, the portfolio management system and sales structure were centralized. Following this refocusing, the business activities of the Real Estate segment have been extended to include portfolio management, comprising the sale of residential real estate as well as active management of the segment's housing stock. To reflect these changes in the presentation of the assets, liabilities, financial position and results and give the users of these financial statements more relevant information aligned to the disclosure customs in this sector, the procedure used for revenue recognition for the sale of residential real estate and accounting for utility charges and heating costs has been revised.

In compliance with IAS 40 "Investment Property", certain properties that are held with a view to sale have been reclassified to inventories. Further, from fiscal 2007 revenue from the sale of real estate is recognized in sales and the corresponding book values of the properties sold are recognized in the cost of materials.

Similarly, in accordance with IAS 18 "Revenue", receivables from tenants relating to utility charges and heating costs are recognized as sales when they are incurred. These service transactions are recognized analogously to IAS 11 "Construction Contracts" by immediately offsetting receivables against the prepayments received from tenants for these services. To ensure the comparability of these transactions over time, the corresponding figures for fiscal 2006 have been restated.

Further changes
The segment report has been modified as a result of the first-time application of IFRS 8 "Operating Segments". In particular, the management approach has led to numerous changes in the segment data. The management structure has also been aligned to the new organizational structure. The segment data for fiscal 2006 have been restated accordingly, see Notes (1) and (9.1).

It was also necessary to alter the information provided on related parties, see Note (10.4), the maturity structure of other income tax assets, see Note (7.13), and the disclosure of the cost of materials, see Note (6.3).

Restated prior-year figures

Income statement

in € million	2006 published	Changes: Pursuant to IFRS 5	Changes: Real Estate	Changes: Other	2006 restated
Sales	14,793	– 764	96		14,125
Change in inventories of finished goods and work in progress	– 92	– 1	– 1		– 94
Other own work capitalized	78	– 1			77
Other operating income	1,093	– 66	– 62		965
Cost of materials	– 7,741	468	– 35	– 228	– 7,536
Personnel expense	– 3,079	131			– 2,948
Depreciation, amortization and impairment losses	– 1,508	174			– 1,334
Other operating expenses	– 3,087	188	2	228	– 2,669
Interest income	145	– 1			144
Interest expense	– 624	10			– 614
Result from investments recognized at equity	50	1			51
Other financial income/expense	25				25
Income taxes	– 10	– 23			– 33
Income after taxes, continuing operations	**43**	**116**	**0**	**0**	**159**
Income after taxes, discontinued operations	1,109	– 116			993
Income after taxes	**1,152**	**0**	**0**	**0**	**1,152**
thereof attributable to					
Minority interests	106				106
Equity holders of Evonik Industries AG (net income)	1,046				1,046

Balance sheet (excerpt)

in € million	2006 published	Changes: Real Estate	Changes: Other	2006 restated
Other non-current income tax assets	–		26	26
Other current income tax assets	95		– 26	69
Inventories	1,899	– 90		1,809
Other	19,049			19,049
Total assets	**21,043**	**– 90**	**0**	**20,953**
Equity	4,320			4,320
Other current payables	589	– 90		499
Other	16,134			16,134
Total equity and liabilities	**21,043**	**– 90**	**0**	**20,953**

Cash flow statement (excerpt)

in € million	2006 published	Changes: Pursuant to IFRS 5	2006 restated
Cash flow from operating activities	1,098	44	1,142
Cash flow from investing activities	– 733	– 95	– 828
Cash flow from financing activities	– 232	– 76	– 308
Change in cash and cash equivalents	**133**	**– 127**	**6**

(3.5) Consolidation methods and scope of consolidation

Scope of consolidation

Alongside Evonik Industries AG, the consolidated financial statements include all material German and foreign subsidiaries directly or indirectly controlled by Evonik. Material associated companies and joint ventures are recognized using the equity method if Evonik is able to exert a significant influence. Initial consolidation or deconsolidation takes place as of the date on which Evonik gains or loses control.

Investments that do not have a material influence on the assets, financial position and earnings of the Group, either individually or in aggregate, are not included in the scope of consolidation. Instead they are recognized in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Changes in the scope of consolidation are outlined in Notes (5.1) and (5.2). An overview of the main consolidated subsidiaries and companies recognized at equity can be found at the end of this annual report.

Consolidation methods

The financial statements of the consolidated German and foreign subsidiaries are prepared using uniform accounting and valuation principles.

Capital is consolidated at the time of acquisition by offsetting the carrying amount of the business acquired against the pro rata revalued equity of the subsidiary. The assets, liabilities and contingent liabilities of the subsidiary are included at their fair values. If shares in the subsidiary are held before acquiring control, the fair value of the assets, liabilities and contingent liabilities may have altered over time. Every change in relation to the shares previously held is treated as a revaluation and recognized separately in equity in the revaluation reserve. Any remaining excess of the purchase price over the fair value of assets is recognized as goodwill. Negative differences are expensed immediately. In the deconsolidation process the carrying amounts of capitalized goodwill are taken into account when calculating the gain or loss on the transaction.

Where further shares in a fully consolidated subsidiary are acquired, the additional acquisition costs are offset against the minority interests. Any remaining excess of the purchase price over the fair value of assets is capitalized as goodwill. Since such transactions are not covered by any reporting standard, the management has selected this accounting method after weighing up all relevant circumstances.

Intergroup income and expenses, profits, losses, receivables and liabilities between consolidated subsidiaries are eliminated. Write-downs on shares in such companies recognized in the statements drawn up separately by the companies are reversed.

The same consolidation principles apply for companies accounted for using the equity method and any goodwill is recognized in the carrying amount of the investment. The financial statements of all major companies recognized at equity are prepared using uniform accounting and valuation principles.

(3.6) Currency translation

Foreign currency transactions are measured in the financial statements of individual subsidiaries at the exchange rate at the date of initial recognition. Any gains or losses resulting from the valuation of monetary assets and liabilities in foreign currencies as of the reporting date are recognized in other operating income or other operating expenses.

The functional currency method is used to translate the financial statements of foreign subsidiaries. In the consolidated financial statements, the balance sheets of all foreign subsidiaries are translated from the functional currency of the company into euros at closing rates on the reporting date since they conduct their business independently in their functional currency. The equity of foreign companies recognized at equity is translated in the same way. As an asset pertaining to an economically autonomous foreign sub-entity, goodwill is translated at the closing rate. Income and expense items are translated at average exchange rates for the year. The average annual exchange rates comprise the mean of the exchange rates at the month-end over the past thirteen months.

Translation differences compared to the prior year and translation differences between the income statement and balance sheet are recognized directly in equity in other comprehensive income.

The following exchange rates were used for currency translation:

	Annual average exchange rates		Closing rates	
€ 1 corresponds to	**2007**	2006	**Dec. 31, 2007**	Dec. 31, 2006
Australian dollar (AUD)	1.64	1.66	1.68	1.67
British pound (GBP)	0.69	0.68	0.73	0.67
Brazilian real (BRL)	2.68	2.74	2.60	2.82
Chinese renminbi yuan (CNY)	10.44	10.02	10.75	10.28
Swiss franc (CHF)	1.64	1.58	1.65	1.61
US dollar (USD)	1.37	1.26	1.47	1.32
Japanese yen (JPY)	161.71	146.20	164.93	156.93

(3.7) Accounting policies

Revenue recognition
Revenues from the sale of goods and services that constitute part of the company's normal business activity and other revenues are recognized as follows:

(a) Sales
The Technology Specialties, Consumer Solutions and Specialty Materials segments mainly generate sales by selling specialty chemicals to industrial customers for further processing.

The Energy segment mainly generates sales revenues through the planning, construction and operation of power plants and decentralized energy supply facilities in Germany and abroad. Where the customer bears substantially all risks and benefits arising from the ownership of the facilities, revenues are recognized as finance leases. In addition, commission payments for global coal trading are received from customers in the energy sector, the iron and steel industry and the heating sector.

The Real Estate segment's sales principally comprise revenues from letting, administration and running residential property, the construction of houses and apartment blocks for third parties and the sale of residential units. Properties held with a view to sale are reclassified to inventories. Utility charges and heating costs that can be charged to tenants are offset against prepayments received from tenants for such services and immediately recognized as sales.

The following comments on revenue recognition apply to all segments:
Prices are contractually agreed between the parties to a transaction. Sales revenues are measured as the fair value of the consideration received or to be received less value-added tax and any discounts or bulk rebates granted. The general principle for revenue recognition is that both the revenues and the related costs can be measured reliably. It must also be sufficiently probable that the economic benefit will flow to the company.

Revenues from the sale of goods are recognized, assuming that the general conditions for revenue recognition are met, when title and the associated risks pass to the customer. Provisions are established for general risks arising from the sale of goods and services on the basis of previous experience.

Revenues from services are recognized, assuming that the general conditions for revenue recognition are met, when the percentage of completion can be reliably measured.

They are recognized in the year in which the service is rendered. Where the provision of services extends over more than one fiscal year, sales are recognized proportionately to the total service to be provided.

(b) Other revenues
Other revenues are only recognized if they can be determined reliably and it is sufficiently probable that the economic benefit will flow to the company.

Interest income is recognized on a pro rata temporis basis using the effective interest method. Income from royalties is accrued on the basis of the commercial terms of the underlying contract and recognized on a pro rata basis. Dividend income is recognized as of the date of the right to receipt of the payment.

Intangible assets
Acquired intangible assets are capitalized at cost. Intangible assets with a finite useful life are amortized. Intangible assets with an indefinite useful life are not amortized; instead they are tested for impairment at least once a year. The assumptions regarding their indefinite useful life are also reviewed annually.

(a) Goodwill
Goodwill is tested for impairment and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated among cash generating units (CGUs). The CGUs are aggregated so that they correspond at most to a segment.

(b) Patents, trademarks and licenses

Patents, trademarks and licenses are recognized at amortized cost. They are amortized over their estimated useful life of 5–25 years using the straight-line method. Some rights have an indefinite useful life. These are trademarks with no restrictions on their use. They are reviewed annually to check that their useful life is still indefinite. If the assessment of the useful life of such trademarks has altered and they are reclassified as finite, their carrying amounts are amortized over their estimated remaining useful life using the straight-line method. Trademarks with an indefinite useful life are tested for impairment.

(c) Capitalized development costs

Development costs are capitalized if they can be clearly assigned to a newly developed product or process that is technically feasible and is designated for captive use or commercialization. Capitalized development costs mainly relate to the development of new products and are amortized using the straight-line method over their estimated useful life of between 3 and 15 years.

(d) Other intangible assets

The majority of other intangible assets are acquired customer relationships. These are amortized over their expected useful life. This is estimated on the basis of contractual data and experience and is generally between 2 and 11 years. Amortization takes account of both useful life and probability of continuance of the customer relationship in the form of a "churn rate".

Property, plant and equipment

Property, plant and equipment are carried at production or acquisition cost less depreciation and impairment losses. The cost of acquisition includes expenses directly attributable to the acquisition. The cost of production of assets manufactured within the Group comprises the direct cost of materials and labor, plus the applicable proportion of material and manufacturing overheads, including depreciation. Costs relating to obligations to dismantle or remove non-current assets at the end of their useful life are capitalized as acquisition costs at the time of acquisition or production. Acquisition and production costs may also include borrowing costs and transfers from gains and losses on cash flow hedges entered into in connection with the purchase of property, plant and equipment in foreign currencies and previously recognized in accumulated other comprehensive income.

Property, plant and equipment is depreciated using the straight-line method over the expected useful life of the assets.

in years	
Buildings	5–50
Plant and machinery	
Chemical facilities	5–25
Power plants and the related components	12–50
Decentralized energy supply installations	8–15
Other technical plant and equipment	3–25
Other plant, office furniture and equipment	3–25

Expenses for overhauls and major servicing (major repairs) are capitalized if it is probable that they will result in future economic benefits from an existing asset. They are then depreciated over the period until the next major repair date. Routine repairs and other maintenance work are expensed in the period in which they are incurred.

Costs incurred for planning and pre-engineering work for capital expenditure projects are capitalized and depreciated over the useful life of the project.

If major components of an asset have different useful lives, they are recognized and depreciated separately.

Gains and losses from the disposal of property, plant and equipment are calculated as the difference between the net proceeds of sale and the carrying amount and recognized in other operating income or other operating expenses.

Investment property

Investment property held as a financial investment to generate rental revenues and/or capital appreciation is valued at the cost of acquisition or production less depreciation. It is depreciated over a useful life of 25–80 years using the straight-line method. The fair value of such properties is valued by internal appraisers using the discounted cash flow (DCF) method.

The DCF model maps future cash flows, which determine the value of the property and thus represents an income-based valuation of the property, as is customary for rented residential property.

Impairment test

With a few exceptions, an impairment test is conducted on non-current assets in accordance with IAS 36 "Impairment of Assets" if there are indications of impairment. Goodwill and other intangible assets with an indefinite useful life that are allocated to a cash generating unit (CGU) are tested for impairment at least once a year. In fiscal 2007 Evonik brought forward the date of its impairment test from December 31 to September 30 as a result of optimized planning processes which facilitated earlier access to the necessary planning data. The impairment test comprises comparing the recoverable amount of the CGU with its carrying amount. The recoverable amount is determined as the higher of the fair value less costs to sell (market value) and the value in use of the CGU. An impairment loss is recognized if the recoverable amount of a CGU is below its carrying amount. In the first step, goodwill is written down. Any remaining impairment is then allocated among other assets in relation to their carrying amount. The impairment loss is reversed—except in the case of goodwill—if the reason for the original impairment charge no longer applies.

In 2007, for the first time, the recoverable amount was determined on the basis of the market value of the CGU. In 2006, it was calculated from a determination of the value in use. The market value is derived from a three-year plan based on historical values. This mid-term planning is based on a mixture of experience and expectations of future market trends and future cash flows. The economic data such as growth in gross domestic product, the development of interest rates, exchange rates, raw material prices and the market price of CO_2 allowances, etc., used in the mid-term planning are derived from market expectations and set centrally by Evonik. A growth rate is factored in for individual CGUs, which are identical to reportable segments as from 2007. These growth rates are derived from experience and future expectations and are CGU-specific. The average long-term growth rates for the markets in which the CGUs operate are not exceeded.

The expected future cash flows were discounted using the weighted average cost of capital (WACC) after taxes. WACC is determined for each CGU on the basis of capital market models and is the weighted average cost of debt and equity. The cost of equity is determined from the risk-free interest rate and a risk premium. The risk premium is derived by multiplying the beta factor by the market risk premium. The risk-free interest rate is defined as 4.6 percent for all CGUs (2006: 4.25 percent). The beta factor is obtained from the capital market by comparison with the values for comparable companies for the CGU (peer group). The cost of debt for the CGUs in the Chemicals and Energy Business Areas is derived from an analysis of the gearing of peer group companies and the resultant cost of debt. The actual cost of debt is used for the Real Estate Business Area. The parameters used are set out in Notes (6.5) and (7.1).

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories of similar structure or for similar applications is determined uniformly using the first-in first-out method or as an average. The cost of finished goods and work in progress comprises the cost of raw materials and supplies, directly attributable personnel expenses, other direct costs and general overheads that can be assigned to production (based on normal operating capacity). The cost of inventories may also contain borrowing costs and gains and losses for qualifying cash flow hedges relating to the purchase of raw materials which have been reclassified from accumulated other comprehensive income.

Purchased emissions allowances are recognized at the lower of cost or net realizable value. A token amount is recognized for emissions allowances allocated free of charge. Provisions are recognized for the obligation to return emissions allowances insofar as such allowances are available, at the amount capitalized for such allowances. If the return obligation exceeds the allowances capitalized, the difference is recognized at the average price for the three months preceding the reporting date.

Impairment losses are reversed if the reason for them is no longer applicable; they may be written back at most to the historical cost of acquisition or production.

Provisions for pensions and other post-employment benefits
Provisions for pensions and other post-employment benefits are recognized using the projected unit credit method for defined benefit obligations in accordance with IAS 19 "Employee Benefits". This method takes account of future salary and pension increases as well as pension obligations and accrued entitlements as of the reporting date. In Germany, valuation is based on the biometric data in the 2005 G mortality tables published by Klaus Heubeck. Pension obligations outside Germany are determined using country-specific parameters and accounting principles. The fair value of plan assets is deducted from the benefit obligation. Actuarial gains and losses are derived from the difference between the expected pension obligations reflected in the annual financial statements and the actual obligation calculated and from deviations between the expected and actual fair value of plan assets. Actuarial gains and losses are only recognized if the balance of accumulated actuarial gains and losses not yet recognized in income exceeds the higher of one of the following at the end of the previous reporting period:

- 10 percent of the present value of the defined benefit obligation
- 10 percent of the fair value of the plan assets.

Amounts exceeding this level must be allocated over the expected average remaining service life of the employees covered by the plan and recognized in income from the following year.

The benefit obligations at year end are compared with the fair value of the plan assets (funded status). Pension provisions are derived from the funded status by deducting unrecognized actuarial gains and losses and past service cost, taking the asset ceiling into account.

Defined contribution plans result in an expense in the period in which the contribution is made. Defined contribution plans exist for both company pension plans and state pension plans (statutory pension insurance).

Other provisions
Other provisions are liabilities of uncertain timing or amount. They are established to cover a present legal or constructive obligation to third parties based on past events that will probably lead to an outflow of resources. It must also be possible to reliably estimate the level of the obligation. If there are several obligations of the same type, the probability of an outflow of resources is calculated for these obligations as an aggregate. Restructuring provisions are only established if constructive obligations exist on the basis of a formal, detailed plan and those affected have been given justifiable expectations that the restructuring will be carried out.

Provisions are based on settlement obligations and take account of future cost increases. Non-current provisions are discounted. Current provisions and the current portion of non-current provisions are not discounted. Provisions are adjusted over time to take account of new findings.

The Long-Term Incentive Plan is a performance-related remuneration plan for senior executives and members of the Board of Management of Evonik Degussa. The resulting obligations are determined and expensed in accordance with IAS 19 "Employee Benefits".

Deferred taxes, other income taxes
Until the end of 2007 Evonik Industries AG was a single fiscal entity with the RAG Group and was thus not an independent taxable entity under German income tax law. For the purpose of these consolidated financial statements, Evonik has recognized income taxes as if it had been an independent company and had not had a fiscal entity agreement with a company outside its own scope of consolidation. This corresponds to the view of the Group as a stand-alone entity. The tax assets and liabilities recognized on the basis of this stand-alone view are settled through a tax allocation procedure under its fiscal entity agreement. Any tax income or expense calculated on a stand-alone basis that exceeds that of the allocation method is recognized directly in equity in accumulated income/loss. In addition, the Group uses the following procedure:

In compliance with IAS 12 "Income Taxes", deferred tax assets are established for temporary valuation and recognition differences between the assets and liabilities recognized in the balance sheets prepared for tax purposes and those prepared in accordance with IFRS. Tax-deductible loss carryforwards that will probably be utilized in the future are capitalized at the amount of the deferred tax asset. Deferred tax assets are recognized on the assumption that sufficient future taxable income is likely to be realized to cover these temporary differences. Where the realization of deferred tax assets is unlikely, they are written down.

Deferred tax assets and liabilities are netted if the company is permitted to net other income tax assets and liabilities and if the deferred tax assets and liabilities relate to income taxes in the same tax jurisdiction.

The tax rates used to calculate deferred taxes are those valid under current legislation or that have been announced as being applicable as of the date when the temporary differences will probably be settled. The aggregate tax rate used to calculate deferred taxes for German companies has been reduced as a result of the reform of the corporation tax system effective 2008 and is now 30 percent compared with 39 percent in the previous year. In addition to 15 percent German corporation tax, the tax rate includes a solidarity surcharge of 5.5 percent of the corporation tax and trade tax of 14 percent. The tax rates used for foreign companies are their national tax rates. These vary between 19 percent (Slovak Republic, Poland) and 39 percent (USA).

Other income taxes for the reporting period and previous periods are recognized on the basis of the expected payment or refund. They are calculated using the company-specific tax rates applicable on the reporting date.

Financial instruments

Financial instruments comprise contractually agreed rights and obligations resulting in an inflow or outflow of financial assets or the issue of equity instruments. They are classified as either primary or derivative financial instruments.

Financial instruments are initially measured at cost. Subsequent measurement is at amortized cost or fair value. The cost of acquisition corresponds to the fair value of the consideration given or received after deduction of direct transaction costs. It is calculated by discounting the expected future cash flows using the effective interest rate at the time of acquisition (present value). The effective interest rate takes account of all directly attributable fees that are by nature interest. For subsequent measurement, the cost of acquisition is measured using the effective interest rate. The fair value is taken as the stock exchange or market price provided that the financial instrument is traded on a sufficiently active market. If no such price is available, prices for other transactions in the same period are used. In all other cases, established valuation methods are used. These include comparison with the market price of similar financial instruments, discounted cash flow analyses and option pricing models.

(a) Primary financial instruments

The Evonik Group classifies primary financial instruments reported as financial assets in the categories loans and receivables, available-for-sale or at fair value through profit or loss. They are initially recognized at the settlement date. Financial assets are derecognized when the contractual rights to receive payments lapse or are transferred and the Group has transferred substantially all opportunities and risks associated with ownership. There were no instances where the Group sold financial assets through securitization or a repurchase agreement and the assets were still reported in full or in part in the financial statements (continuing involvement).

Primary financial instruments that constitute financial liabilities are recognized at amortized cost. Financial liabilities are derecognized when they have been repaid, in other words, when the obligation has been settled, canceled or expired.

The categories used by the Group are outlined below: Loans and receivables principally comprise trade accounts receivable and loans. The assets assigned to this category are valued at amortized cost using the effective interest rate method. Non-current assets assigned to this category that do not bear market interest rates are recognized at present value. If there are objective indications based on historical data that it will not be possible collect the full amounts due under the customary conditions, an impairment loss is recognized. This is measured as the difference between the carrying amount of the asset and the present value of the estimated future payments calculated using the effective interest rate. Impairment losses are recognized in the income statement. If the original reason for the impairment loss no longer applies, it is reversed to income, but only up to the amortized cost.

Available-for-sale assets comprise equity instruments that are not consolidated or recognized at equity, and other securities. In principle they are recognized at fair value after deduction of the direct transaction costs associated with their acquisition. If no fair value is available or it cannot be determined reliably, for example, equity instruments that are not listed on a stock exchange, such assets are recognized at amortized cost. Changes in fair value are recognized directly in equity in accumulated other comprehensive income. Financial assets are examined for objective indications of impairment on every reporting date. A material or lasting reduction in the fair value to below the carrying amount is regarded as an indication of impairment. In the case of shares, this is considered to be the case if the fair value is 30 percent below the carrying amount for a period of more than 12 months. In such cases, the corresponding losses are derecognized from accumulated other comprehensive income and recognized in the income statement. If the reason for the impairment loss no longer applies, the reversal is allocated to equity and thus has no impact on income. Only debt instruments that are allocated to this category are written back by up to the amount of the original impairment. Impairment losses are not reversed if they apply to investments and other financial assets whose fair value cannot be reliably determined.

The category at fair value through profit or loss comprises one security transaction (fair value option) at Evonik. Financial instruments assigned to this category are recognized at fair value on each reporting date. Any gain or loss resulting from a change in their fair value is recognized in the income statement.

The category at amortized cost mainly refers to trade accounts payable, bonds and credits, with the exception of Evonik Degussa's corporate bond, part of which is included in hedge accounting. The liabilities assigned to this category are valued at amortized cost using the effective interest rate method. Liabilities that do not bear market rates of interest are recognized at present value.

(b) Derivative financial instruments

Derivative financial instruments are used primarily to hedge the risk of changes in exchange rates, the price of goods and interest rates. Hedges in the form of interest rate swaps, options, forward rate agreements and commodity futures are recognized on the balance sheet. They are initially measured at fair value as an asset or liability. Initial recognition is on the trading date. Any transaction costs incurred are expensed immediately. The fair value of financial derivatives is generally their stock exchange or market price. If there is no active market for the instrument, the fair value is determined using capital market pricing methods. For forward rate agreements, the forward exchange rate as of the reporting date is used. The market price of options is determined using established option pricing models. Commodity derivatives are valued with the aid of spot prices and forward rates while interest-rate derivatives are valued using future cash flows. Standalone financial derivatives are classified as at fair value through profit or loss.

Specific criteria have to be met to qualify for hedge accounting. In particular, hedge accounting requires extensive documentation of the hedge relationship, together with evidence that the expected and actual effectiveness of the hedge is between 80 and 125 percent. A derivative no longer qualifies for hedge accounting if these criteria are not fulfilled. In the case of cash flow hedges, hedge accounting must also be discontinued if the forecast transaction no longer appears probable. In such cases the amount recognized in accumulated other comprehensive income is reclassified to the income statement.

Depending on the structure of the hedge, hedging instruments are valued as outlined below:
The purpose of fair value hedges is to hedge the fair value of assets or liabilities reflected on the balance sheet. Changes in the fair value of the hedging instrument are recognized in the same income statement item as changes in the value of the underlying transaction, irrespective of the original accounting treatment of the underlying transaction. These changes must relate to the hedged risk. If off-balance-sheet firm commitments are hedged, changes in the fair value of the firm commitment resulting from changes in the hedged risk give rise to recognition of an asset or a liability. In view of this method, changes in the value of the underlying transaction and the hedge cancel each other out in the income statement.

The purpose of cash flow hedges is to minimize the risk of volatility of future cash flows from a recognized asset or liability or a forecast transaction that is considered highly probable. Changes in the fair value of hedging instruments, calculated on the effective portion, are recognized directly in equity in accumulated other comprehensive income. The ineffective portion of the change in value is recognized in the income statement. Amounts recognized directly in equity in accumulated other comprehensive income are expensed as soon as the underlying transaction has an impact on the income statement. In the case of interest-rate hedges, such amounts are included in net interest income or expense, while in the case of sales hedges they are included in the corresponding sales revenues and for procurement hedges directly in the cost of materials. If the hedged forecast transaction comprises a non-financial asset or liability, the profit or loss previously recognized directly in equity in accumulated other comprehensive income is included in the cost of acquisition of the asset or liability when it is initially recognized.

The purpose of a hedge of a net investment is to reduce the foreign currency risk involved in an investment in a company whose functional currency is not the euro. Such hedges are treated as cash flow hedges. Unrealized gains and losses recognized directly in equity in accumulated other comprehensive income are reclassified to the income statement when the foreign subsidiary is divested.

Derivatives that are included in other contracts or primary financial instruments (embedded derivatives) are separated from the host contract under certain conditions and are recognized as stand-alone derivatives.

Leasing

A lease comprises an agreement that transfers the right to use an asset for a certain period in return for one or more payments. The Group is party to various operating and finance leases as either lessor or lessee.

A lease is classified as a finance lease if the lessee bears substantially all opportunities and risks associated with ownership of the asset. Where Evonik is the lessee in such agreements, the assets are included in property, plant and equipment at the fair value or at present value of the non-cancelable minimum lease payments, whichever is the lower. The payment obligations arising from future lease payments are recognized as a liability at the discounted settlement value. Where Evonik is the lessor, it recognizes a receivable equivalent to the net investment value rather than the property, plant and equipment.

All leasing arrangements that are not finance leases are classified as operating leases. The related income and expenses are recognized in the income statement in the period in which they are received or incurred.

Assets held for sale and the associated liabilities
Non-current assets are classified as held for sale if the corresponding carrying amount is to be realized principally through a sale transaction rather than through its continued use. Such assets must be available for immediate sale in their present condition, on terms that are usual and customary for the sale of such assets, and sale must be highly probable. If the associated liabilities are to be sold with the asset as part of the transaction, these must also be recognized separately.

Non-current assets are no longer depreciated or amortized. Instead they are recognized at the lower of their carrying amount or fair value less costs to sell. Unless they are classified as discontinued operations, the results of the valuation and the sale of the asset are included in income from continuing operations.

Discontinued operations
A discontinued operation is either a major line of business or a geographical area of operation of the company that is to be disposed of or shut down in its entirety or in parts on the basis of a single coordinated plan, or a subsidiary acquired with a view to resale.

The income from the measurement, divestment and ongoing operations of discontinued operations is reported separately from the continuing operations in the income statement.

Contingent liabilities and other financial commitments
Contingent liabilities, except for those recognized in connection with a business combination, are possible or present obligations arising from past events and where an outflow of resources is not improbable but which are not recognized on the balance sheet. Other financial commitments result from non-onerous executory contracts, continuous obligations, statutory requirements and other commercial obligations that are not already included in the liabilities shown on the balance sheet or in contingent liabilities and that are of significance for an assessment of the company's financial position.

(4) Discussion of assumptions and estimation uncertainties

The preparation of consolidated financial statements involves assumptions and estimates about the future. The actual circumstances evidently rarely match the estimates made. Adjustments to estimates are recognized in income as soon as better information is available. The estimates and assumptions that constitute a material risk that the carrying amounts of assets and liabilities may have to be adjusted within the next fiscal year are discussed below.

(a) Impairment testing of goodwill
Testing intangible assets, especially goodwill, for impairment involves assumptions and estimates regarding, for example, future cash flows, expected growth rates, exchange rates and the discount rate. The relevant assumptions may change, leading to recognition of impairment losses in future periods.

A relative increase in the corresponding discount rates of 10 percent as a result of changes on the capital market would not result in any additional impairment losses.

(b) Impairment testing of deferred tax assets
Deferred tax assets may only be recognized if it is probable that sufficient taxable income will be available in the future. Deferred taxes are calculated on the basis of the tax rates applicable on the date when temporary differences are likely to be reversed. If these expectations are not met, an impairment loss must be recognized in income for the deferred tax assets.

(c) Valuation of provisions for pensions and other post-employment benefits
The valuation of provisions for pensions and other post-employment benefits is subject, among other things, to assumptions about discount rates, the expected long-term return on plan assets, expected future salary and pension increases, the cost trend for health care and mortality tables. The actual data may differ from these assumptions as a result of changes in economic or market conditions.

Reducing the discount rate by one percentage point increases the present value of the defined benefit obligation by €1,074 million. Conversely, increasing the discount rate by one percentage point decreases the defined benefit obligation by about €845 million.

If the trend in health-care costs increases by one percentage point, the accumulated health-care benefit obligation would increase by €8 million and pension expenses would increase by €1 million. Conversely, a reduction of one percentage point in the cost trend would reduce the accumulated health-care benefit obligation by €7 million and pension expenses by €1 million.

(d) Valuation of other provisions

Other provisions, especially provisions for recultivation and environmental protection, litigation risks and restructuring are naturally exposed to significant forecasting uncertainties regarding the level and timing of the obligation. The company has to make assumptions about the probability of occurrence of an obligation or future trends, such as value of the costs, on the basis of experience. Non-current provisions in particular are exposed to forecasting uncertainties. In addition, the level of non-current provisions depends to a large extent on the selection and development of the market-oriented discount rate.

(e) Discounting non-current receivables and liabilities

The valuation of non-current receivables and payables that are interest-free or do not bear interest at market rates and of other non-current provisions depends to a large extent on the discount rate selected and how it develops. The Group uses different interest rates for different currencies and terms to maturity. These constitute the rates applicable for industrial companies with first-class credit ratings. Non-current receivables and liabilities due in more than 15 years are discounted using a uniform rated based on a mixed calculation. The discount rates used in the Group are as follows:

	Interest rate in %			
Year	EUR	USD	GBP	JPY
1	4.70	4.06	5.57	0.90
2	4.52	3.79	5.20	0.92
3	4.52	3.89	5.12	0.98
4	4.53	4.03	5.10	1.08
5	4.55	4.16	5.07	1.18
6	4.58	4.29	5.06	1.27
7	4.60	4.40	5.04	1.37
8	4.63	4.50	5.02	1.46
9	4.67	4.58	5.01	1.56
10	4.71	4.65	4.99	1.66
11	4.73	4.71	4.98	1.74
12	4.76	4.76	4.97	1.82
13	4.79	4.80	4.95	1.88
14	4.81	4.84	4.93	1.94
15	4.84	4.87	4.91	2.00
> 15	4.46			

Changes in these rates may have a considerable impact on the carrying amounts of non-current receivables and liabilities.

(5) Changes in the Evonik Group

(5.1) Scope of consolidation

Alongside Evonik Industries AG, the consolidated financial statements include all material subsidiaries in Germany and abroad. Material associated companies and joint ventures are recognized at equity.

The scope of consolidation has changed as follows since year-end 2006:

Number of companies	Germany	Other countries	Total
Evonik Industries AG and fully consolidated subsidiaries			
December 31, 2006	135	191	326
First-time consolidation	5	6	11
Divestments	– 11	– 15	– 26
Intragroup mergers	– 6	– 8	– 14
Other companies deconsolidated	– 1	– 9	– 10
December 31, 2007	122	165	287
Investments recognized at equity			
December 31, 2006	16	10	26
Investments recognized at equity for the first time	5	2	7
Divestments	– 2	– 1	– 3
Classified as held for sale pursuant to IFRS 5	– 1	– 1	– 2
Other companies derecognized	–	– 1	– 1
December 31, 2007	18	9	27
	140	**174**	**314**

(5.2) Acquisitions and divestments

This section provides a more detailed overview of the changes in the scope of consolidation in the reporting period, divided into acquisitions and divestments.

Acquisitions

In October 2007 the Technology Specialties segment acquired the remaining 50 percent interest in the joint venture Degussa Engineered Carbons (DEC), Parsippany, New Jersey, USA, from its Texan partner Engineered Carbons Incorporated (ECI), Texas, USA. This company was previously recognized at equity.

The Real Estate segment reports the following transaction: Since 2006 Evonik had been a member of Unternehmensverband Steinkohlenbergbau (UVSt), Essen, Germany, which held, among other things, 50 percent of the shares in Treuhandstelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlenbezirk GmbH (THS), Essen, Germany. The other members of UVSt were RAG and other companies in the RAG Group. The other members left UVSt in August 2007. At this point Evonik recognized its stake in THS as an available-for-sale financial instrument in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Following a change in the German legislation on mineworkers housing in December 2007, Evonik was able to exercise a significant influence over THS for the first time. Evonik's capital reserves were increased by €398 million as a result, plus other assets of UVSt. No goodwill was recorded for the recognition of this company at equity for the first time. Further, the first-time recognition of this transaction is based on provisional values as the transaction took place close to the reporting date.

In addition, further minor increases in shareholdings and purchases of additional equity interests were undertaken in various segments.

The aggregate impact of the additions of shares in subsidiaries on the balance sheet at the date of initial consolidation was as follows:

in € million	Fair value	Carrying amount
Non-current assets	134	92
Current assets (excluding cash and cash equivalents)	88	83
Cash and cash equivalents	–	–
Non-current liabilities	– 109	– 93
Current liabilities	– 39	– 38
Net assets	**74**	**44**
Goodwill/negative goodwill	31	
Acquisition costs (purchase price)	**105**	

Divestments

Divestments comprise the following transactions:

The Technology Specialties segment reports the closing of a number of smaller divestments. The non-core cationization reagents business was divested in January 2007 and the antioxidants activities were divested to Arques Group, Starnberg, Germany, in May 2007. This segment also sold its 50 percent stake in European Oxo GmbH, Oberhausen, Germany, a joint venture for the production of oxo softeners, to Celanese Chemicals Europe, Oberhausen, Germany, and its minority stake in a service unit. The impact was not material.

The Consumer Solutions segment closed the sale of a non-core business in the water chemicals field in December 2007.

In some cases, it was agreed not to disclose the financial terms of divestments made by the Chemicals Business Area. The total price obtained for these divestments was in the mid-double digit millions of euros.

The Energy segment divested shares in two subsidiaries that traded coke, coking coal and power plant coal. These were acquired by the Coeclerici Group, Milan, Italy, in June 2007. Evonik still holds a 25 percent stake in one of these companies.

In August 2007 the Energy segment sold its gas distribution activities to the ArcelorMittal Group, Luxembourg. Arcelor Luxembourg S.A., Luxembourg, Luxembourg, acquired 76.88 percent of the shares in Saar Ferngas AG, Saarbrücken, Germany. The purchase price was around €367 million and the transaction was closed in November 2007.

In November 2007, 34 percent of the shares in the Philippine project company STEAG State Power Inc., Makati City, Philippines, were sold to Aboitiz Power Corporation, Cebu City, Philippines, and the transaction was closed. STEAG State Power operates the coal-fired power plant in Mindanao, which came into commercial service at the end of 2006 with rated output of 232 Megawatts. Evonik still holds the majority interest in this company, which therefore remains a subsidiary.

The Real Estate segment sold its shares in Gesellschaft für Wohnen Datteln mbH, Datteln, Germany, to FDL Wohnen GmbH, Essen, Germany. It was agreed that the purchase price would not be disclosed.

Further divestments included companies that were not assigned to any of the reportable segments:

In May 2007 Evonik signed an agreement to divest its mining technology business to Bucyrus International, Inc, South Milwaukee, WI, USA. The agreed purchase price at the time, before adjustments, was US$740 million including an interest in Bucyrus International.

Evonik also closed the divestment of the non-core carbon specialties business in May 2007. The companies operating in this area were acquired by HCT Hamburg Coal Trust GmbH, Hamburg, Germany. In November, the sale of all shares in Sentinelle GmbH, Essen, Germany, was closed. This company pooled various remediation tasks from the former RAG Coal International, together with the related assets and liabilities.

The aggregate impact of these divestments and the divestment of further subsidiaries on the balance sheet at the date of deconsolidation was as follows:

in € million	
Non-current assets	614
Current assets (excluding cash and cash equivalents)	830
Cash and cash equivalents	37
Non-current liabilities	245
Current liabilities	669
Gross price	1,044

(5.3) Assets held for sale and discontinued operations

In addition to the divestments outlined in Note (5.2), the Executive Board of Evonik Industries AG decided to divest further business operations. Since the divestment process has not yet been completed, they are still included in the consolidated financial statements. IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" sets out the valuation and accounting principles to be used for such operations, see Note (3.7), and their presentation in the consolidated financial statements.

Assets held for sale and the associated liabilities have to be stated separately from other assets and liabilities on the balance sheet. The amounts recognized for these assets and liabilities in previous accounting periods do not have to be reclassified or restated.

Businesses whose assets and liabilities have been classified as held for sale may also meet the criteria for classification as discontinued operations.

The income and expenses of such discontinued operations have to be stated separately from those of continuing operations in the income statement. Cash flows must also be stated separately. The prior-period figures in the income statement have to be restated.

The gas distribution, mining technology, tar refining and initiators businesses, together with the construction chemicals, food ingredients and other activities divested in the previous year, met the criteria for classification as discontinued operations.

The gas distribution and mining technology activities classified as discontinued operations were deconsolidated during 2007.

In 2007, the tar refinery business, previously shown under other operations, was classified as a discontinued operation. It comprises a group of companies with international operations and is the leading European producer of tar chemical products and a global supplier of raw materials to the aluminum and steel industries. In December 2007 Evonik signed an agreement to divest Rütgers Chemicals GmbH, Castrop-Rauxel, Germany, to a subsidiary of the financial investor TRITON, St. Helier, Jersey, UK. Closing has been delayed by fire damage entailing a temporary production stoppage but is expected to take place in the first half of 2008.

The initiators group (previously part of the Consumer Solutions segment) was classified as a discontinued operation in December 2007. Its business operations comprise organic peroxides and persulfates which are used in the polymers industry to manufacture plastics and in other applications such as electronics and cosmetics. The search for a buyer has started.

Post-divestment expenses were incurred for various discontinued operations from previous years (2002–2005).

The table shows the impact of the main discontinued operations on the income statement, broken down into operating earnings and the gain or loss on divestment:

Income statement

	Operating earnings		Divestment gains/losses		Income from discontinued operations	
in € million	**2007**	2006	**2007**	2006	**2007**	2006
Gas distribution	44	61	119	–	163	61
Mining technology	23	54	399	–	422	54
Tar refining	65	3	–	–	65	3
Initiators	– 26	– 119	–	–	– 26	– 119
Construction chemicals	–	76	– 4	874	– 4	950
Food ingredients	–	9	– 5	35	– 5	44
Discontinued operations from previous years	–	–	– 13	–	– 13	0
Total	**106**	**84**	**496**	**909**	**602**	**993**

The following income and expense items relate to the operating earnings of these operations:

Income statement

in € million	2007	2006
Income	2,215	4,428
thereof gas distribution	996	1,422
thereof mining technology	318	943
thereof tar refining	759	674
thereof initiators	142	159
thereof construction chemicals	–	1,110
thereof food ingredients	–	120
Expenses	– 2,087	– 4,300
thereof gas distribution	– 937	– 1,365
thereof mining technology	– 288	– 872
thereof tar refining	– 674	– 647
thereof initiators	– 188	– 324
thereof construction chemicals	–	– 985
thereof food ingredients	–	– 107
Operating income before income taxes, discontinued operations	128	128
thereof gas distribution	59	57
thereof mining technology	30	71
thereof tar refining	85	27
thereof initiators	– 46	– 165
thereof construction chemicals	–	125
thereof food ingredients	–	13
Income taxes	– 22	– 44
thereof gas distribution	– 15	4
thereof mining technology	– 7	– 17
thereof tar refining	– 20	– 24
thereof initiators	20	46
thereof construction chemicals	–	– 49
thereof food ingredients	–	– 4
Operating income after taxes, discontinued operations	**106**	**84**
thereof gas distribution	44	61
thereof mining technology	23	54
thereof tar refining	65	3
thereof initiators	– 26	– 119
thereof construction chemicals	–	76
thereof food ingredients	–	9

The divestment gains and losses comprises the following:

Income statement

in € million	2007	2006
Income before income taxes from the divestment of discontinued operations	502	1,183
thereof gas distribution	120	–
thereof mining technology	407	–
thereof construction chemicals	– 5	1,169
thereof food ingredients	– 7	14
thereof discontinued operations from previous years	– 13	–
Income taxes	– 6	– 274
thereof gas distribution	– 1	–
thereof mining technology	– 8	–
thereof construction chemicals	1	– 295
thereof food ingredients	2	21
thereof discontinued operations from previous years	–	–
Income after taxes from the divestment of discontinued operations	**496**	**909**
thereof gas distribution	119	–
thereof mining technology	399	–
thereof construction chemicals	– 4	874
thereof food ingredients	– 5	35
thereof discontinued operations from previous years	– 13	–

In the light of the strategic refocusing of the Group, the Executive Board of Evonik Industries AG decided to divest certain non-core businesses. Their assets and liabilities have therefore been reclassified and are stated separately in the balance sheet alongside the discontinued operations.

The following non-core businesses were reclassified in the balance sheet for 2007:
A non-core business belonging to the renewable energies business in the Energy segment was reclassified at the start of 2007. At year-end 2007 its assets totaled €183 million and its liabilities €153 million.

The mining chemicals business of the Consumer Solutions segment has been earmarked for sale since June 2007. Assets of €23 million and the corresponding liabilities of €3 million were reclassified.

Since December 2007, Montan-Grundstücksgesellschaft mbH (MGG), Essen, Germany, previously recognized under other operations has been classified as held for sale. MGG's business comprises site development. Assets of €40 million and the corresponding liabilities of €39 million for MGG were reclassified in the balance sheet. MGG was sold to DSK Beteiligungs-GmbH, Essen, Germany in February 2008. Further real estate activities have also been classed as held for sale since December 2007. This involved reclassification of assets totaling €49 million.

Balance sheet

in € million	**Total Dec. 31, 2007**	Tar refining	Initiators	Non-core businesses
Intangible assets	10	–	0	10
Property, plant and equipment	252	109	51	92
Investment property	62	–	–	62
Investments recognized at equity	8	–	–	8
Financial assets	13	11	0	2
Inventories	107	76	19	12
Trade accounts receivable	133	99	21	13
Other receivables	88	7	4	77
Other	59	27	13	19
Assets held for sale	**732**	**329**	**108**	**295**

Balance sheet

in € million	**Total Dec. 31, 2007**	Tar refining	Initiators	Non-core businesses
Provisions for pensions and other post-employment benefits	81	28	35	18
Other provisions	137	69	20	48
Financial liabilities	132	24	–	108
Trade accounts payable	81	66	10	5
Other	48	26	6	16
Liabilities associated with assets held for sale	**479**	**213**	**71**	**195**

In the balance sheet of December 31, 2006, this item mainly comprised the mining technology and gas distribution operations, for which the following amounts were recognized:

Balance sheet

in € million	**Total Dec. 31, 2006**	Mining technology	Gas distri-bution	Non-core businesses
Intangible assets	49	4	45	–
Property, plant and equipment	178	105	68	5
Investments recognized at equity	129	–	129	–
Financial assets	103	11	92	0
Inventories	447	419	25	3
Trade accounts receivable	311	133	164	14
Other receivables	30	17	12	1
Other	68	45	8	15
Assets held for sale	**1,315**	**734**	**543**	**38**

Balance sheet

in € million	Total Dec. 31, 2006	Mining technology	Gas distri-bution	Non-core businesses
Provisions for pensions and other post-employment benefits	119	77	42	–
Other provisions	184	114	69	1
Financial liabilities	19	18	1	–
Trade accounts payable	190	58	124	8
Other	346	317	27	2
Liabilities associated with assets held for sale	**858**	**584**	**263**	**11**

The assets and liabilities relating to the cationization reagents and antioxidants businesses of the Technology Specialties segment, which were classified as held for sale, were deconsolidated in the first and second quarters of 2007 respectively. Similarly, the reclassified assets and liabilities of the carbon specialty products and the trading in coke, coking coal and power plant coal were deconsolidated in the second quarter of 2007. Their impact on the balance sheet was negligible.

The cash flows from operating, investing and financing activities of the discontinued operations only comprise cash flows generated through transactions with third parties. The net cash flows reflect the change in cash and cash equivalents and in cash pooling activities within the Group.

The cash flows for the discontinued operations can be broken down by business as follows:

Cash flow statement

in € million	2007	2006
Cash flow from operating activities	**117**	**87**
thereof gas distribution	78	58
thereof mining technology	– 33	77
thereof tar refining	72	– 5
thereof initiators	0	– 11
thereof construction chemicals	–	– 30
thereof food ingredients	–	– 2
Cash flow from investing activities	**– 48**	**– 76**
thereof gas distribution	– 16	– 12
thereof mining technology	– 16	– 20
thereof tar refining	– 11	– 23
thereof initiators	– 5	– 6
thereof construction chemicals	–	– 15
thereof food ingredients	–	–
Cash flow from financing activities	**7**	**– 26**
thereof gas distribution	– 7	– 6
thereof mining technology	12	– 10
thereof tar refining	2	– 3
thereof initiators	–	– 7
thereof construction chemicals	–	–
thereof food ingredients	–	–
Change in cash and cash equivalents, discontinued operations	**76**	**– 15**

(6) Notes to the income statement

(6.1) Sales

in € million	2007	2006
Revenues from the sale of goods	13,390	12,956
Revenues from services	466	539
Revenues from investment property	379	414
Revenues from finance leases	194	192
Other revenues	1	24
	14,430	**14,125**

(6.2) Other operating income

in € million	2007	2006
Income from the disposal of assets	78	133
Income from the reversal of provisions	198	331
Income from the reversal of deferred items	7	7
Income from the measurement of derivatives (excluding interest rate derivatives)	270	147
Gains on currency translation of monetary assets and liabilities	156	53
Income resulting from the recognition of negative goodwill	–	19
Other income	246	275
	955	**965**

Income from the disposal of assets mainly comprises €9 million (2006: €9 million) from the divestment of property, plant and equipment and €60 million (2006: €111 million) from the sale of investments.

Further, other income of €18 million (2006: €32 million) contains reversals of impairment losses on assets. €6 million of these (2006: €11 million) relate to trade accounts receivable in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Pursuant to IAS 36 “Impairment of Assets”, €10 million (2006: €20 million) of the reversals relate to the following segments:

	Reversal of impairment losses	
in € million	2007	2006
Technology Specialties	0	–
Consumer Solutions	4	–
Specialty Materials	–	0
Real Estate	6	20
Corporate, other operations	–	0
	10	**20**

(6.3) Cost of materials

in € million	2007	2006
Cost of raw materials, supplies and purchased goods and services	7,823	7,522
Impairment losses on raw materials, supplies and purchased goods	14	15
Reversals of impairment losses on raw materials, supplies and purchased goods	– 1	– 1
	7,836	**7,536**

The restated cost of raw materials, supplies and purchased goods and services for 2006 is €228 million higher than originally reported. At the same time, other operating expenses declined, see Note (6.6).

(6.4) Personnel expense

in € million	2007	2006
Wages and salaries	2,257	2,376
Social security contributions	342	361
Pension expenses	158	181
Other personnel expense	16	30
	2,773	**2,948**

Interest expense on accrued interest on pensions and the expected return on plan assets are included in net interest expense, see Note (6.7).

(6.5) Depreciation, amortization and impairment losses

This item shows depreciation and amortization, representing the allocation of production/acquisition cost over the useful life of assets and impairment losses undertaken in response to signs of additional asset impairment.

in € million	2007	2006
Depreciation and amortization	862	943
Impairment losses	257	391
	1,119	**1,334**

Depreciation and amortization

Depreciation and amortization refer to the following groups of assets:

in € million	2007	2006
Intangible assets	167	218
Property, plant and equipment	645	675
Investment property	50	50
	862	**943**

Impairment losses

Impairment losses identified in response to signs of additional asset impairment as defined in IAS 36 "Impairment of Assets" or IAS 39 "Financial Instruments: Recognition and Measurement" relate to the following groups of assets:

in € million	2007	2006
Impairment losses pursuant to IAS 36	**237**	**353**
Intangible assets	164	83
Property, plant and equipment	65	250
Investment property	8	20
Impairment losses pursuant to IAS 39	**20**	**38**
Financial instruments	17	33
Other receivables	3	5
	257	**391**

(a) Impairment losses pursuant to IAS 36

Impairment losses recognized in accordance with IAS 36 "Impairment of Assets" relate to the following segments:

	Impairment losses		Risk-adjusted discount rate in %	
in € million	2007	2006	2007	2006
Technology Specialties	1	195	7.7	8.2[1]
Consumer Solutions	44	59	7.7	8.9[1]
Specialty Materials	27	18	7.4	9.1[1]
Energy	6	11	7.0	8.9[1]
Real Estate	8	14	4.9	5.9[1]
Corporate, other operations	151	56	7.2	4.0–6.2
	237	**353**		

[1] Weighted average cost of capital (WACC) before taxes. All other discount rates refer to WACC after taxes.

The impairment losses in the Consumer Solutions segment relate to plant and machinery in the Slovak Republic and the USA. Impairment losses also had to be recognized for the Specialty Materials segment. They relate principally to plant and machinery at one German site.

Corporate and other operations include impairment losses on the Degussa brand following the introduction of the Evonik brand.

Further impairment losses were recognized for the other segments following the impairment test on various non-current assets.

(b) Impairment losses pursuant to IAS 39

The impairment losses on financial instruments and other receivables determined in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" essentially comprise €14 million (2006: €16 million) trade accounts receivable and €3 million (2006: €17 million) on loans and other investments. An impairment loss of €3 million (2006: €5 million) was also recognized for the other receivables.

(6.6) Other operating expenses

in € million	**2007**	2006
Losses on the disposal of assets	51	38
Rental expense for leases	119	74
Expenses for repairs and maintenance	316	313
Losses on currency translation of monetary assets and liabilities	168	109
Losses on measurement of derivatives (excluding interest rate derivatives)	192	75
Administrative expenses	421	393
Selling expenses	600	569
Miscellaneous tax expense	48	102
Other expense	927	996
	2,842	**2,669**

Losses on the disposal of assets include €23 million (2006: €13 million) relating to the sale of investments.

The other expenses mainly comprise outsourcing, IT expenses, expenses for patents and licenses, insurance contributions, expenses for environmental protection and waste management, various M&A projects, energy and supplies, commission payments, legal and consultancy charges, fees, contributions and levies.

The restated other operating expenses for 2006 are €228 million lower than originally reported. At the same time, the cost of materials increased, see Note (6.3).

(6.7) Net interest expense

in € million	**2007**	2006
Income from securities and loans	41	57
Interest and similar income from interest rate derivatives	23	57
Other interest-type income	33	30
Interest income	**97**	**144**
Interest expense on financial liabilities	– 274	– 248
Interest expense for finance leases	– 12	– 14
Interest and similar expense for interest rate derivatives	– 23	– 59
Other interest-type expense	– 34	– 91
Net interest expense for pensions	– 187	– 170
Interest expense on accrued interest on other provisions	– 18	– 32
Interest expense	**– 548**	**– 614**
	– 451	**– 470**

Borrowing costs of €12 million (2006: €24 million) are capitalized. The underlying financing costs are calculated from an average interest rate of 3.7 percent on borrowing in the accounting period.

(6.8) Result from investments recognized at equity

in € million	**2007**	2006
Dividend income/assumption of losses	–	0
Income from measurement at equity	43	58
Expenses for measurement at equity	– 9	– 4
Impairment losses	–	– 3
	34	**51**

(6.9) Other financial income/expense

in € million	2007	2006
Income from other investments (net)	17	25
Income from current securities	– 1	–
Other financial income	–	0
Other financial expense	–	0
	16	**25**

(6.10) Income taxes

Income taxes comprise the following:

in € million	2007	2006
Other income taxes	257	– 8
(thereof relating to other periods)	(43)	(– 18)
Deferred taxes	– 99	41
(thereof relating to other periods)	(– 25)	(17)
	158	**33**

Other income taxes include expenses of €44 million from post-taxation of EK02 in connection with the new tax legislation that came into effect in 2008.

The revaluation of deferred tax assets and liabilities in Germany to reflect the reduction in the tax rate used to calculate deferred taxes in compliance with the reform of the German corporate tax system as of 2008 led to tax income of €49 million.

The tax reconciliation shows the development of expected income taxes relative to the effective income taxes stated in the income statement. The effective income taxes include other income taxes and deferred taxes. The expected income taxes for 2007 are based, as in the past, on an overall tax rate of 39 percent, comprising German corporation tax of 25 percent, a solidarity surcharge of 5.5 percent and the average municipal trade tax rate.

in € million	2007	2006
Income before income taxes	**527**	**192**
Expected income taxes	206	75
Variances due to differences in the rates of municipal trade tax	11	6
Deviation from expected tax rate	– 32	– 49
Changes in valuation allowances on deferred tax assets	30	– 6
Losses not affecting deferred taxes and the use of loss carryforwards	– 1	– 41
Changes in tax rates and tax legislation	– 49	59
Non-deductible expenses	29	11
Tax-free income	– 30	– 40
Result from investments recognized at equity	– 13	– 20
Non-deductible goodwill impairment losses	1	20
Other	6	18
Effective income taxes (other income taxes and deferred taxes)	**158**	**33**
Effective tax rate in %	30.0	17.2

The deviation from the expected tax rate is due to lower national tax rates at foreign subsidiaries compared with the overall tax rate of 39 percent. Changes in the tax rates and tax legislation are almost entirely responsible for the revaluation of deferred taxes as a result of the reform of German corporation tax as of 2008.

(7) Notes to the balance sheet

(7.1) Intangible assets

in € million	Goodwill	Patents, trademarks and licenses	Capitalized development costs	Other intangible assets	**Total**
Cost of acquisition/production					
As of January 1, 2006	**2,426**	**2,226**	**178**	**559**	**5,389**
Currency translation	– 41	– 9	0	– 6	– 56
Additions from business combinations	18	6	–	0	24
Other additions	1,861	26	0	9	1,896
Disposal	– 930	– 512	– 36	– 40	– 1,518
Reclassification	0	9	1	0	10
As of December 31, 2006	**3,334**	**1,746**	**143**	**522**	**5,745**
Currency translation	– 48	– 8	–	– 2	– 58
Additions from business combinations	33	8	–	–	41
Other additions	13	19	5	8	45
Disposal	– 44	– 25	–	– 2	– 71
Reclassification	–	8	8	– 8	8
As of December 31, 2007	**3,288**	**1,748**	**156**	**518**	**5,710**
Amortization and impairment losses					
As of January 1, 2006	**220**	**777**	**52**	**221**	**1,270**
Currency translation	– 1	– 6	0	0	– 7
Additions from business combinations	–	–	–	–	0
Amortization	–	126	12	94	232
Impairment losses	34	139	14	5	192
Reversals of impairment losses	–	–	–	–	0
Disposal	– 110	– 286	– 8	– 27	– 431
Reclassification	–	6	0	0	6
As of December 31, 2006	**143**	**756**	**70**	**293**	**1,262**
Currency translation	–	– 6	–	–	– 6
Additions from business combinations	–	2	–	0	2
Amortization	–	107	10	50	167
Impairment losses	15	148	16	–	179
Reversals of impairment losses	–	0	–	–	0
Disposal	– 30	– 22	–	– 2	– 54
Reclassification	–	1	4	– 4	1
As of December 31, 2007	**128**	**986**	**100**	**337**	**1,551**
Carrying amounts as of December 31, 2006	**3,191**	**990**	**73**	**229**	**4,483**
Carrying amounts as of December 31, 2007	**3,160**	**762**	**56**	**181**	**4,159**

The carrying amounts of goodwill are divided among the segments as follows:

in € million	Goodwill Dec. 31, 2007	Goodwill Dec. 31, 2006	Growth rate in % 2007	Growth rate in % 2006
Technology Specialties	1,079	1,075	1.5	1.5
Consumer Solutions	676	704	1.5	1.5
Specialty Materials	963	979	1.5	1.5
Energy	393	395	0.7	0.7–1.0
Real Estate	40	38	1.0	1.0
Corporate, other operations	9	–		
	3,160	**3,191**		

As in the previous year, the goodwill allocated to the Technology Specialties, Consumer Solutions and Specialty Materials segments relates principally to earlier acquisitions of shares in Evonik Degussa GmbH, Düsseldorf, Germany. The goodwill allocated to the Energy segment mainly relates to former acquisitions of shares in Evonik Steag GmbH, Essen, Germany.

Patents, trademarks and licenses include trademarks with an indefinite useful life totaling €283 million (2006: €460 million). They are apportioned between the following segments:

in € million	Trademarks with an indefinite useful life Dec. 31, 2007	Dec. 31, 2006
Technology Specialties	115	120
Consumer Solutions	43	40
Specialty Materials	125	126
Corporate, other operations	–	173
	283	**460**

Trademarks with an indefinite useful life are €177 million lower than in the previous year, predominantly due to a reassessment of the useful life of the Degussa brand—included in corporate and other operations—as finite rather than indefinite following the introduction of the Evonik brand.

This item also includes amortization of €6 million (2006: €0 million) for trademarks for which the useful life estimate changed from indefinite to finite in the fiscal year.

Capitalized development costs mainly relate to the purchase price allocation for former purchases of shares in Evonik Degussa GmbH and the related recognition of hidden reserves. They are divided among the Technology Specialties, Consumer Solutions and Specialty Materials segments. Research and development spending recognized as an expense was €307 million (2006: €303 million).

There were no intangible assets with restricted title in 2007 or 2006.

As in the previous year, there were no obligations to acquire intangible assets.

(7.2) Property, plant and equipment

in € million	Land, land rights and buildings	Plant and machinery	Other plant, office furniture and equipment	Advance payments and construction in progress	**Total**
Cost of acquisition/production					
As of January 1, 2006	**4,014**	**14,004**	**1,395**	**764**	**20,177**
Currency translation	– 54	– 203	– 14	– 21	– 292
Additions from business combinations	13	32	2	4	51
Other additions	68	373	76	507	1,024
Disposal	– 661	– 1,268	– 305	– 42	– 2,276
Reclassification	102	388	25	– 660	– 145
As of December 31, 2006	**3,482**	**13,326**	**1,179**	**552**	**18,539**
Currency translation	– 41	– 172	– 8	– 11	– 232
Additions from business combinations	38	135	14	10	197
Other additions	38	199	59	619	915
Disposal	– 196	– 881	– 155	– 11	– 1,243
Reclassification	49	240	25	– 339	– 25
As of December 31, 2007	**3,370**	**12,847**	**1,114**	**820**	**18,151**
Depreciation and impairment losses					
As of January 1, 2006	**1,918**	**10,516**	**1,109**	**4**	**13,547**
Currency translation	– 20	– 136	– 10	– 1	– 167
Additions from business combinations	–	–	–	–	0
Depreciation	89	544	86	0	719
Impairment losses	47	194	10	24	275
Reversals of impairment losses	–	0	–	–	0
Disposal	– 261	– 965	– 236	– 2	– 1,464
Reclassification	32	– 8	0	0	24
As of December 31, 2006	**1,805**	**10,145**	**959**	**25**	**12,934**
Currency translation	– 17	– 125	– 6	– 1	– 149
Additions from business combinations	2	11	8	–	21
Depreciation	79	508	76	0	663
Impairment losses	17	66	1	11	95
Reversals of impairment losses	– 1	– 12	0	–	– 13
Disposal	– 109	– 719	– 136	– 1	– 965
Reclassification	7	– 10	1	1	– 1
As of December 31, 2007	**1,783**	**9,864**	**903**	**35**	**12,585**
Carrying amounts as of December 31, 2006	**1,677**	**3,181**	**220**	**527**	**5,605**
Carrying amounts as of December 31, 2007	**1,587**	**2,983**	**211**	**785**	**5,566**

The carrying amounts of assets from finance leases are €47 million (2006: €53 million) for land, land rights and buildings, €30 million (2006: €51 million) for plant and machinery and €3 million (2006: €3 million) for other plant, office furniture and equipment.

The carrying amounts of property, plant and equipment pledged as security for Group liabilities amounted to €83 million (2006: €94 million). A further €89 million (2006: €160 million) was subject to other restrictions on title.

The Group has commitments of €621 million (2006: €789 million) to purchase property, plant and equipment.

(7.3) Investment property

in € million	Land, land rights	Buildings	Total
Cost of acquisition/production			
As of January 1, 2006	**409**	**2,322**	**2,731**
Currency translation	0	– 1	– 1
Additions from business combinations	–	–	0
Other additions	7	57	64
Disposal	– 5	– 5	– 10
Reclassification	– 17	– 64	– 81
As of December 31, 2006	**394**	**2,309**	**2,703**
Currency translation	0	– 1	– 1
Additions from business combinations	–	–	0
Other additions	22	74	96
Disposal	– 69	– 223	– 292
Reclassification	– 6	– 25	– 31
As of December 31, 2007	**341**	**2,134**	**2,475**
Depreciation and impairment losses			
As of January 1, 2006	**17**	**1,058**	**1,075**
Currency translation	–	– 1	– 1
Additions from business combinations	–	–	0
Depreciation	0	50	50
Impairment losses	2	18	20
Reversals of impairment losses	– 1	– 19	– 20
Disposal	– 1	– 11	– 12
Reclassification	– 1	– 38	– 39
As of December 31, 2006	**16**	**1,057**	**1,073**
Currency translation	0	0	0
Additions from business combinations	–	–	0
Depreciation	1	49	50
Impairment losses	1	7	8
Reversals of impairment losses	–	– 6	– 6
Disposal	– 4	– 127	– 131
Reclassification	– 1	– 21	– 22
As of December 31, 2007	**13**	**959**	**972**
Carrying amounts as of December 31, 2006	**378**	**1,252**	**1,630**
Carrying amounts as of December 31, 2007	**328**	**1,175**	**1,503**

Other additions comprise retroactive acquisition costs of €35 million (2006: €17 million). The fair value of investment property was €2,653 million on the reporting date (2006: €2,865 million).

The carrying amount of investment property with restrictions to title amounted to €1,132 million (2006: €1,236 million). These mainly comprise registered land charges for loans, which totaled €887 million on the reporting date (2006: €953 million).

The income statement comprises operating expenses totaling €311 million (2006: €264 million) relating to investment property which generates rental revenues. Expenses of €11 million (2006: €11 million) relate to investment property which does not generate rental revenues.

Commitments to purchase real estate classified as investment property amounted to €7 million (2006: €3 million). Apart from this, there are only contractual commitments in respect of statutory obligations to undertake maintenance, repairs and improvements under rent contracts.

(7.4) Investments recognized at equity and financial assets

	Dec. 31, 2007		Dec. 31, 2006	
in € million	Total	thereof with a term to maturity of more than 1 year	Total	thereof with a term to maturity of more than 1 year
Investments recognized at equity	619	619	279	279
Other investments	70	70	103	103
Loans	96	52	331	193
Securities and similar claims	346	43	27	12
Receivables from finance leases	1,130	1,057	1,311	1,241
Receivables from derivatives	134	80	146	90
Other financial assets	14	–	6	–
	2,409	**1,921**	**2,203**	**1,918**

(a) Investments recognized at equity

The increase in the carrying amount of investments carried at equity was principally due to the first-time recognition of THS, see Note (5.2)

The key financial data from the last available financial statements of the main associated companies accounted for at equity, based on Evonik's interest, are as follows:

in € million	**2007**	2006
Non-current assets as of December 31	92	133
Current assets as of December 31	110	138
Non-current liabilities as of December 31	29	39
Current liabilities as of December 31	73	119
Income	281	336
Expenses	272	321

Prior-year figures restated.

The key financial data include the 54.4 percent stake in Kommanditgesellschaft Deutsche Gasrußwerke GmbH & Co. KG, Dortmund, Germany, and the 51 percent stakes in Joint Solar Silicon GmbH & Co. KG, Freiberg, Germany, and DSL. Japan Co., Ltd, Tokyo, Japan. These companies are accounted for at equity because Evonik does not have a majority of the voting rights.

The key financial data from the last available financial statements of the main joint ventures recognized at equity, based on Evonik's interest, are as follows:

in € million	**2007**	2006
Non-current assets as of December 31	1,518	108
Current assets as of December 31	376	148
Non-current liabilities as of December 31	1,087	65
Current liabilities as of December 31	333	105
Income	256	591
Expenses	238	557

Prior-year figures restated.

The key financial data include the 80 percent interest in the power plant REG Raffinerie-Energie oHG, Cologne, Germany. This company is accounted for at equity because Evonik does not have a majority of the voting rights.

The key financial data also include the 50 percent stake in THS, which has been recognized at equity since December 2007. Since this was so close to the reporting date, the assets and liabilities presented are based on provisional figures.

(b) Other investments

Other investments comprise investments in unlisted equity instruments that are recognized at cost since the fair value cannot be determined reliably.

(c) Loans

Loans are exposed to a risk of changes in interest rates, which can affect their fair value or future cash flows. They are recognized at cost.

As of the reporting date the long-term loans of €8 million (2006: €22 million) included accumulated impairment losses of €1 million (2006: €1 million). No non-impaired loans were overdue, nor had the terms of any such loans been renegotiated.

(d) Securities and similar claims

Securities and similar claims are exposed to a risk of changes in interest rates, which can affect their fair value or future cash flows. If no market price is available, they are valued at amortized cost. Securities listed on a stock exchange are exposed to a risk of changes in their market price. In addition, this item contains €289 million relating to a share purchase transaction. These securities are designated as at fair value through profit or loss (fair value option) and hedged against major fluctuations in market prices through options.

(e) Receivables from finance leases

The reconciliation from gross investment in leasing arrangements to the net present value of the minimum lease payments and their due dates are as follows:

in € million	**Dec. 31, 2007**	Dec. 31, 2006
Gross investment	**2,379**	**2,914**
(thereof non-guaranteed residual value)	(–)	(–)
due within 1 year	243	270
due in 1–5 years	929	1,064
due in more than 5 years	1,207	1,580
Interest included therein	– 1,249	– 1,603
Net investment	1,130	1,311
Accumulated impairment losses	–	–
Carrying amount of receivables from finance leases	**1,130**	**1,311**
Less present value of non-guaranteed residual values	–	–
Present value of outstanding minimum lease payments	**1,130**	**1,311**
due within 1 year	73	70
due in 1–5 years	364	374
due in more than 5 years	693	867

As in the previous year, no conditional lease payments were received under finance leases. Similarly, no impairment losses were recognized for uncollectable outstanding minimum lease payments.

Receivables from finance leases include a contract for the supply of electricity by the Iskenderun power plant in Iskenderun, Turkey, valued at €673 million (2006: €795 million). This contract runs for 20 years and ends on November 22, 2019.

A further €154 million (2006: €174 million) results from a contract to source power from the Mindanao power plant near Cagayan de Oro, Philippines, which came into operation in 2006. This contract with STEAG State Power, Inc., Makati City, Philippines, runs for 25 years and ends on November 14, 2031. The leased assets will be transferred to the lessee when the contract ends.

Moreover, receivables from finance leases include €193 million (2006: €203 million) relating to the lease agreement for STEAG-Raffinerie-Kraftwerk-Sachsen-Anhalt, Leuna, Germany. This lease had an original term of 12 years and would have expired in November 2008. In 2006 the lessee exercised its contractually agreed option to extend the lease by another 8 years to November 2016.

(f) Receivables from derivatives

The breakdown of receivables from derivatives is as follows:

in € million	**Dec. 31, 2007**	Dec. 31, 2006
Receivables from currency derivatives	82	86
Receivables from interest derivatives	30	37
Receivables from commodity derivatives	5	3
Receivables from other derivatives	17	20
	134	**146**

Receivables from other derivatives relate primarily to an embedded derivative in the form of a swap involving the price of coal and electricity and a long-term energy supply agreement. In the light of the change in energy prices, an amount of €16 million is included in receivables from other derivatives for this supply agreement in 2007. In 2006, €14 million was recognized in liabilities from other derivatives. A put option relating to the sale of treasury stock in a joint venture was also recognized in 2006. This was exercised in 2007.

(g) Collateral

Financial assets pledged as security for Group liabilities amounted to €636 million (2006: €715 million). A further €11 million (2006: €70 million) were pledged for guarantees granted and €470 million (2006: €473 million) were subject to other restrictions on title. The majority of the assets pledged as collateral are receivables from finance leases of the project companies for the power plants in Iskenderun and Mindanao and the STEAG refinery power plant in Leuna, Germany. The pledges relate to borrowing of €636 million by these companies. The collateral can only be utilized by the banks providing this financing in the event of permanent non-performance of contractual obligations, for example, non-payment of interest and repayment installments or failure to achieve agreed financial targets. Utilization of the collateral is not anticipated.

(7.5) Inventories

in € million	**Dec. 31, 2007**	Dec. 31, 2006
Raw materials and supplies	541	528
Work in progress	169	224
Finished goods	1,096	1,057
	1,806	**1,809**

The carrying amounts of inventories pledged as security for Group liabilities amounted to €25 million (2006: €32 million).

(7.6) Trade accounts receivable and other receivables

in € million	Dec. 31, 2007 Total	Dec. 31, 2007 thereof with a term to maturity of more than 1 year	Dec. 31, 2006 Total	Dec. 31, 2006 thereof with a term to maturity of more than 1 year
Trade accounts receivable	2,372	–	2,354	–
Miscellaneous tax receivables	82	3	90	8
Advance payments made	45	–	54	1
Miscellaneous other receivables	274	35	266	32
Deferred expenses	96	53	107	66
	2,869	**91**	**2,872**	**107**

Trade accounts receivable totaling €131 million on the reporting date (2006: €153 million) were impaired by €14 million (2006: €15 million). €249 million (2006: €289 million) of the non-impaired trade accounts receivable were overdue on the balance sheet date.

in € million	**Dec. 31, 2007**	Dec. 31, 2006
Overdue trade accounts receivable		
up to 3 months	241	265
more than 3 months and up to 6 months	6	8
more than 6 months and up to 9 months	1	8
more than 9 months and up to 12 months	0	1
more than 1 year	1	7
	249	**289**

The terms for trade accounts receivable totaling €9 million (2006: €100 million) had been renegotiated and would otherwise have been impaired or overdue.

Receivables pledged as security for Group liabilities amounted to €2 million (2006: €1 million). A further €1 million (2006: €1 million) were pledged for guarantees granted and €14 million (2006: €27 million) were subject to other restrictions on title.

(7.7) Cash and cash equivalents

The cash and cash equivalents totaling €319 million (2006: €444 million) include balances with banks, checks and cash. This item also includes financial securities with high liquidity and terms of no more than three months on the date of acquisition. The carrying amounts of cash and cash equivalents pledged as security amounted to €83 million (2006: €75 million). These pledged cash and cash equivalents are deposited in tied project accounts in connection with two foreign power plant projects, in Iskenderun and Mindanao. Surplus liquidity can be distributed to the shareholders in the project companies once the original purpose has been fulfilled.

(7.8) Equity

(a) Issued capital

The company's fully paid-up capital stock was €466,000,000 on the reporting date and is divided into 466,000,000 no-par bearer shares. RAG Foundation notified Evonik Industries AG in a letter dated December 3, 2007 that it holds a majority of the shares in Evonik Industries AG—indirectly through its stake in RAG—and in a letter dated January 8, 2008 that it has a direct majority interest.

(b) Capital reserve

The capital reserve contains all other payments received from equity holders pursuant to Section 272 Paragraph 2 No. 4 of the German Commercial Code. Evonik's capital reserve increased by €445 million in fiscal 2007 due to the addition of the assets of UVSt, see Note (5.2).

(c) Accumulated income/loss

The accumulated income of €3,302 million (2006: €2,786 million) comprises Group earnings received in fiscal 2007 and previous years. Income after taxes corresponds to the net income attributable to equity holders of Evonik Industries AG, as stated in the income statement for fiscal 2007. However, under German stock corporation law, only profit reserves from the commercial accounts drawn up by Evonik Industries AG are available for distribution without any restrictions. As of December 31, 2007, Evonik Industries AG's profit reserves totaled €3,343 million (2006: €2,663 million). €47 million of this comprises the statutory reserve that is not available for distribution.

(d) Accumulated other comprehensive income

Accumulated other comprehensive income contains gains and losses recognized directly in equity. The reserve from the measurement of available-for-sale securities contains remeasurement gains and losses resulting from changes in the value of financial instruments that are expected to be temporary and thus not charged to income. The unrealized gains and losses on hedges stated in accumulated other comprehensive income, see Note (7.4 f), comprise net unrealized gains and losses from changes in the fair value of the effective portion of cash flow hedges and net investment hedges. The revaluation reserve for acquisitions made in stages contains the gains and losses on shares held in subsidiaries that are consolidated for the first time before the change of control. Currency translation adjustments comprise differences arising from the translation of foreign financial statements.

Accumulated other comprehensive income (OCI) changed as follows:

in € million	2007 Before taxes	2007 Taxes	2007 Net	2006 Before taxes	2006 Taxes	2006 Net
Accumulated other comprehensive income as of January 1	**– 77**	**– 26**	**– 103**	**75**	**– 15**	**60**
Gains/losses on available-for-sale securities						
Recognized directly in OCI	4	– 3	1	16	–	16
Gains/losses on hedge reserve						
Recognized directly in OCI	43	– 5	38	27	– 12	15
Reclassified from OCI to the income statement	– 7	2	– 5	– 9	1	– 8
Reclassified from OCI and included in the initial measurement of assets/liabilities	–	–	0	22	–	22
Revaluation reserve for acquisitions in stages						
Gains/losses recognized directly in OCI	31	– 11	20	–	–	0
Transfers to accumulated income/loss	– 2	–	– 2	– 2	–	– 2
Currency translation adjustment	– 238	–	– 238	– 206	–	– 206
Accumulated other comprehensive income as of December 31	**– 246**	**– 43**	**– 289**	**– 77**	**– 26**	**– 103**

In 2007, €7 million was reclassified from unrealized gains and losses on hedges in accumulated other comprehensive income to the income statement. €14 million of this amount was recognized in sales, €8 million in the cost of materials and €1 million in other operating income.

(e) Minority interests

Minority interests are shares in the issued capital and reserves of consolidated subsidiaries that are not attributable to the equity holders of Evonik Industries AG.

(f) Capital management

The Executive Board of Evonik Industries AG strives to achieve an optimum balance in the Group's capital structure, for example, to minimize borrowing costs. One management parameter is the ratio of equity stated on the balance sheet to total assets. The equity ratio calculated in this way was 25.7 percent at year-end 2007 (2006: 20.6 percent).

(7.9) Provisions for pensions and other post-employment benefits

Provisions for pensions are established to cover benefit plans for retirement, disability and surviving dependents' pensions. The benefit obligations vary depending on the legal, tax and economic circumstances in the various countries in which the companies operate. The level of the benefit obligations generally depends on individual employees' length of service and remuneration.

Germany accounted for 98.6 percent (2006: 97.5 percent) and thus the vast majority of the provisions for pensions on the reporting date.

At the German companies, occupational pension plans are predominantly defined benefit plans. They are primarily funded by provisions and pension fund assets.

The pension plans at foreign companies may be either defined contribution or defined benefit plans.

The table shows the expected return on plan assets and the weighted average assumptions used for the actuarial valuation of the benefit obligations:

	Group		Germany	
in %	**2007**	2006	**2007**	2006
Discount rate as of December 31	5.54	4.60	5.50	4.50
Future salary increases	2.75	2.73	2.53	2.51
Future pension increases	1.86	1.54	1.75	1.50
Expected return on plan assets as of December 31	5.31	5.31	5.00	5.00
Health-care cost trend	7.77	8.91	–	–

The expected return on plan assets is derived from published capital market reports and forecasts and in-house experience for each class of assets.

The present value of the defined benefit obligation changed as follows in fiscal 2007:

in € million	2007	2006
Present value of the defined benefit obligation as of January 1	8,034	8,494
Current service cost	132	144
Interest cost	354	348
Employee contributions	35	40
Actuarial gains and losses	– 798	– 185
Benefits paid	– 395	– 406
Past service cost	3	8
Additions from business combinations	– 93	– 204
Reclassification pursuant to IFRS 5	– 102	– 163
Curtailments	– 3	0
Settlements	–	–
Currency translation	– 89	– 42
Present value of the defined benefit obligation as of December 31	**7,078**	**8,034**

The fair value of the plan assets changed as follows in fiscal 2007:

in € million	2007	2006
Fair value of plan assets as of January 1	3,138	3,115
Expected return on plan assets	166	164
Employer contributions	112	100
Employee contributions	14	13
Actuarial gains and losses	– 129	14
Benefits paid	– 147	– 150
Additions from business combinations	–	–97
Reclassification pursuant to IFRS 5	– 15	0
Currency translation	– 81	– 21
Fair value of plan assets as of December 31	**3,058**	**3,138**

The actual return on plan assets was €37 million in fiscal 2007 (2006: €178 million).

Employer contributions of €73 million are expected to be incurred in the coming year.

The next table shows the present value of all defined benefit plans, the fair value of plan assets, the funded status and experience adjustments for the defined benefit obligation and plan assets over time:

in € million	2007	2006	2005
Present value of the defined benefit obligation as of December 31	7,078	8,034	8,494
Fair value of plan assets as of December 31	3,058	3,138	3,115
Funded status	**4,020**	**4,896**	**5,379**
Experience adjustments to defined benefit obligation	39	47	64
Experience adjustments to plan assets	– 129	– 14	– 50

The funded status, which is defined as the difference between the present value of the defined benefit obligation and the fair value of the plan assets, is reconciled with the pension provisions shown in the balance sheet as follows:

in € million	Dec. 31, 2007	Dec. 31, 2006
Present value of defined benefit obligation	7,078	8,034
Fair value of plan assets	3,058	3,138
Funded status	**4,020**	**4,896**
Unrecognized past service cost	1	– 2
Unrecognized actuarial loss	– 225	– 824
Other changes (including asset ceiling)	98	–
Pension provisions recognized on the balance sheet	**3,894**	**4,070**

As of the reporting date, €3,968 million (2006: €4,496 million) of the present value of all defined benefit obligations was unfunded and €3,041 million (€3,454 million) was fully or partially funded. In addition, the defined benefit obligations include preventive health-care obligations of €69 million (2006: €84 million). For an explanation of the impact of changes in the cost trends in the health-care sector, see Note (4).

The fair value of the plan assets totaling €3,058 million on the reporting date (2006: €3,138 million) was split as follows: 21.5 percent (2006: 26.0 percent) in shares, 71.5 percent (2006: 65.2 percent) in debt instruments, 2.1 percent (2006: 4.6 percent) in real estate and 4.9 percent (2006: 4.2 percent) in other assets. On the reporting date, €24 million (2006: zero) was invested in real estate used by the company.

The pension provisions include concessionary coal and power allowances in Germany and entitlements to health-care services by retirees of the US companies.

The actuarial loss was €225 million (2006: €824 million) and thus outside the permitted corridor in some cases. The corridor and amortization are calculated separately for each plan recognized.

The total expense for the defined benefit obligation is broken down as follows:

in € million	2007	2006
Current service cost	132	144
Interest cost	354	348
Expected return on plan assets	– 166	– 164
Amortization	– 69	29
Effect of curtailments and settlements	– 3	0
Effect of asset ceiling	98	0
Reclassification pursuant to IFRS 5	– 9	– 21
Net pension expense	**337**	**336**

Expenses of €9 million (2006: €21 million) were reclassified to discontinued operations. In 2006, €14 million of these expenses related to the tar refining and initiators operations which were reclassified as discontinued operations in 2007.

Preventive health care benefits accounted for €6 million of the total expense (2006: €8 million).

Interest cost and the expected return on plan assets are included in net interest expense, while the other amounts are included in personnel expense as pension expenses.

A total of €7 million (2006: €16 million) was paid into foreign defined-contribution plans, which are also included in personnel expense as pension expenses.

Further, €153 million (2006: €152 million) was paid into defined-contribution state plans (statutory pension insurance). This is reported in personnel expense as social security contributions.

(7.10) Other provisions

These comprise:

	Dec. 31, 2007			Dec. 31, 2006		
in € million	Total	thereof with a term to maturity of up to 1 year	thereof with a term to maturity of more than 5 years	Total	thereof with a term to maturity of up to 1 year	thereof with a term to maturity of more than 5 years
Personnel-related	1,000	520	142	1,080	494	119
Recultivation and environmental protection	256	35	86	315	52	97
Restructuring	112	53	12	123	64	12
Other	919	580	81	1,063	700	86
	2,287	**1,188**	**321**	**2,581**	**1,310**	**314**

Changes in provisions in fiscal year were as follows:

in € million	Personnel-related	Recultivation, environmental protection	Restructuring	Other
As of January 1, 2007	1,080	315	123	1,063
Additions	463	28	30	490
Utilization	– 505	– 23	– 21	– 375
Reversals	– 24	– 13	– 11	– 156
Reclassification	– 18	– 44	– 11	– 56
Currency translation	– 4	– 4	0	– 17
Interest adjustments	11	1	2	3
Changes in scope of consolidation	– 3	– 4	–	– 33
As of December 31, 2007	**1,000**	**256**	**112**	**919**

Personnel-related provisions are established for a number of different reasons and include provisions for unutilized vacation entitlements and rest days, occupational health checks, bonuses and performance-related pay, anniversary bonuses and early retirement arrangements.

Provisions are established for environmental protection and recultivation on the basis of contractual, statutory and regulatory requirements. They cover soil reclamation obligations, water protection, the recultivation of landfills and site decontamination obligations.

Provisions for restructuring are based on planned restructuring measures. Restructuring is defined as a program which is planned and controlled by the company and will materially alter one of the company's areas of business activity or the way in which this business activity is carried out. Restructuring provisions may only be established for costs that are directly attributable to the restructuring program. These include severance packages, redundancy and early retirement arrangements, costs for the termination of contracts, dismantling obligations, soil reclamation expenses, rents for unused facilities and all other expenses relating exclusively to shutdowns or implementation of the restructuring program.

Provisions for other obligations include litigation risks, legal and consultancy expenses and other uncertain liabilities and the following items:

in € million	Selling activities	Other taxes	Dismantling obligations
As of January 1, 2007	169	94	77
Additions	67	57	7
Utilization	– 41	– 9	– 5
Reversal	– 16	– 57	0
Reclassification	– 11	– 16	3
Currency translation	0	– 1	0
Interest adjustments	1	0	2
Changes in the scope of consolidation	0	1	– 11
As of December 31, 2007	**169**	**69**	**73**

Companies in the Evonik Group are involved in legal disputes and court cases, including class actions in the USA and Canada relating to alleged price-fixing. The outcome of such legal disputes and litigation cannot be predicted accurately. Adequate provisions have been established to cover possible claims for compensation and legal expenses.

(7.11) Financial liabilities

in € million	Dec. 31, 2007 Total	Dec. 31, 2007 thereof with a term to maturity of more than 1 year	Dec. 31, 2006 Total	Dec. 31, 2006 thereof with a term to maturity of more than 1 year
Bonds	1,241	1,241	1,266	1,265
Liabilities to banks	2,988	2,521	3,858	2,052
Loans from non-banks	86	50	110	71
Liabilities from finance leases	116	106	140	130
Liabilities from derivatives	69	38	36	12
Other financial liabilities	464	37	468	42
	4,964	**3,993**	**5,878**	**3,572**

(a) Bonds, liabilities to banks

The amount stated under bonds mainly comprises a corporate bond issued by Evonik Degussa GmbH with a nominal value of €1,250 million. This bond matures in 2013 and has an annual coupon of 5.125 percent. It is recognized at the issue price of 98.99 percent and the discount is credited over the maturity of the bond using the effective interest rate method.

Liabilities to banks include a syndicated credit facility totaling €779 million (2006: €879 million). For the first time, €679 million relating to this installment loan is reported as having a remaining maturity of more than one year. Interest on amounts drawn under the syndicated credit facility is based on EURIBOR plus a margin. This balance sheet item also includes low-interest loans from public-sector banks to finance subsidized residential properties in the Real Estate segment. In 2006, the Real Estate segment reported utilization of a €600 million credit line. This was repaid in full in 2007.

Bonds are exposed to a risk of price fluctuations while liabilities to banks are exposed to a risk of changes in interest rates. These risks may affect their fair value or future cash flows. The stock market price of the bond was €1,212 million on December 31, 2007 (2006: €1,232 million).

The Evonik Group has not infringed the payment terms agreed for its financial liabilities.

Shares in consolidated subsidiaries have been pledged as collateral for loans amounting to €779 million (2006: €1,479 million). Following attainment of the milestones defined for the syndicated credit facility, the shares in Evonik Degussa GmbH pledged as collateral for this loan were released in full at the start of 2008.

(b) Liabilities from finance leases

Liabilities from finance leases are recognized if the leased assets are capitalized under property, plant and equipment as economic assets belonging to the Group. The reconciliation from the future minimum lease payments to their present values and their due dates are as follows:

in € million	Dec. 31, 2007	Dec. 31, 2006
Future minimum lease payments	**190**	**243**
due within 1 year	20	23
due in 1–5 years	76	93
due in more than 5 years	94	127
Interest included therein	– 74	– 103
Present value of future minimum lease payments (liabilities from finance leases)	**116**	**140**
due within 1 year	10	10
due in 1–5 years	44	54
due in more than 5 years	62	76

(c) Liabilities from derivatives

The breakdown of liabilities from derivatives is as follows:

in € million	Dec. 31, 2007	Dec. 31, 2006
Liabilities from currency derivatives	13	9
Liabilities from interest derivatives	39	2
Liabilities from commodity derivatives	0	9
Liabilities from other derivatives	17	16
	69	**36**

Liabilities from other derivatives essentially comprise a zero cost collar used to hedge a share purchase transaction against major fluctuations in market prices.

For further details of liabilities from derivatives, see Note (7.4 f).

(d) Other financial liabilities

Other financial liabilities included €367 million (2006: €295 million) in liabilities relating to the profit-and-loss transfer agreement with RAG.

(7.12) Trade accounts payable and other payables

	Dec. 31, 2007		Dec. 31, 2006	
in € million	Total	thereof with a term to maturity of more than 1 year	Total	thereof with a term to maturity of more than 1 year
Trade accounts payable	1,294	–	1,265	–
Miscellaneous tax payables	148	–	94	–
Advanced payments received	76	13	72	12
Miscellaneous other payables	247	8	316	14
Deferred income	172	135	200	157
	1,937	**156**	**1,947**	**183**

The Real Estate segment offset €79 million (2006: €90 million) in utility charges and heating costs that can be allocated to tenants against prepayments received from tenants for these costs.

(7.13) Deferred taxes and other income taxes

The breakdown of deferred taxes and other income taxes reported on the balance sheet by due date is shown in the table:

in € million	Dec. 31, 2007		Dec. 31, 2006	
	Total	thereof with a term to maturity of more than 1 year	Total	thereof with a term to maturity of more than 1 year
Deferred tax assets	364	207	497	336
Other income tax assets	73	29	95	26
Deferred tax liabilities	761	644	961	840
Other income tax liabilities	397	191	338	112

In accordance with IAS 1 "Presentation of Financial Statements", the current elements of deferred taxes are reported on the balance sheet under non-current assets and liabilities.

Following the adoption of new tax legislation in Germany to accompany the introduction of the European Company and modify other fiscal provisions (SEStEG), other non-current income tax assets include a legally realizable claim for an income tax refund on amounts paid under the previous set-off procedure stipulated by Section 37 of the German Corporate Income Tax Act (KStG). This resulted in tax income of €26 million in fiscal 2006. This is recognized at present value as no interest is calculated on the refund, which will be paid in installments between 2008 and 2017.

Other income tax liabilities include the retroactive taxation of the EK02 portion of income taxes in connection with new tax legislation which takes effect in 2008. Since Evonik plans to settle this liability through a one-off payment, it is recognized at present value as permitted by the law.

Deferred taxes relate to the following balance sheet items:

in € million	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2007	Dec. 31, 2006	**Dec. 31, 2007**	Dec. 31, 2006
Assets				
Intangible assets	12	20	318	513
Property, plant and equipment, investment property	333	468	676	767
Financial assets	26	26	333	373
Inventories	121	110	38	85
Receivables and other assets	6	35	58	50
Liabilities				
Provisions	516	623	99	72
Payables	101	108	12	40
Special tax allowance reserves (based on local law)	–	–	22	46
Loss carryforwards	195	218	–	–
Tax credits	4	10	–	–
Consolidation	22	21	33	26
Other	38	55	10	31
Deferred taxes (gross)	**1,374**	**1,694**	**1,599**	**2,003**
Write-downs	– 172	– 155	–	–
Netting	– 838	– 1,042	– 838	– 1,042
Deferred taxes (net)	**364**	**497**	**761**	**961**

Total taxable temporary differences relating to interests in subsidiaries, associated companies and joint ventures for which no deferred taxes were recognized is €9 million. Evonik is able to control the timing of reversal of these temporary differences. Moreover, it is probable that these temporary differences will not be reversed in the foreseeable future, for example, as a result of future dividend payments or the divestment of stakes.

No deferred tax assets are recognized on temporary differences of €1,094 million (2006: €1,054 million) because it is not probable that future taxable income will enable them to be realized.

In addition to tax loss carryforwards for which deferred taxes were recognized, there are tax loss carryforwards that are not utilizable and for which no deferred taxes are recognized. These are shown in the table:

in € million	**Dec. 31, 2007**	Dec. 31, 2006
German corporation tax	1,093	1,086
Municipal trade tax	1,513	1,564
Foreign taxes and tax credits	449	405
	3,055	**3,055**

Breakdown of the above German and foreign loss carryforwards by expiration date:

	German corporation and foreign taxes		Municipal trade tax		Tax credits	
in € million	**2007**	2006	**2007**	2006	**2007**	2006
Up to 1 year	3	–	–	–	–	–
2–5 years	59	1	–	–	–	–
6–9 years	–	–	–	–	–	–
More than 9 years	355	405	–	–	–	–
Unlimited	1,125	1,085	1,513	1,564	–	–

(8) Notes to the cash flow statement

The cash flow statement shows the changes in cash and cash equivalents of the Group in the reporting period. It is broken down into cash flows from operating, investing and financing activities and reflects cash flows from continuing and discontinued operations. The impact of changes in the scope of consolidation have been eliminated.

Interest paid and interest and dividends received are included in operating activities while dividends paid are assigned to financing activities.

(8.1) Cash flow from operating activities

The cash flow from operating activities is calculated using the indirect method. Income before the financial result and income taxes from the continuing operations is adjusted for the effects on non-cash income and expenses and items that are allocated to investing or financing activities. Certain other changes in amounts shown on the balance sheet are calculated and added to the result. The net cash flow generated by the discontinued operations with external counterparties is shown as an aggregate.

(8.2) Cash flow from investing activities

The cash flow from investing activities includes cash inflows and outflows relating to acquisitions and divestments of subsidiaries.

The total purchase price for shares in subsidiaries consolidated for the first time was €42 million (2006: €43 million). In fiscal 2007, the related outflow of cash and cash equivalents amounted to €42 million (2006: €15 million). Cash and cash equivalents acquired in 2007 were negligible (2006: €15 million). In the previous year, cash outflows for acquisitions, investments and loans included €3,437 million for the acquisition of shares in the former Degussa.

The total selling prices of subsidiaries divested was €898 million (2006: €3,443 million), including €876 million (2006: €3,440 million) settled in cash and cash equivalents. Divestments included outflows of cash and cash equivalents totaling €37 million (2006: €129 million).

Further, payments relating to divestments in 2007 included €66 million in retroactive tax payments for the divestment of the construction chemicals activities in 2006.

(8.3) Cash and cash equivalents

The cash and cash equivalents of €349 million (2006: €467 million) shown in the cash flow statement comprise the liquid assets of both the continuing and discontinued operations. Since the cash and cash equivalents assigned to the assets held for sale have been reclassified in the balance sheet in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, see Note (5.3), a reconciliation is provided from the cash and cash equivalents shown in the cash flow statement and the balance sheet, see Note (7.7).

(9) Notes on the segment report

The segment report provides an overview of the earnings and asset position of the continuing operations by operating segments and regions. IFRS 8 “Operating Segments” is applied for the first time. Accordingly the segment data are presented using the same structure as the internal reporting to the Executive Board of Evonik Industries AG (management approach).

(9.1) Reporting based on operating segments

The reporting based on operating segments reflects the Group's internal organizational and reporting structure. Effective January 1, 2008, the twelve previous business units in the Chemicals Business Area were amalgamated to form six:

Reportable segments	Business units (new)	Business units (old)
Technology Specialties	Industrial Chemicals	Building Blocks C_4-Chemistry
	Inorganic Materials	Advanced Fillers & Pigments Aerosil & Silanes
Consumer Solutions	Consumer Specialties	Care & Surface Specialties Superabsorber
	Health & Nutrition	Exclusive Synthesis & Catalysts Feed Additives
Specialty Materials	Coatings & Additives	Coatings & Colorants Specialty Acrylics
	Performance Polymers	High Performance Polymers Methacrylates

This change only had an impact within the established reportable segments; see Management Report "Organizational changes". As of July 1, 2007, the former Exclusive Synthesis & Catalysts Business Unit was transferred from the Technology Specialties segment to the Consumer Solutions segment. Other changes at the start of 2007 related to the service functions—site-based services were allocated among the three chemicals segments—and some minor changes in the Real Estate segment. The segment report for fiscal 2007 adopts the new structure; the segment data have been restated as of January 1, 2006.

The Group's organizational and reporting structure is subdivided into the Chemicals Business Area, comprising the Technology Specialties, Consumer Solutions and Specialty Materials segments, the Energy Business Area, comprising the Energy segment, and the Real Estate Business Area, comprising the Real Estate segment.

(a) Technology Specialties

Most of the products manufactured by the Technology Specialties segment are sold to companies in the chemicals, plastics, rubber and paper industries for further processing into top-of-the-range end-applications. These include organic and inorganic specialties, which are used as key inputs in the agrochemicals and plastics sectors and in the manufacture of solar silicon. Hydrogen peroxide is a major bleaching and oxidation agent for the paper and pulp industry. Particle and filler systems based on carbon blacks and fumed silicas are mainly used to reinforce rubber in the tire industry. The Technology Specialties segment comprises the Industrial Chemicals and Inorganic Materials Business Units.

(b) Consumer Solutions

The Consumer Solutions segment's main customers are manufacturers of consumer goods, especially personal care, hygiene, pharmaceutical and nutrition products. Even small quantities of the custom-tailored substances and system solutions marketed by its two business units, Consumer Specialties and Health & Nutrition, can give customers' products the added benefits that often clinch a sale. This segment's strategic success factors include intensive research and development and working closely with customers. These business units often work side-by-side with leading producers of end-products within the framework of development alliances.

(c) Specialty Materials
This segment's products are used to manufacture durable capital goods and industrial products. It focuses mainly on the automotive, coating and colorants and construction sectors and a wide range of other high-end applications in fields such as aviation engineering, displays, pharmaceuticals and lifestyle articles. Its high-quality polymers are used by customers as transparent plastics in the semiconductor industry, lightweight structural components in the construction sector and resins and coatings additives in the colorants sector. This segment also markets specialty monomers as starting products for polymers. Formulations are often customized to meet specific requirements. The Specialty Materials segment comprises two business units: Coatings & Additives and Performance Polymers.

(d) Energy
The commercial power and heat generation business and services for power plants are grouped in the Energy segment. Its core competencies are planning, financing, building and operating highly efficient fossil-fuel power plants. The Energy segment is a grid-independent operator with eight coal-fired power plants and two refinery power plants in Germany. Internationally, the segment's success includes major coal-fired power plants in Columbia, Turkey and the Philippines. Installed output is around 9,000 megawatts (MW), including around 7,300 MW in Germany. The Energy segment is a pioneer of efficient modern generation technology for hard coal that reduces pressure on raw materials. In Germany it is one of the leaders in high-growth renewable energies such as mine gas, biomass and geothermal energy.

(e) Real Estate
The Real Estate segment manages a portfolio of around 60,000 company-owned housing units concentrated in the federal state of North Rhine-Westphalia in Germany. It also has a 50 percent stake in THS, see Note (5.2), which owns more than 75,000 residential units. The segment is thus one of the leading private-sector housing companies in Germany. The business focuses on letting housing to private households. Active portfolio management is also important. The business model is rounded out by selected development activities on company-owned land.

(f) Corporate, other operations, consolidation
The Corporate Center and operations that are not assigned to any of the reportable segments are reflected here, together with intersegment consolidation effects.

(9.2) Reporting based on regions
The regional breakdown of the segments is based on geographical criteria, which are outlined in more detail in Note (9.3).

(9.3) Notes to the segment data
The segment data are derived from the consolidated data for the subsidiaries, and the consolidation effects that arise at Group level and are allocated to the segments. These relate primarily to goodwill, hidden reserves and charges and the resultant impact on earnings. The segment data are explained below.

External sales reflect the segments' sales with parties outside the Group. Sales generated between the reportable segments are internal sales.

The following table shows a reconciliation from the sales of all reportable segments to Group sales.

in € million	**2007**	2006
Total sales, reportable segments	**14,908**	**14,536**
Total sales, other operations	846	968
Consolidation	– 1,324	– 1,379
Total sales corporate, other operations, consolidation	**– 478**	**– 411**
Total sales, continuing operations	**14,430**	**14,125**

The total sales reported for the other operations mainly relate to services provided by the Shared Service Center for the business units and the Corporate Center.

External sales by region are divided by point of sale. The table shows the external sales split by country for the continuing operations:

in € million	2007	2006
Germany	5,823	5,813
United States of America	1,714	1,742
China	566	473
France	512	561
Turkey	512	481
Netherlands	429	412
Italy	398	397
Other countries	4,476	4,246
External sales, continuing operations	**14,430**	**14,125**

As internal management parameters for the operating business, the Executive Board of Evonik Industries AG uses a variety of earnings indicators, which are reported on a segment basis. These are EBITDA (before non-operating result), EBIT (before non-operating result), the non-operating result and operating income.

Operating income is defined as earnings before interest and income taxes. This is the earnings parameter that corresponds to the accounting policies used for the consolidated financial statements, without adjustment for non-operating items.

The non-operating result reflects business transactions that are defined for purposes of internal management as occurring once or rarely and are significant for an assessment of the company's earnings position.

EBIT (before non-operating result) is the main parameter that can be influenced by the segment management. It comprises earnings before interest, income taxes and the non-operating result (subsequently referred to as EBIT).

To calculate EBITDA (before non-operating result), depreciation and amortization, impairment losses and reversals of impairment losses, which are not included in the non-operating result, are deducted from EBIT (subsequently referred to as EBITDA). The EBITDA margin is the ratio of EBITDA to external sales.

Depreciation and amortization relate to intangible assets, property, plant and equipment and investment property, see Note (6.5).

The result from investments recognized at equity corresponds to the result for these investments as reported in the income statement, see Note (6.8).

The following table shows the relationship between the internal management parameters EBITDA and EBIT and the external earnings parameters operating income and income before income taxes from the continuing operations.

in € million	2007	2006
EBITDA (before non-operating result)	**2,221**	**2,157**
Depreciation, amortization, impairment losses/reversal of impairment losses	– 1,101	– 1,302
Impairment losses/reversal of impairment losses (non-operating result)	228	324
EBIT (before non-operating result)	**1,348**	**1,179**
Non-operating result	– 370	– 517
Operating income	**978**	**662**
Net interest expense	– 451	– 470
Income before income taxes, continuing operations	**527**	**192**

In fiscal 2007 the non-operating result amounted to minus €370 million compared with minus €517 million in 2006. In 2007 non-operating income came to €124 million and non-operating expenses were €494 million.

Non-operating income came primarily from the reversal of provisions for property transfer tax, which were no longer needed. The expenses principally comprise impairment losses recognized for the Degussa brand following the introduction of the new Evonik brand, expenses for the restructuring of the Group and preparations for the plans to enter the capital markets, and further impairment losses, mainly on the assets of the Consumer Solutions segment.

The reconciliation from the operating income of all reportable segments to income before income taxes from the continuing operations is as follows:

in € million	2007	2006
Total operating income, reportable segments	**1,429**	**921**
Total operating income, other operations	– 15	69
Corporate Center and corporate activities	– 282	-85
Consolidation	– 154	– 243
Total operating income corporate, other operations, consolidation	**– 451**	**– 259**
= Total operating income Group, continuing operations	**978**	**662**
Net interest expense	– 451	– 470
Income before income taxes, continuing operations	**527**	**192**

Capital employed is calculated by determining the total of intangible assets, property, plant and equipment, investment property, investments, inventories, trade accounts receivable, financial assets required for operations, certain amounts relating to assets held for sale and other non-interest-bearing current assets. The sum of interest-free provisions, trade accounts payable, other interest-free liabilities and deferred tax liabilities is then deducted from this.

A further internal management parameter used by the Group is the return on capital employed (ROCE). ROCE is calculated from the ratio of EBIT to capital employed. For the purpose of this calculation, capital employed is an average.

Segment assets contain assets included in capital employed (CE). The reconciliation to the Group's assets as shown in the balance sheet is as follows:

in € million	Dec. 31, 2007	Dec. 31, 2006
Total assets included in CE, reportable segments	**18,004**	**17,633**
Total assets included in CE, other operations	357	441
Corporate, consolidation	185	409
Total assets included in CE, corporate, other operations, consolidation	**542**	**850**
Total assets included in CE, Group, continuing operations	**18,546**	**18,483**
Other financial assets	484	785
Cash and cash equivalents	319	444
Other assets held for sale	451	1,241
Total assets	**19,800**	**20,953**

Investments recognized at equity correspond to their carrying amounts as reflected in the balance sheet, see Note (7.4).

Capital expenditures comprise additions to intangible assets (excluding goodwill from capital consolidation), property, plant and equipment and investment property in the reporting period. Additions resulting from changes in the scope of consolidation are not taken into account. Capital expenditures by region are based on the location of the companies.

Other material income and expense items that do not impact cash flows mainly comprise impairment losses, reversals of impairment losses, additions to and reversals of provisions and the reversal of deferred income and expenses.

The regional breakdown of non-current assets covers intangible assets, property, plant and equipment and investment property and is based on the location of the companies.

The following table provides a breakdown of the Group's non-current assets by country:

in € million	Dec. 31, 2007	Dec. 31, 2006
Germany	9,143	9,515
United States of America	649	582
Belgium	389	417
China	288	254
Other countries	759	757
Non-current assets	**11,228**	**11,525**

(10) Other disclosures

(10.1) Earnings per share

Basic earnings per share as shown in the income statement is calculated by dividing net income by the weighted average number of shares issued. Net income comprises the total earnings for the year less minority interests, including the earnings of discontinued operations. Earnings per share could be diluted by "potential" ordinary shares.

Number of shares	**2007**	2006
Weighted average number of shares issued (basic)	466,000,000	466,000,000
Dilution by potential shares	–	–
Weighted average number of shares issued (diluted)	466,000,000	466,000,000

in € million	**2007**	2006
Income after taxes, continuing operations	369	159
Income after taxes, discontinued operations	602	993
Less income after taxes attributable to minority interests	– 95	– 106
Income after taxes attributable to equity holders of Evonik Industries AG (net income)	**876**	**1,046**
Earnings per share (basic and diluted) in €		
from continuing operations	+ 0.79	+ 0.34
from discontinued operations	+ 1.29	+ 2.13
less minority interests	– 0.20	– 0.23
Earnings per share (basic and diluted) in € attributable to equity holders of Evonik Industries AG	**+ 1.88**	**+ 2.24**

(10.2) Performance-related remuneration

For executives of the former Evonik Degussa Group as it existed until the end of 2006, the remuneration system includes a base salary, short-term incentives and a long-term component, the Evonik Degussa Long-Term Incentive Plan (LTI Plan). The LTI Plan is a long-term compensation plan and is therefore accounted for in accordance with IAS 19 "Employee Benefits".

Under this plan, Evonik Degussa offered its executives performance options between 2003 and 2006. Exercising these options enabled them to share in the development of the company's value and thus in its long-term performance. The value of these options is based on defined key financial ratios rather than the share price.

The performance indicators defined for the LTI Plan were ROCE and EBITDA (based on outperformance of EBITDA relative to a peer group comprising specialty chemicals companies).

The LTI Plan was offered to members of the Board of Management of Evonik Degussa GmbH (up to 2005) and the roughly 190 executives of the Evonik Degussa Group (up to 2006). The extent to which they participated in the LTI Plan depended on the number of performance options allocated. This was set by the Presidial Committee of the Supervisory Board of Evonik Degussa GmbH for the Board of Management and by the Board of Management for other executives.

The table shows the performance options allocated under the LTI Plans between 2003 and 2006:

LTI Plan	2006	2005	2004	2003
As of January 1	786,342	888,151	828,742	521,649
Granted	3,700	–	–	–
Exercised	–	–	–	– 29,027
Lapsed	– 12,700	– 30,600	– 33,800	– 27,100
As of December 31	**777,342**	**857,551**	**794,942**	**465,522**

A five-year period was defined as the term of each tranche of the LTI Plan from 2003 to 2006. This comprised an initial lock-up period of two years, during which the performance options could not be exercised, followed by a three-year exercise period with four windows in which they could be exercised.

Exercise of the performance options is contingent upon achievement of a specific ROCE target for Evonik Degussa. If ROCE exceeds this hurdle, the number of options that can be exercised rises in line with ROCE. The formula used to calculate this is based on the weighted average cost of capital (WACC) of the Chemicals Business Area and is set annually for each tranche.

EBITDA is used to calculate the value of the options eligible for exercise. The value of Evonik Degussa must correspond at least to the average EBITDA performance of a peer group, otherwise the options have no intrinsic value. If EBITDA exceeds this level, the value of the options rises in line with the amount by which Evonik Degussa outperforms the peer group.

Provisions for the LTI Plan totaled €23 million on the reporting date (2006: €10 million). The right to exercise performance options from the 2003 LTI Plan as a result of achievement of the key financial data led to payments totaling €1 million in 2007. Around 7 percent of this went to members of the Board of Management of Evonik Degussa GmbH. The performance options could not be exercised in the previous year so no payment was made.

Since no further performance options were allocated in 2007 owing to the restructuring of Evonik, a voluntary bonus payment was made to those entitled to participate in the plan at the start of 2008. A provision of €6 million has been established to cover this.

(10.3) Additional information on financial instruments

Net result

The income and expenses, gains and losses from financial instruments reflected in the income statement are reported as the net result for each of the valuation categories defined in IAS 39 "Financial Instruments: Recognition and Measurement".

in € million	**2007**	At fair value through profit or loss: Trading	At fair value through profit or loss: Designation	Available for sale	Loans and receivables	Liabilities at fair value	Liabilities at amort. cost
Proceeds from disposals	43	–	–	48	– 5	–	–
Income from the measurement of derivatives	60	218	–	–	–	– 158	–
Impairment losses/reversals of impairment losses	– 9	–	–	0	– 9	–	–
Net interest expense	– 234	0	–	12	29	– 2	– 273
Income from other investments	17	–	–	17	–	–	–
Result from current securities	37	–	38	– 1	–	–	–
Total	**– 86**	**218**	**38**	**76**	**15**	**– 160**	**– 273**

in € million	2006	At fair value through profit or loss: Trading	At fair value through profit or loss: Designation	Available for sale	Loans and receivables	Liabilities at fair value	Liabilities at amort. cost
Proceeds from disposals	10	–	–	10	0	–	–
Income from the measurement of derivatives	63	118	–	–	–	– 55	–
Impairment losses/reversals of impairment losses	– 29	–	–	– 15	– 14	–	–
Net interest expense	– 189	4	–	2	55	– 2	– 248
Income from other investments	25	–	–	25	–	–	–
Result from current securities	0	–	–	–	–	–	–
Total	**– 120**	**122**	**0**	**22**	**41**	**– 57**	**– 248**

As in the previous year, no interest income was recognized for the ineffective portion of cash flow hedges or for the ineffective portion of fair value hedges. Interest income of €41 million (2006: €57 million) relates to financial instruments not allocated to the category at fair value through profit or loss while interest expense, including interest expense for finance leases, was €286 million (2006: 264 million). Net interest expense does not include any interest income on the impaired portion of financial assets or trade accounts receivable.

Classification

At Evonik, the classification of financial instruments that fall within the scope of IFRS 7 "Financial Instruments: Disclosures" is based on the presentation on the balance sheet. The following table comprises a reconciliation of the carrying amounts of these balance sheet items to the valuation categories defined in IAS 39 "Financial Instruments: Recognition and Measurement" and shows their fair values:

in € million	At fair value through profit or loss		Available for sale	Loans and receivables	No IAS 39 category	Dec. 31, 2007	
	Trading	Designation				Carrying amount	Fair value
Financial assets	**24**	**289**	**127**	**110**	**1,240**	**1,790**	
Other investments	–	–	70	–	–	70	70
Loans	–	–	–	96	–	96	96
Securities and similar claims	–	289	57	–	–	346	346
Receivables from finance leases	–	–	–	–	1,130	1,130	1,130
Receivables from derivatives	24	–	–	–	110	134	134
Other financial assets	–	–	–	14	–	14	14
Trade accounts receivable	–	–	–	2,372	–	2,372	2,372
Cash and cash equivalents	–	–	–	319	–	319	319
Total	**24**	**289**	**127**	**2,801**	**1,240**	**4,481**	

in € million	Liabilities at fair value	Liabilities at amort. cost	No IAS 39 category	Dec. 31, 2007	
				Carrying amount	Fair value
Financial liabilities	**9**	**4,034**	**921**	**4,964**	
Bonds	–	496	745	1,241	1,212
Liabilities to banks	–	2,988	–	2,988	2,988
Loans from non-banks	–	86	–	86	86
Liabilities from finance leases	–	–	116	116	181
Liabilities from derivatives	9	–	60	69	69
Other financial liabilities	–	464	–	464	464
Trade accounts payable	–	1,294	–	1,294	1,294
Total	**9**	**5,328**	**921**	**6,258**	

in € million	At fair value through profit or loss		Available for sale	Loans and receivables	No IAS 39 category	Dec. 31, 2006	
	Trading	Designation				Carrying amount	Fair value
Financial assets	**51**	**0**	**130**	**337**	**1,406**	**1,924**	
Other investments	–	–	103	–	–	103	103
Loans	–	–	–	331	–	331	332
Securities and similar claims	–	–	27	–	–	27	27
Receivables from finance leases	–	–	–	–	1,311	1,311	1,311
Receivables from derivatives	51	–	–	–	95	146	146
Other financial assets	–	–	–	6	–	6	6
Trade accounts receivable	–	–	–	2,354	–	2,354	2,354
Cash and cash equivalents	–	–	–	444	–	444	444
Total	**51**	**0**	**130**	**3,135**	**1,406**	**4,722**	

in € million	Liabilities at fair value	Liabilities at amort. cost	No IAS 39 category	Dec. 31, 2006	
				Carrying amount	Fair value
Financial liabilities	**20**	**4,936**	**922**	**5,878**	
Bonds	–	500	766	1,266	1,248
Liabilities to banks	–	3,858	–	3,858	3,858
Loans from non-banks	–	110	–	110	110
Liabilities from finance leases	–	–	140	140	230
Liabilities from derivatives	20	–	16	36	36
Other financial liabilities	–	468	–	468	468
Trade accounts payable	–	1,265	–	1,265	1,265
Total	**20**	**6,201**	**922**	**7,143**	

Some derivative financial instruments and parts of the corporate bond issued by Evonik Degussa GmbH are not allocated to any of the categories defined in IAS 39 because they are included in hedge accounting.

Non-current receivables including receivables from finance leases are valued using a variety of parameters. Impairment losses are recognized for any expected defaults on receivables. Accordingly, the net carrying amount of these receivables basically corresponds to their fair value. The assumption used to calculate the fair value of loans, liabilities to banks and liabilities from finance leases is a risk-free interest rate in accordance with the yield curve, see Note (4). The fair value of bonds is their stock market price on the reporting date. In all other cases the fair value of the financial instruments recognized on the balance sheet is their carrying amount on the reporting date.

Notional value of derivatives
The notional value of currency derivatives is the hedged foreign exchange amount converted into euros. The notional value of interest derivatives is the sum of the underlying transactions hedged during their term to maturity while the notional value of commodity derivatives is the hedged procurement cost translated into euros. The notional value of embedded derivatives corresponds to one of the above definitions of notional value, depending on the type of derivative.

Notional value of derivative financial instruments:

in € million	Dec. 31, 2007 Total	Dec. 31, 2007 thereof with a term to maturity of up to 1 year	Dec. 31, 2007 thereof with a term to maturity of more than 1 year	Dec. 31, 2006 Total	Dec. 31, 2006 thereof with a term to maturity of up to 1 year	Dec. 31, 2006 thereof with a term to maturity of more than 1 year
Currency derivatives	3,131	2,730	401	3,219	2,948	271
Interest derivatives	1,766	61	1,705	2,670	122	2,548
Commodity derivatives	32	32	0	82	79	3
Other derivatives	26	0	26	85	–	85
	4,955	**2,823**	**2,132**	**6,056**	**3,149**	**2,907**

Where the criteria for hedge accounting are fulfilled, interest, currency and commodity derivatives are accounted for as fair value hedges, cash flow hedges or hedges of a net investment. Embedded derivatives do not generally qualify for hedge accounting. The notional value of embedded derivatives contained in other derivatives is €26 million (2006: €85 million).

Hedge accounting
The following major hedging transactions qualified for hedge accounting in fiscal 2007:

Fair value hedges
€750 million of the €1,250 million bond issued by Evonik Degussa GmbH in November 2003 was hedged until 2013 against fluctuations in the risk-free reference interest rate by means of receiver interest swaps. The fair value of these interest-rate hedges was minus €5 million on the reporting date (2006: €16 million). A regression analysis was used to provide evidence of the effectiveness of the hedges. Expenses of €21 million (2006: €43 million) relating to the fair value measurement of the derivatives and income of €20 million (2006: €43 million) from the fair value measurement of the bond were recognized in net interest expense.

Cash flow hedges
The Energy segment principally uses interest rate swaps and caps to hedge interest payments relating to the financing of power plant projects up to 2026 against changes in interest rates, while forward rate agreements and commodity swaps were used to hedge goods and materials against currency and price risks until 2007. The fair values are as follows: interest derivatives €30 million (2006: €9 million), currency derivatives minus €2 million (2006: minus €1 million) and commodity derivatives €0 million (2006: minus €1 million).

In the Chemicals Business Area, forward rate agreements are used to hedge forecast sales of around €455 million (2006: €460 million) up to 2008 against exchange rate movements. The fair value of hedging instruments included in hedge accounting was €10 million (2006: €9 million). In addition, commodity swaps with a fair value of €5 million (2006: minus €4 million) were used to hedge forecast purchases of raw materials against price fluctuations up to 2007.

In the other business areas in the Group, hedging of currency risks arising from foreign currency transactions was included as cash flow hedges. The fair value of the hedging instruments used by these companies was €0 million (2006: €3 million). In addition, 50 percent of the selling price of DBT was hedged using forward rate agreements with a fair value of €1 million. These cash flow hedges were closed out and recognized to income in May 2007 simultaneously with the divestment of DBT, in other words, when the underlying transaction took place.

At Group level, swaptions were used to hedge planned borrowing of €500 million against the risk of changes in interest rates. This transaction was expected to take place in August 2007 with a maturity of 5 years. The fluctuation in the intrinsic value of the swaptions was recognized in equity and thus had no impact on income. €13 million previously recognized in unrealized gains/losses on hedges in accumulated other comprehensive income was released to income in August 2007 because the borrowing transaction was no longer probable.

Evidence of the effectiveness of hedging relations is provided using the dollar offset method, critical term match, the hypothetical derivatives method, regression analysis and sensitivity analyses. € 1 million (2006: €1 million) was recognized in income as the ineffective portion of the valuation of cash flow hedges.

Hedge of a net investment

In the Energy segment, currency derivatives are used to hedge the proportionate equity of the company in foreign power plant projects against changes in exchange rates. The fair value of these hedges was €49 million (2006: €51 million). €1 million was derecognized from unrealized gains/losses on hedges in accumulated other comprehensive income and charged to income in fiscal 2007 as the result of the divestment of shares. In addition to this hedge, unrealized gains/losses on hedges amounting to €27 million relate to former hedge relationships in connection with British subsidiaries. These are released to income on a pro rata basis, for example, when a subsidiary is sold. The effectiveness of the hedge relationships is demonstrated using the dollar offset method.

Financial risk management

As an international company, Evonik is exposed to financial risks in the normal course of business. A major objective of corporate policy is to minimize the impact of market, liquidity and default risks on both the value of the company and profitability in order to check adverse fluctuations in cash flows and earnings without foregoing the opportunity to benefit from positive market trends. For this purpose we have established a systematic financial and risk management system. Risks are managed centrally at Evonik.

Financial derivatives are used to reduce these risks. They are entered into exclusively in connection with underlying transactions relating to normal operating business, which provides a risk profile directly opposite to that of the hedge. The instruments used are customary products found on the market such as forward rate agreements and currency options, interest-rate and currency swaps, and swaptions.

(a) Market risk

Market risk can basically be subdivided into currency, interest-rate and commodity risks:
Currency risks relate to both the sourcing of raw materials and the sale of end-products. The aim of currency management is to protect the operating business from fluctuations in earnings and cash flows resulting from changes in exchange rates on the foreign exchange markets. The majority of exchange rate risks relate to changes in the exchange rate between the euro and the US dollar.

Roughly 75 percent of consolidated sales generated in US dollars or currencies that correlate with the US dollar are hedged through production in the US dollar zone. The remaining currency risks comprise revenue risks relating to exports to the US dollar zone and are hedged through a variety of forward rate agreements and currency options.

The aim of interest-rate management is to protect Group net income from the negative effects of fluctuations in market interest rates. Interest rate risk is managed through primary and derivative financial instruments, especially interest-rate swaps and interest-rate caps. The aim is to achieve an appropriate ratio of fixed rates (with interest rates fixed for more than one year) and variable rates (terms of less than one year), taking costs and risks into account. As of December 31, 2007, 60 percent (2006: 44 percent) of net financing requirements were hedged at fixed interest rates.

The principles of cash flow at risk and value at risk (VaR) are used to measure the market risks relating to interest rates and foreign exchange. Cash flow at risk relates to ongoing interest payments, which are exposed to the risk of changes in interest rates, and outstanding payments in foreign currencies, which are exposed to risk of changes in exchange rates. VaR shows the maximum loss that could be incurred on primary and derivative financial instruments in a month for a given probability. VaR is reviewed monthly and reported to the CFO.

VaR is calculated for a time horizon of one month using a confidence interval of 99 percent. The calculation is based on a Monte Carlo simulation of the risk variables (interest and exchange rates).

The risks analyzed for the VaR calculation are mainly financial liabilities (for example, loans) and investments with a fixed interest rate. Financial derivatives such as options are also included on the basis of present value. Financial liabilities in foreign currencies are not included if they are matched by sales revenues in the same currency.

VaR is a theoretical model for which a large number of assumptions have to be made. If these do not fully match reality, inaccurate risk measurement is unavoidable. For the model used by Evonik this mainly applies to the assumption of a normal distribution of risk variables and the assumed horizon of one month.

As of December 31, 2007 the VaR was €19 million for foreign currency items (2006: €25 million) and €51 million for interest rate items (2006: €44 million). As a result of diversification of interest and currency risks, the aggregate VaR for the Group is €55 million (2006: €47 million).

Commodity risks result from changes in the market price of raw materials. Commodity management is delegated to the business units. They identify procurement risks and take effective measures to minimize them. For example, price escalation clauses and swaps are used to reduce price volatility. Other factors of great importance for Evonik's risk position are the availability and price of raw materials, starting products and intermediates. In particular, raw material prices of significance to the Evonik Group are dependent on exchange rates and the price of crude oil. Pricing and procurement risks are reduced through worldwide procurement and optimized processes to ensure immediate sourcing of additional raw material requirements. Similarly, use of alternative raw materials is examined for various production processes and Evonik is working on the development of alternative production technologies.

As well as the higher cost of raw materials, production costs in the Group have been significantly affected by the sharp rise in energy prices. Derivative financial instruments were used to hedge procurement price risks in 2007. If the price of crude oil or natural gas had altered by 10 percent on the reporting date, the fluctuation in the value of these derivatives would have resulted in a change of €4 million (2006: €0 million) in accumulated other comprehensive income.

(b) Liquidity risk

Liquidity risk is managed through business planning to ensure that that the funds required to finance the current operating business and current and future investments in all Group companies are available at the right time and in the right currency at optimum cost. Liquidity requirements for business operations, investments and other financial activities are derived from a financing status and liquidity planning, which form part of liquidity risk management. Liquidity is pooled in a central cash management pool where this makes economic sense and is legally permissible. Central liquidity risk management facilitates low-cost borrowing and advantageous offsetting of financial requirements. To secure its liquidity, Evonik has a €2,250 million syndicated credit facility agreed in 2006 which runs until 2011. This was not drawn on the reporting date. Its purpose is to cover short-term financing requirements. The Group also has major bilateral credit lines amounting to €740 million, €163 million of which was in use on the reporting date.

The table shows the remaining maturity of the primary financial instruments based on the agreed dates for payment of the undiscounted interest and repayment installments.

	Up to 1 year		More than 1 and up to 3 years		More than 3 and up to 5 years		More than 5 years	
in € million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Financial liabilities	**1,663**	**2,410**	**698**	**725**	**536**	**647**	**3,472**	**3,384**
Bonds	64	66	128	128	128	128	1,314	1,378
Liabilities to banks	1,157	1,893	493	528	342	422	1,525	1,288
Loans from non-banks	55	129	36	38	30	32	538	589
Liabilities from finance leases	20	23	40	28	35	64	94	128
Other financial liabilities	367	299	1	3	1	1	1	1
Trade accounts payable	**1,294**	**1,265**	**–**	**–**	**–**	**–**	**–**	**–**

Interest and repayment installments of €22 million (2006: €212 million) on the reporting date related to discontinued operations.

The breakdown of undiscounted interest and installment payments by maturity in the following table relates to derivative financial instruments with positive and negative fair values:

	Up to 1 year		More than 1 and up to 3 years		More than 3 and up to 5 years		More than 5 years	
in € million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Receivables from derivatives	**3,822**	**2,801**	**214**	**169**	**95**	**80**	**299**	**201**
Currency derivatives	3,799	2,792	153	131	22	44	0	–
Interest derivatives	22	4	61	38	73	36	283	186
Other derivatives	1	5	0	–	–	–	16	15
Liabilities from derivatives	**3,825**	**2,825**	**322**	**268**	**170**	**168**	**279**	**262**
Currency derivatives	3,766	2,779	190	158	23	60	0	–
Interest derivatives	59	39	132	110	147	108	279	255
Other derivatives	0	7	0	–	–	–	0	7

(c) Risk of default

The risk of default is examined carefully when a transaction is concluded and subsequently monitored closely to ensure that the Group can respond promptly to any deterioration in the contracting party's creditworthiness. Initial examination of the default risk includes the contracting party's rating and in-house creditworthiness analyses. In the case of banks, deposits in credit protection systems are also taken into account. For export orders, the analysis starts with an examination of the political risk so that the overall risk assessment takes account of both political and economic risk factors. Maximum limits for each contracting party are set on the basis of the creditworthiness analyses. These are normally based on the ratings issued by international rating agencies on our own internal analysis of credit standing. For export financing, the counterparty should have at least an investment grade rating.

Credit management also covers derivative financial instruments, where the risk of default is equivalent to the positive fair value. This risk is minimized by setting high standards for the creditworthiness of counterparties. Only common instruments found on the market with sufficient liquidity are used. Consequently, no material risk of default is expected in this field. As for primary financial instruments, there is also a default risk amounting to the positive fair value. This can be minimized by regular creditworthiness reviews. We do not anticipate any material risk of default here either.

(10.4) Related parties

In addition to the subsidiaries included in the consolidated financial statements, the Group maintains relationships with related parties. All relationships with major subsidiaries and other investments are listed at the end of this annual report.

Related parties with which the Group maintains business relationships are associated companies and joint ventures of Evonik, RAG Aktiengesellschaft and RAG-Stiftung as shareholders of Evonik Industries AG, fellow subsidiaries of Evonik in the Group owned by RAG-Stiftung and the following former shareholders of RAG Aktiengesellschaft, which can exert a significant influence, together with selected Group companies: E.ON AG, RWE AG and ThyssenKrupp AG.

The transactions between the Group and these companies are shown in the table:

	Evonik Group		RAG AG		Fellow subsidiaries		Equity holders of RAG AG	
in € million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006[1]
Goods and services supplied	52	139	204	322	3	10	769	666
Goods and services received	3	42	397	308	1	6	110	166
Other income	4	2	3	4	–	1	2	0
Other expense	–	–	–	–	–	–	–	0
Receivables as of December 31	38	63	67	149	1	–	–	172
Liabilities as of December 31	52	56	693	532	12	9	–	77

[1] Prior-year figures restated.

The receivables on the reporting date principally result from the supply of coal and electricity. The liabilities mainly comprise deferred items from the settlement of adjustments to contracts on the purchase of electricity, payables for coal and electricity and the profit transfer to RAG.

As in the previous year, on the balance sheet date €47 million comprised security pledged for the liabilities of the Group's Real Estate segment to RAG relating to the financing of residential properties.

In 2006 RAG provided central management, controlling and administrative services for the former RAG Beteiligungs-GmbH (RAG BG), which were not charged to RAG BG. On the basis of the total cost incurred by RAG in the past, the corresponding expense is estimated at €111 million.

Related parties also include members of the management who are directly or indirectly responsible for corporate planning, management and oversight and members of their families. At Evonik these parties have included, since September 14, 2006, the Executive Board and Supervisory Board of Evonik Industries AG (formerly the Board of Management and Advisory Council of the former RAG Beteiliungs-GmbH) and other members of the Group's management. The other management members comprise the Boards of Management of the companies at the head of the business areas.

The members of the Board of Management of the former RAG Beteiligungs-GmbH were senior executives of RAG who did not receive any separate remuneration from the company for exercising this function.

The Supervisory Board of Evonik Industries AG received total remuneration of €54,000 (2006: zero) for its work. The Advisory Council in existence in the previous year received total remuneration of €77,000.

The remuneration paid to the Executive Board of Evonik Industries AG and other members of the Group's management is shown in the table:

	Executive Board of Evonik Industries AG		Other management members	
in € million	**2007**	2006	**2007**	2006
Short-term remuneration	11	5	9	16
Post-employment benefits	12	13	13	28
Termination benefits	–	–	–	13
LTI Plan as of December 31	0	–	0	–

The short-term remuneration reported for the fiscal year includes severance packages. Post-employment benefits comprise pension obligations at the present value of the defined benefit obligation. Current service cost for pensions amounted to €2 million in fiscal 2007 (2006: €3 million).

Apart from the relationships stated above, Evonik did not have any other significant business relationships with related parties.

(10.5) Contingent liabilities and other financial commitments

Contingent liabilities were as follows on the reporting date:

in € million	Dec. 31, 2007	Dec. 31, 2006
Guarantee obligations	84	198
Obligations under warranties and indemnity agreements	636	209
	720	**407**

Obligations under warranties and indemnity agreements include letters of comfort, some of which were issued in conjunction with third parties.

There is a legal liability in respect of investments in partnerships, collectively owned enterprises and as the general partner of limited liability partnerships.

Other financial commitments are outlined below: The nominal value of obligations from future minimum lease payments for assets leased under operating leases with the following payment terms is shown in the table:

in € million	Dec. 31, 2007	Dec. 31, 2006
Due within 1 year	54	58
Due in 1–5 years	163	266
Due in more than 5 years	157	162
	374	**486**

Payments of €93 million (2006: €76 million) were recognized in income for operating leases in the reporting period. €4 million of these (2006: €0 million) were contingent rental payments.

(10.6) Events after the balance sheet date

Events after the balance sheet date comprise a fire at the site used by Rütgers Chemicals, the divestment of Montan-Grundstücksgesellschaft, see Note (5.3), and the temporary cessation of coal mining activity in the Saar region. Further details of these events are given in the Management Report.

(11) Disclosures in compliance with German legislation

(11.1) Information on shareholdings pursuant to Section 313 Paragraphs 2 and 4 of the German Commercial Code

Information on the shareholdings of Evonik Industries AG and the Group is provided in a separate list rather than in the notes to the financial statements. The list indicates which companies have made use of the provisions in Section 264 Paragraph 3 of the German Commercial Code on exemption from disclosure of annual financial statements and the preparation of notes to their financial statements and a management report.

(11.2) Number of employees pursuant to Section 314 Paragraph 1 No. 4 of the German Commercial Code

The table shows the annual average headcount for the continuing operations:

By segment	2007	2006
Technology Specialties	15,662	14,103
Consumer Solutions	7,949	7,824
Specialty Materials	8,235	8,231
Energy	4,595	4,798
Real Estate	501	645
Corporate, other operations	4,131	6,308
	41,073	**41,909**

Further, an average of 2,810 employees (2006: 9,506) worked for the discontinued operations.

(11.3) Remuneration of the Executive Board and Supervisory Board pursuant to Section 314 Paragraph 1 No. 6 of the German Commercial Code

The total remuneration of the Executive Board of Evonik Industries AG for 2007 was €11,061,708.38.

The remuneration of the Supervisory Board in 2007 totaled €54,291.61.

Essen, March 7, 2008

Evonik Industries AG
The Executive Board

Dr. Müller Dr. Engel Dr. Oberholz Dr. Schörner

Dr. Tacke Wagner Weber

Auditor's report

We have audited the consolidated financial statements prepared by Evonik Industries AG, Essen (formerly known as RAG Beteiligungs-AG, Essen), comprising the income statement, the balance sheet, the statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of Evonik Industries AG for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315 a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 7, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Norbert Vogelpoth	Eckhard Sprinkmeier
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

Wilhelm Bonse-Geuking
(Chairman)

Ladies and gentlemen:

During the past fiscal year, the Supervisory Board of Evonik Industries AG once again performed all the obligations imposed on it by law and the articles of incorporation. We maintained a continuous dialog with the Executive Board of Evonik Industries AG, continuously monitored its management of the company and provided regular advice. The Executive Board provided us with full and timely information on all relevant aspects of corporate planning and the strategic development, business performance, profitability and situation of the Group.

We examined issues of relevance to the company in detail at four routine meetings on March 19, June 13, September 21 and December 31, 2007 and one extraordinary meeting on June 26, 2007. In addition to these meetings, the Executive Board provided us with written reports on business trends and processes of material importance for Evonik. Further, the Chairman of the Supervisory Board was kept constantly informed of all significant business matters.

The most important issues discussed at our meetings were the separation of Evonik Industries AG from the RAG Group and the preparations to place Evonik Industries AG on its own feet as an autonomous industrial group, including:

- implementing the concept adopted in 2006 to establish efficient modern corporate structures
- the establishment of RAG-Stiftung (RAG Foundation)
- changing the company's name from RAG Beteiligungs-AG to Evonik Industries AG and the introduction of the new corporate brand on September 12, 2007
- the alignment of the Group to capital market requirements
- the divestment of Saar Ferngas AG and Rütgers Chemicals GmbH.

The divestment of Saar Ferngas was discussed in full at our meeting on June 13, 2007 and the meeting held on June 5, 2007 (RAG Aktiengesellschaft).

The work of the Supervisory Board was prepared by four meetings of the Executive Committee on March 19, June 13, September 21 and December 13, 2007 and one meeting of the Finance and Investment Committee on June 5, 2007. At its meeting on December 13, 2007 the Supervisory Board adopted new rules of procedure and established an Audit Committee.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, has audited the financial statements as of December 31, 2007 prepared by Evonik Industries AG in accordance with the German Commercial Code (HGB), the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS), as permitted by Section 315 a Paragraph 3 of the German Commercial Code (HGB) and the combined management report for the Evonik Group and Evonik Industries AG, and has endorsed them with an unqualified opinion pursuant to Section 322 of the German Commercial Code (HGB). The auditors also included the company's risk management in the annual audit pursuant to a voluntary request from the Supervisory Board.

The annual financial statements, combined management report and audit reports prepared by the auditors were circulated to all members of the Supervisory Board in good time. The auditors outlined the main findings of their audit at the meeting of the Audit Committee on March 14, 2008 and the full meeting of the Supervisory Board on April 8, 2008 and the documents were discussed in detail. Following a thorough examination of the annual financial statements for the company, the consolidated financial statements for the Group and the combined management report, we concur with the auditors' findings and raise no objections to the reports. The Supervisory Board therefore adopts the annual financial statements for Evonik Industries AG and the consolidated financial statements for the Evonik Group. The annual financial statements for 2007 are thus ratified.

Dr. Klaus Sturany stepped down from the Supervisory Board effective March 19, 2007 and Mr. Jan Zilius resigned effective May 31, 2007. Dr. Rolf Pohlig and Dr. Ulrich Jobs have been appointed to succeed them.

Following the sale of the shares in RAG Aktiengesellschaft and Evonik Industries AG to RAG-Stiftung it was necessary to reconstitute the Supervisory Board. The following members therefore left the Supervisory Board as of November 30, 2007:

Dr. Wulf H. Bernotat
Martin Becker
Berthold A. Bonekamp
Klaus Brandner
Dr. Ludger Diestelmeier
Dr. Hans Michael Gaul
Dietmar Hexel
Dr. Ulrich Jobs
Wolfgang Junge
Fritz Kollorz
Dr. Manfred Krüper
Ludwig Ladzinski
Dr. Norbert Lammert
Ingrid Matthäus-Maier
Prof. Ulrich Middelmann
Dr. Rolf Pohlig
Elvira Rohde
Hubertus Schmoldt
Dr. Ekkehard D. Schulz
Gerald Weiß.

We would like to thank these ladies and gentlemen for their commitment and constructive cooperation on the Supervisory Board and especially for supporting Evonik Industries AG on its progress towards the capital markets. At the Shareholders' Meeting on December 3, 2007 the following people were appointed to succeed them:

Günter Adam
Dr. Peter Bettermann
Werner Bischoff
Martin Blessing
Wilhelm Bonse-Geuking
Gebhard Gaßner
Dr. Hans Michael Gaul
Ursel Gelhorn
Stephan Gemkow
Ralf Hermann
Dr. Wolfgang A. Herrmann
Rainer Kumlehn
Dr. Siegfried Luther
Jürgen Nöding
Konrad Oelze
Rainer Schankweiler
Christian Strenger
Dr. Volker Trautz
Werner Wenning.

At its constitutive meeting on December 13, 2007 the Supervisory Board appointed Mr. Wilhelm Bonse-Geuking as Chairman and Mr. Werner Bischoff as Deputy Chairman.

The Supervisory Board would like to thank the members of the Executive Board, the Works Councils and all employees of Evonik Industries AG and its affiliated companies for their commitment and hard and successful work.

The Supervisory Board

Essen, April 2008

Wilhelm Bonse-Geuking

Wilhelm Bonse-Geuking
(Chairman)

Further information on corporate officers

Supervisory Board of Evonik Industries AG until November 30, 2007

Dr. Wulf H. Bernotat, Düsseldorf
Chairman
Chairman of the Management Board of E.ON AG
a) Allianz SE
Bertelsmann AG
E.ON Energie AG (Chair)
E.ON Ruhrgas AG (Chair)
Metro AG
RAG Aktiengesellschaft (Chair)
b) E.ON Nordic AB (Chair)
E.ON Sverige AB (Chair)
E.ON UK plc (Chair)
E.ON US Investments Corp. (Chair)

Hubertus Schmoldt, Hanover
First Deputy Chairman
Secretary General of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) Bayer AG
Deutsche BP AG
DOW Olefinverbund GmbH
E.ON AG
RAG Aktiengesellschaft

Berthold A. Bonekamp, Grevenbroich
Deputy Chairman (from June 13, 2007)
Member of the Management Board of RWE AG
a) Berlinwasser Holding AG
RAG Aktiengesellschaft
RWE Rhein-Ruhr AG (Chair)
RWE Westfalen-Weser-Ems AG (Chair)
b) Berliner Wasserbetriebe AöR
RWE Energy Nederland B.V.
RWE npower Holdings plc
VSE a.s.

Fritz Kollorz, Recklinghausen
Deputy Chairman
Former Member of the National Executive of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) DSK Anthrazit Ibbenbüren GmbH
RAG Aktiengesellschaft

Ludwig Ladzinski, Bottrop
Deputy Chairman
Chairman of the Working Group of the Works Councils of the RAG Group
a) RAG Aktiengesellschaft
b) RAG-Stiftung

Dr. Ekkehard D. Schulz, Düsseldorf
Deputy Chairman
Chairman of the Management Board of ThyssenKrupp AG
a) AXA Konzern AG
Bayer AG
MAN Aktiengesellschaft
RAG Aktiengesellschaft
RWE AG
ThyssenKrupp Services AG (Chair)
ThyssenKrupp Steel AG (Chair)
ThyssenKrupp Technologies AG (Chair)

Martin Becker, Großrosseln
Deputy Chairman of the Works Council of the Saar Mine
a) RAG Aktiengesellschaft

Klaus Brandner, MdB, Berlin
SPD spokesman on the economy and employment in the German Bundestag
a) RAG Aktiengesellschaft

Dr. Ludger Diestelmeier, Essen
Managing Director of Verwaltungsgesellschaft RAG Beteiligung mbH
a) Evonik Degussa GmbH
Evonik Steag GmbH

Dr. Hans Michael Gaul, Düsseldorf
a) Allianz Versicherungs-AG
DKV Deutsche Krankenversicherung AG
HSBC Trinkaus & Burkhardt AG
IVG Immobilien AG
RAG Aktiengesellschaft
VNG – Verbundnetz Gas AG
Volkswagen AG

Ralf Giesen, Hanover*
Secretary to the Board of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) Altana AG
RAG Aktiengesellschaft

Dietmar Hexel, Berlin
Member of the Managing Board of the German Confederation of Trade Unions (Deutscher Gewerkschaftsbund)
a) Georgsmarienhütte Holding GmbH
RAG Aktiengesellschaft
b) DGB Vermögenstreuhandgesellschaft mbH

Dr. Ulrich Jobs, Essen
(from June 5, 2007)
Member of the Management Board of RWE AG
a) RAG Aktiengesellschaft
RheinEnergie AG
RWE Energy AG

Wolfgang Junge, Hamm
Chairman of the Works Council of the Ost Mine
a) RAG Aktiengesellschaft

Dr. Manfred Krüper, Düsseldorf
Former member of the Management Board of E.ON AG
a) Capital Stage AG (Chair)
Bucyrus DBT Europe GmbH
RAG Aktiengesellschaft
Victoria Lebensversicherung AG
Victoria Versicherung AG
b) EQT Partners Beteiligungsberatungs GmbH
Odewald & Compagnie Gesellschaft für Beteiligungen GmbH

Dr. Norbert Lammert, MdB, Berlin
President of the German Bundestag
a) RAG Aktiengesellschaft
b) Kultur Ruhr GmbH
RUHR.2010 GmbH
Ruhrfestspiele Recklinghausen GmbH

Ingrid Matthäus-Maier, Frankfurt am Main
Spokesperson of the Management Board of the KfW Bank Group
a) Deutsche Post AG
Deutsche Telekom AG
RAG Aktiengesellschaft
Salzgitter Mannesmann Handel GmbH

Prof. Ulrich Middelmann, Düsseldorf
Deputy Chairman of the Management Board of ThyssenKrupp AG
a) Commerzbank AG
E.ON Ruhrgas AG
LANXESS AG
LANXESS Deutschland GmbH
RAG Aktiengesellschaft
ThyssenKrupp Elevator AG (Chair)
ThyssenKrupp Reinsurance AG (Chair)
ThyssenKrupp Stainless AG (Chair)
ThyssenKrupp Steel AG
b) Hoberg & Driesch GmbH (Chair)
ThyssenKrupp Acciai Speciali Terni S.p.A.
ThyssenKrupp (China) Ltd.
ThyssenKrupp Risk and Insurance Services GmbH (Chair)

Dr. Rolf Pohlig, Mülheim an der Ruhr
(from March 28, 2007)
Member of the Management Board of RWE AG
a) RAG Aktiengesellschaft
RWE Energy AG
RWE Pensionsfonds AG (Chair)
RWE Power AG
b) American Water plc
RWE npower Holdings plc
RWE Rhenas Versicherungsvermittlung GmbH (Chair)

Elvira Rohde, Essen
Member of the Working Group of the Works Councils of the RAG Group
a) RAG Aktiengesellschaft

Gerald Weiß, MdB, Berlin
Chairman of the Committee on Labor and Social Issues of the German Bundestag
a) RAG Aktiengesellschaft

The following members left the Supervisory Board during the reporting period:

Dr. Klaus Sturany, Dortmund
(until March 19, 2007)
Member of the Management Board of RWE AG
(until April 30, 2007)

Jan Zilius, Cologne
(until May 31, 2007)
Member of the Management Board of RWE AG
(until April 30, 2007)

a) Membership of other statutory supervisory boards (as of November 30, 2007).
b) Membership of comparable German and foreign supervisory bodies of business enterprises (as of November 30, 2007).
* Full-year member of the Supervisory Board.

Supervisory Board of Evonik Industries AG from December 3, 2007

Wilhelm Bonse-Geuking, Südlohn
Chairman (from December 13, 2007)
Chairman of the Executive Board of RAG-Stiftung
a) Deutsche BP AG (Chair)
Deutsche Steinkohle AG (Chair)
RAG Aktiengesellschaft (Chair)
b) HDI-Gerling AG
NRW Commerzbank AG

Werner Bischoff, Monheim
Deputy Chairman (from December 13, 2007)
Member of the National Executive of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) Continental AG
Evonik Degussa GmbH
Hoechst GmbH
RWE AG
RWE Dea AG
RWE Power AG
Sanofi-Aventis Deutschland GmbH

Günter Adam, Freigericht
Deputy Chairman of the Group Works Council of Evonik Industries AG
Chairman of the Central Works Council of Evonik Degussa GmbH
a) Evonik Degussa GmbH

Dr. Peter Bettermann, Weinheim
Spokesman for the Management of Freudenberg Co. KG
a) BATIG Gesellschaft für Beteiligungen mbH
b) Wilh. Werhahn KG

Martin Blessing, Königstein
Member of the Management Board of Commerzbank AG
a) AMB Generali Holding AG
Commerzbank Inlandsbanken Holding AG
Commerz Real AG
Heidelberger Druckmaschinen AG
ThyssenKrupp Services AG
b) BRE Bank SA

Gebhard Gaßner, Chieming
Chairman of the Group Managerial Employees' Committee of Evonik Industries AG

Dr. Hans Michael Gaul, Düsseldorf
a) Allianz Versicherungs-AG
DKV Deutsche Krankenversicherung AG
HSBC Trinkaus & Burkhardt AG
IVG Immobilien AG
VNG – Verbundnetz Gas AG
Volkswagen AG

Ursel Gelhorn, Essen
Deputy Chair of the Group Works Council of Evonik Steag GmbH

Stephan Gemkow, Overath
Member of the Management Board of Deutsche Lufthansa AG
a) Delvag Luftfahrtversicherungs-AG (Chair)
LSG Lufthansa Service Holding AG
Lufthansa AirPlus Servicekarten GmbH (Chair)
Lufthansa Cargo AG
Lufthansa Technik AG
b) Amadeus IT Group S.A.
WAM Acquisition S.A.

Ralf Giesen, Hanover
Secretary to the Board of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) Altana AG

Ralf Hermann, Herten
Chairman of the Group Works Council of Evonik Industries AG
Chairman of the Group Works Council of Evonik Degussa GmbH
a) Evonik Degussa GmbH
b) RAG-Stiftung

Professor Wolfgang A. Herrmann, Freising
President of Munich Technical University

Rainer Kumlehn, Hochheim
District Secretary of the Hesse-Thuringia Section of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) Evonik Degussa GmbH
Goodyear Dunlop Tires Germany GmbH
Hoechst GmbH

Dr. Siegfried Luther, Gütersloh
Former CFO of Bertelsmann AG
a) Infineon Technologies AG
WestLB AG
Wintershall Holding AG
b) Compagnie Nationale à Portefeuille S.A.
RTL S.A.

Jürgen Nöding, Duisburg
Chairman of the Central Works Council of
Evonik Services GmbH
a) Evonik Services GmbH

Konrad Oelze, Essen
Deputy Chairman of the Group Works Council
of Evonik Degussa GmbH
a) Evonik Goldschmidt GmbH
b) Die Vorsorge Sterbekasse der Werksangehörigen der Degussa AG VVAG

Rainer Schankweiler, Essen
Deputy Chair of the Working Group of the
Works Councils of Evonik Immobilien GmbH

Christian Strenger, Frankfurt am Main
Former spokesperson for the management of
DWS Investment GmbH
a) DWS Investment GmbH
Fraport AG
b) The Germany Funds (Chair)

Dr. Volker Trautz, Amstelveen
Chairman of the Management Board of
Basell Holdings B.V.

Werner Wenning, Leverkusen
Chairman of the Management Board of Bayer AG
a) Bayer Schering Pharma AG (Chair)
Henkel KGaA

Executive Board

Dr. Werner Müller, Mülheim an der Ruhr
Chairman
a) Deutsche Bahn AG (Chair)
Evonik Degussa GmbH (Chair)
Evonik Steag GmbH (Chair)
b) Evonik Immobilien GmbH
Evonik Wohnen GmbH
g.e.b.b. Gesellschaft für Entwicklung, Beschaffung und Betrieb mbH (Chair)
Stadler Rail AG

Dr. Klaus Engel, Mülheim an der Ruhr
b) Evonik Degussa Brasil Ltda. (Chair)
Evonik Degussa Corporation
Evonik Degussa International AG

Dr. Alfred Oberholz, Marl
a) Rütgers Chemicals GmbH (Chair)
b) Degussa Antwerpen N.V. (Chair)
Evonik Degussa (China) Co., Ltd. (Chair)
Evonik Degussa Corporation
Evonik Degussa Japan Co., Ltd. (Chair)
Evonik Degussa Taiwan Ltd. (Chair)

Dr. Peter Schörner, Bochum
a) Evonik Degussa GmbH
Evonik Services GmbH (Chair)
Evonik Steag GmbH
b) RAG BILDUNG GmbH
Treuhandstelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlenbezirk GmbH

Dr. Alfred Tacke, Essen
a) Deutsche Steinkohle AG
Evonik New Energies GmbH (Chair)

Heinz-Joachim Wagner, Bad Nauheim
a) Evonik Services GmbH
b) B. Metzler seel. Sohn & Co. Holding AG
Degussa Bank GmbH
Evonik Degussa Brasil Ltda.
Evonik Degussa Corporation

Ulrich Weber, Krefeld
a) Deutsche Steinkohle AG
Evonik Degussa GmbH
Evonik New Energies GmbH
Evonik Services GmbH
Evonik Steag GmbH
HDI-Gerling Industrie AG
HDI-Gerling Service AG
b) Evonik Immobilien GmbH (Chair)
Evonik Wohnen GmbH (Chair)
GSB Gesellschaft zur Sicherung von Bergmannswohnungen GmbH (Chair)
RAG BILDUNG GmbH (Chair)
Treuhandstelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlenbezirk GmbH (Chair)

a) Membership of other statutory supervisory boards (as of December 31, 2007).
b) Membership of comparable German and foreign supervisory bodies of business enterprises (as of December 31, 2007).

Major shareholdings

	Equity[1) in € million	Evonik's stake incl. shareholdings pursuant to Section 16 German Stock Corporation Act (AktG) Direct %	Indirect %	Total %
I. Consolidated subsidiaries				
Chemicals Business Area				
Germany				
1. Evonik Degussa GmbH (formerly Degussa AG, Düsseldorf), Essen	2,739	94.90	5.10	100.00
2. Evonik Goldschmidt GmbH (formerly Goldschmidt GmbH), Essen	127		100.00	100.00
3. Evonik Oxeno GmbH (formerly Oxeno Olefinchemie GmbH), Marl	39		100.00	100.00
4. Evonik Röhm GmbH (formerly Röhm GmbH), Darmstadt	168		100.00	100.00
5. Evonik RohMax Additives GmbH (formerly RohMax Additives GmbH), Darmstadt	31		100.00	100.00
6. Evonik Stockhausen GmbH (formerly Stockhausen GmbH), Krefeld	127		100.00	100.00
Other countries				
7. Cyro Industries Inc., Parsippany, NJ, US	147		100.00	100.00
8. Degussa Amalgamation Ltd., Milton Keynes, GB	796[2)		100.00	100.00
9. Evonik Degussa (China) Co. Ltd. (formerly Degussa (China) Co., Ltd.), Beijing, CN	33		100.00	100.00
10. Evonik Degussa Antwerpen N.V. (formerly Degussa Antwerpen N.V.), Antwerp, BE	151		99.99	99.99
11. Evonik Degussa Brasil Ltda. (formerly Degussa Brasil Ltda.), São Paulo, BR	101		100.00	100.00
12. Evonik Degussa Canada Inc. (formerly Degussa Canada Inc.), Burlington, CA	60		100.00	100.00
13. Evonik Degussa Corporation (formerly Degussa Corporation), Parsippany, NJ, US	1,196		100.00	100.00
14. Evonik Degussa Japan Co., Ltd. (formerly Degussa Japan Co., Ltd.), Tokyo, JP	71		100.00	100.00
15. Evonik Degussa UK Holdings Ltd. (formerly Degussa UK Holdings Ltd.), London, GB	107[2)		100.00	100.00
16. Evonik Goldschmidt Chemical Corporation (formerly Goldschmidt Chemical Corp.), Hopewell, VA, US	– 14		100.00	100.00
17. Evonik RohMax USA Inc. (formerly RohMax USA, Inc.), Horsham, PA, US	35		100.00	100.00
18. Evonik Stockhausen Inc. (formerly Stockhausen Inc.), Greensboro, NC, US	38		100.00	100.00
19. Laporte Speciality Organics Limited, Milton Keynes, GB	627[2)		100.00	100.00
20. NIPPON AEROSIL Co., Ltd., Tokyo, JP	25		80.00	80.00
Energy Business Area				
Germany				
21. Evonik Steag GmbH (formerly STEAG AG), Essen	678	5.10	94.90	100.00
22. Evonik Fernwärme GmbH (formerly STEAG Fernwärme GmbH), Essen	21		100.00	100.00
23. Evonik New Energies GmbH (formerly STEAG Saar Energie AG), Saarbrücken	41		100.00	100.00
24. Evonik Power Minerals GmbH (formerly STEAG Entsorgungs-GmbH), Dinslaken	34		100.00	100.00
25. Evonik Trading GmbH (formerly RAG Trading GmbH), Essen	35		100.00	100.00
26. Minegas GmbH, Essen	5		74.80	74.80
27. Mingas-Power GmbH, Essen	6		60.00	60.00
28. RAG Verkauf GmbH, Essen	1		51.00	51.00
29. STEAG-EVN Walsum 10 Kraftwerksgesellschaft mbH, Essen	56		51.00	100.00
30. STEAG-Raffinerie-Kraftwerk-Sachsen-Anhalt GmbH, Essen	0		100.00	100.00
Other countries				
31. Compañia Eléctrica de Sochagota S.A.E.S.P., Tunja, CO	74		51.00	51.00
32. Iskenderun Enerji Üretim ve Ticaret Anonim Sirketi, Ankara, TR	1,071		51.00	51.00
33. SFW Energia Sp.z.o.o., Gliwice, PL	14		100.00	100.00
34. STEAG State Power, Inc., Makati City, PH	80		55.00	55.00

	Equity[1) in € million	Evonik's stake incl. shareholdings pursuant to Section 16 German Stock Corporation Act (AktG) Direct %	Indirect %	Total %
Real Estate Business Area				
Germany				
35. Evonik Immobilien GmbH (formerly RAG Immobilien GmbH), Essen	150	100.00		100.00
36. Aachener Bergmannssiedlungsgesellschaft mbH, Herzogenrath	27		100.00	100.00
37. EBV GmbH, Herzogenrath	31		100.00	100.00
38. Evonik Immobilien West GmbH (formerly RAG Wohnimmobilien GmbH), Essen	42		100.00	100.00
39. Evonik Wohnen GmbH (formerly RAG Immobilien Management GmbH), Essen	1		100.00	100.00
40. Lünener Wohnungs- und Siedlungsgesellschaft mbH, Lünen	36		100.00	100.00
41. Rhein Lippe Wohnen GmbH, Duisburg	177		100.00	100.00
42. Siedlung Niederrhein GmbH, Dinslaken	53		100.00	100.00
43. Walsum Immobilien GmbH, Duisburg	25		100.00	100.00
44. Wohnbau Auguste Victoria GmbH, Marl	35		100.00	100.00
45. Wohnbau Westfalen Beteiligungs-GmbH, Essen	102		100.00	100.00
46. Wohnbau Westfalen GmbH, Dortmund	138		100.00	100.00
47. Wohnungsbaugesellschaft mbH "Glückauf", Moers	49		100.00	100.00
Other companies				
Germany				
48. Evonik Projekt-Beteiligungs-GmbH & Co. KG (formerly RAG Projekt-Beteiligungs-GmbH & Co. KG), Essen	343	99.00		99.00
49. RAG Coal International GmbH, Essen	334	100.00		100.00
50. RBV Verwaltungs-GmbH, Essen	273	100.00		100.00
51. Rütgers GmbH, Essen	539		100.00	100.00
52. RÜTGERS Rail Verwaltungs GmbH, Essen	50		100.00	100.00
II. Joint ventures (recognized at equity)				
Energy Business Area				
Germany				
53. REG Raffinerie-Energie oHG, Cologne	1		80.00	80.00
Real Estate Business Area				
Germany				
54. Treuhandstelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlenbezirk GmbH, Essen	574		50.00	50.00
III. Associated companies (recognized at equity)				
Energy Business Area				
Germany				
55. Fernwärmeversorgung Niederrhein GmbH, Dinslaken	37		26.00	26.00
56. Kraftwerk Bexbach Verwaltungsgesellschaft mbH, Bexbach	24		33.33	33.33
Other countries				
57. ARKAD Deniz Tasimaciligi A.S., Istanbul, TR	25		48.90	48.90

1) Foreign currency amounts are translated at the closing rate for December.
2) Value for fiscal 2006.

Credits

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