Annual Report 2009

A land of ideas

Explore tomorrow's solutions

EVONIK INDUSTRIES

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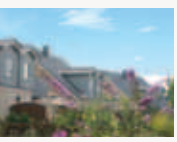

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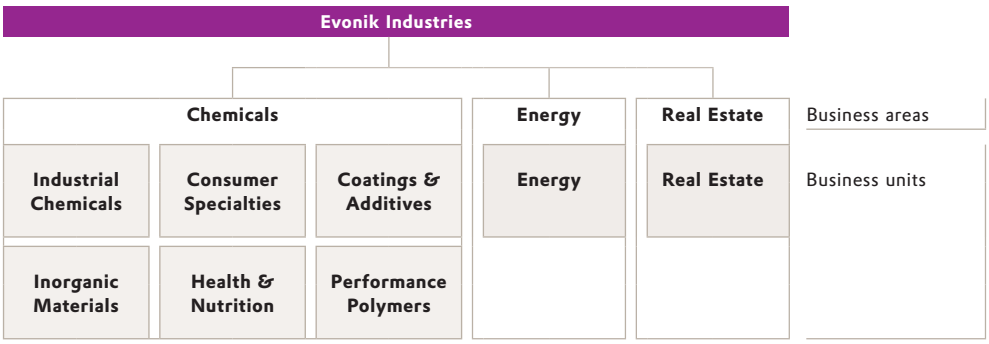
A clear structure



Evonik Industries will be focusing on specialty chemicals in the future—a field in which it ranks among the global leaders. The Energy and Real Estate Business Areas will operate as largely independent entities. The Executive Board's new strategy for Evonik Industries AG was approved by the Supervisory Board on December 16, 2009.

Business Areas

Chemicals

The Chemicals Business Area comes up with answers to economic megatrends and thus secures access to the high-growth markets of the future. We see especial opportunities in resource efficiency, health and nutrition, and the globalization of technologies. Market leadership already accounts for more than 80 percent of this business area's sales. Our strengths are our balanced spectrum of activities and end-markets and close collaboration with customers. Market-focused research and development is a key driver of profitable growth: Products, processes and applications developed in the past five years account for around 20 percent of sales.

Energy

The core competencies of the Energy Business Area are planning, financing, building and operating highly efficient fossil-fueled power plants. As a grid-independent power generator, Evonik operates coal-fired power plants at eight locations in Germany, refinery power plants at two locations and a variety of facilities to generate energy from renewable resources. Evonik's international successes comprise coal-fired power plants in Colombia, Turkey and the Philippines. Installed power totals around 9,400 Megawatts (MW) worldwide, including around 7,700 MW in Germany. In Germany we are positioned at the forefront of tomorrow's market for renewable energies with activities in the areas of mine gas, biomass and geothermal energy.

Real Estate

The Real Estate Business Area manages a portfolio of around 60,000 company-owned residential units concentrated in the federal state of North Rhine-Westphalia (NRW) in Germany. It also has a 50 percent stake in THS, Essen (Germany), which owns more than 70,000 residential units. These are also located predominantly in NRW. Evonik is thus one of Germany's leading privately owned residential real estate companies. Business focuses on letting homes to private households.

Evonik Group: Key figures

in € million	2006	2007	2008	**2009**
Sales	14,125	14,444	15,873	13,076
EBITDA[1)]	2,157	2,236	2,165	2,025
EBITDA margin in %	15.3	15.5	13.6	15.5
EBIT[2)]	1,179	1,363	1,298	1,194
ROCE[3)] in %	8.4	9.7	9.0	8.4
Net income	1,046	876	281	240
Total assets as of December 31	20,953	19,800	20,115	18,907
Equity ratio as of December 31 in %	20.6	25.7	25.6	27.6
Cash flow from operating activities	1,142	1,215	388	2,092
Capital expenditures[4)]	935	1,032	1,160	849
Depreciation and amortization[4)]	943	862	842	798
Net financial debt as of December 31	5,434	3,924	4,583	3,431
Employees as of December 31	46,430	43,057	40,767	38,681

Figures for 2008 restated; figures for 2006 and 2007 as reported.
[1)] EBITDA = Earnings before interest, taxes, depreciation, amortization, write-downs and non-operating result.
[2)] EBIT = Earnings before interest, taxes and non-operating result.
[3)] Return on capital employed.
[4)] Intangible assets, property, plant, equipment and investment property.

Chemicals Business Area: Key figures

in € million	**2009**	2008
External sales	9,978	11,762
EBITDA	1,602	1,626
EBIT	932	941
Capital employed (annual average)	9,071	9,477
ROCE in %	10.3	9.9
EBITDA margin in %	16.1	13.8

2008 figures restated.

Energy Business Area: Key figures

in € million	**2009**	2008
External sales	2,558	3,399
EBITDA	418	517
EBIT	326	415
Capital employed (annual average)	3,355	3,152
ROCE in %	9.7	13.2
EBITDA margin in %	16.3	15.2

2008 figures restated.

Real Estate Business Area: Key figures

in € million	**2009**	2008
External sales	378	375
EBITDA	183	217
EBIT	135	162
Capital employed (annual average)	1,843	1,762
ROCE in %	7.3	9.2
EBITDA margin in %	48.4	57.9

Design meets efficiency: This attractive solar facility in Barcelona uses resources efficiently

A land of ideas

Explore tomorrow's solutions

Take a trip with Evonik Industries to the Land of Ideas—a world of pioneering products and solutions from our Chemicals, Energy and Real Estate Business Areas that showcase our position as a creative industrial group. Products and solutions that help achieve a healthier balance between the growing needs of the seven or eight billion people who will live on our planet in the near future.

The sun is our guide through this annual report. It is the source of a vast array of new developments that help improve energy efficiency. Although fossil fuels will remain crucial in the coming decades, the sun has the potential to help us achieve a significant shift in our energy mix. After all, day by day it can provide the energy we humans need for the whole year. What's more, that energy can be converted into power and heat with absolutely no carbon emissions.

Evonik Industries has the capability to play a leading role in the growing area of resource efficiency—through its core competencies, targeted research and pioneering technologies. Backed up by a clear corporate strategy focused on the core specialty chemicals business and a precise vision of the future. That's why we are resolutely exploiting the opportunities offered by three global megatrends: resource efficiency, health and nutrition and the globalization of technologies.

Join us on a voyage of discovery.

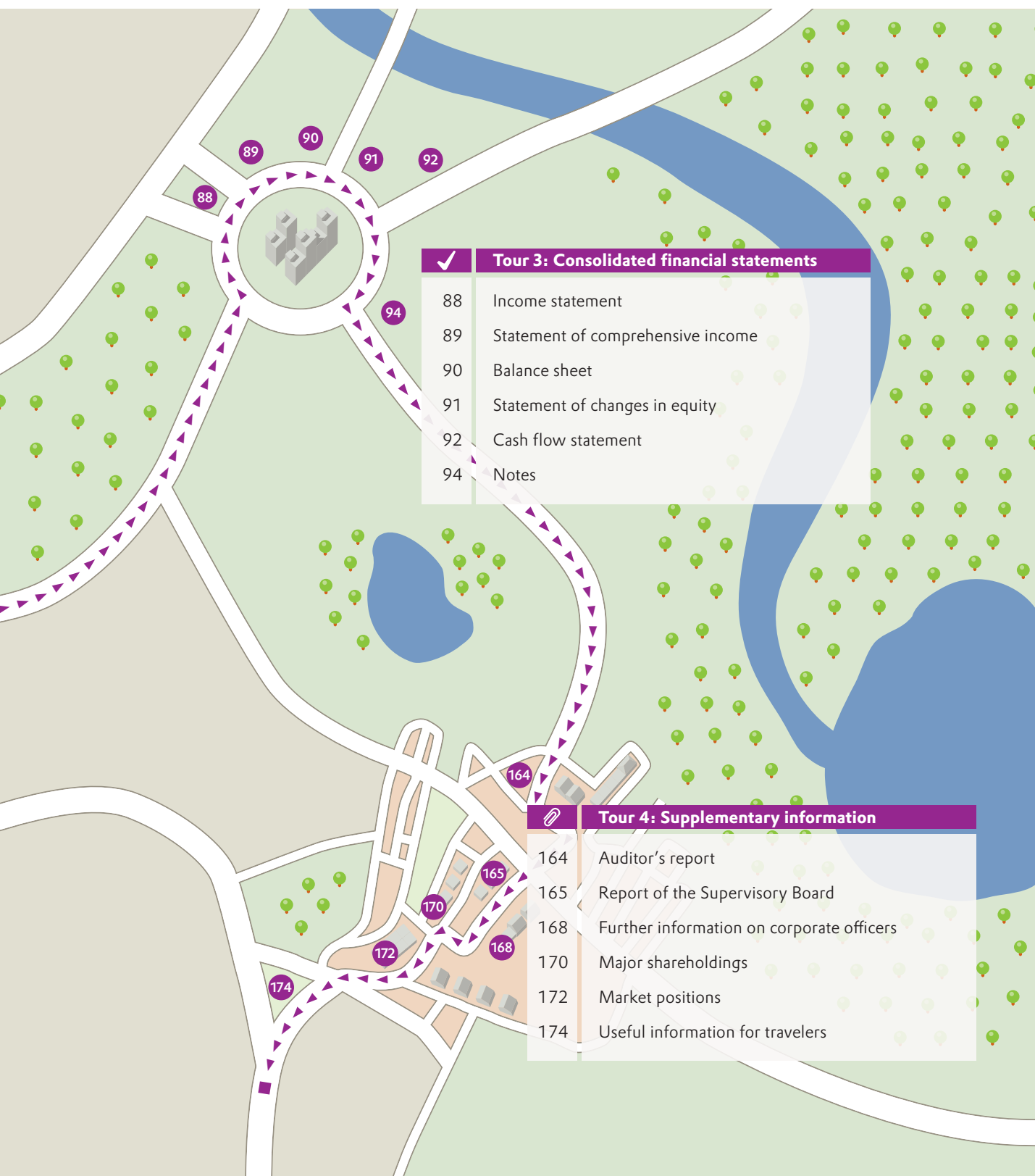
Tour of the annual report

Tour 1: Start

- Silicon production
- Lithium-ion batteries
- Solar tiles made of PLEXIGLAS®
- Concentrated photovoltaics
- Energy-efficient housing

Tour 2: Management report

7 pages



Tour 3: Consolidated financial statements

Tour 4: Supplementary information

“We offer powerful ideas: sustainable solutions that exploit the power of sunlight.”

Members of the Executive Board (from left):
Ralf Blauth, Chief Human Resources Officer
Dr. Wolfgang Colberg, Chief Financial Officer
Dr. Klaus Engel, Chairman of the Executive Board of Evonik Industries AG

Ladies and gentlemen:

In the midst of the worst global economic crisis since the 1930s, Evonik Industries remained on course and even hoisted new sails. Our aim is to develop Evonik from a conglomerate into a global leader in specialty chemicals. In the future, the Energy and Real Estate Business Areas will operate as largely independent entities within the Group. This maps out a new phase in the development of the Evonik Group, based on profitable and sustainable growth.

The Chemicals Business Area already accounts for over 75 percent of consolidated sales. As a creative industrial group with acknowledged competencies in research and development, Evonik has positioned itself among the technological leaders in many of its business activities. That is one of the main reasons why we rank at the forefront of the market in about 80 percent of our chemicals businesses. By focusing our chemicals portfolio clearly on growth areas that benefit from significant global megatrends, we intend to achieve a further noticeable increase in the value of the company.

Despite the somewhat disheartening outcome of the Copenhagen summit, climate protection and resource efficiency will continue to shape the public debate in the future. Awareness of the limited nature of raw materials and the vulnerability of our planet are fueling competition for "green technologies." Companies that offer solutions to the most pressing global challenges have good opportunities to position themselves as attractive players in the eyes of investors, customers and employees. In recent years Evonik has maintained investment in research and development at a high level and taken timely action to build a portfolio of future technologies that are increasingly approaching market maturity. As well as expanding our technology platform for silanes and solar silicon for the photovoltaics sector, a key area

in which we are setting the pace is the electric car. The development of Li-Tec Battery in Kamenz (Germany), our joint venture with Daimler AG, is making good progress. The mid-term plans to ramp up production to several million battery cells a year show where we are heading: We want lithium-ion technology from Evonik to be synonymous with electric vehicles in Europe.

Similarly, the needs of the steadily growing world population must be addressed. Demand for adequate and, above all, high-quality food is rising steadily. That is why we are further expanding our business with methionine, an amino acid for healthy animal feeds. At the same time, life expectancy is rising in the western world. That increases the need for healthcare products, another field offering good business prospects for us. Acquiring the production of pharmaceutical active ingredients at the Tippecanoe site in the United States from Eli Lilly opens up additional growth potential in this attractive market segment.

Business opportunities are also being generated by the emergence of new economic hubs, chiefly in newly industrializing regions: Asia, especially China, Latin America, Eastern Europe and, increasingly, the Middle East. Our key technologies support the economic development of these regions. All facilities constructed at our Shanghai site as part of the €250 million MATCH project—the second biggest investment program ever undertaken by our Chemicals Business Area—have now come on stream. This places us in an excellent position to supply high-quality plastics and coating systems from facilities close to our customers in the fast-growing Asian markets.

Our new site in Tippecanoe

Our new powerplant in Duisburg-Walsum

The prospects for our Energy Business Area are also good. This year Walsum 10, Europe's most advanced hard-coal power plant, will come into service as planned. In addition, we have extensive experience and a number of very successful reference projects, giving us a competitive advantage, especially in the international market for power plants. This is another area where demand is rising steadily around the world, driven by the development of many emerging markets into industrialized countries and the ongoing deregulation of the energy sector. Our goal is to build a strong pipeline of international power plant projects, complemented by activities in the field of renewable energies. To provide our energy business opportunities to fully utilize its growth and value creation potential, we seek to find one or more partners who would invest in individual projects or take a stake in the overall business.

The development perspectives for the Real Estate Business Area are equally attractive. That is why we want to combine Evonik Immobilien GmbH with THS GmbH. This new entity would be Germany's third largest residential real estate company with more than 130,000 housing units and attractive future prospects.

In parallel with the strategic refocusing of the Group, we have introduced a large number of measures designed to systematically reduce costs, raise the efficiency of the Evonik Group and safeguard our liquidity. Thanks to the steadfast action and solidarity of our management, employees and representatives of the workforce, in 2009 we far exceeded the savings target of €300 million set at the beginning of the year.

Our Creavis Center

Today, we can report that we have achieved our, admittedly more modest, goals. Although Group sales declined by roughly 18 percent to around €13.1 billion, EBITDA (earnings before interest, taxes, depreciation, amortization and the non-operating result) decreased by only 6 percent to about €2.0 billion. In the second half of the year in particular, most business units in the Chemicals Business Area were able to make up ground. While there was a slight improvement in business volume compared with the early part of the year, we benefited significantly from successful action to cut costs and increase efficiency.

We also reduced net working capital considerably. Cash flow from operating activities improved from €1.7 billion to €2.1 billion. After paying a dividend of €280 million for 2008 to our shareholders, we reduced our net financial debt by around €1.2 billion to roughly €3.4 billion. Investment in property, plant and equipment totaled €849 million in 2009.

Evonik's financial performance in 2009 was rewarded by the capital markets. The €750 million five-year bond issued in early October was oversubscribed seven times. This transaction has placed our corporate financing on an even firmer footing and further improved the maturity structure of our liabilities.

Despite the global economic turmoil, a stock market listing still remains a key objective for Evonik and its owners. The main criteria for this are:

- attractive growth prospects
- a positive and sustainable operating performance
- sound competitive and cost positions and
- firm financial foundations that enable us to utilize the necessary growth options.

We have set our course for the future and made progress towards a lasting reduction in our cost base. Alongside our short-term savings program, last year we set a long-term objective: sustainable savings of €500 million per year from 2012. Specific measures have already been defined to achieve around 70 percent of these savings.

Our new direction includes focusing our portfolio through value-optimized divestment of businesses that no longer fit our strategy or fail to meet our profitability targets.

Although global economic conditions remain difficult, the Evonik Group is making good headway. Our course is correct. Along with growth projects, only a further improvement in competitiveness can secure and create highly-skilled industrial jobs, thus forming the essential basis for our future success.

Best regards,

Klaus Engel

Dr. Klaus Engel, Chairman of the Executive Board of Evonik Industries AG

Tour guide

The sun—the source of a livable future.

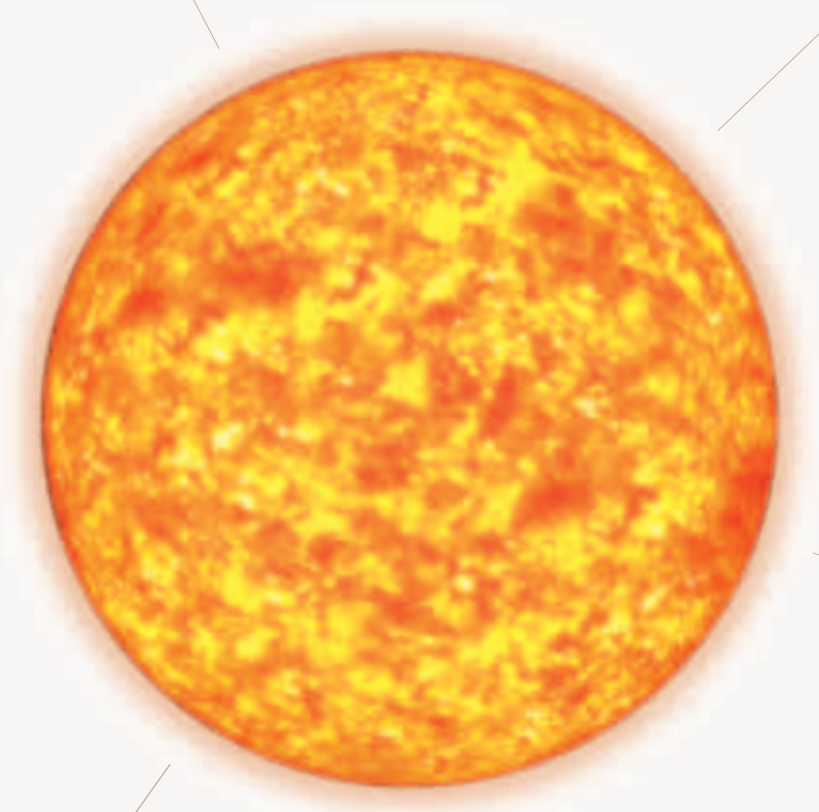
Age and origin

The sun was formed around 4.6 billion years ago by the collapse of an interstellar gas cloud.

As the matter solidified, it triggered a process of nuclear fusion, which releases incredible amounts of energy in the interior of the sun.

In about 2 billion years time the average temperature on the sun's surface will be over 100 °C.

And when it is roughly 12.5 billion years old, the sun will cool and disintegrate to form a white dwarf.

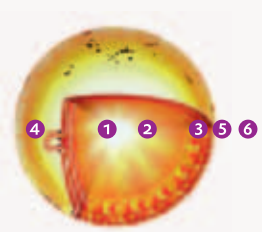


Climate data

Average temperature in the sun's core	approx. 15,000,000 °C
Average temperature in the photosphere	5,500–6,100 °C
Precipitation in %	0.00

Structure and mass

The sun is made up of layers comprising the ❶ core, ❷ radiative zone, ❸ convective zone, ❹ photosphere, ❺ chromosphere and ❻ corona.



The core accounts for just 1.6 percent of the sun's total volume but 50 percent of its mass.

Every second 564 million metric tons of hydrogen are fused to form helium in the sun's core at a pressure of over 100 million bar.

Overall, the sun's mass is 1.989×10^{30} kg. That makes it 332,946 times heavier than the Earth, while its mass is 1,000 times greater than all other planets in the solar system taken together.

Key data

99.98 percent of the Earth's energy comes from the sun.

170,000 terawatts (= 170 trillion watts) of radiation are transmitted to the Earth every day.

1,390,000 kilometers in diameter; that is 109 times the Earth's diameter.

150,000,000 kilometers—the mean distance between the sun and the Earth.

We are almost unrivaled in specialty chemicals. Surely that means we should use our strengths as a springboard for sustainable growth?

Strategy

The roadmap to position Evonik as a leader in specialty chemicals with a strong foothold in other areas.

Chemicals defined as Evonik's core business

Evonik Industries acted rapidly to counter the global economic crisis and lay the foundations for the post-crisis era. To make optimum use of the available growth opportunities, we are bundling our strengths and focusing on our biggest area of competency: specialty chemicals. In short, we are driving forward the development of Evonik Industries from a conglomerate to a leading global specialty chemicals corporation.

In effect, we are aligning our portfolio principally to the strengths of our company and the three most significant global megatrends: resource efficiency, health and nutrition and the globalization of technologies. Evonik already ranks at the forefront of many of these markets and has a promising position in key technologies. Businesses that no longer fit in with our strategy or cannot meet our return requirements will be divested to optimize value.

Opportunities for strong corporate entities

In future, the Energy and Real Estate Business Areas will basically operate as independent business entities so that their growth and value creation potential can be leveraged even more effectively.

Partners for the energy business: Our aim is to take on board one or more partners for our energy operations or for specific projects in this business area, while retaining it within the Evonik Group. Together, we should be able to tackle growth projects that have already been identified more quickly. As well as extending our activities in the field of regenerative energies, we want to take up international opportunities to build and operate power plants.

Real estate on track for growth: We aim to utilize the attractive prospects for the Real Estate Business Area by combining Evonik Immobilien GmbH and THS GmbH to form a new entity. This will create Germany's third-largest residential real estate company with business totaling some €800 million and around 130,000 residential units. Ultimately, we aim to open up prospects to position this new real estate entity as an independent capital market player.

Headed for the capital markets

Our new corporate strategy has not altered our declared objective of making Evonik more attractive for the capital markets. We regard that as essential to if we are to systematically exploit opportunities for sustainable growth.

At a glance

New strategy
Driving forward the development of Evonik from a conglomerate to a global leader in specialty chemicals with a clearly focused portfolio

Strong corporate entities
Running the Energy and Real Estate Business Areas as largely independent entities

Good prospects
Aligning Evonik to the most significant global megatrends: resource efficiency, health and nutrition, and globalization of technologies

We are focused. But is it possible to keep a clear goal in sight while concentrating on three distinctive trends?

Megatrends

How our activities can be good for people, the environment and our financial performance.

Background

For Evonik, megatrends are not simply overarching social trends that exert enormous pressure for change. They also offer above-average growth potential for the Evonik Group—because we have the creativity to produce pioneering products and solutions that enable us to reap the associated business benefits.

Resource efficiency

Vital resources such as fossil fuels, drinking water, timber and metals are not endless, yet demand for them is rising. Evonik offers the world commercially viable ideas on how to utilize resources more efficiently—ranging from products to generate and store solar power and other renewable resources, through solutions for electric vehicles that enhance mobility, and high-performance plastics and lubricant systems with a long service life, which reduce raw material requirements, to catalysts and additives for the production of environment-friendly products and starting materials.

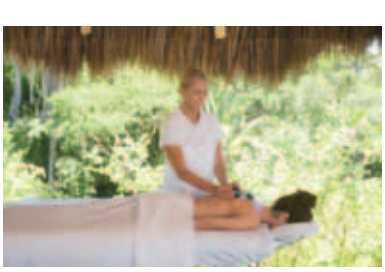
Health and nutrition

Life expectancy in the industrialized countries and emerging markets is increasing as rapidly as the world's population. That will raise living standards for a growing proportion of people, leading to a steady rise in demand for food and for products that enhance health and wellbeing. Evonik's response includes feed additives and intermediates for the pharmaceuticals and cosmetics industries.

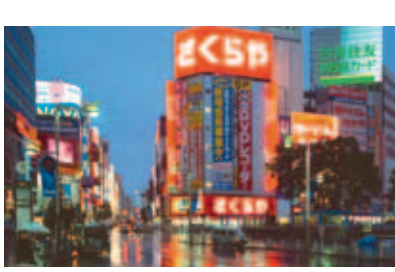
Globalization of technologies

New economic centers are emerging alongside the more highly developed markets, especially in the Asian growth regions. As prosperity and needs in these regions move into line with those in the western world, demand for the corresponding technologies is growing. Evonik is ready—with a wide range of silicon products to harness solar energy, methacrylate-based products and hydrogen peroxide, an environment-friendly bleaching agent for the paper industry, as well as the associated distribution structures.

Resource efficiency: A sustainable balance between growth and protecting the basis of life is vital



Health and nutrition: Population growth and aging are increasing demand for food, pharmaceuticals and personal care products



Globalization of technologies: Key technologies are needed to support the development of new business centers

The world is changing dramatically. Surely that suggests we should focus on our strengths and endeavor to maximize our performance?

Core competencies

Evonik's positioning as a creative industrial group is an excellent basis for shaping the future.

Background

The power of the Evonik brand results from the specific abilities and characteristics that make up our core competencies. The heart of the Evonik brand is creativity. That is the basis for our business success and enables us to translate ideas into enterprising products and solutions that create new markets or place us at the forefront of established markets. We have the courage and imagination to move away from trodden paths in order to solve problems for our customers.

Our specialization—concentrating on what we do particularly well—makes us clear experts. Evonik offers premium quality and cutting-edge expertise. And positions itself as the market, quality or technology leader.

Our capacity for self-renewal enables us to constantly review business models, products and structures and adapt resolutely to changes to ensure we remain successful in tomorrow's world. Self-renewal is a business principle at Evonik and our source of ideas, flexibility and motivation.

Nevertheless, one thing remains constant in the face of change: our reliability. Fair, reliable and respectful collaboration characterizes our conduct towards each other and towards our customers and suppliers. From the learning process enshrined in responsible action and openness, a special corporate culture has grown up over the decades. That is reflected in our long-term business relationships.

At a glance

Creativity
We use our creativity to come up with innovative ideas that create new markets

Specialization
Our clear specialization gives us an edge over our competitors

Self-renewal
Through continual self-renewal we are helping shape the future

Reliability
Our reliability marks us out as a preferred partner

Solar cells have one drawback: their energy profile. Wouldn't it be wonderful if we could improve that?

Energy-saving silicon production

Discover a new method of producing solar silicon that uses 80 percent less energy.

Background

JSSi GmbH (Joint Solar Silicon) in Rheinfelden (Germany), a joint venture of Evonik and SolarWorld AG, produces solar silicon using a new process which needs far less energy. The trailblazing idea: Unlike the conventional production method, a multi-step process is used to convert raw silicon into gaseous monosilane, from which ultra-pure silicon is obtained by thermal decomposition. This process also generates two impressive figures: Energy requirements are reduced by up to 80 percent, and the silicon has 99.99 percent purity, making it suitable for top-performing solar modules.

Potential

The massive energy savings result in far more attractive production costs for expensive solar silicon. The new process therefore makes solar power cheaper and more competitive.

As a producer of polycrystalline solar silicon, Evonik now has a foothold in all silicon-based photovoltaic technologies, as well as silicon tetrachloride, monosilanes, dichlorosilanes and trichlorosilanes and can offer customers a broad portfolio of silicon chemicals.

At a glance

Technological benefits
A new production process that saves up to 80 percent energy

Economic benefits
Cost-saving production lowers unit costs, making solar modules more competitive

Ecological benefits
Energy savings reduce resource requirements and cut CO_2 emissions

Assembling solar modules manufactured using high-quality startting products from Evonik

City lights are fascinating. Yet they waste vast amounts of energy. Wouldn't it be wonderful if we could use solar energy to illuminate our cities at night?

XXL lithium-ion batteries

Discover a technology that stores solar power and releases it when the sun is no longer shining.

Background

Evonik has opened up new dimensions for its patented SEPARION® technology that go beyond electric vehicles: LESSY (lithium electricity storage systems) are large-scale batteries that store solar power and release it when the sun is no longer available to generate electricity. For example, at night or in bad weather.

The advantages of lithium-ion batteries compared with other storage systems include extremely high efficiency of around 96 percent and the ability to store and release energy very fast. Evonik uses SEPARION® for these massive batteries. These membranes bring a four-to-fivefold increase in the heat resistance of the battery separators, making them very safe. 4,700 battery cells are used in this project, which is part of the Eco² Science-to-Business Center run by Creavis Technologies & Innovation and receives funding from the German Ministry of Education and Research.

Potential

LESSY is currently a prototype at the test phase. However, its scalability indicates enormous potential for the future. This technology could be used for a wide variety of applications, ranging from small-scale storage systems for decentralized power supply, for example, for solar power for private households, to massive systems for industrially generated power.

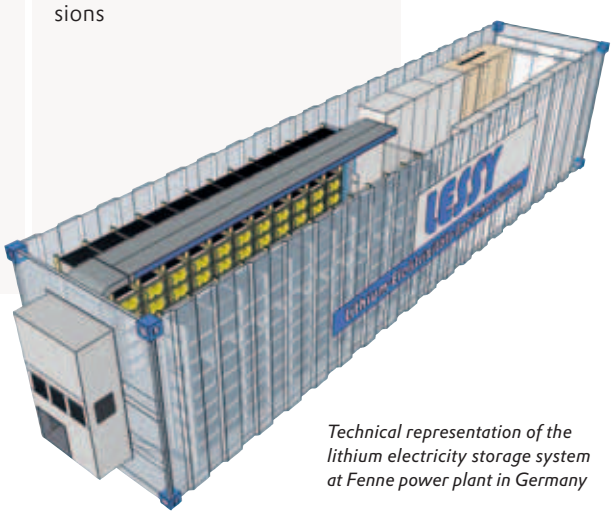
Another field that offers good prospects is the reserve power load required by German utilities to stabilize power supply in the grid. So far, this has mainly been assured by conventional procedures such as storage pumps or steam generators. However, these traditional systems are far slower than LESSY.

At a glance

Technological benefits
Storage of power generated from renewable resources

Economic benefits
Future technology in which Evonik can utilize its leading-edge knowledge of lithium-ion batteries

Ecological benefits
Reducing the drawbacks of widely available regenerative energies and opening up new prospects of cutting CO_2 emissions



Technical representation of the lithium electricity storage system at Fenne power plant in Germany

Historic buildings are often monuments to extravagance. Wouldn't it be wonderful if we could combine conservation with climate protection?

Solar tiles made of PLEXIGLAS®

Discover look-alike roof tiles that efficiently turn sunlight into power and heat.

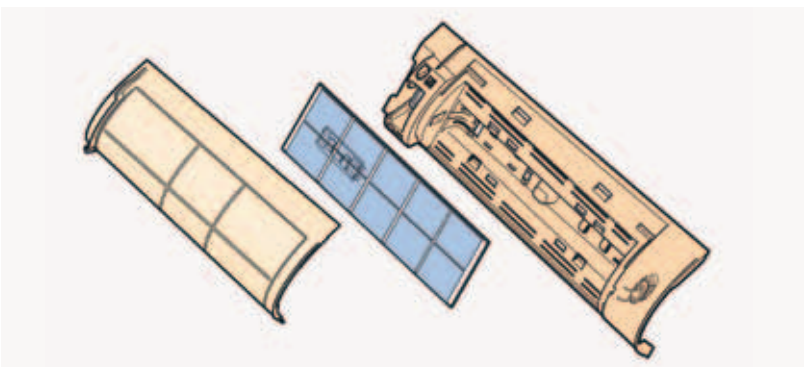
Background

A bright idea is the key to harnessing solar power in historic buildings: Solar tiles may look like the clay tiles traditionally used on medieval buildings but that's where the similarity ends. In fact, they are modern plastic tiles incorporating solar modules that capture sunlight and turn it into heat or electricity.

PLEXIGLAS® plays a key role in this. The solar modules are camouflaged by an acrylic sheet that has to meet special requirements: Alongside high light transmittance and resistance to UV, it needs to be robust and impact-resistant. That makes PLEXIGLAS® an essential ingredient.

Potential

The sun is becoming an increasingly important source of energy. Moreover, more and more demanding standards are being set for the energy efficiency of buildings in Europe, and there is an enormous need to restore and modernize listed buildings. That's why Italy—with its combination of sun and countless historic buildings—is ideal for growing use of solar tiles that can be used to generate power or heat water.



The Middle Ages meet the future: The TechTile system has a PLEXIGLAS® cover that lets the sun's rays through to a solar cell or collector underneath

At a glance

Technological benefits
Thanks to the high light transmittance of PLEXIGLAS®, 90 percent of the sun's energy can be utilized

Economic benefits
A dual function: roofs that fit in with their surroundings and generate energy

Ecological benefits
Using renewable energy sources reduces resource requirements and cut CO_2 emissions

PLEXIGLAS® is a fascinating material.
Wouldn't it be wonderful if more
applications could see the light of day?

Concentrated photovoltaics

Discover a highly efficient method of turning solar energy into electric power.

Background

Concentrated photovoltaics (CPV) is one of the most efficient ways of turning sunlight into usable energy. Micro-structured lenses mounted in front of solar cells concentrate the sunlight on a very small area. The sunlight that impinges the lens is channeled to a highly efficient solar cell with minimum energy loss.

PLEXIGLAS® SOLAR from Evonik comprises a full range of molding compounds and acrylic sheet for the production of these concentrator lenses. The PLEXIGLAS® material has amazingly high transparency, 92 percent light transmittance, high durability and excellent resistance to UV radiation and weathering. Moreover, it is an inexpensive way for operators of solar facilities to increase the amount of power generated without having to invest in additional, expensive solar modules.

Potential

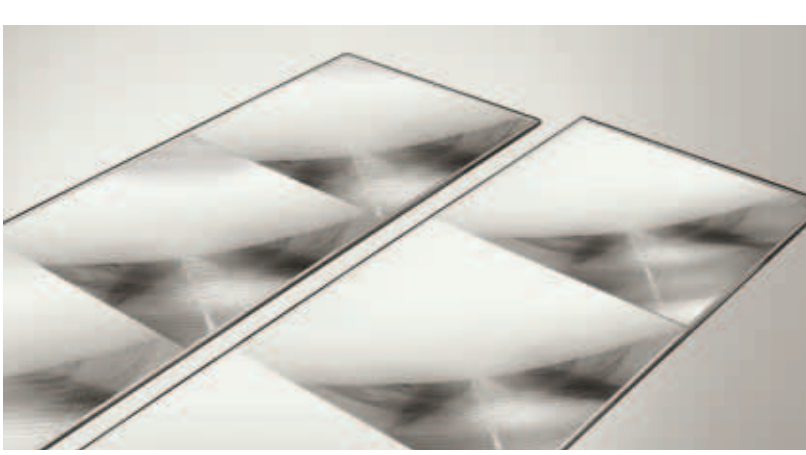
CPV broadens the opportunities for generating power from solar energy. Evonik's customers benefit from PLEXIGLAS® SOLAR, an ideal material for the manufacture of highly specialized lenses. Moreover, Evonik makes its unique expertise in implementing new ideas in the field of photovoltaics available to partners and development alliances.

At a glance

Technological benefits
PLEXIGLAS® SOLAR offers customized transmittance properties for concentrated photovoltaic systems

Economic benefits
Raising the efficiency of solar power generators by increasing power yields and stepping up the use of less expensive materials

Ecological benefits
Resource efficiency and new prospects for photovoltaics leading to emission-free applications



Close-up of a micro-structured lens made from PLEXIGLAS®: Sunlight is channeled to a small area of the solar cell with minimum energy loss

Many people dream of owning their own home. Surely it would be wonderful if they could meet their energy needs independently too?

Energy-efficient housing

Discover projects that permit autonomous generation of solar power and heat in residential areas.

Background

Buildings account for a high proportion of global energy consumption and CO_2 emissions. In Moers-Kapellen in Germany, Evonik is building a new residential complex comprising energy-efficient, cost-saving homes. This environment-friendly project is creating homes that meet tomorrow's needs.

The sixty owner-occupied homes at this complex get their heat from geothermal energy and their hot water from solar collectors. The indoor climate is optimized by special ventilation equipment aligned to the seasons, thus greatly reducing heating requirements. And some of the houses have photovoltaic systems that generate carbon-free power which is fed into the local electricity grid.

Systematic utilization of renewable resources such as solar power and geothermal energy cuts CO_2 emissions and protects living costs against the long-term rise in energy prices.

Potential

Globally, buildings emit around 8 gigatons of CO_2 every year. In Germany, public and private buildings account for 40 percent of total energy requirements and nearly 20 percent of total CO_2 emissions. Residential buildings thus offer enormous potential to raise energy efficiency and cut CO_2 emissions.

To be successful in tomorrow's real estate markets, all-round concepts that take account of social, economic and ecological factors will be essential. Today's strategic investments in energy efficiency and environmental protection will therefore safeguard the profitability of our real estate portfolio in the future.

At a glance

Technological benefits
Self-sufficient energy sourcing using geothermal pumps and solar collectors

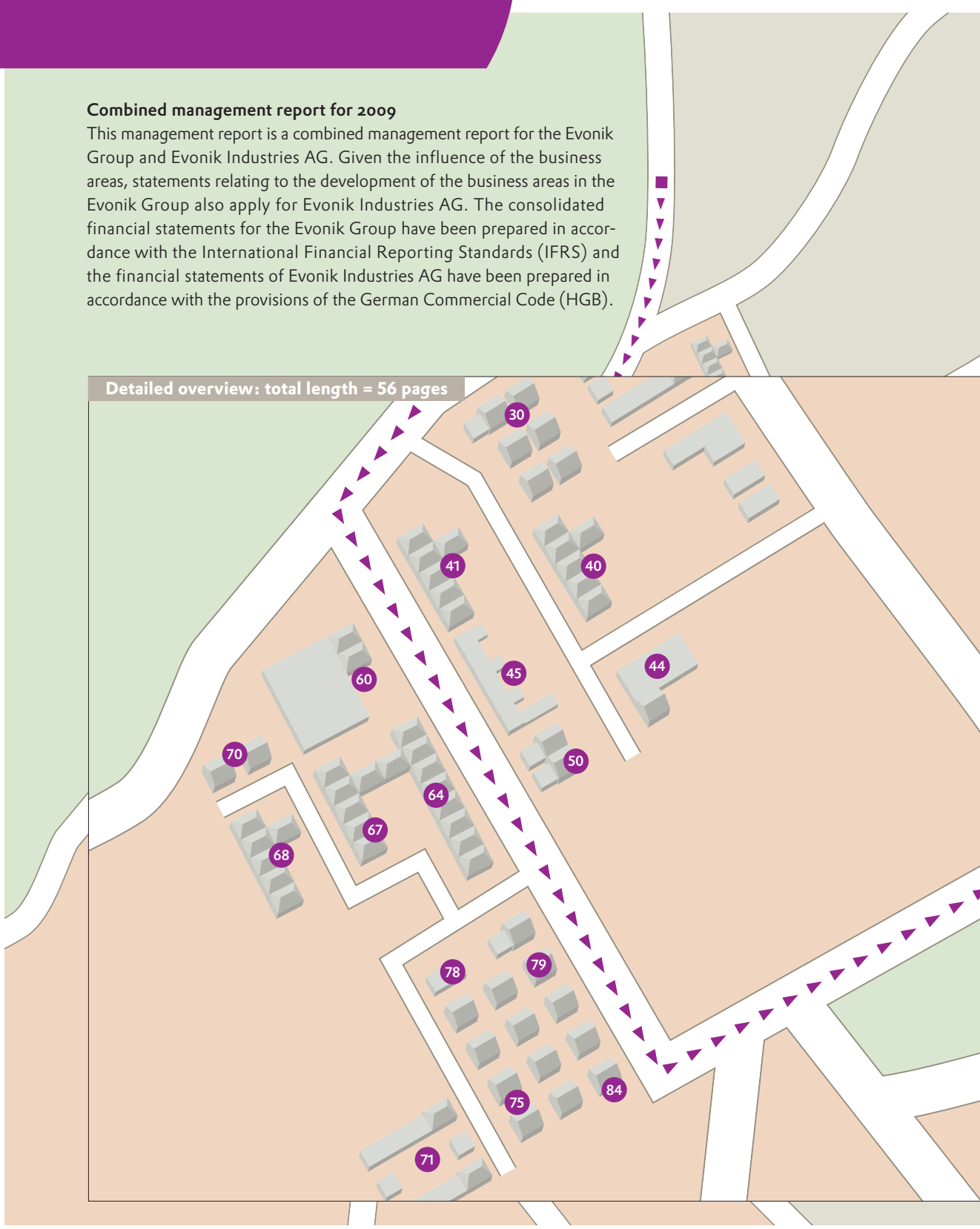
Economic benefits
Lower costs for heating and hot water

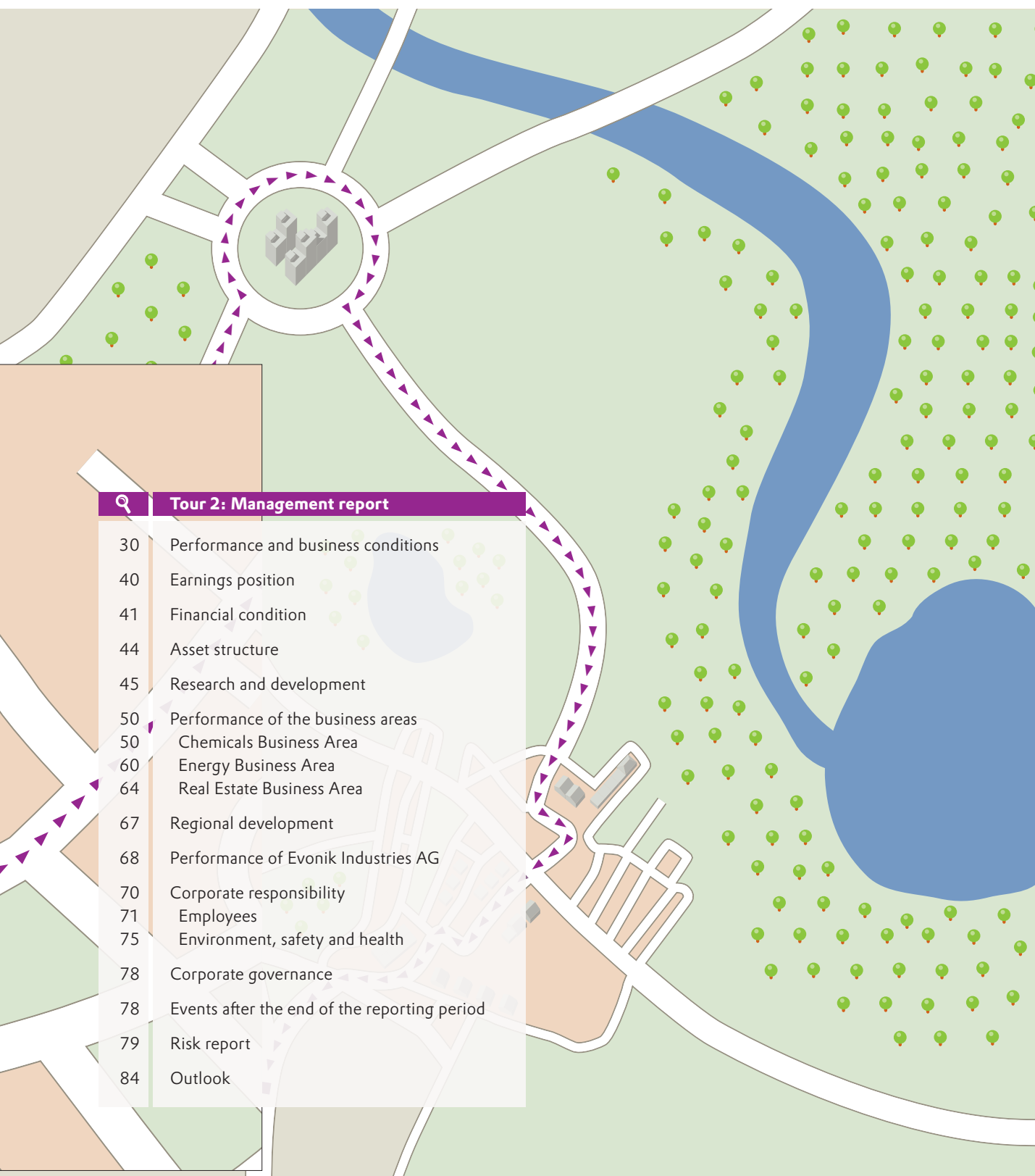
Ecological benefits
Increased efficiency and the use of renewable energy resources reduce CO_2 emissions and pressure on raw materials

A better way to live: modern, energy-efficient housing for families and senior citizens

Tour 2: Management report

Combined management report for 2009
This management report is a combined management report for the Evonik Group and Evonik Industries AG. Given the influence of the business areas, statements relating to the development of the business areas 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).





Tour 2: Management report

Crisis year countered effectively—Focusing on specialty chemicals

Performance and business conditions

Overview

Resolute counteraction

2009 was an extremely challenging year for Evonik. The global financial and economic crisis had a dramatic impact, especially in the early months of the year, leading to a global recession. Our company also suffered severely. However, we took firm action, and quickly initiated significant cost reductions and efficiency improvements to counteract the effects. Moreover, in the midst of the crisis we demonstrated foresight by introducing a new corporate strategy to drive forward the growth-oriented development of the Evonik Group.

The uncertainty that prevailed in the early part of 2009 made it very difficult to forecast how the economy would develop during the year. Consequently, immediate action to secure earnings and liquidity had absolute priority. That involved rapidly scaling back net working capital, utilizing scope to increase the flexibility of investment plans and taking rapid and resolute steps to introduce a Group-wide program to cut costs: Our ambitious goal was to achieve short-term savings of at least €300 million in 2009. On top of that, our objective is a sustained reduction in costs of around €500 million from 2012. All activities geared to strengthening our long-term competitiveness have since been bundled in the On Track efficiency enhancement program, which entails reviewing all major cost items throughout the Group.

Very strong improvement in cash flow

Our cost discipline had a clear effect in 2009. The cash flow from operating activities improved by €1.7 billion to €2.1 billion, permitting a perceptible reduction in net financial debt. We achieved short-term savings of around €500 million, well above our target of €300 million. Our employees made a major contribution to this. That helped us keep the reduction in EBITDA (earnings before interest, taxes, depreciation, amortization and the non-operating result) in the mid single-digit percentage range. Although sales contracted, our successful cost-cutting drive enabled us to lift the EBITDA margin to 15.5 percent, up from 13.6 percent in the previous year.

Evonik's financing is soundly based. Despite the global financial markets crisis, we were able to broaden our refinancing base in 2009 and lengthen the maturity structure of financial liabilities. This was achieved by the placement in October of a five-year corporate bond with a nominal value of €750 million, which attracted great interest from private and institutional investors in Europe.

Selective expansion of market positions

Despite the challenging economic environment, we reinforced our leadership in the chemicals and energy markets in 2009. One milestone was the start-up of the integrated production complex for methacrylates and methacrylate specialties in Shanghai (China). Another important step was the boiler pressure test on Walsum 10, the innovative 790 MW hard-coal power plant which is currently our biggest investment project. Through an extensive drive to step up customer focus, we also improved our position as one of Germany's leading private-sector residential real estate companies.

One key success factor behind Evonik's promising position in the marketplace is our innovative strength. This is demonstrated clearly by the CERIO® technology developed by us to manufacture cells for large-scale lithium-ion batteries. On this basis our strategic partnership with Daimler AG in Kamenz (Dresden, Germany) is preparing to start up serial production of lithium-ion battery cells for automotive applications in 2011.

Focusing on specialty chemicals

2009 was a year in which Evonik took fundamental decisions to pave the way for further profitable growth and sustained value creation. Following an extensive portfolio analysis, with a view to our strategic development and the proposed IPO, we have decided to focus on specialty chemicals, where we already rank among the global leaders. We want to enable our energy business to fully exploit its considerable growth potential in collaboration with one or more partners, while remaining part of the Evonik Group. In addition, we intend to combine our real estate operations with THS and then develop perspectives for these operations on the capital markets. In our Chemicals Business Area we are systematically focusing on high-margin businesses with attractive growth and earnings potential. Above all, we want to benefit from global megatrends: resource efficiency, health and nutrition, and the globalization of technologies.

Evonik successfully mastered the challenges in 2009. We have the strength to derive new opportunities and new business from such challenges. That makes us optimistic about the future.

Appreciable drop in volumes

The global economic crisis adversely affected our business, especially in the first half of the year. The significant reduction in demand from virtually all sectors of industry and systematic destocking by our customers led to a dramatic drop in volumes. From the summer, demand picked up slightly from the low level at the start of the year. Overall the Evonik Group's sales fell 18 percent to €13.1 billion. In the Chemicals Business Area, sales contracted by 15 percent to €10.0 billion, mainly due to lower demand. The 25 percent drop in sales to €2.6 billion in the Energy Business Area was principally attributable to a sharp drop in coal prices and lower volume sales of energy. In the Real Estate Business Area, sales improved slightly to €378 million.

EBITDA only slightly down year-on-year thanks to cost-savings

The operating result was trimmed substantially by plummeting demand, which caused significant underutilization of production facilities, and by the sharp drop in coal prices. Other major downside factors were impairment losses on inventories in the Chemicals and Energy Business Areas, reflecting the massive downslide in raw material prices. We responded quickly to the dramatic drop in earnings by introducing an extensive range of short and long-term measures to secure earnings and liquidity. Systematic short-term action included, first and foremost, reducing net working capital, adjusting investment spending and immediate cost-savings. The persistent underutilization of chemical production capacity forced us to make considerable operational adjustments worldwide. In Germany, which remains our most important region despite massive internationalization, we were able to cushion this by using short-time working.

Thanks to successful action to cut costs and raise efficiency and to the upturn in demand from June onwards, EBITDA was €2,025 million, only 6 percent lower than in the previous year, compared with a year-on-year decline of 34 percent at the end of the first six months.

In the Chemicals Business Area EBITDA was only slightly below the year-back figure at €1,602 million. In the Energy Business Area EBITDA fell 19 percent to €418 million, principally due to lower coal prices and a reduction in volume sales of energy. EBITDA slipped to €183 million in the Real Estate Business Area, a drop of 16 percent from the year-back figure, which was boosted by one-off income from the divestment of commercial real estate.

Sales and reconciliation from EBITDA to net income

in € million	2009	2008	Change in %
Sales	**13,076**	**15,873**	**–18**
EBITDA (before non-operating result)	**2,025**	**2,165**	**–6**
Depreciation and amortization	–831	–867	
EBIT (before non-operating result)	**1,194**	**1,298**	**–8**
Non-operating result, continuing operations	–299	–406	
Operating income	**895**	**892**	**0**
Net interest expense	–483	–530	
Income before income taxes, continuing operations	**412**	**362**	**14**
Income before income taxes, discontinued operations	0	134	
Income before income taxes (total)	**412**	**496**	**–17**
Income taxes, continuing operations	–94	–128	
Income taxes, discontinued operations	–6	–17	
Income after taxes	**312**	**351**	**–11**
Non-controlling interests	–72	–70	
Net income	**240**	**281**	**–15**

Prior-year figures restated.

Net income below prior-year figure, which was boosted by divestments

EBIT (earnings before interest, taxes and the non-operating result) decreased 8 percent to €1,194 million. The non-operating loss of €299 million is the net balance of non-operating expense and non-operating income items which are by nature one-off or rare. The main non-operating expenses related to the On Track efficiency enhancement program, impairment losses on assets, the divestment of the NCN chemicals activities, a one-off payment to the German pension insurance association (Pensions-Sicherungs-Verein a. G.) and restructuring. Income mainly came from the reversal of provisions. In 2008, the main non-operating expenses were impairment losses on assets in the Chemicals Business Area, expenses for restructuring the Group, strengthening the Evonik brand and the planned shutdown of some small chemicals sites.

Since non-operating expenses were lower in 2009, operating income was virtually unchanged from the previous year at €895 million. Net interest expense declined to €483 million, principally due to lower interest on borrowing. The income before income taxes from the continuing operations therefore rose 14 percent to €412 million. In 2008, income before income taxes from the discontinued operations included substantial proceeds from the divestment of the tar refining and initiators businesses. Consequently, income before income taxes dropped 17 percent in 2009 to €412 million. The income tax rate was 24 percent and thus below the expected Group tax rate of 30 percent owing principally to income from write-ups of deferred tax assets. Net income declined by 15 percent to €240 million.

Forecast exceeded

In view of the unforeseeable implications of the global economic crisis, it was difficult to provide guidance on 2009. In the light of the economic downswing, we assumed that sales would drop considerably, and that this would also have a negative impact on EBITDA and EBIT. Indeed, sales contracted by 18 percent. However, at the operating level we were able to offset much of the decline in income through successful action to lower costs. As a result, EBITDA only slipped 6 percent year-on-year, while EBIT was 8 percent lower.

Our investment plans for 2009 were revised in January 2009 in response to the difficult business conditions. Overall, we invested nearly €900 million in property,

plant and equipment and financial assets in 2009, without forgoing major future-oriented investments. Capital expenditures were 27 percent lower than in 2008, when we invested around €1.2 billion.

Economic background

Global financial markets crisis plunged the world into recession

The global economy moved into a deep recession in 2009, triggered by the financial markets crisis. In all, the world economy shrank by 1.2 percent. According to the OECD, the major, developed economies in the western world were worst affected by the economic downturn. By contrast, emerging markets such as Brazil, China and India held up relatively well. The only BRIC state that suffered a painful downturn was Russia.

The German economy contracted by 4.9 percent, one of the sharpest downturns since the Great Depression of 1931/1932. The country's strong export focus proved its Achilles heel in this situation: Overall, exports declined by 14.4 percent in the wake of the global drop in demand. Demand for starting products and capital goods also declined within Germany due to the underutilization of industrial capacity. Gross investment slipped 17.5 percent. Only consumer spending remained comparatively stable. In fact, it increased by a marginal 0.8 percent year-on-year. Thanks to short-time working, the recession did not have a direct impact on the labor market, but the unemployment rate nevertheless rose by 1.1 percentage points to 8.3 percent. Initial signs of revival emerged in the second half of the year, and exports in particular picked up. In the remaining countries in the euro zone economic growth shrank by an average of 4 percent. Here too, export-oriented countries were hardest hit. The Dutch and Italian economies contracted by 4.3 percent and 4.8 percent respectively, whereas France reported a drop of 2.3 percent. Spain and Ireland were also badly affected, with the recession causing their economies to shrink by 3.6 percent and 7.5 percent. The new member states of the European Union (EU), which had previously driven growth, along with Spain and Ireland, contracted by between 14.4 percent (Estonia) and 4.4 percent (Czech Republic). The only country in this group that reported growth was Poland (1.4 percent). The British and Scandinavian economies contracted by between 4.5 percent (Denmark) and 6.9 percent (Finland). As a result, the EU economy as a whole shrank by 3.9 percent.

Russia was severely affected by the global crisis. Economic output slipped 8.7 percent year-on-year, not least because of the sharp drop in energy and raw material prices.

The Japanese economy also contracted by a substantial 5.3 percent. By contrast, South Korea registered minimal growth of 0.1 percent.

The United States, where the global crisis started, reported 2.5 percent economic contraction. Consumer spending declined by a further 0.6 percent.

The economic development of China and India was chiefly responsible for checking the extent of the global recession. Having stalled briefly, the growth engines in both countries started up again, driven principally by government stimulus packages and robust domestic demand. With growth rates of 6.1 percent in India and 8.3 percent in China, these economies matched or almost matched the previous year's performance. Brazil also held up well, with economic output remaining stable compared with the previous year. During the crisis, Indonesia emerged as a new source of impetus for the world economy. This populous, commodity-rich country grew by 4.5 percent in 2009.

Trends in the chemical sector

In recent years, demand for chemical products has been boosted by continuous global growth. However, the downturn hit this sector very fast and extremely sharply. In Germany, the chemical industry declined by 15.8 percent, the biggest downturn in business in 30 years. The drop in foreign demand was a particularly sharp 19 percent. This was attributable to lower orders from the EU and Asia (excluding Japan). By contrast, exports to Japan and the USA remained relatively stable, mainly because of the comparatively non-cyclical pharmaceuticals segment, which reported a decline of 2.3 percent, well below the downturn registered by other fields. The worst affected segments were manmade fibers and inorganic commodities, where business receded by 28.7 percent and 21.8 percent respectively. Demand within Germany was almost as weak as export business, with sales dropping 17.6 percent. This was due to virtually zero demand from some major customers such as the automotive, construction, rubber and plastics industries.

The chemical industry worldwide also suffered from the effects of the economic crisis. The EU and USA saw output drop by 5.0 percent, while in Japan the downturn was 9.0 percent. The downtick in Brazil was a more modest 0.5 percent. In South Korea the sector grew by 2.5 percent year-on-year, while the Indian chemical industry gained 6.5 percent. China also reported growth, although at 7 percent it was a good 6 percentage points lower than in 2008. Worldwide, the decline was 3.0 percent.

Trends in the energy sector[1)]

Energy consumption in Germany dropped significantly in 2009 due to the economic crisis. The decline was principally attributable to the energy-intensive primary manufacturing industry, which suffered particularly badly from the economic downturn. Overall, primary energy consumption was 6.5 percent lower than in 2008 at around 450 million metric tons hard coal equivalents. Demand for hard coal was worst affected by the economic situation: Power plants used around 13 percent less hard coal than in the previous year. Consumption of lignite slipped 3 percent, reflecting the drop in supply to the energy sector. The proportion of renewable resources in the energy mix rose from 8.2 percent in 2008 to around 9 percent in 2009.

In view of the lower demand from industrial users, German power consumption declined by more than 5.3 percent to around 580 terawatt hours (TWh) in 2009. Gross power generation was around 596 TWh. Nuclear power generation decreased by 9.6 percent to around 135 TWh. Power generation from hard coal declined 12.5 percent to around 109 TWh while power generated from lignite fell 2.7 percent to around 147 TWh. Power generation from natural gas decreased by 11.2 percent to around 87 TWh. Renewable energies accounted for 93 TWh of total energy generation.

Prices on the international oil and coal markets started to plummet in the third quarter of 2008 and this trend continued in the first quarter of 2009. The price of crude oil subsequently edged upwards again and by year end 2009 it was almost twice as high as at the start of the year. The price trend for hard coal was dominated by lower demand in the USA and Europe, despite the stabilizing effect of demand in India and China. Following the decline at the start of the year, prices initially stabilized at a low level and only picked up towards year end as demand increased.

Wholesale prices for CO_2 allowances and power were also dominated by the economic crisis. In view of the decline in production in energy-intensive sectors, there were a large number of additional CO_2 allowances on the market. This pushed down their price considerably, so the average price was lower than in 2008. The average price of base and peak-load electricity in 2009 was also far lower than in 2008.

At the instigation of the German government, a new energy concept is to be adopted by fall 2010. One outcome is expected to be an increase in the period for which German nuclear power plants may be operated. That will impact the German power plant landscape and the need to replace facilities.

[1)] All data on primary energy consumption and power generation/consumption are provisional data from AG Energiebilanzen e. V. and the German water and energy industry association (BDEW).

Trends in the residential real estate sector
The German housing market is dominated by owner-occupiers and private landlords. Foreign institutional investors have strengthened their position on the market in recent years by acquiring property portfolios and real estate companies from public-sector housing corporations and other owners. Activity by foreign investors on the German residential real estate market declined considerably as a result of the financial markets crisis, a trend which was already evident in 2008. As a result only 107 residential real estate portfolios with around 56,000 residential units in total changed hands in 2009.

General demand for housing is directly linked to the number of private households and their disposable incomes. The number of households is continuing to rise as the average size of households is declining, although there is a clear divergence between the situation in different towns and communities. There were also differences in the development of net rents for residential property (excluding utility charges). Overall the average net rent for new contracts increased by nearly 0.9 percent in 2009 (2008: 1.1 percent).

There was still no sign of a sustained turnaround in residential construction in 2009. Construction permits for 176,000 residential units were issued, slightly more than in 2008 (174,600). In 2009, around 143,000 housing units were completed (2008: around 200,000). Construction of new apartments and owner-occupied properties was thus once again well below the forecast requirement of almost 300,000 units p.a. up to 2030.

Business activities

Corporate strategy geared to profitable growth
Evonik is a modern industrial group based in Germany. Our activities are bundled in eight business units within the Chemicals, Energy and Real Estate Business Areas. The Corporate Center supports the Executive Board in the strategic management of the company, while a Shared Service Center efficiently bundles internal services. Evonik's mid-term objective is a stock market listing, depending on the future development of the global financial markets. The company's owners are RAG-Stiftung (direct and indirect shareholdings 74.99 percent) and funds of the financial investor CVC Capital Partners (25.01 percent).

In December 2009 we decided that in future we would concentrate on specialty chemicals, where we already rank among the global leaders. We want to enable our energy business to fully exploit its considerable growth potential in collaboration with one or more partners, while remaining part of the Evonik Group. In addition, we intend to combine our real estate operations with THS and then develop capital market perspectives for these operations.

Profitable growth and sustained value creation are the heart of our corporate strategy. Our particular focus is on the economic megatrends resource efficiency, health and nutrition, and globalization of technologies. Evonik is managed in accordance with the clear principles of state-of-the-art value management. Active portfolio management, accompanied by efficient capital allocation, has high priority for the Evonik Group: We only invest in businesses with sustained and profitable growth prospects. Businesses that no longer fit our strategy or fail to meet profitability requirements are divested.

New Executive Board members

At the start of 2009, the Executive Board of Evonik Industries AG comprised Dr. Klaus Engel, Chairman of the Executive Board, with Heinz-Joachim Wagner as Chief Financial Officer and Ulrich Weber as Chief Human Resources Officer.

The planned change in the company's Chief Financial Officer took place on April 1, 2009: Dr. Wolfgang Colberg, previously a member of the Managing Board of BSH Bosch and Siemens Hausgeräte GmbH, Munich (Germany), succeeded Heinz-Joachim Wagner, who retired.

Ulrich Weber left Evonik's Executive Board at his own request on June 30, 2009 to take up a position as Chief Human Resources Officer at Deutsche Bahn AG. Ralf Blauth was appointed his successor on Evonik's Executive Board effective July 1, 2009. He remained a member of the Board of Management and Chief Human Resources Officer at Evonik Degussa GmbH until October 31, 2009.

Evonik accepts its responsibility

Evonik aims to be a responsible, fair and reliable partner, even in periods of economic difficulty. We accept responsibility—for our business, our employees and society. That is how we define corporate responsibility (CR). In summer 2009 we joined the United Nations Global Compact, which sets out principles for human rights, labor standards, environmental protection and anti-corruption. As part of our corporate strategy, our CR strategy takes up economic megatrends as well as ecological and social challenges and supports the development of new business activities. We are systematically extending our CR activities on this strategic basis and inform the general public of our activities.

On Track is making Evonik much more efficient

We responded fast and resolutely to the economic crisis. Our top priority at the start of 2009 was safeguarding liquidity and earnings. Above all, we concentrated on achieving a substantial reduction in net working capital. At the same time, we scaled back our investment plans considerably and quickly defined ambitious cost reductions. For instance, we set a goal of achieving savings of at least €300 million in 2009. We also set ourselves the target of a sustained reduction in costs of around €500 million from 2012. All activities geared to strengthening our long-term competitiveness are bundled in the On Track efficiency enhancement program. As part of this program, we are reviewing all major cost items in the Group and analyzing structures and processes. That includes, in particular, the Corporate Center and Shared Service Center, procurement and site services in the Chemicals Business Area and all operating units. Through the action defined by the end of 2009 we have already achieved over a quarter of the sustained savings targeted by On Track.

At a glance

Short-term target exceeded
Savings of around €500 million top €300 million planned for 2009

Concerted action
Employees made a significant contribution through lower bonuses

On Track
Aiming for a sustained improvement in competitiveness

From 2012
Lasting cost-savings of around €500 million

Improving efficiency
All major structures and processes are being reviewed

Well ahead of our short-term savings target

We have implemented our cost-cutting measures with great discipline and achieved impressive results. The short-term savings made in 2009 amounted to around €500 million instead of the €300 million originally envisaged. Much of this was due to cutting back outsourcing, travel expenses and other operating costs. Employees also made a considerable contribution: In the spring, all bonuses and comparable variable remuneration payments were cut by 50 percent for 2009 and it was decided that Group executives would not receive an increase in their basic pay in 2009. Since business performance improved remarkably in the second half of the year, in December we were able to revise the bonus cuts to just 25 percent. Nevertheless, the economic outlook for 2010 remains uncertain. Moreover, many of the cost-savings achieved so far have been due to one-off factors. Consequently, we have negotiated the option to reduce bonuses by a maximum of 25 percent this year if earnings are significantly below target.

Global activities

Evonik operates worldwide and has production facilities in 28 countries. The largest sites such as Marl, Wesseling and Rheinfelden (Germany), Antwerp (Belgium), Mobile (Alabama, USA) and Shanghai (China) have integrated production structures used by various business units. That means, for example, that by-products from one production facility can be used as starting materials for other products, resulting in optimum use of resources and thus high added value. Moreover, the business units can share the site energy supply and infrastructure cost-effectively. For technical or logistics reasons, we operate some production facilities 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.

Optimized procurement

The procurement organization has been analyzed and restructured as part of the On Track project. The new structure, which was introduced on October 1, 2009, strengthens profit orientation and enables our business units to respond faster to changing market trends and bundle procurement volumes. Management and coordination—in other words, procurement strategy, compliance and performance-oriented management—are central tasks. They are performed Group-wide by the procurement manager for the Chemicals Business Area, who is also the Chief Procurement Officer for the Evonik Group. Through more efficient procurement we can leverage substantial and sustained savings.

In addition, immediate action was taken to minimize the increased short-term risks resulting from the economic crisis. Through contingency plans to handle possible delivery stoppages and additional negotiations with suppliers, we were able to offset short-term bottlenecks in our supply chain and avoid economic disadvantages.

In 2009, Evonik spent more than €7 billion on raw materials, technical equipment and services. Raw materials account for around 60 percent of total procurement volume. Of especial importance for the Evonik Group are petrochemical feedstocks, particularly steam cracker products and their derivatives, which make up around 30 percent of procurement of raw materials. Silicon and silicone compounds and renewable raw materials are also very important. The decline in the oil price led to far lower prices, especially for petrochemical feedstocks. In the Chemicals Business Area, the internal raw material index, which shows the price trend for the main raw materials used, dropped back 24 percent compared with the previous year.

In 2009, nearly 650,000 metric tons of renewable resources were used in our chemical production processes—mainly dextrose, saccharose, fats, oils and bioethanol. That was more than 7 percent of our total consumption

of raw materials. By far the highest proportion is for fermentation processes for amino acids and cosmetic products. About 80 percent of Evonik's products for the cosmetic industry are already based on natural raw materials.

All business areas created value

Evonik is managed on the basis of a consistent system of value-based indicators. These are used to assess the performance of the operational units and the Group. Through systematic alignment to these indicators, the Group endeavors to generate cash flows to create value and ensure profitable growth.

Due to Evonik's structure, the indicators have to take account of the differences between the various operations yet be comparable across the Group. 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 form the apex of the pyramid. These indicators are derived from uniformly defined performance indicators taken from the income statement, balance sheet and cash flow statement. The central parameters are EBITDA, EBIT and operating income.

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. 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.

The cost of capital for the business areas is the risk-adjusted return target. It is calculated using the capital asset pricing model and WACC (weighted average cost of capital) based on peer groups for each business area. WACC reflects the internal mid-term management perspective. The annual review for 2009 did not reveal any need to adjust this figure compared with 2008. Evonik's overall cost of capital is thus still 8.0 percent before taxes.

Cost of capital (WACC) in 2009

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**

In 2009 Evonik achieved an ROCE of 8.4 percent, which was above the cost of capital but below the previous year's ROCE of 9.0 percent. Economic value added was therefore €52 million (2008: €145 million). All three business areas earned a return above their specific cost of capital and thus made a positive contribution. In the Chemicals Business Area the improvement in ROCE was mainly due to the reduction in net working capital. In the Energy and Real Estate Business Areas a decrease in EBIT accompanied by a rise in capital employed resulted in a reduction in ROCE.

Capital employed and ROCE

in € million	2009	2008
EBIT	**1,194**	**1,298**
Intangible assets	4,022	4,109
Property, plant and equipment/investment property	7,200	7,111
+ Investments	712	686
+ Inventories	1,865	2,004
+ Trade accounts receivable	2,119	2,563
+ Other non-interest-bearing assets	2,359	2,391
– Interest-free provisions	–1,760	–2,078
– Trade accounts payable	–1,073	–1,375
– Other interest-free liabilities	–1,161	–981
– Liabilities held for sale	–6	–26
= Capital employed[1)]	**14,277**	**14,404**
ROCE (EBIT/capital employed) in %	**8.4**	**9.0**

[1)] Annual averages.

ROCE by business area

in %	2009	2008	WACC before taxes
Chemicals	10.3	9.9	9.0
Energy	9.7	13.2	7.5
Real Estate	7.3	9.2	5.3
Evonik	**8.4**	**9.0**	**8.0**

In 2010 we will be introducing EVA® as our main indicator, together with the relevant value drivers and associated indicators, to manage the Group and enhance enterprise value.

Improved margins thanks to cost reductions

Since the EBITDA margin 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.

The Group's EBITDA margin rose from 13.6 percent to 15.5 percent as the sharp reduction in sales was accompanied by an only slight drop in EBITDA. This was mainly achieved through effective action to reduce costs.

EBITDA margin by business area

in %	2009	2008
Chemicals	16.1	13.8
Energy	16.3	15.2
Real Estate	48.4	57.9
Evonik	**15.5**	**13.6**

Earnings position

Impact of drop in sales mitigated by lower costs

Sales contracted 18 percent in the Evonik Group to €13,076 million, chiefly due to volume and price trends. Lower volume sales, declining raw material costs, short-time working, a reduction in maintenance expenses and successful cost-savings reduced the cost of goods sold by 20 percent. The gross profit on sales was therefore €3,214 million, only 8 percent lower than in the previous year. The cost-cutting measures had a perceptible impact on selling and administrative expenses, both of which declined by 14 percent. We deliberately maintained research and development spending at a high level of €300 million, only slightly below the prior year's spending of €311 million. The other operating income of €869 million includes income from the valuation of derivatives (€398 million), the reversal of provisions (€135 million) and currency translation of monetary items (€115 million). The operating income of €1,246 million recorded in 2008 included higher income from currency translation and, above all, proceeds from the divestment of non-core business activities. The other operating expenses of €1,286 million included, among other things, expenses for the valuation of derivatives (€365 million), currency translation of monetary items (€178 million), allocations to provisions (€160 million) and impairment losses on assets. The year-back figure of €1,659 million contains far higher expenses relating to the valuation of derivatives and considerably higher impairment losses on assets.

Income statement for the Evonik Group

in € million	**2009**	2008
Sales	13,076	15,873
Cost of sales	–9,862	–12,384
Gross profit on sales	**3,214**	**3,489**
Selling expenses	–1,044	–1,213
Research and development expenses	–300	–311
General administrative expenses	–638	–740
Other operating income	869	1,246
Other operating expenses	–1,286	–1,659
Income before the financial result and income taxes, continuing operations	**815**	**812**
Financial result	–403	–450
Income before income taxes, continuing operations	**412**	**362**
Income taxes	–94	–128
Income after taxes, continuing operations	**318**	**234**
Income after taxes, discontinued operations	–6	117
Income after taxes	**312**	**351**
of which attributable to		
Non-controlling interests	72	70
Shareholders of Evonik Industries AG (net income)	240	281

Prior-year figures restated.

Financial condition

Increase in income from continuing operations

Income from the continuing operations before income taxes and the financial result increased slightly year-on-year to €815 million. The financial result improved by €47 million to minus €403 million, mainly due to lower interest expense for financing. The income before income taxes from the continuing operations therefore rose 14 percent to €412 million. Income tax expense was €94 million, giving a tax rate of 24 percent. That is below the Group's tax rate of 30 percent, mainly as a result of income from write-backs of deferred tax assets. In 2008, this item contained one-off tax effects of €20 million relating principally to exchange rates and non-period taxes. Overall, income after taxes from the continuing operations increased 36 percent to €318 million.

The loss of €6 million from the discontinued operations principally comprises post-divestment expenses relating to non-core activities sold in previous years. The prior-year figure mainly reflected the proceeds from the divestment of the tar refining and initiators activities. Net income was therefore €240 million, down 15 percent compared with the figure for 2008, which contained the proceeds from these divestments.

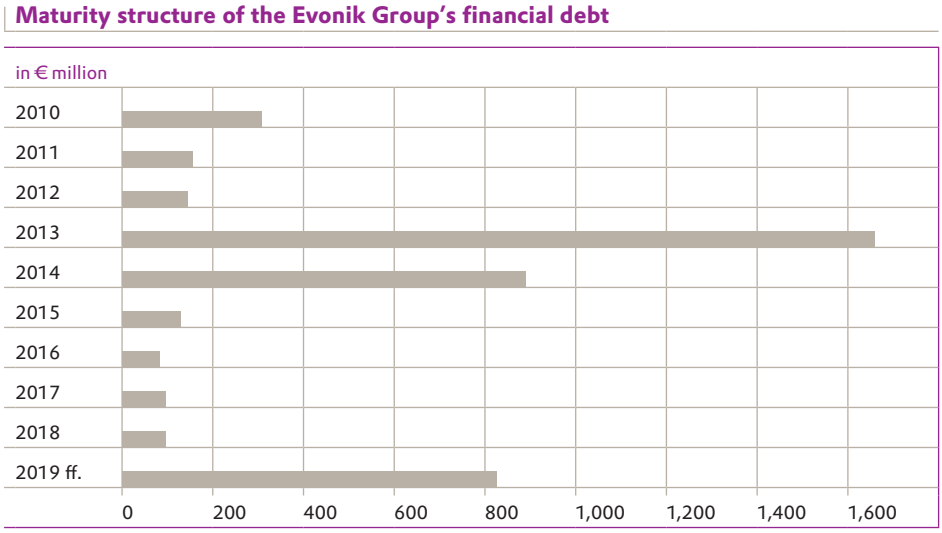
Effective financial management

The central objectives of financial management are to safeguard the financial independence of the Evonik Group and limit refinancing risks. Funding for Group companies, including guarantees and sureties, is therefore managed centrally by Evonik Industries AG. To reduce external borrowing, surplus liquidity is placed in a cash pool at Group level to cover financing requirements in other Group companies. Evonik has a flexible range of corporate financing instruments to meet capital requirements for day-to-day business, investments and the repayment of financial debt.

Successful debut bond issue

In October 2009 Evonik Industries AG successfully placed its first bond on the capital markets, thus putting the Group's long-term financing on an even sounder basis. The bond proved very popular with both German and European investors and was seven times oversubscribed. The €750 million bond has a maturity of five years and a coupon of 7.000 percent. It was issued on October 14, 2009 at a price of 99.489 percent, giving a yield of 7.125 percent p.a. In July 2009 we had issued a €183.5 million note with a maturity of 3.5 years. The proceeds from

Maturity structure of the Evonik Group's financial debt



As of December 31, 2009.

these two issues enabled us to repay existing credits well before their maturity and lengthen the maturity profile of our financial debt. To further improve our access to the capital markets, we aim to obtain an external rating in 2010.

Another element in our long-term financing is a corporate bond issued by Evonik Degussa GmbH in 2003 , which has a nominal value of €1.25 billion and matures in December 2013. Other pillars of the Group's long-term financing are bilateral credit agreements for real estate[1)] totaling some €0.5 billion and drawings of around €1.2 billion on long-term project-financing in the Energy Business Area. Included in the amount drawn as of December 31, 2009 is €555 million of the €615 million project financing arranged by Evonik-EVN Walsum 10 Kraftwerksgesellschaft mbH in 2006 to fund the "Walsum 10" power plant project. Utilization of this financing facility will increase as the project proceeds.

There are also agreed bilateral credit facilities (especially money market lines) amounting to €224 million to cover short-term funding requirements, and €365 million for guarantees and sureties. Drawings at the end of 2009 were €67 million and €265 million respectively.

Significant reduction in net financial debt

Financial debt was €4,495 million at year end, a reduction of €907 million from year end 2008 thanks to successful action to secure earnings and liquidity. The chief factor here, alongside a perceptible reduction in net working capital and adjustment of investment spending, was the significant cut in costs. Net financial debt actually declined by €1,152 million to €3,431 million thanks to an increase in financial assets.

Net financial debt

in € million	Dec. 31, 2009	Dec. 31, 2008
Non-current financial liabilities	4,040	4,394
Current financial liabilities	455	1,008
Financial debt	**4,495**	**5,402**
– Cash and cash equivalents	–885	–536
– Short-term securities	–23	–7
– Receivables from derivatives	–128	–218
– Other financial assets	–28	–58
Net financial debt	**3,431**	**4,583**

Comfortable liquidity cushion

As its central liquidity source, as of December 31, 2009 the Group had a €2,250 million revolving credit facility (RCF) from a syndicate of around 60 national and international banks. This credit facility runs until March 2011 and interest on amounts drawn is calculated at the EURIBOR rate plus a margin. None of this facility was drawn at year end 2009.

Under the covenants for this RCF Evonik has given an undertaking that it will meet specific financial ratios. The most important of these relates to leverage, in other words, the ratio of net debt to EBITDA. The other covenants are interest cover (EBITDA relative to the net interest position) and the loan-to-value ratio, an asset-based indicator that looks at the net financial debt of the Real Estate Business Area relative to the market value of its property. Timely monitoring of these ratios and forecasting of their development is ensured. We report quarterly to the banks in the syndicate on compliance with these covenants. In 2009 Evonik was able to demonstrate that it had met all contractually agreed minimum requirements by a wide margin on all reporting dates.

[1)] See Note (7.11) to the consolidated financial statements.

Capital expenditures focused on key growth projects

Evonik uses selective investment projects to build on its strong competitive position and expand into business activities and markets where we see potential for profitable long-term growth and an opportunity to generate high returns. Every project is subject to a detailed strategic and economic analysis, including sensitivity analyses and scenarios that simulate the main risks, and has to meet business-specific and risk-adjusted minimum return criteria which include covering the cost of central functions.

In 2009 we reduced investment in property, plant and equipment and intangible assets by 27 percent to €849 million (2008: €1,160 million). Scaling back investment was a key element in Evonik's successful action to counter the consequences of the global economic crisis. Savings were also achieved by systematically reducing investment in the replacement and maintenance of facilities through process improvements, and by keeping such expenditures to the necessary minimum. Strategic growth projects and other major projects which had already started were continued as planned.

As in 2008, the largest single project was the erection of a 790 MW coal-fired power plant in Duisburg-Walsum (Germany). This is scheduled to come into service in 2010. In Shanghai (China), we successfully started up a new integrated production complex at a total investment cost of around €250 million. This was Evonik's largest project in China to date and the second-largest single investment ever undertaken by the Chemicals Business Area.

The Chemicals Business Area once again received the largest proportion of capital expenditures (59 percent), while 33 percent was invested in the Energy Business Area. The regional focus of capital expenditures was Germany, which accounted for 67 percent of the total, followed by Asia, which accounted for 18 percent.

Additions to financial assets totaled €42 million, which was below the year-back figure of €149 million.

Major projects completed or virtually completed in 2009

Business Area	Location	Project
Chemicals	Marl (Germany)	Capacity expansion at 2-propylheptanol plant
	Mobile (Al, USA)	Construction of a new facility for alcoholates
	Dossenheim (Germany)	New production facility for pharmaceutical active ingredients
	Shanghai (China)	New production plant for binders for coatings
	Shanghai (China)	New production facility for MMA, specialty monomers and PMMA molding compounds
Energy	Duisburg-Walsum (Germany)	New hard-coal power plant
	Saarforst/Warndt (Germany)	New biomass plant
Real Estate	Germany	Mainly construction of new residential units and modernization to improve energy efficiency

For information on current capital expenditure projects, please see the sections on the business areas and regions.

Strong improvement in cash flow

Timely action to secure liquidity at the start of the year had a positive effect: The cash flow from operating activities increased by €1,704 million to €2,092 million. The main driver was a reduction of just over €900 million in net working capital. Alongside the substantial drop in raw material prices, this was principally due to successful action to reduce inventories and receivables. By contrast, in 2008 net working capital increased by around €450 million. Further, in 2009

other assets decreased by around €200 million, partly due to lower receivables from finance leases and derivatives.

The outflow of funds for investing activities increased slightly to €632 million. At the same time, cash inflows from the disposal of assets were far lower. The sharp improvement in the cash flow from operating activities was sufficient to finance investments and significantly reduce financial debt. The cash outflow for financing activities was therefore €1,113 million.

Cash flow statement for the Evonik Group (excerpt)

in € million	**2009**	2008
Cash flow from operating activities	2,092	388
Cash flow from investing activities	–632	–555
Cash flow from financing activities	–1,113	356
Cash and cash equivalents as of December 31	885	536

Asset structure

Increase in equity

Total assets decreased by €1.2 billion to €18.9 billion. Non-current assets shrank by €0.3 billion to €13.5 billion, mainly as a result of lower receivables from finance leases and derivatives. Current assets contracted by €0.9 billion to €5.4 billion, due to a reduction of €0.6 billion in inventories, a drop of €0.4 billion in trade accounts receivable, and divestment of operations totaling €0.2 billion. At the same time, cash and cash equivalents rose by €0.3 billion. The decline in inventories reflects lower raw material prices and selective destocking. Non-current assets rose slightly to 71 percent of total assets and are financed by liabilities with the same maturity structure.

Equity increased slightly to €5.2 billion. The equity ratio improved from 25.6 percent to 27.6 percent. Non-current liabilities decreased by €0.4 billion to €10.2 billion thanks to the reduction in non-current financial debt. The reduction in short-term financial debt and a decline in provisions reduced current liabilities by €0.9 billion to €3.5 billion.

Evonik Group: Balance sheet structure

in € million	**2009**[1]	2008[1]		**2009**[1]	2008[1]
Non-current assets	13,469 (71%)	13,746 (68%)	Equity	5,214 (28%)	5,155 (26%)
			Non-current liabilities	10,192 (54%)	10,602 (53%)
Current assets	5,438 (29%)	6,369 (32%)	Current liabilities	3,501 (18%)	4,358 (21%)
	18,907	**20,115**		**18,907**	**20,115**

[1] As of December 31.

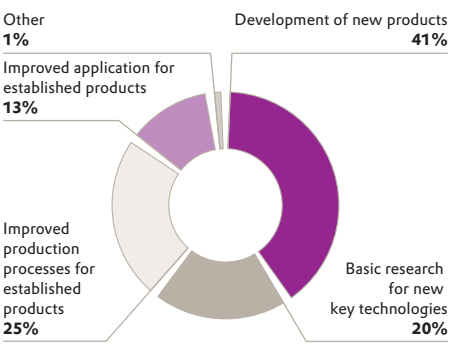
Research and development

R&D drives growth

Our innovative capacity is our strength. The large number of first-time patent applications filed by Evonik places it at the forefront of the specialty chemicals sector. Products, processes and applications developed in the past five years account for around 20 percent of sales in our Chemicals Business Area. Moreover, the Energy Business Area is a leader in raising the efficiency of hard-coal power plants. Market-oriented research and development (R&D) is expanding our strong position in specialty chemicals and power plant technology. Despite the economic crisis, the Evonik Group's R&D spending was €300 million in 2009 (2008: €311 million). This continued high level of expenditure underscores the especial significance that we attach to R&D as the basis for profitable future growth.

In the specialty chemicals sector in particular, a constant stream of demanding new products and applications is indispensable to ensure lasting success against the global competition. The development of new products accounts for 41 percent of our R&D spending in the Chemicals Business Area, while 20 percent is allocated to the development of new technology platforms. The Chemicals Business Area's global R&D network comprises more than 35 locations with around 2,300 employees. Our R&D center in Shanghai has proven particularly dynamic. In 2009, five years after it was opened, it was extended for the second time. This reflects Evonik's increased presence in the fast-growing Chinese specialty chemicals market, where innovation coupled with customer proximity is a key success factor. So far, we have invested more than €20 million in the R&D center in Shanghai.

Chemicals Business Area: R&D spending



Efficiency of power plants is rising steadily

Research in our Energy Business Area focuses on raising the efficiency of hard-coal power plants and the related reduction in CO_2 emissions, accompanied by improving the cost-efficiency of power plant processes. While our latest power plant, Walsum 10, which is scheduled to come into service shortly, will have outstanding efficiency of over 45 percent, our research is already concentrating on the next dimension: coal-fired power plants with efficiency of 50 percent. We are driving forward the development of the necessary materials through collaborative research projects. To supplement our role in projects concentrating on 700 °C technology, our Eco² Science-to-Business Center (S2B Center) is working separately on the feasibility of a 700 °C power plant. Further process optimization is also a focal area of our R&D.

At a glance

Science-to-Business Centers
Focus:
High-risk R&D projects
Areas that are completely new for Evonik
Duration: Five years
Current: Eco^2, Nanotronics and Bio

Project Houses
Focus: Topics of especial strategic interest
Interdisciplinary research
Duration: Three years
Current: Functional Films & Surfaces, Systems Integration
Completed: Six Project Houses in 2000–2007

Start-ups und spin-offs
Commercialization of the results of strategic R&D

Increasing power generation from renewable resources such as wind, where availability cannot be planned, requires rapidly available reserve capacity. More flexible use of generators can be assured with the aid of advanced control concepts that utilize the potential of process technology and process control systems. Lithium-ion batteries to store power represent another promising possibility in this field. Consequently our Energy and Chemicals Business Areas are working with our Eco^2 S2B Center and scientific and industrial partners on the Lithium Electricity Storage System (LESSY), a project established as part of the Lithium-Ion Battery (LIB) 2015 innovation alliance, which receives support from Germany's Federal Ministry for Education and Research (BMBF). Thermal utilization of biomass has long played a very important role in the Energy Business Area. In this field we are investigating alternative generating processes based on biomass and biogas and driving forward the processing of biogas for use in mine gas and natural gas networks.

Electric vehicles are a focus of research
One special success story in our Chemicals Business Area is the development of proprietary technology for serial production of cells for large-scale lithium-ion batteries. In recent years, we have invested around €100 million in R&D in this field. This storage technology, which uses high-performance SEPARION® separator membranes, is protected by extensive patents and was bundled under the brand name CERIO® in 2009. Evonik aims to be Europe's no. 1 manufacturer of large-scale lithium-ion battery cells and components.

Evonik is also continuing to drive forward lithium-ion technology in collaboration with partners from science and industry. For example, we sponsor a chair at Westfälische Wilhelms-University in Münster (Germany) which is dedicated to researching the use of large-scale lithium-ion batteries to store energy. And together with BASF, Bosch and Volkswagen, we are a member of the LIB 2015 innovation alliance. To develop the technology required for mass production of large-scale lithium-ion batteries for automotive applications, in summer 2009 we embarked on the ProLiEMo project with our strategic partner Daimler AG. Funding for this project has been made available out of the German government's second economic stimulus package (electromobility section). We are also involved in ELAN 2020, a cross-sector initiative to promote electric mobility, which has commissioned scientific research into the requirements for a safe, economical and widespread infrastructure for electric vehicles.

Modern innovation structures and processes are a hallmark of Evonik

Key success factors for the Chemicals Business Area are its excellent market insight, close relationships with customers and efficient R&D. For every €1 invested in R&D we generate sales of around €1.50 p.a. This is based on our modern innovation structures and processes, which are designed to turn ideas into profit by translating them into marketable products as quickly as possible. Strategic research geared to building new high-tech activities outside Evonik's present business portfolio is bundled at Creavis Technology & Innovation and receives 15 percent of the R&D budget allocated to the Chemicals Business Area. The Project Houses, S2B Centers and internal start-ups operated by Creavis are optimally aligned complementary approaches. Evonik's current S2B Centers are Nanotronics (development of system solutions based on nanomaterials for the electronics industry), Bio (development of new biotechnology products and processes based on renewable raw materials) and Eco^2, which runs projects that bring together all three business areas—Chemicals, Energy and Real Estate—for the first time. The research scientists at the Eco^2 S2B Center are working on solutions to raise energy efficiency for customers and for Evonik's own processes. Other projects comprise carbon capture, and power generation and storage. We expect the activities bundled at Creavis to generate additional sales of around €600 million p.a. from 2015. That does not include the lithium-ion battery cells business, which was developed at Creavis and has since been spun off into separate legal entities.

To leverage further growth potential through our innovative developments, the Chemicals Business Area has defined six "Areas of Competence": Inorganic Particle Design, Coating & Bonding Technologies, Interfacial Technologies, Designing with Polymers, Biotechnology, and Catalytic Processes. These cover more than 80 percent of the markets in which we operate and pool our knowledge of future-oriented technologies.

True to the motto "Open Innovation", Evonik has around 250 alliances with universities and scientific institutes. In 2009 we invested €10 million in joint research with universities, scientific and technical institutes and other companies. The aim is to ensure rapid transfer of the results of top-level research in the fields of chemistry, biology and physics to the company. Today, attractive areas of innovation are mainly found at the interfaces between traditional disciplines such as chemistry and biology or chemistry and engineering.

Evonik's innovative strength is not simply due to the right strategies, structures and priorities. Our highly qualified, creative and motivated R&D employees are a key factor in this success. To provide an incentive for excellent research work, we present the annual Evonik Innovation Award. The latest awards in all three categories were made in December 2009.

creavis.com

At a glance

"New Products" category
Project: New functional silanes for the construction and fillers industries
Business unit: Inorganic Materials

"New Processes" category
Project: A world first: Organic solvent nanofiltration used on a commercial scale in a homogeneously catalyzed process
Business/Service unit: Industrial Chemicals, Process Technology & Engineering

"New System Solutions" category
Project: CoverForm®—Scratch-resistant PMMA
Business unit: Performance Polymers

Market-oriented research by the Chemicals Business Area

85 percent of our chemicals research comprises projects undertaken by the business units, which are geared specifically to their core markets and technologies. In 2009, this further strengthened our technological edge and market leadership.

Examples are the integrated C_4 facilities, whose efficiency has been increased considerably by an interdisciplinary research team from the Industrial Chemicals Business Unit and Process Technology & Engineering. Their achievements include the world's first technical application for nanofiltration for recovery of a homogeneous catalyst, for which they received the Evonik Innovation Award 2009 in the category "New Processes".

Industrial Chemicals has continued to develop SiYPro (Simplify Your Process), a new product that avoids spontaneous polymerization in plants used to produce ethylene, butadiene, styrene, acrylonitrile, etc., and thus extends the intervals between cleaning. The green retarder SiYPro Super 100 prevents unwanted polymerization in styrene plants. Evonik's innovation offers customers a more environment-friendly alternative to dinitrobutyl phenol (DNBP) which has previously been used for this.

The Inorganic Materials Business Unit has developed two new products for the fast-growing thermoplastic elastomers market. AEROBATCH® PP and AEROBATCH® U bring a significant improvement in the mechanical properties of thermoplastic elastomers, such as resistance to aging, and greatly increase the viability of the production process.

Functional silanes repel water and provide protection against graffiti and corrosion, two properties that are highly sought after in the construction industry. However, the alkoxy groups in the silanes meant that in the past these benefits could only be harnessed at the expense of a high proportion of volatile organic compounds (VOCs). A new oligomeric alkylsiloxane from the Inorganic Materials Business Unit's PROTECTOSIL® product family reduces emissions of VOCs by up to 85 percent. At the same time, it provides excellent corrosion protection for concrete and thus permits thinner concrete layers on the steel rebars. That in turn reduces the required amount of concrete, which is a very energy-intensive building material. This innovation won the Evonik Innovation Award 2009 in the category "New Products".

The Consumer Specialties Business Unit once again launched a broad array of innovative products in 2009. ABIL® T Quat 60, a novel siloxane-based cosmetic raw material that sets new standards in hair care, attracted especial attention. This product protects hair from damage caused by blow-drying, coloration and washing.

Another promising invention is ORTEGOL® 76, a new polyurethane foam additive from Consumer Specialties for viscoelastic foam systems. Applications include modern high-performance mattresses which mold themselves optimally to the body, and carpet backcoatings, which can now be produced without solvents, making production far more environment-friendly.

Evonik's Health & Nutrition Business Unit is one of the world's largest producers of synthetic amino acids for animal nutrition. R&D in this business unit currently includes innovative process modifications for DL-methionine which should be ready for use in 2010. A new process has been developed for L-tryptophan, and improved production strains with better yields and higher productivity are available for L-threonine and L-lysine. In collaboration with AlzChem Trostberg, the Health & Nutrition Business Unit has developed CreAmino™, a feed additive for fattening poultry and pork, to market maturity. The business unit also expanded fermentative production routes for amino acids for pharmaceuticals.

The Coatings & Additives Business Unit has selectively expanded its portfolio of products and processes focused on sustainability, energy efficiency and environmental friendliness. Start-up of a production facility in Shanghai (China) that produces binders for coatings using a new, environment-friendly process, was the high-point of a development process that has taken several years. The innovative polymerization technology used in this plant, which forms part of the large integrated methacrylates complex, permits production of a new generation of binders that do not require additives such as emulsifiers and thus improve the quality of coatings.

Another highlight is a completely new class of oil additives produced with previously unattained energy efficiency. Coatings & Additives is collaborating with well-known OEMs to establish this technology on the market quickly.

The Performance Polymers Business Unit and KraussMaffei have set new standards of plastics processing with CoverForm®, a joint development which received the Evonik Innovation Award 2009 in the category "New System Solutions". This innovation allows injection molded plastic components with a functional surface to be manufactured in a one-step process. That greatly reduces production costs for scratch-free, chemical-resistant plastics parts.

Performance Polymers has also developed new polyetherether ketone polymers marketed as VESTAKEEP® for medical products that remain in the body for more than 30 days. Extensive documentation submitted to the US Food and Drug Administration simplifies customers' filings for marketing approval for implants made of this high-performance material.

R&D in the Chemicals Business Area

R&D employees	approx. 2,300
Locations	more than 35
Total R&D projects	approx. 500
R&D projects focusing on resource efficiency	approx. 100
Cooperation with universities and scientific institutes	approx. 250
Number of new patent applications	approx. 300
Patents (granted and pending)	more than 24,000
Registered trademarks (granted and pending)	more than 7,500

Performance of the business areas

Chemicals Business Area

The Chemicals Business Area bundles Evonik's global specialty chemicals activities. We are one of the world's largest and most significant players in this sector. More than 80 percent of sales are generated by products where we rank among the market leaders and we are constantly working to raise that proportion and improve the quality of our portfolio. The spectrum of future-oriented activities and regional growth markets is very balanced: None of the end-markets for our products accounts for more than 20 percent of sales. Another of Evonik's strengths is close collaboration with customers, to whom we supply optimal products and system solutions, often tailored to their specific needs.

Chemicals Business Area: Key data[1)]

in € million	2009	2008[2)]	Change in %
External sales	9,978	11,762	–15
EBITDA	1,602	1,626	–1
EBIT	932	941	–1
Capital expenditures[3)]	502	727	–31
Depreciation and amortization[3)]	639	674	–5
Capital employed (annual average)	9,071	9,477	–4
ROCE in %	10.3	9.9	
EBITDA margin in %	16.1	13.8	
Employees	29,723	31,728	–6

[1)] In addition to the operational business units, the key data include strategic research, cross-unit site services and management expenses.
[2)] Prior-year figures restated to reflect reversal of transfer of 50 percent stake in Infracor. See Note (9.1) to the consolidated financial statements.
[3)] For intangible assets, property, plant and equipment and investment property.

Far lower demand

The global economic crisis led to a massive drop in volumes in almost all business units, especially in the early months of 2009. This was caused by a combination of far lower demand and systematic destocking by customers. From about June, demand in some regions and industries started to pick up gradually from the low level seen at the start of the year, and this trend continued in the second half. The main impetus came from Asia and Europe, while business in North America generally remained low. The 22 percent drop in volumes registered in the first six months was reduced to 10 percent over the year as a whole. The 6 percent reduction in prices principally reflects the fact that lower raw material costs were passed on to customers. The change in the scope of consolidation mainly comprised the divestment of the AlzChem Group. Overall, sales in the Chemicals Business Area shrank 15 percent to €9,978 million.

Chemicals Business Area: Change in sales

in %	
Volumes	–10
Prices	–6
Changes in scope of consolidation	–1
Exchange rates	2
Total	**–15**

Cost savings dampened earnings downturn

Plummeting volumes and the resultant sharp drop in capacity utilization put considerable downside pressure on earnings. Moreover, the significant downturn in raw material prices, especially at the start of the year, led to impairment write-downs on inventories and thus reduced EBITDA. By contrast, rapid and highly disciplined action to safeguard earnings and liquidity alleviated the situation considerably. This principally involved stringent management of net working capital, postponing investment plans and substantial cost savings. Key measures included cutting staff bonuses, outsourcing and travel expenses, and introducing short-time working in response to the sharp cut-back in production. At the peak, up to 3,500 employees were affected by short-time working, but this was eliminated almost completely by year end thanks to the renewed rise in capacity utilization. Since demand started to pick up slightly in the summer and cost savings had an increasing effect, we were able to offset almost all of the 33 percent drop in EBITDA reported at the end of the first six months. At year end EBITDA was €1,602 million, down 1 percent year-on-year.

Improved profitability

The EBITDA margin advanced significantly to 16.1 percent. Cost-saving measures included the curtailment or postponement of capital expenditures. Investment in property, plant and equipment therefore dropped 31 percent to €502 million. That was well below depreciation, which amounted to €639 million. The average capital employed decreased by €406 million to €9,071 million thanks to the reduction in net working capital. ROCE therefore improved from 9.9 percent to 10.3 percent.

Our scientists are working on integrating renewable raw materials and biotechnological processes into industrial applications

Evonik is examining carving out the carbon blacks business

In January 2010 Evonik's Executive Board agreed to explore the possibility of carving out of the carbon blacks business. Accordingly, various strategic options for the future development of these activities are currently being examined. The possible outcome is open and ranges from establishing the business on the market as an independent unit to finding a partner or divestment.

At a glance

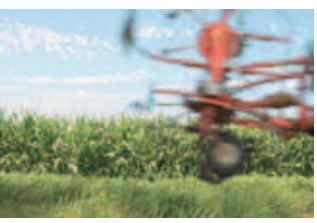
Chemicals Business Area
Global specialty chemicals operations

Expertise
Evonik supplies custom-tailored products and solutions

Balanced structures
None of our end-markets accounts for more than 20 percent of sales

Profitable
EBITDA margin increased to over 16 percent

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



Evonik supplies the catalysts needed to produce biodiesel

evonik.com/
industrial-chemicals

Industrial Chemicals

The Industrial Chemicals Business Unit supplies products that customers in the agrochemicals, chemicals, plastics and paper industries use for high-quality end-use applications. The olefins, alcohols and ether produced in our unique integrated C_4 production complexes are mainly used by the plastics industry and as fuel additives. Evonik is the technology leader in the production of hydrogen peroxide and has a global network of production facilities to ensure optimum supply of this environment-friendly bleaching agent to its customers. This business unit is also the global market leader in catalysts for the production of biodiesel. The product spectrum is rounded out by substances for the agrochemicals, colorants and plastics industries.

Industrial Chemicals Business Unit

in € million	**2009**	2008	Change in %
External sales	1,956	2,737	–29
EBITDA	242	363	–33
EBIT	176	291	–40

Sales and earnings down significantly year-on-year

Following a very weak first half due to the global economic crisis, the second half brought a significant upturn in demand, especially for plasticizer alcohols, hydrogen peroxide, sodium methylates for the production of biodiesel, agrochemicals, and plastics additives. Overall, sales were €1,956 million, down 29 percent year-on-year. That was due in equal measure to lower volumes and declining prices. EBITDA dropped 33 percent to €242 million. The volume and price-driven drop in earnings was partially offset by effective cost-savings. In view of the sustained decline in demand, production was shut down at the sites in Münchsmünster (Germany) and Bussi (Italy).

Investment in growth areas

The Industrial Chemicals Business Unit increased its competence in process technology and catalysis and embarked on the commercial application of several important projects. In Marl (Germany), a 2-propylheptanol plant was successfully brought into service after a very short development and construction phase. As a result, Evonik is now Europe's largest producer of high-molecular plasticizer alcohols. Despite the difficult economic situation, capacity at this facility was fully utilized from the start. The sodium methylate facility in Mobile (Alabama, USA), which came on stream in 2009 to accompany growth in the US biofuels market, is also based on new technology.

Inorganic Materials

Core competencies in designing inorganic particles and their surface properties are the hallmarks of the Inorganic Materials Business Unit. It also operates integrated silicon-based facilities for the production of a unique range of chlorosilanes and organo-silanes. Its filler systems based on carbon blacks, precipitated silica and rubber silanes are mainly sold to customers in the rubber and tire industry. Pigments are supplied to the coatings, colorants and printing industries. Ultra-fine-particle fumed silica is used as an additive to improve the surface and properties of a wide range of materials. Evonik's high-purity chlorosilanes are key components in the manufacture of optical fibers and polycrystalline silicon, which is in high demand for applications in the electronics and photovoltaics sectors.

Considerable reduction in demand

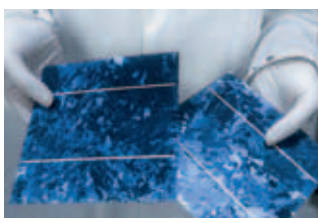
Sales shrank 18 percent to €1,803 million in 2009, mainly due to lower volume sales. In the first half of the year, business suffered considerably from the crisis-related sharp drop in demand from the automotive and construction sectors (tires, silicones, adhesives and sealants, polyester, colorants and coatings), and the electronics sector. A perceptible recovery was registered during the second half of the year. This was supported by extensive global economic stimulus programs. By contrast, business with products for the growing photovoltaics market and the environmental sector was pleasing. The substantial overall drop in demand and the associated reduction in capacity utilization had a considerable impact on earnings. Thanks to successful action to reduce costs, EBITDA only declined by 29 percent to €222 million.

Targeting tomorrow's solar energy and electronics markets

In fall 2009 Evonik and its partner Taiyo Nippon Sanso Corporation (TNSC) held the groundbreaking ceremony for a project focused on environment-friendly utilization of solar energy in the future. Construction of a combined production plant for monosilane and AEROSIL® fumed silica at a total cost of €150 million has started at Yokkaichi (Japan). This plant is scheduled to come on stream in 2011. The Inorganic Materials Business Unit has concluded a long-term agreement to supply monosilane to TNSC, a global gas distributor that has been supplying customers in the Asian electronics industry for many years. The new monosilane facility will enable Inorganic Materials to participate in the market for thin-layer photovoltaics, flat-screen displays and semiconductors, which is growing particularly fast in Asia.

A new chlorosilanes facility being constructed in Merano (Italy) is scheduled to come on stream in 2011. This facility is integrated into a site operated by MEMC Electronic Materials Inc., one of the leading suppliers of electronic and solar wafers, with which we have a long-term supply agreement.

Evonik has set up a joint venture with Taiwanese company Cristal Material Corporation to produce high-quality glass lenses for the next generation of light-emitting diodes (LEDs). Production is based on SiVARA™ sol-gel technology developed by Inorganic Materials. In view of their advantages, LEDs are increasingly being used in a wide range of lighting applications. Market growth of over 20 percent p.a. is forecast.



High-purity silicon: vital for the production of wafers

evonik.com/
inorganic-materials

Inorganic Materials Business Unit

in € million	2009	2008	Change in %
External sales	1,803	2,208	–18
EBITDA	222	315	–29
EBIT	98	190	–49

Evonik is an established partner for producers of personal care and cleaning products

evonik.com/
consumer-specialties

Consumer Specialties

The Consumer Specialties Business Unit supplies a wide range of innovative products to the consumer goods industry for use in personal care and hygiene products and cleaning agents. Its technology platforms and extensive expertise in interfacial chemistry are also used for certain industrial applications such as the production of polyurethanes and scratch-free polyolefins. Even small amounts of its custom-tailored substances and system solutions—especially surfactants produced from renewable raw materials and organically modified silicones, and superabsorbents produced from polyacrylic acid—give customers' products the additional benefits that often clinch a sale. Strategic success factors include high innovative capability and intensive collaboration with leading manufacturers of consumer goods and industrial customers.

Significant improvement in earnings

Sales declined by 11 percent to €1,502 million. The downtrend was due to lower volume sales and price reductions induced by lower raw material costs. The Polyurethane Additives and Industrial Specialties Business Lines, which mainly serve industrial customers, got off to a weak start as a result of the economic crisis but made up much of the lost ground during the year. Products for the consumer segment, for example, cosmetics, detergents and hygiene articles, were hardly affected by the economic crisis but the general trend to cheaper products led to a slight drop in volume sales of high-quality ingredients. The optimization programs introduced in the previous year were implemented successfully. Earnings were lifted by withdrawing from unprofitable products and additional cost savings. This included the shutdown of production in Bussi (Italy). All business lines contributed to the 34 percent improvement in EBITDA to €192 million.

Higher capacity in Asia

Start-up of a new production facility at the Xinzhuang site in Shanghai (China) has greatly increased Consumer Specialties' production capacity for polyurethane additives. This state-of-the-art facility also permits the performance of additional process steps based on innovative processes. High-quality additives can now be supplied to China and other Asian countries from Shanghai and an even faster and more flexible response to regional customer requirements is possible. China is the fastest growing market for polyurethane materials, especially for the insulation of buildings and refrigerated equipment, as cushioning for furniture and mattresses, and for automotive applications.

Consumer Specialties Business Unit

in € million	**2009**	2008	Change in %
External sales	1,502	1,682	–11
EBITDA	192	144	34
EBIT	125	81	56

Health & Nutrition

The Health & Nutrition Business Unit manufactures and markets essential amino acids for animal nutrition, active ingredients for the pharmaceuticals industry and catalysts. These have to meet top quality standards and registration requirements. Success factors include Evonik's long-standing experience of organic synthesis, catalysis and biotechnology. Evonik is the world's only producer of all four essential amino acids for healthy and environment-friendly animal nutrition. High-purity amino acids are also produced for the food, cosmetics and pharmaceuticals industries. This business unit often develops organic active ingredients and catalysts on an exclusive basis to meet the requirements of specific customers and markets.

Health & Nutrition Business Unit

in € million	2009	2008	Change in %
External sales	1,602	1,505	6
EBITDA	602	450	34
EBIT	533	369	45

Further substantial hike in earnings

Volume growth and higher prices lifted sales 6 percent to €1,602 million. The 34 percent improvement in EBITDA to €602 million was driven principally by a favorable product mix and cost savings. Business with amino acids for animal nutrition has little cyclical exposure. Nevertheless, volumes dropped substantially at the start of the year due to destocking by customers. However, demand picked up considerably from June and was recently above the pre-recession level. We were able to meet this higher demand without difficulty thanks to expansion of our production capacity. The old methionine facility in Antwerp (Belgium), which was mothballed when the new facility came into operation in summer 2006, has been operating at full capacity again since fall 2009. The Exclusive Synthesis Business Line benefited from the stability of the pharmaceuticals market. Only its specialty products for fine chemicals suffered a cyclical drop in demand. The Chinese authorities have withdrawn the production permit for the site in Dalian (China) until further notice following an explosion in the wastewater treatment facilities. The catalysts business was relatively stable.

Action to raise capacity

Health & Nutrition will be raising global production capacity for methionine in the next few years in response to high demand. A phased concept entailing coordinated expansion of capacity for methionine and the necessary raw materials will be implemented at the sites in Antwerp (Belgium), Wesseling (Germany) and Mobile (Alabama, USA) to raise capacity stepwise between 2011 and 2013 to a total of 430,000 metric tons p.a. Evonik is thus responding to forecast growth in the world population, which will increase demand, especially for poultry.

In addition, Exclusive Synthesis, which has previously had production facilities in Germany and China, has been placed on a broader basis. In January 2010 Health & Nutrition acquired the Tippecanoe site in Lafayette (Indiana, USA) with nearly 650 employees from Eli Lilly and Company. Simultaneously, a contract was signed on the supply of pharmaceutical active ingredients and intermediates to Eli Lilly for several years. Exclusive synthesis of custom-tailored active ingredients and intermediates for the pharmaceuticals industry is a relatively non-cyclical business in an exceptionally high-growth market.

Custom-tailored active ingredients for the pharmaceuticals industry

evonik.com/
health-nutrition

Specialties for coatings, lubricants and adhesives

evonik.com/
coatings-additives

Coatings & Additives

The Coatings & Additives Business Unit produces functional polymers and high-quality monomer specialties for the paints and coatings, adhesives and sealants industries. Its products are based on integrated production structures for methylmethacrylate, isophorone and silicone and are used in crosslinkers, resins, binders and colorant systems. Functional polymers are also used as high-quality oil additives to improve the flow properties of lubricants over a wide temperature range, thus improving engine performance and reducing fuel consumption. Pharmaceutical polymers ensure that active ingredients are released in the body at the right time and in the right place.

Coatings & Additives Business Unit

in € million	**2009**	2008	Change in %
External sales	1,333	1,549	–14
EBITDA	255	250	2
EBIT	182	194	–6

Cost savings mitigate lower volumes

Business was adversely affected by a sharp drop in demand from the automotive, construction and coatings sectors, especially in the early part of the year. Sales volumes began to recover slowly from the second quarter and by September they were above the year-back level. The main driving forces came from Europe and Asia—supported by national economic stimulus programs. In North America demand remained unsatisfactory. Overall, sales contracted by 14 percent to €1,333 million. Thanks to rapid action to cut costs, the lower cost of some raw materials and rising capacity utilization at the new oil additives plant in Singapore, the massive drop in earnings in the first quarter was more than offset in the remainder of the year and by year end EBITDA was €255 million, a rise of 2 percent from the previous year.

China as a growth market

The Coatings & Additives Business Unit started up a new production facility for thermoplastic methacrylates in Shanghai (China), based on an innovative, environment-friendly process. This is Evonik's first methacrylate resins facility outside Germany and enables it to offer customers in Asia even shorter procurement times and more reliable supply. Moreover, China is one of the most dynamic growth regions in the coatings industry. The main customers for binders are coatings producers for the marine and container industry. As an integral part of the MATCH (Methacrylates to China) project in Shanghai Chemical Industry Park, the new polymers plant benefits from reliable supply of monomers from upstream plants.

Performance Polymers

The Performance Polymers Business Unit manufactures a wide range of advanced materials and its applications technology expertise is highly valued on the market. The heart of its business comprises methylmethacrylate chemistry and integrated production facilities for polyamide 12. This business unit also produces special high-performance materials based on transparent specialty polyamides, polyetherether ketone (PEEK) and polyimides (PI). Its polymers and semi-finished products are used in structural components, primarily for consumer durables and long-lasting capital goods. Focal areas of application are the automotive and construction sectors and a large number of high-end applications for aircraft construction, displays and lifestyle products. Standard and specialty monomers and molding compounds are marketed to the plastics, adhesives and colorants industries.

Lower earnings

The economic crisis had a major impact on this business unit's performance. Demand from the automotive and construction industries nosedived, especially in the first half of the year. Business started to recover slightly from June, driven by high demand for polymethylmethacrylate (PMMA) molding compounds for flat-screen displays and specialty applications for high-performance polymers. Overall, sales slipped 20 percent to €1,116 million, especially in the wake of declining volumes and a slight reduction in prices. EBITDA slipped 46 percent year-on-year to €61 million. The substantial downturn caused by the sharp drop in volumes at the start of the year was partially offset by prompt cost-saving measures.

Major investment successfully completed

The production plant for methylmethacrylates (MMA), the heart of the MATCH complex, was successfully brought into service by Performance Polymers in Shanghai Chemical Industry Park only two years after construction started. Evonik now has a world-scale MMA plant with annual capacity of 100,000 metric tons in Asia, underscoring its position as the leading global supplier of MMA specialties. This is the first plant producing MMA using the C_4 process, which increases flexibility in the use of raw materials and reduces production costs. Since mid-October 2009 this new MMA facility has supplied to the downstream facilities that came into operation some months previously, so the complete MATCH complex is now operating. Almost all products in the methacrylate production chain are produced here across business unit boundaries: basic monomers, specialty monomers and crosslinkers, PMMA molding compounds and thermoplastic methacrylate resins. Through this new integrated facility, Evonik is participating in the growth of the MMA market in Asia.

Evonik supplies high-performance materials for automobiles, airplanes and displays

evonik.com/
performance-polymers

Performance Polymers Business Unit

in € million	2009	2008	Change in %
External sales	1,116	1,397	–20
EBITDA	61	112	–46
EBIT	–19	43	–

Energy Business Area

Evonik's power and heat generation business and services for power stations are grouped in the Energy Business Area. Its core competencies include planning, financing, building and operating highly efficient fossil-fuel power plants. As a grid-independent power generator, Evonik operates coal-fired power plants at eight sites in Germany, refinery power plants at two locations and a variety of facilities to generate energy from renewable resources. This business area's international successes comprise coal-fired power plants in Colombia, Turkey and the Philippines. In each of these countries it works closely with local partners. Total installed power is around 9,400 Megawatts (MW) worldwide, including around 7,700 MW in Germany. Long-term supply and offtake agreements with key customers ensure a sustained return on investment and essentially stable revenues. Evonik is well-positioned in the high-growth future market for renewable energies and is one of the German market leaders in the generation of electricity and heat from mine gas, biomass and geothermal energy. Its globally aligned engineering services also deepen its country-specific insight into the energy market, enabling it to develop new business ideas for power plant projects.

evonik.com/energy

Energy Business Area: Key data

in € million	2009	2008[1)]	Change in %
External sales	2,558	3,399	–25
EBITDA	418	517	–19
EBIT	326	415	–21
Capital expenditures[2)]	280	328	–15
Depreciation and amortization[2)]	86	89	–3
Capital employed (annual average)	3,355	3,152	6
ROCE in %	9.7	13.2	
EBITDA margin in %	16.3	15.2	
Employees	4,820	4,702	3

[1)] Prior-year figures restated to reflect reversal of transfer of 50 percent stake in Infracor. See Note (9.1) to the consolidated financial statements.
[2)] For intangible assets, property, plant and equipment and investment property.

Earnings down year-on-year

Sales declined 25 percent to €2,558 million. This was principally caused by a considerable reduction in the price of hard coal, which had rallied to a peak of around US$210 per metric ton in July 2008, before dropping back to around US$80 per metric ton by the end of 2008. In 2009, the price fluctuated between US$62 and US$81 per metric ton. The fluctuations in the global price of coal in 2008 impacted the sales reported by the Energy Business Area with a time lag because of the contractually agreed coal price index. Sales were also clipped by lower trading volumes in the Coal Business Line (formerly Trading) and lower utilization of power plants in response to reduced demand from customers. EBITDA declined by 19 percent to €418 million, chiefly due to impairment losses on inventories in the Coal Business Line. By contrast, systematic and successful cost-saving measures boosted the EBITDA margin to 16.3 percent.

Strengthening our power plant base

Investment totaled €280 million, well above depreciation, which amounted to €86 million. Capital expenditures focused on construction of the Walsum 10 power plant. Average capital employed therefore increased to €3,355 million. ROCE slipped substantially to 9.7 percent due to the decline in earnings and simultaneous rise in average capital employed.

Systematic cost management reduced earnings decline

In the Power Business Line sales dropped 22 percent year-on-year to €1,312 million as a result of considerably lower coal prices and a sharp drop in volume sales of energy. This effect also reduced marginal income at power plants in Germany and abroad. This was counteracted to some extent by cost savings. In all, EBITDA was considerably lower.

Sales contracted 12 percent to €215 million in the Renewable Energies Business Line, while EBITDA was unchanged year-on-year. Lower earnings from declining volumes of mine gas were offset by disciplined cost-savings. Energy generation from renewable resources contributes to the energy mix and reduces climate impact. In view of the very good perspectives for the development of the Renewable Energies Business Line, further national and international options to strengthen it are currently being examined.

External sales by business line

in € million	**2009**	2008	Change in %
Power	1,312	1,671	–22
Renewable Energies	215	246	–12
Coal	748	1,205	–38
Other	283	277	2
Energy	**2,558**	**3,399**	**–25**

Volume sales

	2009	2008	Change in %
Power GWh	35,720	39,492	–10
Renewable Energies (heat) GWh_{th}	2,115	2,038	4
Renewable Energies (power) GWh_{el}	1,592	1,883	–15
Coal million metric tons coal	27.2	35.7	–24

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

The Coal Business Line mainly markets coal for power stations, thus securing the supply of German and imported coal for power stations operated by the company and third parties. Sales plunged 38 percent to €748 million owing to far lower coal prices and declining trading volumes. The massive drop in the price of coal accompanied by a substantial short-term reduction in demand from major customers in the first half of 2009 led to considerable impairment write-downs on coal inventories in the first half of 2009. EBITDA slipped to minus €38 million, having been around break-even point in the previous year.

Power for the future

Erection of the innovative 790 MW coal-fired power plant in Duisburg-Walsum (Germany), involving total investment of €820 million, is nearing completion. As a facility to provide Clean Competitive Electricity from Coal (CCEC), Walsum 10 integrates many site-specific features and innovations. Its higher efficiency means that at full load it requires around 20 percent less hard coal and emits around 20 percent less CO_2 than comparable hard-coal power plants. Net efficiency of the new power plant is more than 45 percent, five percentage points above other modern hard-coal power plants in Germany and more than 15 percent higher than the average for German hard-coal power plants. This is achieved through modern engineering materials, which allow higher temperatures and pressure in the boiler. In addition, energy consumption by the plant itself is reduced by a large number of individual measures. The most complex individual component in the plant is the roughly 106 meter high steam boiler. During the pressure test in summer 2009, the TÜV Nord permitting authority officially certified that the boiler withstands exposure to high pressure.

The first phase of the new AYAS power plant project in Iskenderun (Turkey) was initiated in 2009: Having obtained a power generating license and environmental permit, construction work began in early 2010. The planned new 625 MW hard-coal power plant will be built by Ayas Enerji Üretim ve Ticaret A.S., a project company in which Evonik Steag GmbH has a 51 percent stake and the Turkish pension fund Ordu Yardimlasma Kurumu (OYAK) holds 49 percent. Evonik already operates a 1,320 MW hard-coal power plant close to AYAS through its project company ISKEN, in which OYAK also has a 49 percent stake.

At a glance

Energy Business Area
Power and heat generation and related services

International successes
Coal-fired power plants in Colombia, Turkey and the Philippines

Technological edge
Walsum 10, Europe's most advanced power plant, will come into service in 2010

Well-positioned
German market leader in heat and power generation from mine gas, biomass and geothermal energy

Powerful
Total installed capacity worldwide is around 9,400 MW

Energy for the future: generating power from renewable resources

Real Estate Business Area

The Real Estate Business Area manages a portfolio of around 60,000 company-owned residential units concentrated in the federal state of North Rhine-Westphalia (NRW) in Germany. It also has a 50 percent stake in THS, which owns more than 70,000 residential units. These are also located predominantly in the federal state of NRW. Evonik is thus one of Germany's leading privately owned residential real estate companies. Business focuses on letting homes to private households, which essentially generates regular and stable cash flows.

In addition, active portfolio management involving the selective sale and purchase of residential units is used. The business model is rounded out by property development activities on company-owned land to upgrade the portfolio.

This business area's regional focus is the key to outstanding market insight and brings considerable advantages in the management of the housing stock.

Another good result

Sales were unchanged year-on-year at €378 million. EBITDA slipped to €183 million, a drop of 16 percent from the year-back figure, which was boosted by one-off income from the divestment of commercial real estate. As a result of the drop in earnings, the EBITDA margin declined to 48.4 percent. Capital expenditures amounted to €57 million, below the year-back figure of €87 million. Investment focused on modernizing energy supply to residential units and further portfolio improvements through new construction. Average capital employed increased to €1,843 million, mainly because of capital expenditures and higher deferred tax assets. ROCE dropped to 7.3 percent.

evonik.com/real-estate

Real Estate Business Area: Key data

in € million	2009	2008	Change in %
External sales	378	375	1
EBITDA	183	217	–16
EBIT	135	162	–17
Capital expenditures[1)]	57	87	–34
Depreciation and amortization[1)]	45	44	2
Capital employed (annual average)	1,843	1,762	5
ROCE in %	7.3	9.2	
EBITDA margin in %	48.4	57.9	
Employees	479	443	8

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

Modern lifestyles: family-friendly residential areas that utilize energy efficiently

Focus on a sustained improvement in value
Management of the property portfolio is based on sustainable criteria, giving high priority to continual maintenance and measures to raise value by optimizing energy efficiency. Earnings fell short of the previous year's level as a result of rental income lost due to divestment of commercial property and a slight rise in net maintenance expense (€11.79 per square meter in 2009 compared with €11.54 in 2008). The average net rent excluding utility charges increased significantly from €4.34 per square meter in the previous year to €4.47 per square meter. With a demand-driven vacancy rate of 2.4 percent, the rental situation is good by sector standards.

Careful analysis of the entire housing stock is regularly undertaken for portfolio management purposes. Key criteria are the attractiveness of locations, the quality of the residential units and suitability for cost-efficient operation. The objective is to expand the portfolio in areas with good economic prospects. At the same time, the aim is to identify and sell off properties in unattractive locations and those requiring extensive modernization. In 2009, the focus of sales activities was switched from portfolio to individual sales. Portfolio management earnings were therefore below the high level reported in 2008, which was boosted by one-off income from the divestment of commercial property.

The property development activities, which are run as a complement to the property management business, focus on construction projects on company-owned sites. 123 new residential units were handed over and earnings were on a par with the previous year.

The result for THS, which is recognized at equity, increased to €36 million.

Successful multi-generational project
The multi-generational reference project initiated by Evonik as the basis for a new community-based lifestyle is proving very successful. The first construction phase comprising 37 accessible rented apartments, principally for senior citizens, was completed in 2009 and let within a very short time. The next two construction phases comprise further high-comfort apartments and houses, providing a differentiated offering for families, young couples and singles. The multi-generational complex will comprise a total of 90 rented apartments and eleven owner-occupied houses. The project gives tenants a home for all phases of their lives and ensures that Evonik's property will be lettable for a long time in the future.

At a glance

Real Estate Business Area
Letting residential units, mainly to private households

Focused
Around 60,000 residential units, mainly in North Rhine-Westphalia

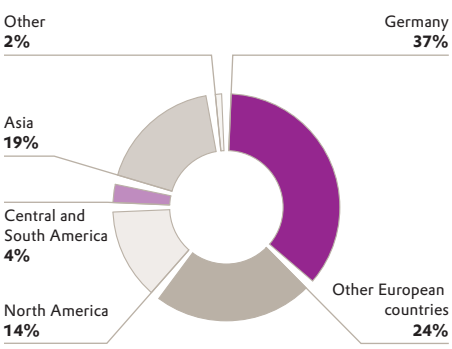
A sound investment
50 percent stake in THS, which has more than 70,000 residential units, mainly in North Rhine-Westphalia

Advantage
Excellent market insight brings advantages in the management of Evonik's housing portfolio

Market leadership
One of Germany's leading privately owned residential real estate companies

Regional development

Sales by region[1)]



[1)] By point of sale.

A global presence

In 2009, as in the past, more than 60 percent of sales were generated outside Germany. Sales in Germany shrank 24 percent to €4,806 million, mainly due to the cyclical drop in demand and a sharp decline in coal prices. Capital expenditures were €568 million. Construction of our 790 MW hard-coal power plant in Duisburg-Walsum (Germany) is nearing completion. Start-up of a new 60,000 metric ton production facility for the plasticizer alcohol 2-propylheptanol (2-PH) in Marl (Germany) has broadened our range of high-molecular plasticizer alcohols and our leading market position and technological edge in C_4 chemicals. Together with our strategic partner Daimler AG, we are preparing to start serial production of lithium-ion battery cells for automotive applications based on our CERIO® technology in Kamenz (Dresden, Germany) from 2011.

Sales in the other European countries declined 16 percent to €3,150 million but this region's share of total sales increased by 1 percentage point to 24 percent. Capital expenditures in this region amounted to €80 million. In Merano (Italy) we are building a new over-the-fence facility to supply chlorosilanes for the production of electronic and solar wafers for the US company MEMC Electronic Materials. Integrating the oil additives business acquired from methacrylates producer DOS at the start of 2009 has been completed and has strengthened our position in Russia. Together with the Russian company Sibur, we are examining the possibility of building a propylene oxide facility in conjunction with a hydrogen peroxide plant for the Russian Federation.

Expansion of business in North America

Sales in North America fell 18 percent to €1,897 million, mainly due to the cyclical downturn. This region's share of total sales remained unchanged at 14 percent and capital expenditures were €41 million. Evonik has further increased its presence on the attractive North American market. At our site in Mobile (Alabama, USA), we started up a 60,000 metric ton facility to produce sodium methylate for biodiesel. We also embarked on the next step in expansion of exclusive synthesis of custom-tailored active ingredients and intermediates for the pharmaceuticals industry by acquiring the Tippecanoe site in Lafayette (Indiana, USA) from the US pharmaceuticals company Eli Lilly and Company in January 2010. In parallel with this a contract was concluded on the supply of pharmaceutical active ingredients and intermediates to Eli Lilly for several years.

In Central and South America Evonik's sales totaled €535 million, which was 9 percent lower than in 2008. This region accounted for an unchanged 4 percent of total sales. Capital expenditures were €3 million and we are planning to build production capacity for sodium methylate for biodiesel for the South American market.

Strong commitment to the high-growth Asian region

Sales in Asia contracted by 8 percent to €2,452 million. This region's share of total sales increased by 2 percentage points to 19 percent. Capital expenditures were €151 million. In the past three years we have invested almost half a billion euros in Asia. That reflects the special strategic significance that we attach to this high-growth region. Our large integrated production complex for specialty polymers, preproducts for plastics and coating systems (MATCH) came on stream in Shanghai (China) in 2009. Evonik set up a joint venture with Taiwanese company Cristal Material Corporation to produce high-quality glass lenses for the next generation of light-emitting diodes. Investment of €150 million at Yokkaichi (Japan) is focused on tomorrow's markets for solar energy and electronics. Construction of a combined production facility for monosilane and AEROSIL® fumed silica has started at this site and is scheduled to come into service in 2011.

We plan to extend our successful activities in the international energy sector. Alongside the Iskenderun power plant in Turkey, we operate power plants in Paipa (Colombia) and Mindanao (Philippines) and intend to build another 625 MW hard-coal power plant in Iskenderun.

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. RAG-Stiftung holds 74.99 percent of the shares in Evonik Industries AG.

The annual financial statements for Evonik Industries AG have been prepared in accordance with the accounting standards set out in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Income statement for Evonik Industries AG

in € million	2009	2008
Sales	220	220
Other operating income	774	1,267
Personnel expense	–47	–101
Depreciation of property, plant and equipment, amortization of intangible assets	–2	–2
Depreciation of current assets	–11	0
Other operating expenses	–749	–1,163
Operating result	**185**	**221**
Net interest expense	–59	–205
Dividends and similar income	620	308
Income before taxes	**746**	**324**
Income taxes	–42	–16
Net income	**704**	**308**
Allocation to revenue reserves	0	–28
Net profit	**704**	**280**

Since January 1, 2008 Evonik Industries AG has charged its subsidiaries for services rendered. These expenses amounted to €220 million in 2009 and are reflected in sales. The other operating income of €774 million includes costs of €259 million passed through to other companies in the Group. €222 million of this comprised general allocations of Group costs while €36 million comprised project expenses, rental costs and the cost of IT licenses. In the gross view, currency translation gains (€460 million) are included in other operating income and the corresponding expenses (€484 million) are included in other operating expenses. The net effect is an expense of €24 million. Personnel expense was €47 million, well below the year-back figure of €101 million, which included payments to members of the Executive Board under severance agreements, provisions for personnel expenses relating to the restructuring of the Group and performance-based payments in connection with strategic corporate projects. Personnel expense for 2009 was also reduced by the agreement to cut variable pay.

The net interest expense of €59 million resulted principally from borrowing for the company's financing activities for the Group. This item also contains interest income and expense from the Group-wide cash pool, which is concentrated at Evonik Industries AG. Income from subsidiaries increased from €308 million in 2008 to €620 million in 2009, principally due to a one-off payment by Evonik Immobilien GmbH and an increase in the profit transferred by Evonik Degussa GmbH. Income before taxes therefore improved 130 percent to €746 million. After deducting income taxes, net income was €704 million. The Executive Board will propose to the Annual Shareholders' Meeting that the net profit of €320 million should be used to pay a dividend to the company's shareholders.

Balance sheet for Evonik Industries AG

in € million	**Dec. 31, 2009**	Dec. 31, 2008
Assets		
Intangible assets, property, plant and equipment	7	7
Financial assets	9,274	9,140
Non-current assets	**9,281**	**9,147**
Receivables and other assets	2,497	3,096
Securities	6	0
Cash and cash equivalents	444	199
Current assets	**2,947**	**3,295**
Prepaid expenses and deferred charges	**3**	**3**
Total assets	**12,231**	**12,445**
Equity and liabilities		
Issued capital	466	466
Capital reserve	720	720
Revenue reserves	3,371	3,371
Net profit	704	280
Equity	**5,261**	**4,837**
Provisions	**240**	**209**
Liabilities	**6,730**	**7,399**
Total equity and liabilities	**12,231**	**12,445**

Evonik Industries AG's total assets decreased slightly to €12.2 billion. Financial assets mainly comprise shares in the parent companies of the three business areas. The receivables and liabilities reflect the financing activities of Evonik Industries AG in its role as the holding company for the Group. Equity increased by €0.4 billion to €5.3 billion as net profit was far higher. The equity ratio improved from 38.9 percent to 42.9 percent. Payables include financial liabilities of €6.7 billion, including €5.7 billion due to affiliated companies, mainly in connection with cash pooling activities. A further €750 million relates to the corporate bond issued in October 2009. The counter-item comprises financial receivables of €2.4 billion due from affiliated companies.

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

Corporate responsibility

We define corporate responsibility (CR) as how we conduct our business and how we live up to our values. That is detailed by the three dimensions of our CR Strategy: the business, employees and processes. In 2009 we continued to respond to the growing significance of CR for the Group. The Global Social Policy adopted in the summer sets out binding global working and social standards for the Evonik Group and requires employees to treat one another with respect. Concurrently with this, we joined the UN Global Compact, underscoring our commitment to responsible conduct.

Evonik's Executive Board bears overall responsibility for CR. A CR management policy defines the structures and workflows for CR work throughout the Group. In 2010 work will initially focus on drawing up a target-based performance-management process for CR in consultation with the business units. The next step will be to increase dialogue with key stakeholders. Another central focus will be drafting a climate strategy for the Evonik Group, including evaluating climate-related aspects and integrating them into corporate decision-making processes. A project to incorporate CR into vocational training is currently at the development and test phase and should be completed by fall 2010. During the year, we will be setting up a special platform in the intranet to raise CR awareness and motivation among the workforce.

Employees

Combined strength—Joining forces to pull through the crisis
Given the impact of the financial and economic crisis, human resources work in 2009 was particularly challenging. Rapid action was required to reduce personnel expense while continuing human resources activities geared to securing the future of the company. The areas of personnel work outlined below show how we managed to achieve a balance between these aspects.

Reducing personnel expense in a time of crisis—A shared responsibility
As part of the program introduced in early 2009 to safeguard earnings, in March 2009 the Executive Board, Combined Works Council, Senior Staff Committee, and the German trade union IG BCE agreed on measures to reduce personnel expense at all consolidated companies in Germany. The action agreed for 2009 included a pay freeze for Group executives and a 50 percent cut in bonuses and similar payments for all company employees, including the members of the Executive Board. In return, Evonik gave an undertaking to avoid redundancies in the period to June 30, 2010. Together with various other measures that had already been introduced (for example, short-time working and reducing work-time credit balances and vacation accounts), these agreements provided an important basis for reducing personnel costs by around €100 million in 2009 in order to protect employment in the longer term. At the same time, action was taken to ensure that foreign companies also made a contribution. Thanks to the improved earnings situation in the second half of 2009, the cut in bonus payments was reduced from 50 percent to 25 percent. At the same time, the possibility of reducing bonus payments by 25 percent in 2010 was agreed.

Economic crisis—Activities to stabilize the situation
Personnel levels had to be adjusted in 2009 in response to low capacity utilization at production sites operated by the Chemicals Business Area. Short-time working was introduced at many German sites in January 2009. At the peak of the crisis, up to 3,500 employees were affected, but this had been reduced to around 300 by the end of December 2009 thanks to a slight economic recovery. At some sites, the time in which employees were not working was actively used to upgrade skills under the Evonik training drive, which supports self-learning by employees throughout their working lives.

Demographic analysis—Planning for the future
Evonik is developing and applying effective concepts to deal with demographic change. Anchoring this in all relevant human resources processes and topics is a key element of our human resources strategy. For more than two years, Evonik has been using scenario-based models for strategic human resources

At a glance

Lower personnel expenses
Concerted action by management and employee representatives

Short-time working
Up to 3,500 employees affected in Germany in 2009

Looking ahead
Strategic HR planning analyzes long-term age structures, capacity risks and training requirements

Family-friendly
Hertie Foundation endorses Evonik's family-oriented policies

Responsibility
Trainees account for 9 percent of the German workforce

Tomorrow's managers
Talent and succession management optimize advancement to key positions

planning. This highlights long-term trends and enables us to develop options and analyze their potential efficacy as a basis for decisions. In the face of changing global business conditions, these analyses make a major contribution to securing our competitiveness and thus protecting jobs at Evonik.

Using this tool, in 2009 we produced extensive age structure analyses for all Group companies, and various sites and organizational units in Germany. The analyses cover the base situation for human resources policy, starting from the present function structure, and the projected development of the age structure in the coming decade. They are based on uniform job families and look at employees by status and stage of development. This helps identify the human resources activities needed to counter demographic change, for example, activities to support the employability of older workers. The age structure analyses fulfill one of the major elements of the industry-wide agreement on lifetime working and demographic change concluded by representatives of management and employees in the German chemicals sector in 2008. In 2009 this was supplemented by in-house and collective agreements applicable to all Group companies in Germany. We use scenario-based human resources planning techniques in the USA and China as well as Germany, based on the uniform Group-wide job families introduced in 2009.

evonik.com/career

A family-friendly employer—Endorsement for a success factor

Evonik is family-friendly. Following a stringent audit, in 2009 the non-profit organization Hertie Foundation awarded Evonik its "berufundfamilie" certificate for its commitment to helping staff in Germany combine work and family life. An agreement with employee representatives forms the basis for a range of activities that promote various ways of combining work with family commitments. Examples are special concepts to maintain contact with employees who are on parental leave and a guaranteed right for such employees to return to their previous job within a year. Employees remain integrated into the company and having children and taking time off to care for them no longer means a complete break from their workplace. Other aspects of Evonik's family-friendly human resources policy include special health promotion days, flexible working hours, an international exchange program for school students, scholarships, childcare facilities and extended leave for staff caring for sick or elderly relatives. That also helps position us as a preferred employer in the competition for the most able specialists and managers.

Employer branding —Most striking image transformation

Every year, trendence, the leading European institute for personnel marketing, presents the Employer Branding Award to the most successful employer. In 2009 Evonik was honored with first place in the category "most striking image transformation" in recognition of its coherent and authentic employer branding and striking recruitment campaign.

Vocational training—Tomorrow's employees

We acknowledge our responsibility to give young people a start in the world of work. At the same time, our sustainable vocational training policy secures Evonik's future. Evonik took on 620 new trainees in 2009 and thus maintained its high commitment to vocational training. Overall, our German companies are training around 2,330 young people on around 40 recognized courses. As in 2008, trainees accounted for around 9 percent of our German workforce, which is well above the average for German industry. High priority is attached to vocational training. Every year we invest around €57 million in training young people, which is also above the average. Despite the global financial and economic crisis, Evonik hired 510 high-performing and motivated young people at the end of their training for a period of at least six months or—for those who performed particularly well—on permanent contracts. We will be continuing this policy of sustainable personnel planning and recruitment from our pool of trainees in 2010.

Focused on the future—Talent and succession management
The role of talent and succession management at Evonik is to retain talented staff and develop good employees into excellent managers. A Group-wide review process allows early identification of talents. Depending on their experience and stage of development, they are classified as emerging, developing or advanced leaders. Talent review meetings were held in all business areas for the first time in 2009. In addition, a new interview process has been developed to place the initial assessment of emerging leaders on an objective basis and more effectively identify their strengths and areas where development is required. The first candidates were interviewed in 2009 and preparations are under way for the international rollout of this system to China and the USA.

In tough business conditions, it is particularly important to give talents opportunities for networking within the Group and to tap into their vision of the future. Our employees' competencies remain the foundation on which Evonik's innovative strength is built. To supplement our mentoring and leadership programs, we therefore invited 70 of our top talents to TalentDays in 2009 to give them an opportunity to discuss future opportunities and trends outside their normal working environment and thus look beyond the crisis.

Employee participation plan
In spite of the difficult business conditions, our employees showed their confidence in Evonik's future: The number of staff taking part in the employee participation plan was far higher than in the previous year. This program enables staff to benefit directly from the success of the Evonik Group. The participation rights purchased under this program yield a return based on the Group's return on capital employed (ROCE), which was 6.5 percent in 2008. In 2009 around 4,100 employees purchased a total of 4.3 million participation rights. The total discount granted by Evonik was €0.5 million.

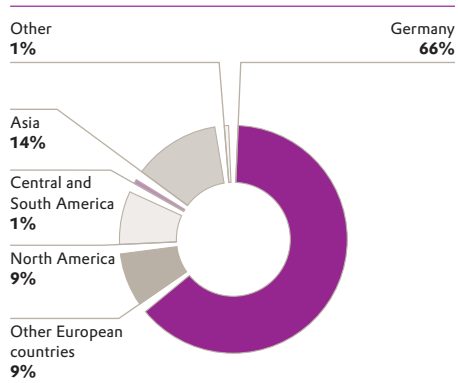
Attractive remuneration system—Long-term incentive plan
Our remuneration systems support the achievement of our strategic objectives and include long-term incentive components based on those objectives. The Long-Term Incentive Plan is an attractive remuneration component for executives worldwide. The aim is to highlight the increase in Evonik's equity value as a central success factor, in addition to the bonus system which is based on the attainment of annual targets. Payments will be made under the 2008 and 2009 tranches if the company's equity value rises by a defined amount within a three-year period.

Acting on the findings—Following up on the 2008 employee survey
The global employee survey "Contribute, Communicate, Create" in 2008 gave us an insight into the opinions and sentiment of our employees. Key findings: Employees would like a more direct dialogue with their managers, seek greater involvement in decisions and change processes, and expressed clear expectations that the improvements initiated would actually be implemented. Group-wide and departmental initiatives are acting on the findings. One Group-wide outcome is action to improve the frequency and quality of individual performance reviews. One-to-one reviews are designed to bring a sustained improvement in collaboration in the workplace. So far, this tool has mainly been used for managerial staff. As a first step, we aim to ensure that every employee in Germany has an individual development review before the end of 2010.

Headcount in 2009

At year-end 2009 the Evonik Group had 38,681 employees, around 21 percent of whom were female. The average age of the workforce was 41.5 years. 34 percent are employed outside Germany. The headcount was 2,086 lower than at year end 2008. Most of the decline (2,005 employees) was in the Chemicals Business Area and was mainly due to the divestment of the AlzChem Group (around 1,200 employees). The remainder of the decline was principally attributable to restructuring around the world in the face of the economic situation, and normal fluctuation.

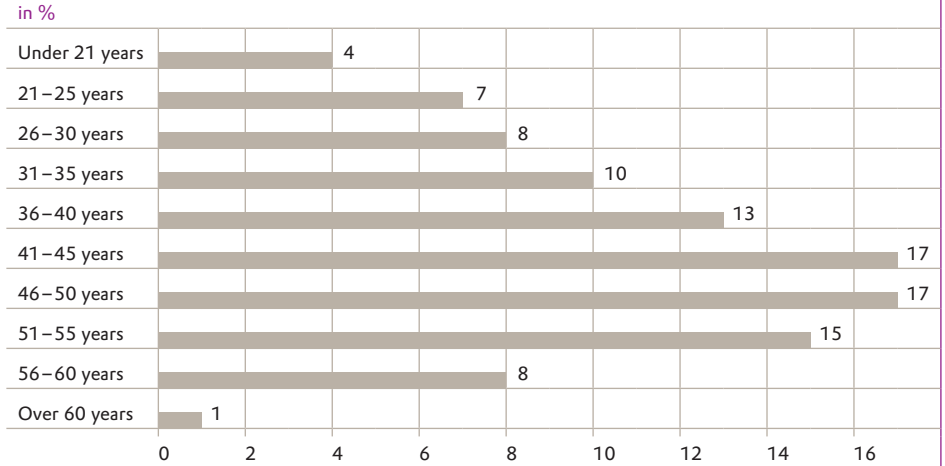
Employees by region



Employees by business area

	2009	2008
Chemicals	29,723	31,728
Energy	4,820	4,702
Real Estate	479	443
Other operations	3,659	3,894
Evonik	**38,681**	**40,767**

Age structure of the Evonik Group



Environment, safety and health

Environment, safety and health (ESH) are key elements in corporate responsibility at Evonik. Our ESH responsibility is shaped by Group-wide regulations comprising overriding ESH values, policies and procedures. The legal conformance of the ESH organization based on this structure was confirmed by an external appraisal in 2009.

At a glance

Validated
Internal audits confirm implementation of ESH rules

Certified
More than 95 percent of chemicals production conforms to ISO 14001 and all power plants in the Rhine/Ruhr and Saar regions have been validated

Improvement
Further reduction in accident frequency

On schedule
Around 200 substances will be registered under REACH by year end 2010 and nearly 1,000 by 2018

Focus on the future
Energy efficiency and climate protection

Successful ESH audits

A large number of internal audits of the business units, regions and individual sites were conducted in 2009 to monitor implementation of the ESH regulations. In addition, more than 95 percent of production in the Chemicals Business Area is validated as compliant with ISO 14001 and external environmental auditors have confirmed the efficacy of our environmental management systems. In 2009, the Energy Business Area continued its policy of having occupational health and safety validated externally by the responsible Employers' Liability Insurance Associations. Validation under OHSAS 18001 runs for three years. All power plants in the Rhine/Ruhr and Saar regions have been validated. The outcome of the ESH audits forms an important basis for the annual management review. Despite the good standards achieved so far, this revealed further scope for improvement, which we will be implementing systematically.

Further improvement in occupational and plant safety

Considerable progress was made in the field of occupational safety. In 2009, the frequency of accidents (number of accidents per million hours worked) in the Evonik Group was 2.8, a renewed reduction compared with the previous year. There were no fatal accidents involving Evonik employees in the workplace. The accident frequency in the Chemicals Business Area was 1.2, an improvement of nearly 30 percent year-on-year. That is a very high level compared with the international chemical industry. Although external contractors are informed of site and plant-specific hazards and the necessary precautions in accordance with our ESH regulations, two employees working for contractors died in an accident at our site in Dalian (China).

Accident frequency by business area

	2009	2008
Chemicals	1.2	1.7
Energy	6.6	7.7
Real Estate	2.4	2.3
Evonik	**2.8**	**3.3**

Clearly structured analyses help us understand the causes of such accidents so we can take action to prevent a recurrence in the future. The same attention is paid to plant safety. In the Chemicals Business Area we have introduced an internal plant safety indicator to ensure early identification of weaknesses and take action to improve the situation. We are one of the first chemical companies in the world to introduce this indicator to measure the current status of plant safety. The next step comprises using it to introduce improvement processes that optimize workflows.

Lower emissions

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 (EU-ETS). CO_2 emissions from these facilities in 2009 totaled some 20.6 million metric tons (2008: 26.0 million metric tons). The Energy Business Area accounted for around 16.7 million metric tons and the Chemicals Business Area for around 3.9 million metric tons.

The public debate continues to focus on European allocation rules and the question as to which industries will be most affected by the financial implications of EU-ETS from 2013. At the start of July 2009, the European Commission issued a draft list of the sectors which would be most affected, which was confirmed by the Comitology Committee in September 2009. Most segments of the chemicals industry will probably be allocated free allowances thanks to the application of special rules. The next step will be to define the allocation rules and the benchmarks to be used. This will be performed by the European Commission in 2010. In the power generating sector, all allowances will have to be obtained by auction from 2013.

Selective investment in environmental protection

Investment in efficient measures integrated into plants and processes is essential to improve environmental protection. The Chemicals Business Area invested €43 million in environmental protection in 2009 (2008: €44 million). A high proportion of this was for MATCH, the new integrated production complex in Shanghai (China). Operating costs for environmental protection facilities in the Chemicals Business Area were unchanged at €259 million. A decline in operating costs for environmental protection resulting from the savings drive in 2009 was offset by special projects such as implementation of the EU's REACH Regulation (Registration, Evaluation, Authorisation and Restriction of Chemicals).

In the Energy Business Area, environmental protection costs are incurred principally in the construction of new power plants and to improve the efficiency of existing power generating equipment. For example, environmentally relevant measures account for about 30 percent of total investment of around €820 million in Europe's most advanced hard-coal power plant in Duisburg-Walsum (Germany).

Focus on energy efficiency and climate protection

The debate about climate change and potential to reduce relevant emissions is gaining in intensity. COP 15, the United Nation's Global Climate Conference in Copenhagen (Denmark), put climate protection back on the political agenda. We outlined our position ahead of this conference through a contribution to "Climate Action 2009/2010" in which we called for an international agreement for the period following expiry of the Kyoto Protocol in 2012 and highlighted scope to use solutions already available from Evonik to utilize energy more efficiently. As an energy-intensive company with power plants that generate heat and electricity, chemical processes that use significant amounts of energy and a portfolio of some 60,000 residential units, we consider that we have a special responsibility with regard to energy efficiency. Our response comprises:

- continuously improving the efficiency of our production processes
- innovative products that save energy for our customers. According to a report by the International Council of Chemical Associations (ICCA), every metric ton of CO_2 emitted by chemical production processes saves more than two metric tons during utilization by customers. Products from Evonik were included in the ICCA report.

- contributing to more efficient use of primary energy sources, thus cutting CO_2 emissions, through technology transfer, modernization of power plants and utilization of renewable energy resources.
- optimizing the energy profile of our housing stock and building new homes based on smart concepts.

As part of our 2010 CR program, our experts are drafting a climate strategy for the Group. A key aspect is balancing the CO_2 emissions from production processes against the benefits reaped by the customers in the use of our products (lower emissions).

REACH activities on schedule

We are making rapid progress with our work on registering substances under the REACH Regulation. The main focus is on preparing the registration dossiers and substance safety reports. Registration will take place on the basis of volume in three phases in 2010, 2013 and 2018. Overall, we have now filed 20 registration dossiers with the European Chemicals Agency (ECHA) and 17 have already been accepted. These include the dossier for synthetic amorphous silica—in other words, precipitated silicas (including ULTRASIL® and SIPERNAT®) and fumed silicas (AEROSIL®)—submitted at the start of 2009. Evonik was one of the first chemical companies to achieve a successful filing. Registration took the form of a joint submission by order of the relevant REACH consortia.

Our REACH activities are currently fully on schedule. We aim to have registered around 200 substances under REACH by the end of 2010 and nearly 1,000 by 2018.

Evonik supports the Global Product Strategy

The International Council of Chemical Associations (ICCA) has set up the Global Product Strategy (GPS) initiative to encourage safe and appropriate global chemicals management. Evonik explicitly supports this initiative and is actively driving it forward, for example, at symposia in China and Eastern Europe.

The aim of the GPS is to improve and harmonize standards of product stewardship, in other words, responsibility for the entire lifecycle of a product, throughout the global chemical industry. That includes making information on safe handling and use of chemical substances widely available to facilitate safe handling around the world. This means increasing transparency and improving communications along the product chain and requires a willingness to provide understandable information for the general public. We will be implementing GPS throughout the Evonik Group and have already published GPS Safety Summaries for around 100 chemicals on our website. In future, we will also be utilizing the data compiled in compliance with REACH to produce Safety Summaries and posting them on our website.

Corporate governance

Good corporate governance, which Evonik defines as responsible and targeted corporate management and oversight, forms an integral part of our business processes. Evonik's Executive Board and Supervisory Board base their conduct on the German Corporate Governance Code. The rules for fair and responsible treatment of stakeholders are set out in our own Global Code of Conduct. This is binding for all employees worldwide, compliance is monitored and sanctions are imposed if it is violated. In 2009 we added further training offers to familiarize our employees with the Code of Conduct. Our compliance activities also focus on preventing corruption. A corporate policy sets out the basic conditions for dealing with external personnel in the commercialization of Evonik products. Here too, we provide full training for our employees. Since we consider compliance to be extremely important, we have set up a global compliance organization headed by a Chief Compliance Officer, who reports directly to the Chairman of the Executive Board but acts autonomously in the field of compliance.

Events after the end of the reporting period

Effective January 1, 2010 we acquired a production site in Tippecanoe, Lafayette (Indiana, USA) from Eli Lilly and Company, Indianapolis (Indiana, USA). See also pages 57 and 67.

Risk report

Risk strategy
Evonik is exposed to a variety of risks in the course of its business activities. Risk management therefore forms a central element in the management of the company and is geared to targeted management of risk with a view to securing present and future potential for success and avoiding, preventing, countering and minimizing risk. We only enter into entrepreneurial risks if 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 risk management
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 Evonik's organizational structure. The business units, Corporate Center and service units bear prime responsibility for the early identification of risks, estimating their implications, introducing suitable preventive and control measures and for the related internal communication. Risk Coordinators within these organizational units are responsible for coordinating the relevant risk management activities. A central Risk Officer is responsible for managing and coordinating the processes and systems for the Group. He is the contact for all risk coordinators and is responsible for documentation, coordination and information for the entire Group and for ongoing development of the risk management system.

Risk management is a central element in Evonik's controlling processes at all levels of the Group. These include strategic and operational planning, preparing investment decisions, monthly reporting and ad hoc reports. The organizational units also conduct an extensive annual risk inventory with the aid of uniform software tools. All risks are systematically identified and documented using detailed checklists 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 risk inventory, which looks at risks over a period of at least three years, is supplemented by quarterly risk reports on changes in risk factors previously identified and newly identified risks. The Evonik Group has issued a binding policy on risk management.

In fiscal 2009 Corporate Auditing inspected aspects of the risk management system as part of its audits of the 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.

Internal control system for financial accounting

The Group-wide internal control system includes the internal control system (ICS) for financial accounting. This is based on a global policy, which defines uniform accounting and valuation principles for all German and foreign companies included in the consolidated financial statements for the Evonik Group. The companies submit their financial statements via a web-based interface to the consolidation software. A range of technical validations are performed at this stage. The majority of companies have delegated the preparation of their financial statements to the Shared Service Center (SSC). Through systematic process orientation and standardization, and utilization of economies of scale this leverages sustained cost benefits and can improve the quality of accounting. The SSC is validated annually in conformance with German audit standard IDW 951. An external audit is conducted on the annual financial statements of 95 percent of companies.

All data are consolidated centrally in the Corporate Center using recognized computer programs. Key oversight functions comprise computerized and manual process controls, such as the principle of checking by a second person. The preparation of the monthly consolidated income statement and three full quarterly reports allows us to gain experience with new accounting issues and provides a good basis for plausibilization of the year-end accounts. The Executive Board receives monthly reports and quarterly reports are submitted to the Audit Committee. The accounting process is included in the Group-wide risk management system.

Financial risk management

Evonik follows the principle of separation of trading, risk controlling and back office functions and takes as its guide the banking-specific "Minimum Requirements for Trading Activities of Credit Institutions" (MaRisk) and the requirements of the German legislation on corporate control and transparency (KonTraG). Binding trading limits, responsibilities and controls are thus set in accordance with recognized best practices, and Group-wide policies and principles are in place. All financial risk positions in the Group have to be identified and evaluated. This forms the basis for selective hedging to limit risks.

Credit risks relating to financial contracts are systematically examined when the contracts are concluded and monitored continuously afterwards. Ceilings are set for each counterparty on the basis of internal or rating-based creditworthiness analyses.

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

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. At present, we are specifically monitoring market and competition risks, and sales and volume 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 our business environment closely, anticipate market trends and consistently develop our portfolio in conformance with our corporate strategy.

Market and competition risks
In 2009, the global economic crisis had a severe impact on many of Evonik's markets. The shortfall in demand, especially in the Chemicals Business Area, required action such as scaling back production capacity and extensive cost-savings to limit the earning and cash-flow risks during the year. In the second half of the year, stabilization or a slight recovery was registered in almost all of Evonik's businesses. 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 broadening our foreign production base and gaining access to new markets in high-growth regions such as China. 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 services offered. We are constantly developing attractive and competitive new products to counter the risk that chemical products could be replaced by new, improved or less expensive materials or technologies. Alternatives also have to be found for certain raw materials subject to the REACH Regulation which may no longer be available in the future. In the Energy Business Area, the energy policy framework could have a detrimental effect. This applies in particular to future regulatory measures to further reduce CO_2 emissions. We therefore have a clear focus on work geared to reducing the specific CO_2 emissions of power plants by increasing efficiency further and using innovative technologies. Moreover, plans to allocate all CO_2 allowances—even for new power plants—by auction from 2013 will hamper the economical and competitive construction of new power plants in Germany. 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.

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 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, entering into long-term supply contracts, agreeing price formulae 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. Procurement costs were lower in 2009 than in 2008. This reduced pressure on us to push through sharp hikes in selling prices, which can be hampered by the competitive situation. One challenge in the light of the Energy Business Area's portfolio of power plants is the reduction in mining of hard coal in Germany. We are addressing this through process and technology-based measures and the procurement of alternative fuels.

Sales and marketing risks
The customer base in the Chemicals and Real Estate Business Areas means they are only exposed to low cluster risks. However, some operational units have a certain dependence on key 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. The Energy Business Area's business model centers on long-term contracts, which reduce the marketing and sales risk as they include clauses allowing changes in raw material prices to be passed on to customers to a large extent.

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. A detailed overview of interest rate and foreign exchange management and the use of financial derivatives is given in Note (10.3) to the consolidated financial statements and Note (27) to the annual financial statements of Evonik Industries AG.

Liquidity risks
At the heart of Evonik's central liquidity risk management is a Group-wide cash pool. In addition, the Group's financial independence is secured through a broadly diversified financing structure. A detailed overview of liquidity risks and their management can be found in Note (10.3) to the consolidated financial statements.

Details of the financing of the Evonik Group and action to protect liquidity can be found on page 41 (Financial condition).

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

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

Where it is not possible to strengthen business operations through organic growth, other companies or business operations are acquired. We have set out clear procedures for preparing, analyzing and undertaking acquisitions. In particular, these include clear rules on accountability and approval processes. For example, an intensive examination of potential acquisition targets (due diligence) is undertaken before they are acquired. This involves a systematic analysis of all major risks and opportunities and an appropriate valuation. Key aspects of this process are strategic focus, management quality and development potential and any legal, financial and environmental risks. New subsidiaries are rapidly integrated into the Group and thus into our risk management and controlling processes.

Any restructuring or divestment requirements relating to the strategic management of the Evonik Group are systematically implemented. Post-transaction management closely monitors any liability and guarantee risks resulting from divestments.

Legal risks
Evonik is exposed to risks relating to legal disputes, administrative proceedings and fines. Similarly, guarantee claims against the company may result from divestments. In its operating business, the Group is exposed to liability risks, especially in connection with product liability, patent law, tax law, competition law, antitrust law and environmental law. 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. Modern information security and data protection technologies are used throughout the Group to avoid such risks. Appropriate procedures and state-of-the-art technical protection are installed to counter the risk of potential unauthorized access and the loss of data. Internal communication methods such as IT security campaigns are used to heighten employees' awareness of the need for security in the handling of information technology.

Outlook

Gradual global economic recovery
In view of the differing impact of the recession on different regions and sectors, economic forecasts currently entail considerable uncertainty. However, it is generally assumed that the crisis has bottomed out. Initial signs of revival were identified in the second half of 2009. Nevertheless, demand did not rise further in the fourth quarter. Industry and especially the chemical industry is still not operating anywhere near full capacity. Further, it is not yet clear whether the expiry of government stimulus packages will have an impact, and whether the economic momentum in China and India will continue. Price trends for energy and commodities are also unpredictable: Prices have risen considerably again since the turn of 2009/2010. Alongside these factors, which are likely to dampen the economic recovery, inventories now need to be built up and reordering is necessary, especially for starting products for the automotive, construction and electronics industries. The financial sector remains a risk factor. The markets are being held back by a dramatic rise in public-sector debt and uncertainty about insolvency patterns in 2010, which could involve a risk of considerable impairment losses on loans. This in turn could reduce new lending, so the possibility of a credit crunch has not yet been eliminated. The generally expected rise in unemployment would also have an adverse economic effect as it would dampen consumer spending and domestic demand. Even if there is an upswing, it could be several years before the global economy and, above all, the established industrialized nations, have regained the level seen in the first half of 2008.

Corporate strategy: focus on creating value
Concentrating on specialty chemicals paves the way for further profitable growth. We want to enable our energy business to fully exploit its considerable growth potential in collaboration with one or more partners, while remaining part of the Evonik Group. In addition, we intend to combine our real estate operations with THS and then develop perspectives for these operations on the capital markets. Within the specialty chemicals segment, we are aligning our operations systematically to high-margin business, especially with a view to the global megatrends: resource efficiency, health and nutrition, and globalization of technologies. Through this new corporate strategy we aim to create sustained value for Evonik and also enable all three business areas to develop in line with their potential.

Further opportunities resulting from increased competitiveness

In addition, the current projects to cut costs, raise efficiency and optimize organizational structures and processes as part of the On Track efficiency improvement drive are strengthening our position for the economic upswing. The reinforcement of our market positions in 2009 will also bear fruit: The new production facilities that have been completed or are currently under construction in the Chemicals Business Area should enable us to participate in the expected strong growth in Asia and in the future markets for electronics and the solar industry. We have also positioned ourselves in the attractive future market for lithium-ion battery cells and components and see good opportunities to benefit from the trend to electric vehicles. In 2010 the Energy Business Area should bring the Walsum 10 power plant into service, providing efficient energy. Our innovative prowess, reflected by the introduction of new products, new applications for established products and new technologies, will generate considerable momentum for Evonik in the coming years.

Outlook: Higher sales and stable operating earnings

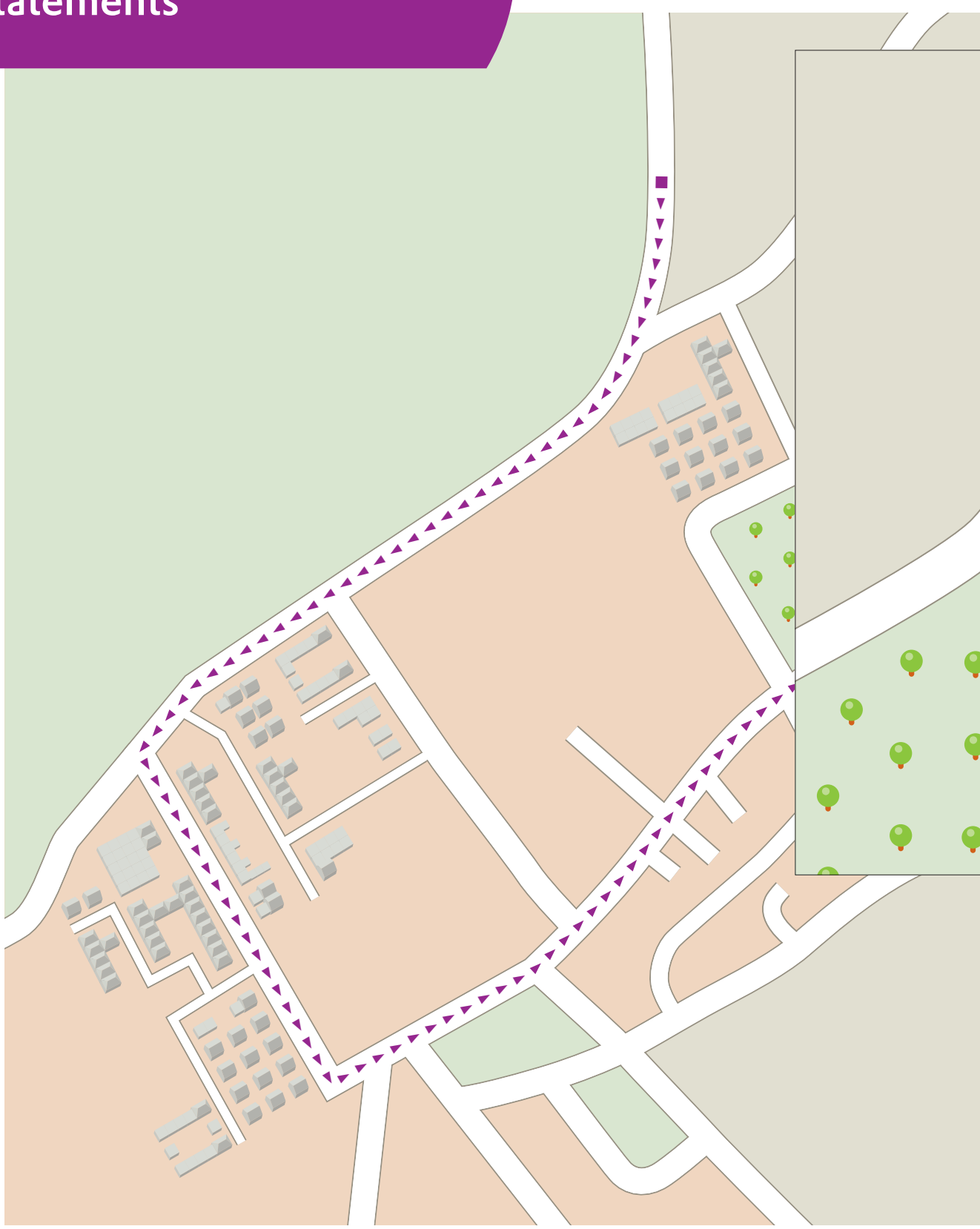
The economic outlook for 2010 is still very uncertain. We expect sales to rise this year as volumes pick up. Successful short-term cost savings in 2009 boosted EBITDA by roughly €500 million. However, many of these savings were one-off . Overall, we anticipate that in 2010 EBITDA will be around the same level as in 2009.

In view of the expected upturn in business, we are planning to step up capital expenditures compared with 2009.

Based on our performance in 2010, we expect to see a further perceptible improvement in operating business in 2011. Sustained cost savings and improved competitiveness should have a positive effect.

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.

Tour 3: Consolidated financial statements



Income statement

Evonik Group

in € million	Note	2009	2008
Sales	(6.1)	13,076	15,873
Cost of sales		–9,862	–12,384
Gross profit on sales		**3,214**	**3,489**
Selling expenses		–1,044	–1,213
Research and development expenses		–300	–311
General administrative expenses		–638	–740
Other operating income	(6.2)	869	1,246
Other operating expenses	(6.3)	–1,286	–1,659
Income before financial result and income taxes, continuing operations		**815**	**812**
Interest income	(6.4)	39	76
Interest expense	(6.4)	–522	–606
Result from investments recognized at equity	(6.5)	65	64
Other financial income	(6.6)	15	16
Financial result		**–403**	**–450**
Income before income taxes, continuing operations		**412**	**362**
Income taxes	(6.7)	–94	–128
Income after taxes, continuing operations		**318**	**234**
Income after taxes, discontinued operations	(5.3)	–6	117
Income after taxes		**312**	**351**
thereof attributable to			
Non-controlling interests		72	70
Shareholders of Evonik Industries AG (net income)		240	281
Earnings per share (basic and diluted) in €	(10.1)	**+0.52**	**+0.60**

Prior-year figures restated.

Statement of comprehensive income

Evonik Group

in € million	Note	2009	2008
Income after taxes		**312**	**351**
thereof attributable to			
Non-controlling interests		72	70
Shareholders of Evonik Industries AG (net income)		240	281
Unrealized gains/losses on available-for-sale-securities		4	–9
Unrealized gains/losses on hedging instruments		81	–135
Currency translation adjustment		6	–93
Deferred taxes		–13	45
Other comprehensive income	(7.8)	**78**	**–192**
thereof attributable to			
Non-controlling interests		–17	9
Shareholders of Evonik Industries AG		95	–201
Total comprehensive income		**390**	**159**
thereof attributable to			
Non-controlling interests		55	79
Shareholders of Evonik Industries AG		335	80

Prior-year figures restated.

Balance sheet

Evonik Group

in € million	Note	Dec. 31, 2009	Dec. 31, 2008	Jan. 1, 2008
Intangible assets	(7.1)	3,950	4,086	4,159
Property, plant and equipment	(7.2)	5,711	5,696	5,566
Investment property	(7.3)	1,554	1,502	1,503
Investments recognized at equity	(7.4)	626	604	619
Financial assets	(7.4)	1,140	1,385	1,302
Deferred tax assets	(7.13)	392	364	383
Other income tax assets	(7.13)	40	36	29
Other receivables	(7.6)	56	73	91
Non-current assets		**13,469**	**13,746**	**13,652**
Inventories	(7.5)	1,590	2,196	1,806
Other income tax assets	(7.13)	159	130	44
Trade accounts receivable	(7.6)	2,148	2,572	2,372
Other receivables	(7.6)	356	399	406
Financial assets	(7.4)	300	330	488
Cash and cash equivalents	(7.7)	885	536	319
		5,438	**6,163**	**5,435**
Assets held for sale	(5.3)	–	206	732
Current assets		**5,438**	**6,369**	**6,167**
Total assets		**18,907**	**20,115**	**19,819**
Issued capital		466	466	466
Reserves		4,262	4,208	4,135
Equity attributable to shareholders of Evonik Industries AG		**4,728**	**4,674**	**4,601**
Equity attributable to non-controlling interests		486	481	437
Total equity	(7.8)	**5,214**	**5,155**	**5,038**
Provisions for pensions and other post-employment benefits	(7.9)	3,979	3,953	3,956
Other provisions	(7.10)	1,091	1,064	1,099
Deferred tax liabilities	(7.13)	626	687	761
Other income tax liabilities	(7.13)	61	120	191
Financial liabilities	(7.11)	4,040	4,394	3,752
Other payables	(7.12)	395	384	397
Non-current liabilities		**10,192**	**10,602**	**10,156**
Other provisions	(7.10)	1,061	1,272	1,188
Other income tax liabilities	(7.13)	251	197	206
Financial liabilities	(7.11)	455	1,008	942
Trade accounts payable	(7.12)	1,365	1,463	1,294
Other payables	(7.12)	369	332	516
		3,501	**4,272**	**4,146**
Liabilities associated with assets held for sale	(5.3)	–	86	479
Current liabilities		**3,501**	**4,358**	**4,625**
Total equity and liabilities		**18,907**	**20,115**	**19,819**

Prior-year figures restated.

Statement of changes in equity

Evonik Group Note (7.8)

in € million	Issued capital	Reserves			Attributable to shareholders of Evonik Industries AG	Attributable to non-controlling interests	Total equity
		Capital reserve	Accumulated income/loss after taxes	Accumulated other comprehensive income			
As of December 31, 2007	466	1,165	3,324	–311	4,644	437	5,081
Adjustments according to IAS 8			–43		–43		–43
As of January 1, 2008	**466**	**1,165**	**3,281**	**–311**	**4,601**	**437**	**5,038**
Capital increases/decreases					0	19	19
Dividend distribution					0	–40	–40
Total comprehensive income			281	–201	80	79	159
Other changes			0	–7	–7	–14	–21
As of December 31, 2008	**466**	**1,165**	**3,562**	**–519**	**4,674**	**481**	**5,155**
Capital increases/decreases					0	8	8
Dividend distribution			–280		–280	–61	–341
Total comprehensive income			240	95	335	55	390
Other changes			3	–4	–1	3	2
As of December 31, 2009	**466**	**1,165**	**3,525**	**–428**	**4,728**	**486**	**5,214**

Prior-year figures restated.

Cash flow statement

Evonik Group

in € million	Note	2009	2008
Income before financial result and income taxes, continuing operations		815	812
Depreciation, amortization, impairment losses/reversal of impairment losses on non-current assets		913	1,119
Gains/losses on disposal of non-current assets		–19	–182
Other non-cash income/expense		–	34
Change in inventories		610	–434
Change in trade accounts receivable		424	–218
Change in trade accounts payable and current advance payments received from customers		–99	188
Change in provisions for pensions and other post-employment benefits		–216	–185
Change in other provisions		–178	–4
Change in miscellaneous assets/liabilities		196	–285
Cash outflows for interest		–287	–223
Cash inflows from interest		88	23
Cash inflows from dividends		74	42
Cash outflows for income taxes		–229	–306
Cash flow from operating activities, continuing operations		**2,092**	**381**
Cash flow from operating activities, discontinued operations		–	7
Cash flow from operating activities	(8.1)	**2,092**	**388**
Cash outflows for investments in intangible assets, property, plant and equipment, investment property		–809	–1,165
Cash outflows for investments in shareholdings		–25	–84
Cash inflows from divestments of intangible assets, property, plant and equipment, investment property		70	131
Cash inflows from divestments of shareholdings		126	330
Cash inflows/outflows relating to securities, deposits and loans		6	233
Cash flow from investing activities	(8.2)	**–632**	**–555**
Cash inflows/outflows relating to capital contributions		8	19
Cash outflows for payments to non-controlling interests[1)]		–61	–35
Cash outflows for dividends/profit transfer for prior year[2)]		–280	–345
Cash inflows from the addition of financial liabilities		1,226	983
Cash outflows for repayment of financial liabilities		–2,006	–266
Cash flow from financing activities		**–1,113**	**356**
Change in cash and cash equivalents		**347**	**189**
Cash and cash equivalents as of January 1		**542**	**349**
Change in cash and cash equivalents		347	189
Changes in exchange rates and other changes in cash and cash equivalents		–4	4
Cash and cash equivalents as of December 31	(8.3)	**885**	**542**
Cash and cash equivalents included in assets held for sale		–	–6
Cash and cash equivalents as reported on the balance sheet as of December 31	(7.7)	**885**	**536**

Prior-year figures restated.
[1)] In 2008, €5 million were not paid out.
[2)] Profit transfer for prior year without tax charge (stand-alone view). – –342

Notes to the consolidated financial statements of Evonik Industries AG for 2009

(1) Segment report

Evonik Group by operating segments Note (9.1)

	Chemicals		Energy	
in € million	**2009**	2008	**2009**	2008
External sales	9,978	11,762	2,558	3,399
Internal sales	90	116	57	87
Total sales	10,068	11,878	2,615	3,486
EBITDA (before non-operating result)	1,602	1,626	418	517
EBITDA margin in %	16.1	13.8	16.3	15.2
Depreciation and amortization	–639	–674	–86	–89
Result from investments recognized at equity	14	23	9	5
EBIT (before non-operating result)	932	941	326	415
Non-operating result	–234	–366	–16	63
Operating income	698	575	310	478
Capital employed as of December 31	8,596	9,359	3,284	3,462
Capital employed (on average)	9,071	9,477	3,355	3,152
ROCE in %	10.3	9.9	9.7	13.2
Investments recognized at equity	121	115	61	57
Capital expenditures	502	727	280	328
Additions to financial assets	17	108	14	19
Other significant non-cash income and expenses	–868	–989	–109	–187
Employees as of December 31	29,723	31,728	4,820	4,702

Evonik Group by regions Note (9.2)

	Germany		Rest of Europe		North America	
in € million	**2009**	2008	**2009**	2008	**2009**	2008
External sales	4,806	6,310	3,150	3,751	1,897	2,306
Goodwill[1)]	2,088	2,087	548	546	286	297
Other intangible assets, property, plant and equipment, investment property[1)]	6,058	6,052	592	634	549	617
Capital expenditures	568	766	80	76	41	87
Additions to financial assets	34	107	5	16	2	0
Employees as of December 31	25,447	27,114	3,527	3,682	3,471	3,723

Prior-year figures restated.
[1)] Non-current assets according to IFRS 8.33 b.

Real Estate		Total reportable segments		Corporate, other operations, consolidation		Total Group (continuing operations)	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
378	375	12,914	15,536	162	337	13,076	15,873
0	0	147	203	–147	–203	–	–
378	375	13,061	15,739	15	134	13,076	15,873
183	217	2,203	2,360	–178	–195	2,025	2,165
48.4	57.9	17.1	15.2			15.5	13.6
–45	–44	–770	–807	–28	–35	–798	–842
36	33	59	61	6	3	65	64
135	162	1,393	1,518	–199	–220	1,194	1,298
–2	0	–252	–303	–47	–103	–299	–406
133	162	1,141	1,215	–246	–323	895	892
1,892	1,835	13,772	14,656	–91	–8	13,681	14,648
1,843	1,762	14,269	14,391	8	13	14,277	14,404
7.3	9.2	9.8	10.5			8.4	9.0
443	432	625	604	1	0	626	604
57	87	839	1,142	10	18	849	1,160
–	12	31	139	11	10	42	149
–14	–13	–991	–1,189	–121	–240	–1,112	–1,429
479	443	35,022	36,873	3,659	3,894	38,681	40,767

Asia		Central and South America		Other		Total Group (continuing operations)	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
2,452	2,664	535	589	236	253	13,076	15,873
217	224	24	25	21	21	3,184	3,200
711	686	97	80	24	15	8,031	8,084
151	221	3	5	6	5	849	1,160
1	26	0	0	–	–	42	149
5,534	5,542	464	466	238	240	38,681	40,767

(2) General information

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 HRB No. 19474.

Evonik Industries AG is a subsidiary of RAG-Stiftung, Essen (Germany), which directly and indirectly holds 74.99 percent of the shares in Evonik Industries AG. As a subsidiary of RAG-Stiftung, Evonik Industries AG and its subsidiaries are included at equity in the annual consolidated financial statements prepared by RAG-Stiftung in accordance with the German Commercial Code (HGB). The consolidated financial statements of RAG-Stiftung 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 International Financial Reporting Standards and International Accounting Standards (IAS) adopted by the International Accounting Standards Board (IASB), London (UK) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), 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, 2009 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 principle consistent from one period to the next. Deviations from this principle are outlined in Note (3.4). To enhance the clarity of presentation, some items are combined in the income statement, statement of comprehensive income, balance sheet and statement of changes in equity and explained in detail in the Notes.

The income statement has been prepared for the first time using the cost-of-sales method. Expenses are divided by function, see Note (3.4). The new statement of comprehensive income contains income after taxes as shown on the income statement and all other comprehensive income as outlined in Note (3.3). Assets and liabilities are classified by maturity. They are classified as current if they are due or expected to be realized within twelve months from the reporting date. The statement of changes in equity shows changes in the issued capital, reserves attributable to shareholders of Evonik Industries AG and changes in non-controlling interests in the reporting period. Transactions with shareholders in their capacity as owners are also shown separately here. The cash flow statement provides information on the Group'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 components of the financial statements and further information such as the segment report.

(3.3) Newly issued IFRS

Accounting standards applied for the first time

The IASB has revised or issued a number of standards and interpretations. These have been officially adopted into European law by the European Union and became mandatory for the first time in fiscal 2009 or were applied by Evonik voluntarily before they became mandatory. The following new accounting standards applied for the first time in fiscal 2009 impact the consolidated financial statements:

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 company pension plans as of the reporting date. Resulting changes in valuation must be undertaken retrospectively. The impact of this interpretation on Evonik's consolidated financial statements is set out in Note (3.4).

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 shareholders. These must be presented in one statement of comprehensive income or as two statements, a separate income statement and a statement of comprehensive income. Evonik presents this information in two separate statements. Further, a company is required to present an additional balance sheet as of the start of the earliest comparative period if an accounting policy is applied retrospectively or the items in the statements are restated or reclassified retrospectively. First-time application of the revised standard only influences the presentation of the financial statements, not the Group's net assets, financial position and results of operations.

Further, in March 2009 the IASB published an amendment to IFRS 7 Financial Instruments: Disclosures. This sets out a three-level hierarchy for measuring the fair value of each class of financial instruments and extends the required disclosures. In addition, it details and extends the information on liquidity risk. First-time application of the revised standard influences the information provided in the Notes to the financial statements, but not the Group's net assets, financial position and results of operations.

Other accounting standards applied for the first time that do not have a significant impact on Evonik's consolidated financial statements:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate
- Revised version of IFRS 1 First-time Adoption of International Financial Reporting Standards
- Amendment to IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations
- Revised version of IAS 23: Borrowing Costs
- Changes to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation
- Annual improvements process 2008 Improvements to IFRSs
- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement: Embedded Derivatives
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

Accounting standards that are not yet mandatory

The IASB adopted further accounting standards up to December 31, 2009 which did not become mandatory in the fiscal year or have not yet been officially adopted by the European Union. These 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 January 2008 the IASB published the revised standards IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements as part of the convergence project with the Financial Accounting Standards Board (FASB) Business Combinations Phase II. The principal amendments to IFRS 3 relate to the recognition of goodwill relating to non-controlling interests, accounting for existing shares in a business combination in the case of acquisitions made in stages, the recognition in income of the ancillary costs of a business combination and the reflection of variable purchase price components. The amendments to IAS 27 address, among other things, the presentation of the divestment of shares in subsidiaries with no loss of control as equity transactions between owners and the recognition and valuation of the remaining shares in subsidiaries where the divestment of shares involves a loss of control. Further, there is now no limit on the attribution of losses to non-controlling interests. The revised standards are applicable for fiscal years starting on or after July 1, 2009. Joint application of both standards at an earlier date is permitted. The revised standards are relevant for Evonik's consolidated financial statements.

In July 2008 the IASB published an amendment to IAS 39 Financial Instruments: Recognition and Measurement relating to the permitted hedged items in a hedging relationship. The standard outlines the conditions under which the risk of inflation relating to the hedged item can be designated for hedge accounting and the possibility of using options to hedge one-sided risks. In particular, it clarifies that only the intrinsic value of the option, not the full value, comprising the intrinsic value and the time value, can be designated as a hedge. The revised standard is applicable retrospectively for fiscal years beginning on or after July 1, 2009. Earlier application is permitted. The amended standard will not have a material impact on Evonik's consolidated financial statements.

In November 2008 the IASB published IFRIC 17 Distributions of Non-cash Assets to Owners. This new interpretation addresses accounting for non-cash dividends distributed to shareholders and is applicable for fiscal years beginning on or after July 1, 2009. Earlier application is permitted. This interpretation is not currently relevant for Evonik's consolidated financial statements.

In January 2009 the IASB published IFRIC 18 Transfer of Assets from Customers. This interpretation addresses the treatment of agreements where companies receive from a customer an asset or financing for an asset to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services such as the supply of electricity, gas or water. This interpretation must be applied for fiscal years beginning on or after October 31, 2009. Earlier application is permitted. The impact on Evonik's consolidated financial statements is currently being examined.

As part of its second annual improvements process, in April 2009 the IASB published Improvements to IFRSs containing amendments to a variety of IFRSs. The project makes minor, non-urgent but necessary amendments to existing standards, which are not addressed in another, major project. The amended standards are generally applicable for fiscal years starting on or after January 1, 2010. Earlier application is permitted. The impact on Evonik's consolidated financial statements is currently being examined.

In June 2009 the IASB published the revised standard IFRS 2 Share-based Payment. The amendment clarifies how to account for certain share-based remuneration agreements where an entity receives goods or services from employees or suppliers under such an agreement but they are paid for by a different entity in the group. The revised standard is applicable retrospectively for fiscal years beginning on or after January 1, 2010. Earlier application is permitted. This amendment is not currently relevant for Evonik's consolidated financial statements.

In July 2009 the IASB published the revised standard IFRS 1 First-time Adoption of International Financial Reporting Standards. This further simplifies the standard, exempting first-time adopters from retrospective application of certain aspects of IFRS 6 Exploration for and Evaluation of Mineral Resources and from reassessing the classification as set out in IFRIC 4 Determining whether an Arrangement contains a Lease. The revised standard is applicable for fiscal years beginning on or after January 1, 2010. Earlier application is permitted. This amendment is not relevant for Evonik's consolidated financial statements.

In October 2009 the IASB published the revised standard IAS 32 Financial Instruments: Presentation. If a company issues subscription rights, options or warrants to acquire a fixed number of its shares in a currency other than its functional currency, such rights previously had to be accounted for as financial liabilities. In future such rights, insofar as they are issued for a fixed amount of any currency, will be recognized as equity instruments if the entity offers them pro rata to all existing holders of the same class of its equity. The revised standard is applicable retrospectively for fiscal years beginning on or after February 1, 2010. Earlier application is permitted. The impact on Evonik's consolidated financial statements is currently being examined.

In November 2009 the IASB published the revised standard IAS 24 Related Party Disclosures. This contains simplifications for government-related entities and improves the definition of a related party. The revised standard is applicable for fiscal years beginning on or after January 1, 2011. Earlier application is permitted. The impact on Evonik's consolidated financial statements is currently being examined.

In November 2009 the IASB published the revised standard IFRS 9 Financial Instruments. This standard is part of a project for a new standard to replace IAS 39 Financial Instruments: Recognition and Measurement. It is concerned exclusively with the classification and measurement of financial assets. IFRS 9 replaces the former valuation categories with the categories "at amortized cost" or "at fair value". The decision on whether to carry an instrument "at amortized cost" depends on the one hand on the entity's business model and on the other on the contractually agreed cash flows from the financial instrument. Instruments that do not meet the criteria for measurement "at amortized cost" are recognized in income "at fair value". Recognition of assets at fair value in other comprehensive income is permitted for selected equity instruments. The revised standard is applicable retrospectively for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. The impact on Evonik's consolidated financial statements is currently being examined.

Further, in November 2009 the IASB published the amended interpretation IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. This amendment addresses the measurement of prepayments of minimum funding requirements as assets. This interpretation is applicable for fiscal years beginning on or after December 31, 2010. Earlier application is permitted. The amended interpretation is not currently relevant for Evonik's consolidated financial statements.

In November 2009 the IASB also published IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, which explains the conditions permitting an entity to fully or partially extinguish a financial liability through the issuance of shares or other equity instruments. This interpretation is applicable for fiscal years beginning on or after July 1, 2010. Earlier application is permitted. This interpretation is not currently relevant for Evonik's consolidated 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. For the present consolidated financial statements, the following prior-year figures have been restated:

Restatements due to IFRIC 14

IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction became applicable in fiscal 2009, see Note (3.3). This resulted in the restatement of prior-year figures on the balance sheet and income statement.

Further changes

Evonik has prepared its income statement for fiscal 2009 for the first time using the cost-of-sales method instead of the total cost format. The Executive Board of Evonik Industries AG is of the opinion that it provides more relevant data by adopting this more customary international presentation.

Restated prior-year figures

Income statement

in € million	2008 restated	IFRIC 14	2008 before restatement
Sales	15,873		15,873
Cost of sales	–12,384		–12,384
Gross profit on sales	**3,489**	**0**	**3,489**
Selling expenses	–1,213		–1,213
Research and development expenses	–311		–311
General administrative expenses	–740		–740
Other operating income	1,246		1,246
Other operating expenses	–1,659	–6	–1,653
Interest income	76		76
Interest expense	–606		–606
Result from investments recognized at equity	64		64
Other financial income	16		16
Income taxes	–128	2	–130
Income after taxes, continuing operations	**234**	**–4**	**238**
Income after taxes, discontinued operations	117		117
Income after taxes	**351**	**–4**	**355**
thereof attributable to			
Non-controlling interests	70		70
Shareholders of Evonik Industries AG (net income)	281	–4	285
Earnings per share (basic and diluted) in €	**+0.60**	**–0.01**	**+0.61**

Balance sheet (extract)

in € million	Dec. 31, 2008 restated	IFRIC 14	Dec. 31, 2008 before restatement
Deferred taxes	364	16	348
Miscellaneous	19,751		19,751
Total assets	**20,115**	**16**	**20,099**
Equity	5,155	–37	5,192
Provisions for pensions and other post-employment benefits	3,953	53	3,900
Miscellaneous	11,007		11,007
Total equity and liabilities	**20,115**	**16**	**20,099**

Balance sheet (extract)

in € million	Jan. 1, 2008 restated	IFRIC 14	Dec. 31, 2007 before restatement
Deferred taxes	383	19	364
Miscellaneous	19,436		19,436
Total assets	**19,819**	**19**	**19,800**
Equity	5,038	–43	5,081
Provisions for pensions and other post-employment benefits	3,956	62	3,894
Miscellaneous	10,825		10,825
Total equity and liabilities	**19,819**	**19**	**19,800**

(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 Industries AG. 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 major 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 (net assets) of the subsidiary are included at their fair values. If shares in the subsidiary are held before acquiring control, the fair value of the net assets 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 surplus. Any remaining excess of the acquisition cost over the fair value of the net assets is recognized as goodwill.

Negative differences are included in income following a renewed examination of the fair value of the net assets. 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 former non-controlling interests. Any remaining excess of the acquisition cost over the fair value of the net assets is capitalized as goodwill. Since such cases are not covered by any reporting standard, the Executive Board of Evonik Industries AG 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 separate financial statements are reversed.

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

(3.6) Currency translation

Foreign currency transactions are measured 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 operation, 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 month-end over the past 13 months. Translation differences compared to the prior year and translation differences between the income statement and balance sheet are recognized in other comprehensive income.

The following exchange rates were used for currency translation:

	Annual average exchange rates		Closing rates	
€1 corresponds to	**2009**	2008	**Dec. 31, 2009**	Dec. 31, 2008
Brazilian real (BRL)	2.80	2.66	2.51	3.23
British pound (GBP)	0.89	0.80	0.89	0.95
Chinese renminbi yuan (CNY)	9.53	10.25	9.84	9.50
Japanese yen (JPY)	130.28	152.57	133.16	126.14
Swiss franc (CHF)	1.51	1.58	1.48	1.49
US dollar (USD)	1.40	1.47	1.44	1.39

(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 Chemicals Business Area mainly generates sales by selling specialty chemicals to industrial customers for further processing.

The Energy Business Area mainly generates sales revenues through the operation of power plants in Germany and abroad, the operation of energy supply facilities based on renewable energy resources, coal trading and the marketing of related products and services. Where the customer bears substantially all risks and benefits arising from the ownership of the energy generating facilities, revenues are recognized as finance leases. The interest component of finance leases is also included in this item.

The Real Estate Business Area's sales principally comprise revenues from the letting, administration and running of 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 business areas:

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

Intangible assets are capitalized at acquisition or production cost. Intangible assets with a finite useful life are amortized and an impairment test is conducted if there are indications of a possible impairment, see Note (3.7) "Impairment test". 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 has an indefinite useful life and is tested for impairment at least once a year.

(b) Franchises, trademarks and licenses

Franchises, trademarks and licenses 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 tested annually for impairment and to check that their useful life is still indefinite. If the assessment of the useful life of such trademarks has altered and is reclassified as finite, their carrying amounts are amortized over their estimated remaining useful life using the straight-line method.

(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 acquisition or production cost and depreciated over their useful life using the straight-line method. If there are indications of a possible impairment, an impairment test is conducted as outlined in Note (3.7) "Impairment test".

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 or production costs at the time of acquisition or production. Acquisition and production costs may also include transfers from gains and losses on cash flow hedges entered into in connection with the purchase of property, plant and equipment and previously recognized in other comprehensive income. Borrowing costs that can be allocated directly to the acquisition, construction or production of a qualifying asset are included in the cost of acquisition or production. A qualifying asset is an asset for which more than a year is required to get it ready for its intended use.

Property, plant and equipment are 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	12–40
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 generally 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.

If there is a high probability that the project will be realized, costs incurred for planning and pre-engineering work for capital expenditure projects are capitalized. Depreciation is recognized in line with 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

Property held as a financial investment to generate rental revenues and/or for capital appreciation is valued at the cost of acquisition or production and depreciated over its useful life of 25–80 years using the straight-line method. If there are indications of a possible impairment, an impairment test is conducted as outlined in Note (3.7) "Impairment test".

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

If there are indications of possible impairment, an impairment test is conducted on intangible assets, property, plant and equipment and investment property in accordance with IAS 36: Impairment of Assets. The impairment test on such assets is generally conducted for a cash-generating unit (CGU), which is the smallest identifiable group of assets that generates independent cash flows, or for a group of CGUs. Goodwill is allocated to the business areas (2008: to the business units), in other words to a group of CGUs. Goodwill and other intangible assets with an indefinite useful life are tested for impairment at least once a year. The impairment test is conducted on September 30.

The impairment test comprises comparing the recoverable amount of the CGU/group of CGUs 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/group of GCUs. An impairment loss is recognized if the recoverable amount of a CGU/group of CGUs is below its carrying amount. The impairment loss is reversed—except in the case of goodwill—if the reason for the original impairment charge no longer applies.

When testing goodwill for impairment, the recoverable amount of the goodwill is determined from the market value of the business area. This is determined from a five-year plan based on historical values, in keeping with the time horizon set by Evonik's new shareholder for achieving its goals of raising value. The mid-term planning is based on a mixture of experience and expectations of future market trends and future cash flows. The main 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. The specific growth rates for individual business areas are derived from experience and future expectations. The average long-term growth rates for the markets in which the business areas operate are not exceeded.

The expected future cash flows are discounted using the weighted average cost of capital (WACC) after taxes. WACC is determined for each business area 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 4.50 percent for all business areas (2008: 4.75 percent). The beta factor is obtained from the capital market by comparison with the values for comparable companies for the business area (peer group). A terminal growth rate is assumed for individual business areas. The cost of debt for the Chemicals and Energy Business Areas is derived from an analysis of the gearing of peer group companies and the resultant cost of debt. In the Real Estate Business Area the actual cost of debt is used. The parameters used are set out in Notes (6.3) 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 as an average or using the first-in first-out method. 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 gains and losses for qualifying cash flow hedges for the purchase of raw materials which have been reclassified from other comprehensive income, and borrowing costs for qualifying assets. A qualifying asset is an asset for which more than a year is required to get it ready for sale.

Purchased emissions allowances are recognized at the lower of cost or net realizable value. Analogously to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, 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 measured 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 and the actual obligation calculated at year end, and from deviations between the expected and actual fair value of plan assets calculated at year end. 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 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 Plans comprise performance-related remuneration plans for Evonik's executives. The resulting obligations are determined and expensed in accordance with IAS 19 Employee Benefits.

Deferred taxes, other income taxes

In compliance with IAS 12 Income Taxes, deferred tax assets and liabilities 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 carryfowards 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 overall tax rate used to calculate deferred taxes for companies in Germany is 30 percent. In addition to 15 percent German corporation tax, the overall tax rate includes a solidarity surcharge of 5.5 percent of the German corporation tax and average trade tax of around 14 percent. The tax rates used for foreign companies are their national tax rates. These vary between 16.5 percent (Hong Kong) and 41.0 percent (Japan).

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 fair value plus any directly attributable transaction costs. By contrast, transaction costs for financial instruments held at fair value through profit or loss are included in the income statement. Fair value measurement is based on three-level fair value hierarchy. The fair value is the quoted price on an active market (Level 1). If such price data are not available, either the quoted price on an active market for similar financial instruments should be used, or a different valuation method based on inputs from observable market data should be used (Level 2). In all other cases, valuation methods should be used that are not based on observable market data (Level 3). Discounted cash flow analyses or option pricing models have been selected as established valuation methods. To measure non-current assets that do not bear market interest rates, the expected future cash flows are discounted to the date of acquisition using the effective interest rate (present value). The effective interest rate takes account of all directly attributable fees that are by nature interest. Subsequent measurement is based on the classification of the financial instruments.

(a) Primary financial instruments

Evonik classifies primary financial instruments as financial assets in the categories loans and receivables or available-for-sale. 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 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. If there are objective indications based on historical empirical values that it will not be possible to 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. If no fair value is available for such assets or it cannot be determined reliably, for example, equity instruments that are not listed on a stock exchange, the assets are recognized at amortized cost. Changes in the fair value are recognized in 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 20 percent below the carrying amount. In such cases, the corresponding losses are derecognized from other comprehensive income and recognized in the income statement. If the reason for the impairment loss no longer applies, the reversal is recognized in other comprehensive income 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 in the income statement. Impairment losses are not reversed if they apply to investments and other financial assets whose fair value cannot be reliably determined.

The category at amortized cost mainly refers to trade accounts payable and credits. The liabilities assigned to this category are valued at amortized cost using the effective interest rate method.

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 exchange contracts and commodity futures are recognized on the balance sheet. Initial recognition is on the trading date. If no stock exchange or market price is available for the derivative from an active market the fair value is determined using capital market pricing methods. For forward exchange contracts, 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. Stand-alone financial derivatives are classified as at fair value through profit or loss. Financial instruments assigned to this category are measured 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.

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 conditions are not fulfilled. In the case of cash flow hedges, hedge accounting must also be halted if the forecast transaction no longer appears probable. In such cases the amount recognized in 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 hedged item. 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 on the income statement. In view of this method, changes in the value of the hedged item 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 in other comprehensive income. The ineffective portion of the change in value is recognized in the income statement. Amounts recognized in other comprehensive income are reclassified to the income statement as soon as the hedged item 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 sales. If the hedged future transaction comprises a non-financial asset or liability, the profit or loss previously recognized in 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 in other comprehensive income are reclassified to the income statement when the foreign subsidiary is divested.

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, under the lease agreement, the lessee bears substantially all opportunities and risks associated with ownership of the asset. In addition to contractually agreed finance leases, lease agreements relating to the use of assets, for example, supply agreements in connection with power distribution, may be classified as finance leases if they meet certain cumulative criteria. Where Evonik is the lessee, the assets are included in property, plant and equipment at fair value or at the present value of the non-cancelable 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 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 geographical area of the company that is to be sold or shut down on the basis of a single coordinated plan, either as a whole or in parts, or a subsidiary acquired with a view to resale.

The income from the operating activities and the measurement and divestment of discontinued operations is reported separately from the continuing operations on the income statement. Similarly the cash flow from the operating activities of discontinued operations is reported separately from the continuing operations in the cash flow statement.

Government grants
Government grants for the purchase or construction of property, plant and equipment reduce the cost of acquisition or production of such assets. They are reflected in the income statement over the useful life of the assets through lower depreciation. Other grants are accrued and recognized as income over the same period as the expenses for which they are expected to compensate.

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 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. Evidently, the subsequent circumstances do not always 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 also involves assumptions and estimates regarding, for example, future cash flows, expected growth rates, exchange rates and discount rates. The relevant assumptions may change, leading to impairment losses in future periods.

A relative increase in the weighted cost of capital (WACC) of 10 percent as a result of changes in capital market interest rates 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 were not met, a write-down would have to 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.

A reduction of one percentage point in the discount rate would increase the present value of the defined benefit obligation by €1,031 million. Conversely, increasing the discount rate by one percentage point would decrease the defined benefit obligation by about €950 million.

If the trend in health-care costs were to increase by one percentage point, the accumulated health-care benefit obligation would increase by €8 million and pension expense would increase by €1 million. Conversely, a reduction of one percentage point in the cost trend would reduce the accumulated health-care obligation by €7 million and personnel expense 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 liabilities 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. 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 changed as follows:

Number of companies	Germany	Other countries	Total
Evonik Industries AG and consolidated subsidiaries			
December 31, 2008	106	138	244
Acquisitions	2	1	3
Other companies consolidated for the first time	3	3	6
Divestments	–5	–3	–8
Intragroup mergers	–6	–3	–9
Other companies deconsolidated	–1	–3	–4
December 31, 2009	99	133	232
Investments recognized at equity			
December 31, 2008	17	7	24
Acquisitions	–	1	1
Other investments recognized at equity for the first time	–	1	1
December 31, 2009	17	9	26
	116	**142**	**258**

(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

The Chemicals and Energy Business Areas made several small acquisitions. Their aggregate impact on the balance sheet was negligible. Moreover, their aggregate purchase price was not material.

Divestments

The Real Estate Business Area divested various commercial properties to AH Gundbesitz GmbH, Berlin (Germany) and a natural person with legal effect from June 2009. This transaction included the subsidiary NMI Immobilien GmbH, Hückelhoven (Germany), which had been classified as held for sale since December 2007.

The Chemicals Business Area sold the AlzChem Group to two companies of financial investor BluO SICAV-SIF, Luxembourg (Luxembourg) with legal effect from the end of October 2009. The AlzChem Group comprises the NCN chemicals business and had been classified as held for sale since September 2008. Six subsidiaries were deconsolidated as a result of this divestment.

With effect from the start of December 2009, the Energy Business Area sold 49 percent of its shares in the subsidiary Ayas Enerji Üretim ve Ticaret A.S., Ankara (Turkey) to the pension fund Ordu Yardimlasma Kurumu, Ankara (Turkey). The remaining 51 percent of shares in this company are recognized at equity because Evonik does not have a majority of the voting rights.

The aggregate impact of these transactions on the balance sheet at the time of divestment or deconsolidation was as follows:

in € million	
Non-current assets	121
Current assets (excluding cash and cash equivalents)	69
Cash and cash equivalents	15
Non-current liabilities	57
Current liabilities	52
Gross price	105

(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 has decided to divest further business operations. Since the divestment process was not completed in 2008, they were 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 are stated separately from other assets and liabilities on the balance sheet. The amounts recognized for these assets and liabilities in the previous year 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, especially if a significant area of Evonik's business is to be sold.

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-year figures in the income statement have to be reclassified.

The tar refining and initiators businesses divested in 2008 met the criteria for classification as discontinued operations. Post-divestment income and expenses resulted from various discontinued operations divested prior to 2008 (various discontinued operations from previous years).

The table shows the main impact of the 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	**2009**	2008	**2009**	2008	**2009**	2008
Tar refining	–	22	–3	128	–3	150
Initiators	–	5	4	–36	4	–31
Discontinued operations from previous years	–	–	–7	–2	–7	–2
	0	**27**	**–6**	**90**	**–6**	**117**

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

Income statement

in € million	**2009**	2008
Income	**0**	**331**
thereof tar refining	–	255
thereof initiators	–	76
Expenses	**0**	**–289**
thereof tar refining	–	–220
thereof initiators	–	–69
Operating earnings before income taxes, discontinued operations	**0**	**42**
thereof tar refining	–	35
thereof initiators	–	7
Income taxes	**0**	**–15**
thereof tar refining	–	–13
thereof initiators	–	–2
Operating earnings after taxes, discontinued operations	**0**	**27**
thereof tar refining	–	22
thereof initiators	–	5

The divestment gains and losses comprise the following:

Income statement

in € million	2009	2008
Income before income taxes from the divestment of discontinued operations	**0**	**92**
thereof tar refining	4	129
thereof initiators	4	–33
thereof discontinued operations from previous years	–8	–4
Income taxes	**–6**	**–2**
thereof tar refining	–7	–1
thereof initiators	0	–3
thereof discontinued operations from previous years	1	2
Income after taxes from the divestment of discontinued operations	**–6**	**90**
thereof tar refining	–3	128
thereof initiators	4	–36
thereof discontinued operations from previous years	–7	–2

Various non-core businesses were also classified as held for sale. Their assets and liabilities have therefore been presented separately in the balance sheet alongside the discontinued operations. None of the discontinued operations were shown on the balance sheets for 2008 and 2009. The following non-core businesses were reclassified in 2008:

From December 2007 Evonik classified various commercial properties as held for sale. These were divested in 2009, see Note (5.2). In 2008, assets totaling €26 million were assigned to these activities.

In September 2008, the NCN chemicals business was classified as held for sale. It was divested in 2009, see Note (5.2). Assets of €180 million and liabilities of €86 million were reclassified in 2008.

Impairment losses of €38 million (2008: €8 million) were recognized for the non-core businesses divested (2008: €8 million). The corresponding reversals of impairment losses were €7 million (2008: none).

Balance sheet

in € million	Dec. 31, 2009	Dec. 31, 2008
Intangible assets	–	25
Property, plant and equipment	–	56
Investment property	–	23
Financial assets	–	1
Inventories	–	52
Trade accounts receivable	–	31
Other receivables	–	9
Miscellaneous	–	9
Assets held for sale	**0**	**206**

Balance sheet

in € million	Dec. 31, 2009	Dec. 31, 2008
Provisions for pensions and other post-employment benefits	–	32
Other provisions	–	33
Trade accounts payable	–	16
Miscellaneous	–	5
Liabilities associated with assets held for sale	**0**	**86**

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 as follows:

Cash flow statement

in € million	2009	2008
Cash flow from operating activities	**0**	**7**
thereof tar refining	–	12
thereof initiators	–	–5
Cash flow from investing activities	**0**	**–6**
thereof tar refining	–	–3
thereof initiators	–	–3
Cash flow from financing activities	**0**	**–2**
thereof from tar refining	–	–4
thereof from initiators	–	2
Change in cash and cash equivalents, discontinued operations	**0**	**–1**

(6) Notes to the income statement

(6.1) Sales

in € million	2009	2008
Revenues from the sale of goods and services	12,555	15,360
Revenues from investment property	347	343
Revenues from finance leases	166	170
Other revenues	8	–
	13,076	**15,873**

(6.2) Other operating income

in € million	2009	2008
Income from the disposal of assets	13	195
Income from the reversal of provisions	135	79
Income from the reversal of deferred items	7	9
Income from the reversal of impairment losses	26	20
Income from the measurement of derivatives (excluding interest rate derivatives)	398	427
Gains on currency translation of monetary assets and liabilities	115	288
Income from non-core operations	61	107
Income from cost transfer	5	13
Income from insurance refunds	12	12
Income from research subsidies	8	13
Other income	89	83
	869	**1,246**

Income from the disposal of assets comprises €12 million (2008: €51 million) from the divestment of property, plant and equipment and investment property and €1 million (2008: €120 million) from the sale of investments.

The income from reversals of impairment losses in accordance with IAS 39 Financial Instruments: Recognition and Measurement includes €18 million (2008: €5 million) relating to trade accounts receivable and loans. In 2008, it also included €1 million from reversals of impairment losses on other investments. Further, pursuant to IAS 36 Impairment of Assets, €8 million (2008: €14 million) of the reversals relate to the following business areas:

	Reversal of impairment losses	
in € million	2009	2008
Chemicals	5	6
Real Estate	3	8
	8	**14**

(6.3) Other operating expenses

in € million	2009	2008
Losses on the disposal of assets	19	77
Losses on measurement of derivatives (excluding interest rate derivatives)	365	658
Losses on currency translation of monetary assets and liabilities	178	40
Expenses for restructuring	59	63
Expenses for recultivation and environmental protection	6	12
Other additions to provisions	160	104
Impairment losses pursuant to IAS 36	75	278
Impairment losses pursuant to IAS 39	27	32
Impairment losses pursuant to IFRS 5	38	8
Expenses relating to the REACH Regulation	8	6
Miscellaneous tax expense	5	5
Other expense	346	376
	1,286	**1,659**

Losses on the disposal of assets mainly comprise €13 million (2008: €11 million) relating to the divestment of property, plant and equipment and investment property and €4 million (2008: €8 million) relating to the sale of investments.

Impairment losses determined in accordance with IAS 36 Impairment of Assets in response to indications of a possible impairment were divided among the following business areas:

	Impairment losses		Risk-adjusted discount rate in %	
in € million	2009	2008	2009	2008
Chemicals	65	267	7.9	8.1
Energy	7	3	6.8	7.2
Real Estate	3	8	6.5	6.2
	75	**278**		

In the Chemicals Business Area, impairment losses of €40 million resulted from an accident and the related production shutdown in the Health & Nutrition Business Unit. This principally relates to plant and equipment used to manufacture products for the pharmaceuticals industry.

Additional impairment losses of €15 million relate to the Coatings & Additives Business Unit and result from the need for a strategic refocusing of some activities in this business unit.

Further impairment losses amounting to €10 million relate to other business units in the Chemicals Business Area. They mainly affect property, plant and equipment.

The impairment losses on financial instruments and other receivables determined in accordance with IAS 39 Financial Instruments: Recognition and Measurement comprise €21 million (2008: €23 million) on trade accounts receivable and €1 million (2008: €4 million) on loans and other investments. An impairment loss of €5 million (2008: €4 million) was recognized for the other receivables. Further, in 2008 an impairment loss of €1 million was recognized on receivables from finance leases.

The other expense mainly comprises expenses for outsourcing, IT, insurance contributions, M&A projects, energy and supplies, commission payments, and legal and consultancy fees.

(6.4) Net interest expense

in € million	**2009**	2008
Income from securities and loans	9	19
Interest and similar income from interest rate derivatives	15	44
Other interest-type income	15	13
Interest income	**39**	**76**
Interest expense on financial liabilities	–176	–225
Interest expense for finance leases	–11	–11
Interest and similar expense for interest rate derivatives	–14	–48
Other interest-type expense	–31	–51
Net interest expense for pensions	–247	–215
Interest expense on accrued interest on other provisions	–43	–56
Interest expense	**–522**	**–606**
	–483	**–530**

Borrowing costs of €27 million (2008: €22 million) are capitalized. The underlying cost of financing is 3.6 percent (2008: 3.5 percent).

(6.5) Result from investments recognized at equity

in € million	**2009**	2008
Income from measurement at equity	70	80
Expenses for measurement at equity	–5	–8
Impairment losses	–	–8
	65	**64**

(6.6) Other financial income

Other financial income includes income of €15 million (2008: €16 million) from other investments.

(6.7) Income taxes

Income taxes comprise the following:

in € million	2009	2008
Other income taxes	194	129
(thereof relating to other periods)	(–5)	(7)
Deferred taxes	–100	–1
(thereof relating to other periods)	(6)	(–34)
	94	**128**

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. As in the previous year, the expected income taxes for 2009 are based on an overall tax rate of 30 percent, comprising German corporation tax of 15 percent, a solidarity surcharge of 5.5 percent and the average trade tax rate.

in € million	2009	2008
Income before income taxes, continuing operations	**412**	**362**
Expected income taxes	124	109
Variances due to differences in the assessment base for trade tax	8	13
Deviation from the expected tax rate	14	–1
Changes in valuation allowances on deferred taxes	–38	–33
Losses not affecting deferred taxes and the use of loss carryforwards	5	8
Changes in tax rates and tax legislation	–1	1
Non-deductible expenses	67	74
Interest ceiling	–18	26
Tax-free income	–43	–61
Result from investments recognized at equity	–19	–19
Other	–5	11
Effective income taxes (other income taxes and deferred taxes)	**94**	**128**
Effective tax rate in %	22.8	35.4

The change in the valuation allowances on deferred taxes is principally due to the adjustment of deferred tax assets. "Other" contains other income taxes and deferred taxes relating to different periods.

(7) Notes to the balance sheet

(7.1) Intangible assets

in € million	Goodwill	Franchises, trademarks and licenses	Capitalized development costs	Other intangible assets	**Total**
Cost of acquisition/production					
As of January 1, 2008	**3,288**	**1,748**	**156**	**518**	**5,710**
Currency translation	46	5	–	2	53
Additions from business combinations	6	0	–	0	6
Other additions	18	29	7	7	61
Disposal	–41	–45	–	–1	–87
Reclassification	–	2	–	0	2
As of December 31, 2008	**3,317**	**1,739**	**163**	**526**	**5,745**
Currency translation	–17	–2	–	–1	–20
Additions from business combinations	1	–	–	0	1
Other additions	–	13	4	5	22
Disposal	0	–3	–	0	–3
Reclassification	–	11	–	–6	5
As of December 31, 2009	**3,301**	**1,758**	**167**	**524**	**5,750**
Amortization and impairment losses					
As of January 1, 2008	**128**	**986**	**100**	**337**	**1,551**
Currency translation	–	3	–	0	3
Additions from business combinations	–	0	–	0	0
Amortization	–	104	8	39	151
Impairment losses	–	1	6	0	7
Reversals of impairment losses	–	–	–	–	0
Disposal	–11	–41	–	–1	–53
Reclassification	–	0	–	0	0
As of December 31, 2008	**117**	**1,053**	**114**	**375**	**1,659**
Currency translation	–	–2	–	0	–2
Additions from business combinations	–	–	–	–	0
Amortization	–	95	9	31	135
Impairment losses	–	6	4	0	10
Reversal of impairment losses	–	–	–	–	0
Disposal	–	–3	–	0	–3
Reclassification	–	–	–	1	1
As of December 31, 2009	**117**	**1,149**	**127**	**407**	**1,800**
Carrying amounts as of Dec. 31, 2008	**3,200**	**686**	**49**	**151**	**4,086**
Carrying amounts as of Dec. 31, 2009	**3,184**	**609**	**40**	**117**	**3,950**

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

	Goodwill		Growth rate in %	
in € million	**Dec. 31, 2009**	Dec. 31, 2008	**2009**	2008
Chemicals	2,734	2,733	1.5	1.5
Energy	398	415	0.7	0.7
Real Estate	40	40	1.0	1.0
Corporate, other operations	12	12	1.0	–
	3,184	**3,200**		

As in the previous year, the goodwill allocated to the Chemicals Business Area principally relates to earlier acquisitions of shares in Evonik Degussa GmbH, Essen (Germany). The goodwill allocated to the Energy Business Area mainly relates to the earlier acquisitions of shares in Evonik Steag GmbH, Essen (Germany).

As in the previous year, franchises, trademarks and licenses include trademarks with an indefinite useful life totaling €283 million. These relate exclusively to the Chemicals Business Area.

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 allocated in full to the Chemicals Business Area.

As in the previous year, as of the reporting date there were no intangible assets to which title was restricted and no commitments to purchase 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, 2008	**3,370**	**12,847**	**1,114**	**820**	**18,151**
Currency translation	9	20	–2	21	48
Additions from business combinations	11	10	1	2	24
Other additions	51	193	56	766	1,066
Disposal	–191	–894	–122	–34	–1,241
Reclassification	49	293	19	–355	6
As of December 31, 2008	**3,299**	**12,469**	**1,066**	**1,220**	**18,054**
Currency translation	–4	–7	2	0	–9
Additions from business combinations	1	8	0	–	9
Other additions	27	214	38	491	770
Disposal	–25	–28	–29	–10	–92
Reclassification	60	489	16	–605	–40
As of December 31, 2009	**3,358**	**13,145**	**1,093**	**1,096**	**18,692**
Depreciation and impairment losses					
As of January 1, 2008	**1,783**	**9,864**	**903**	**35**	**12,585**
Currency translation	7	12	–2	2	19
Additions from business combinations	6	8	0	–	14
Depreciation	79	502	67	–	648
Impairment losses	71	174	5	13	263
Reversal of impairment losses	–5	–1	0	0	–6
Disposal	–175	–855	–116	–25	–1,171
Reclassification	6	2	–1	–1	6
As of December 31, 2008	**1,772**	**9,706**	**856**	**24**	**12,358**
Currency translation	–4	–5	2	1	–6
Additions from business combinations	0	3	0	–	3
Depreciation	72	483	64	–	619
Impairment losses	20	45	2	5	72
Reversal of impairment losses	–5	0	–	–	–5
Disposal	–17	–14	–28	–	–59
Reclassification	2	10	–4	–9	–1
As of December 31, 2009	**1,840**	**10,228**	**892**	**21**	**12,981**
Carrying amounts as of Dec. 31, 2008	**1,527**	**2,763**	**210**	**1,196**	**5,696**
Carrying amounts as of Dec. 31, 2009	**1,518**	**2,917**	**201**	**1,075**	**5,711**

The carrying amounts of assets from finance leases are €9 million (2008: €12 million) for land, land rights and buildings, €61 million (2008: €66 million) for plant and machinery and €3 million (2008: €4 million) for other plant, office furniture and equipment.

The carrying amounts of property, plant and equipment pledged as security for Group liabilities amounted to €159 million (2008: €85 million). A further €114 million (2008: €89 million) was subject to other restrictions on title.

The Group has commitments of €179 million (2008: €422 million) to purchase property, plant and equipment.

(7.3) Investment property

in € million	Land, land rights	Buildings	Buildings under construction	**Total**
Cost of acquisition/production				
As of January 1, 2008	**341**	**2,134**	**0**	**2,475**
Currency translation	1	3	–	4
Additions from business combinations	–	–	–	0
Other additions	4	47	–	51
Disposal	0	–1	–	–1
Reclassification	–21	–3	–	–24
As of December 31, 2008	**325**	**2,180**	**0**	**2,505**
Currency translation	0	–1	–	–1
Additions from business combinations	–	–	–	0
Other additions	2	30	25	57
Disposal	–2	–5	0	–7
Reclassification	3	13	17	33
As of December 31, 2009	**328**	**2,217**	**42**	**2,587**
Depreciation and impairment losses				
As of January 1, 2008	**13**	**959**	**0**	**972**
Currency translation	–	2	–	2
Additions from business combinations	–	–	–	0
Depreciation	0	43	–	43
Impairment losses	0	8	–	8
Reversal of impairment losses	–	–8	–	–8
Disposal	0	0	–	0
Reclassification	–5	–9	–	–14
As of December 31, 2008	**8**	**995**	**0**	**1,003**
Currency translation	–	–1	–	–1
Additions from business combinations	–	–	–	0
Depreciation	–	44	–	44
Impairment losses	0	3	–	3
Reversal of impairment losses	–1	–2	–	–3
Disposal	0	–6	–	–6
Reclassification	–	–7	–	–7
As of December 31, 2009	**7**	**1,026**	**0**	**1,033**
Carrying amounts as of Dec. 31, 2008	**317**	**1,185**	**0**	**1,502**
Carrying amounts as of Dec. 31, 2009	**321**	**1,191**	**42**	**1,554**

Other additions comprise retroactive acquisition costs of €23 million (2008: €32 million). The fair value of investment property was €2,850 million on the reporting date (2008: €2,778 million).

The carrying amount of investment property with restrictions to title amounts to €1,039 million (2008: €1,118 million). This mainly comprises registered land charges for loans, which totaled €816 million on the reporting date (2008: €840 million).

The income statement comprises operating expenses totaling €225 million (2008: €230 million) relating to investment property which generates rental revenues. Operating expenses for investment property which does not generate rental revenues were €9 million (2008: €7 million).

Commitments to purchase real estate classified as investment property amounted to €13 million (2008: €12 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, 2009		Dec. 31, 2008	
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	626	626	604	604
Other investments	117	117	112	112
Loans	97	33	165	82
Securities and similar claims	66	43	45	38
Receivables from finance leases	1,004	923	1,117	1,036
Receivables from derivatives	128	12	218	97
Other financial assets	28	12	58	20
	2,066	**1,766**	**2,319**	**1,989**

(a) Investments recognized at equity

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

in € million	**2009**	2008
Non-current assets as of December 31	115	99
Current assets as of December 31	31	32
Non-current liabilities as of December 31	51	33
Current liabilities as of December 31	37	45
Income	114	97
Expenses	104	92

These data include the 54.4 percent stake in Kommanditgesellschaft Deutsche Gasrußwerke GmbH & Co., KG, Dortmund (Germany) and the 51 percent stakes in JSSi GmbH, 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 stake, are as follows:

in € million	**2009**	2008
Non-current assets as of December 31	1,479	1,524
Current assets as of December 31	165	198
Non-current liabilities as of December 31	938	1,027
Current liabilities as of December 31	169	177
Income	536	504
Expenses	483	450

These data include the 80 percent stake in the power plant REG Raffinerie-Energie GmbH & Co. oHG, Cologne (Germany) and the 51 percent stake in Ayas Enerji Üretim ve Ticaret A.S., Ankara (Turkey). These companies are accounted for at equity because Evonik does not have a majority of the voting rights.

(b) Other investments

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

(c) Loans

Loans are exposed to an interest-rate risk, which can affect their fair value or future cash flows. They are recognized at cost of acquisition.

As of the reporting date the long-term loans of €13 million (2008: €15 million) included accumulated impairment losses of €5 million (2008: €8 million). Evonik did not renegotiate the terms and conditions of any long-term loans in 2009 (2008: €3 million). Non-impaired loans totaling €1 million (2008: none) were up to three months overdue.

(d) Securities and similar claims

Securities and similar claims are exposed to an interest-rate risk, 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.

(e) Receivables from finance leases

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

in € million	**Dec. 31, 2009**	Dec. 31, 2008
Gross investment	**1,942**	**2,249**
(thereof non-guaranteed residual value)	(–)	(–)
due within 1 year	231	246
due in 1–5 years	857	909
due in more than 5 years	854	1,094
Interest included therein	–937	–1,131
Net investment	1,005	1,118
Accumulated impairment losses	–1	–1
Carrying amount of receivables from finance leases	**1,004**	**1,117**
less present value of non-guaranteed residual values	–	–
Present value of outstanding minimum lease payments	**1,004**	**1,117**
due within 1 year	81	81
due in 1–5 years	408	382
due in more than 5 years	515	654

As in 2008, no contingent lease payments were received under finance leases. In 2008, an impairment loss was recognized for uncollectable outstanding minimum lease payments as insolvency proceedings were opened against the lessee.

Receivables from finance leases include a contract for the supply of electricity by the Iskenderun power plant near Adana (Turkey) valued at €577 million (2008: €658 million). This contract runs for 20 years and ends in November 2019.

A further €156 million (2008: €162 million) results from a supply contract for power from the Mindanao power station near Cagayan de Oro (Philippines). This contract with STEAG State Power Inc., Makati City (Philippines) runs for 25 years and ends in November 2031. The leased assets will be transferred to the lessee when the contract ends.

Moreover, receivables from finance leases include €165 million (2008: €179 million) relating to the lease agreement for STEAG-Raffinerie-Kraftwerk-Sachsen-Anhalt, Leuna (Germany). This lease dates from November 1996 and had an original term of twelve years. In 2006 it was extended for eight years to November 2016.

(f) Receivables from derivatives

The breakdown of receivables from derivatives is as follows:

in € million	**Dec. 31, 2009**	Dec. 31, 2008
Receivables from currency derivatives	79	126
Receivables from interest derivatives	3	42
Receivables from commodity derivatives	46	50
	128	**218**

In 2009, the receivables from interest derivatives related exclusively to interest caps.

(g) Security

Financial assets pledged as security for Group liabilities amounted to €528 million (2008: €606 million). A further €402 million (2008: €425 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 involved in the Iskenderun and Mindanao power plants. The pledges relate to borrowing of €497 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 covenants. Utilization of the collateral is not anticipated.

(7.5) Inventories

in € million	**Dec. 31, 2009**	Dec. 31, 2008
Raw materials and supplies	571	668
Work in progress	147	150
Finished goods	872	1,378
	1,590	**2,196**

In 2009 impairment losses on raw materials and supplies and goods totaling €23 million were recognized in income (2008: €45 million) while reversals of impairment losses were negligible (2008: €2 million).

The carrying amounts of inventories pledged as security for Group liabilities amounted to €42 million (2008: €54 million).

(7.6) Trade accounts receivable and other receivables

	Dec. 31, 2009		Dec. 31, 2008	
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 receivable	2,148	–	2,572	–
Advance payments made	43	–	41	–
Miscellaneous other receivables	293	31	355	41
Deferred expenses	76	25	76	32
	2,560	**56**	**3,044**	**73**

Trade accounts receivable totaling €41 million on the reporting date (2008: €163 million) were impaired by €20 million (2008: €45 million). €153 million (2008: €272 million) of the non-impaired trade accounts receivable were overdue on the balance sheet date.

in € million	**Dec. 31, 2009**	Dec. 31, 2008
Overdue trade accounts receivable		
up to 3 months	142	259
more than 3 months and up to 6 months	6	7
more than 6 months and up to 9 months	3	3
more than 9 months and up to 12 months	–	2
more than 1 year	2	1
	153	**272**

The terms for trade accounts receivable totaling €1 million (2008: €2 million) were renegotiated and would otherwise have been impaired or overdue.

Receivables pledged as security for Group liabilities amounted to €5 million (2008: €5 million). €3 million (2008: €8 million) were subject to other restrictions on title. In the previous year a further €1 million was pledged for guarantees granted.

(7.7) Cash and cash equivalents

The cash and cash equivalents totaling €885 million (2008: €536 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 €240 million (2008: €151 million). These majority of the 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

As in the previous year, the company's fully paid-up capital stock was €466,000,000 on the reporting date and is divided into 466,000,000 non-par bearer shares. RAG-Stiftung notified Evonik Industries AG pursuant to Section 20, Paragraph 4 of the German Stock Corporation Act (AktG) that it directly holds a majority of the shares in Evonik Industries AG. Gabriel Acquisitions GmbH (Gabriel Acquisitions), Cologne (Germany) notified Evonik Industries AG pursuant to Section 20 Paragraph 1 of the German Stock Corporation Act (AktG) that it directly holds more than a quarter of the shares in Evonik Industries AG. Further, the following companies have submitted notification pursuant to Section 20 Paragraph 1 of the German Stock Corporation Act (AktG) that they indirectly hold over a quarter of the shares in Evonik Industries AG through their investment in Gabriel Acquisitions: Gabriel Investments S.à r.l., Gabriel Holdings S.à r.l., CVC European Equity Partners V (A) L.P., CVC European Equity Partners V (B) L.P., CVC European Equity Partners V (C) L.P., CVC European Equity Partners V (D) L.P., CVC European Equity Partners V (E) L.P., CVC European Equity V Ltd., CVC European Equity Partners Tandem (A) L.P., CVC European Equity Partners Tandem (B) L.P., CVC European Equity Partners Tandem (C) L.P., CVC European Equity Tandem GP Ltd., CVC Capital Partners Advisory Company Ltd., CVC Capital Partners Finance Ltd., Clear Vision Capital Fund SICAV-FIS S.A., CVC Nominees Ltd.

(b) Capital reserve

The capital reserve contains all other payments received from shareholders pursuant to Section 272 Paragraph 2 No. 4 of the German Commercial Code.

(c) Accumulated income/loss after taxes

The accumulated income of €3,525 million (2008: €3,562 million) comprises Group earnings received in fiscal 2009 and previous years. Income after taxes corresponds to the net income attributable to shareholders of Evonik Industries AG, as stated in the income statement for fiscal 2009. However, under German stock corporation law, only profit reserves from the separate financial statements drawn up by Evonik Industries AG which are not subject to any restrictions are available for distribution. As of December 31, 2009, Evonik Industries AG's profit reserves totaled €3,371 million, as in the previous year. €47 million of this comprises the statutory reserve that is not available for distribution.

A proposal will be submitted to the Shareholders' Meeting that €320 million should be distributed for 2009. That corresponds to a dividend of around €0.69 per non-par share.

(d) Accumulated other comprehensive income

Accumulated other comprehensive income contains gains and losses that are not included in the income statement. The reserve for unrealized gains and losses on available-for-sale securities contains remeasurement amounts resulting from changes in the value of financial instruments that are expected to be temporary and thus not charged to income. The reserve for unrealized gains and losses on hedging instruments comprises changes in the fair value of the effective portion of cash flow hedges and net investment hedges. The reserve for revaluation surplus for acquisitions made in stages contains the change in the fair value of shares previously held in subsidiaries that are consolidated for the first time. The reserve for currency translation adjustment comprises differences arising from the translation of foreign financial statements.

The components of accumulated other comprehensive income (OCI) changed as follows:

in € million	Unrealized gains/losses on available-for-sale securities	Unrealized gains/losses on hedging instruments	Revaluation surplus for acquisitions in stages	Currency translation adjustment	Accumulated other comprehensive income
As of January 1, 2008	**8**	**79**	**56**	**–454**	**–311**
Other comprehensive income as in the statement of comprehensive income	**–6**	**–79**	**0**	**–116**	**–201**
Gains/losses included in OCI	–9	–119	–		–128
Deferred taxes thereon	3	37	–		40
Amounts reclassified from OCI to the income statement	–	4			4
Deferred taxes thereon	–	–1			–1
Currency translation adjustment				–116	–116
Other changes	**–**	**–**	**–5**	**–2**	**–7**
As of December 31, 2008	**2**	**0**	**51**	**–572**	**–519**
Other comprehensive income as in the statement of comprehensive income	**3**	**72**	**0**	**20**	**95**
Gains/losses included in OCI	5	–2	–		3
Deferred taxes thereon	–2	0	–		–2
Amounts reclassified from OCI to the income statement	–	80			80
Deferred taxes thereon	–	–11			–11
Amounts reclassified from OCI and recognized in the first-time measurement of assets or liabilities		5			5
Deferred taxes thereon		–			0
Currency translation adjustment				20	20
Other changes	**–**	**–**	**–5**	**1**	**–4**
As of December 31, 2009	**5**	**72**	**46**	**–551**	**–428**

In 2009, €80 million (2008: €4 million) was reclassified from the reserve for changes in the fair value of financial instruments in hedge relationships to the income statement. €3 million (2008: €23 million) of this was recognized in sales, €82 million (2008: €30 million) in the cost of sales, €7 million (2008: €1 million) in other operating expenses and €6 million (2008: €4 million in other operating income).

(e) Non-controlling interests

Non-controlling interests comprise shares in the issued capital and reserves of consolidated subsidiaries that are not attributable to the shareholders of Evonik Industries AG.

The changes in accumulated other comprehensive income (OCI) relating to non-controlling interests were as follows:

in € million	Unrealized gains/losses on available-for-sale securities	Unrealized gains/losses on hedging instruments	Revaluation surplus for acquisitions in stages	Currency translation adjustment	Accumulated other comprehensive income
As of January 1, 2008	**1**	**4**	**0**	**–101**	**–96**
Other comprehensive income as in the statement of comprehensive income	**0**	**–14**	**0**	**23**	**9**
Gains/losses included in OCI	–	–20	–		–20
Deferred taxes thereon	–	6	–		6
Currency translation adjustment				23	23
Other changes	**–**	**–**	**–**	**5**	**5**
As of December 31, 2008	**1**	**–10**	**0**	**–73**	**–82**
Other comprehensive income as in the statement of comprehensive income	**–1**	**–2**	**0**	**–14**	**–17**
Gains/losses included in OCI	–1	–6	–		–7
Deferred taxes thereon	–	1	–		1
Amounts reclassified from OCI to the income statement	–	4			4
Deferred taxes thereon	–	–1			–1
Currency translation adjustment				–14	–14
Other changes	**–**	**–**	**–**	**–**	**0**
As of December 31, 2009	**0**	**–12**	**0**	**–87**	**–99**

(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 length of service and remuneration.

Germany accounted for around 94.3 percent (2008: 95.5 percent) and thus the vast majority of 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 obligations:

	Group		Germany	
in %	**2009**	2008	**2009**	2008
Discount rate as of December 31	5.54	6.02	5.50	6.00
Future salary increases	2.63	2.68	2.53	2.50
Future pension increases	2.07	2.02	2.00	2.00
Expected return on plan assets as of December 31	5.35	5.41	5.00	5.00
Health-care cost trend	7.28	7.45	–	–

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 2009:

in € million	**2009**	2008
Present value of the defined benefit obligation as of January 1	**6,815**	**7,078**
Current service cost	92	100
Interest cost	400	380
Employee contributions	34	35
Actuarial gains and losses	482	–269
Benefits paid	–407	–395
Past service cost	1	15
Additions from business combinations	0	–5
Reclassification pursuant to IFRS 5	–	–36
Curtailments	–1	–1
Currency translation	14	–87
Present value of the defined benefit obligation as of December 31	**7,430**	**6,815**

The fair value of the plan assets changed as follows in fiscal 2009:

in € million	**2009**	2008
Fair value of plan assets as of January 1	**2,910**	**3,058**
Expected return on plan assets	155	165
Employer contributions	94	90
Employee contributions	14	13
Actuarial gains and losses	116	–152
Benefits paid	–151	–146
Reclassification pursuant to IFRS 5	–	–7
Currency translation	23	–111
Fair value of plan assets as of December 31	**3,161**	**2,910**

The actual return on plan assets was €271 million in fiscal 2009 (2008: €13 million).

Employer contributions of €70 million are expected to be incurred for 2010.

The next table shows the present value of all defined benefit obligations, the fair value of plan assets, the funded status and experience adjustments to actuarial gains (+) and losses (–) for the defined benefit obligation and plan assets over time:

in € million	**2009**	2008	2007	2006	2005
Present value of the defined benefit obligation as of December 31	7,430	6,815	7,078	8,034	8,494
Fair value of plan assets as of December 31	3,161	2,910	3,058	3,138	3,115
Funded status as of December 31	**4,269**	**3,905**	**4,020**	**4,896**	**5,379**
Experience adjustments to the defined benefit obligation	–37	–21	–39	–47	–64
Experience adjustments to plan assets	116	–152	–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, 2009**	Dec. 31, 2008	Jan. 1, 2008
Present value of the defined benefit obligation	7,430	6,815	7,078
Fair value of plan assets	3,161	2,910	3,058
Funded status	**4,269**	**3,905**	**4,020**
Unrecognized past service cost	–1	–	1
Unrecognized actuarial loss	–481	–216	–225
Other changes (including asset ceiling and IFRIC 14)	192	264	160
Pension provisions recognized on the balance sheet	**3,979**	**3,953**	**3,956**

As of the reporting date, €4,169 million (2008: €3,864 million) of the present value of all defined benefit obligations was unfunded and €3,185 million (2008: €2,880 million) was fully or partially funded. In addition, there were health-care obligations totaling €76 million (2008: €71 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 plan assets totaling €3,161 million on the reporting date (2008: €2,910 million) was split as follows: 12.8 percent (2008: 11.4 percent) in shares, 81.1 percent (2008: 80.1 percent) in debt instruments, 0.4 percent (2000: 0.7 percent) in real estate and 5.7 percent (2008: 7.8 percent) in other assets. Shares amounting to €119 million (2008: €114 million) were hedged. On the reporting date, €23 million (2008: €22 million) was invested in real estate used by the company.

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

The actuarial loss was €481 million (2008: €216 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	**2009**	2008
Current service cost	92	100
Interest cost	404	380
Expected return on plan assets	–157	–165
Amortization	95	–83
Effect of curtailments and settlements	0	–1
Effect of asset ceiling	–73	117
Net pension expense	**361**	**348**

Preventive health-care benefits accounted for €5 million of the total expense (2008: €4 million). Further, €4 million of the interest cost and €2 million of the expected return on plan assets relate to companies classified as held for sale, see Note (5.3).

Interest cost and the expected return on plan assets are included in net interest expense, see Note (6.4), while the other amounts are allocated to the functional areas as personnel expense (pension expenses). A breakdown of overall personnel expense is given in Note (11.2).

A total of €10 million (2008: €9 million) was paid into foreign defined-contribution plans, which are also included in personnel expense (pension expenses).

Further, €153 million (2008: €158 million) was paid into defined-contribution state plans (statutory pension insurance). This is reported in personnel expense (expenses for social security contributions).

(7.10) Other provisions

in € million	Dec. 31, 2009 Total	Dec. 31, 2009 thereof with a term to maturity of more than 1 year	Dec. 31, 2008 Total	Dec. 31, 2008 thereof with a term to maturity of more than 1 year
Personnel-related	895	481	967	476
Recultivation and environmental protection	238	203	252	212
Restructuring	189	115	135	65
Sales and procurement	145	9	172	9
Other taxes and interest on taxes	76	36	128	43
Dismantling obligations	71	69	81	76
Other obligations	538	178	601	183
	2,152	**1,091**	**2,336**	**1,064**

Other provisions changed as follows in fiscal 2009:

in € million	Personnel-related	Recultivation, environmental protection	Restructuring	Sales, procurement	Other taxes, interest on taxes	Dismantling obligations	Other	Total
As of Jan. 1, 2009	**967**	**252**	**135**	**172**	**128**	**81**	**601**	**2,336**
Additions	445	18	108	117	50	1	275	1,014
Utilization	–484	–29	–29	–122	–99	–1	–246	–1,010
Reversal	–71	–2	–23	–23	–3	–3	–104	–229
Addition of acrrued interest/interest rate adjustments	36	–3	3	–	–	2	4	42
Other	2	2	–5	1	–	–9	8	–1
As of Dec. 31, 2009	**895**	**238**	**189**	**145**	**76**	**71**	**538**	**2,152**

Personnel-related provisions are established for a number of different reasons and include provisions for bonuses and other variable remuneration, statutory and other early retirement arrangements, unused vacation entitlements, lifetime working arrangements and anniversary bonuses. The vast majority of these provisions will be due for payment within five years.

Provisions are established for recultivation and environmental protection on the basis of laws, contracts and regulatory requirements. They cover soil reclamation obligations, water protection, the recultivation of landfills and site decontamination obligations. Only a small proportion of these provisions will result in payments in the short term; the majority will result in longer term payments in the period up to 2014.

Provisions for restructuring are based on defined restructuring measures. Such measures comprise programs which are planned and controlled by the company and will materially alter one of the company's areas of business activity or the way in which a 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, expenses for the termination of contracts, dismantling and soil reclamation expenses, rents for unused facilities and all other shutdown and wind-up expenses. The majority will be utilized within five years.

The provisions for sales and procurement relate principally to guarantee obligations, outstanding commission payments, price discounts and rebates, impending losses and goods and services procured for which no invoice has yet been received. Almost all of these provisions will be utilized within one year.

Provisions for other taxes and interest on taxes mainly comprise property tax, value-added tax and interest obligations relating to all types of taxes. They will give rise to current and non-current payments within five years.

Provisions for dismantling obligations relate to dismantling that is not part of a restructuring program. Most of these provisions are long-term and will be utilized in the period after 2014.

Provisions for other obligations include litigation risks, legal and consultancy expenses, audit expenses, the obligation to return emission allowances, purchase price adjustments, guarantees and indemnities relating to divestment projects. Most of these will give rise to payments by the end of 2010.

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

(7.11) Financial liabilities

	Dec. 31, 2009		Dec. 31, 2008	
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
Bonds	2,040	2,040	1,290	1,290
Liabilities to banks	2,047	1,762	3,477	2,810
Loans from non-banks	71	53	51	45
Liabilities from finance leases	114	93	132	112
Liabilities from derivatives	102	54	272	67
Other financial liabilities	121	38	180	70
	4,495	**4,040**	**5,402**	**4,394**

(a) Bonds, liabilities to banks

The amount stated under bonds includes, for the first time, a bond issued by Evonik Industries AG with a nominal value of €750 million. This matures in 2014 and has an annual coupon of 7.000 percent. It is recognized at the issue price of 99.489 percent and the discount is credited over the maturity of the bond using the effective interest rate method.

This item also includes 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.

The accrual of €16 million (2008: €4 million) for payment of the coupon on these bonds is reflected in current loans from non-banks.

The liabilities to banks include low-interest loans from public-sector banks to finance subsidized residential properties in the Real Estate Business Unit. These are reported at fair value. The difference between the fair value and the amount disbursed is shown as deferred income, see Note (7.12).

Further, Evonik Industries AG issued its first promissory note, with a nominal value of around €184 million. This matures in 2013 and is recognized mainly in liabilities to banks.

In 2008 this item also included drawings of €1,479 million on an unsecured syndicated credit facility. None of this facility was drawn at year end 2009. Interest on amounts drawn under this syndicated credit facility is based on EURIBOR plus a margin.

Fixed-interest bonds are exposed to a risk of price fluctuations while variable-rate liabilities to banks are exposed to an interest-rate risk. These risks may affect their fair value or future cash flows. The stock market price of the bond issued by Evonik Industries AG was 107.8 percent on the reporting date, valuing it at €809 million. The stock market price of the bond issued by Evonik Degussa GmbH was 103.05 percent on the reporting date, valuing it at €1,288 million (2008: €1,260 million).

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

(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, 2009**	Dec. 31, 2008
Future minimum lease payments	**167**	**191**
due within 1 year	30	32
due in 1–5 years	78	117
due in more than 5 years	59	42
Interest included therein	–53	–59
Present value of future minimum leases payments (liabilities from finance leases)	**114**	**132**
due within 1 year	21	20
due in 1–5 years	52	64
due in more than 5 years	41	48

(c) Liabilities from derivatives

The breakdown of liabilities from derivatives is as follows:

in € million	**Dec. 31, 2009**	Dec. 31, 2008
Liabilities from currency derivatives	30	103
Liabilities from interest derivatives	33	51
Liabilities from commodity derivatives	39	118
	102	**272**

(7.12) Trade accounts payable and other payables

in € million	Dec. 31, 2009 Total	Dec. 31, 2009 thereof with a term to maturity of more than 1 year	Dec. 31, 2008 Total	Dec. 31, 2008 thereof with a term to maturity of more than 1 year
Trade accounts payable	1,365	–	1,463	–
Advance payments received	109	3	84	15
Miscellaneous other payables	244	33	179	11
Deferred income	411	359	453	358
	2,129	**395**	**2,179**	**384**

The Real Estate Business Area offset €79 million (2008: €77 million) in utility charges and heating costs that can be allocated to tenants against prepayments from tenants for these costs.

Deferred income includes accrued government grants amounting €257 million (2008: €269 million) which represents the benefit arising from low-interest loans from public-sector banks to finance subsidized residential properties, see Note (7.11). The deferred income is released over the term of the loans in the same amount as the interest on the loans. The amount is recognized in sales if the low-interest loan was granted as rental revenues forgone as a result of rent caps. If the interest benefit was granted in connection with an investment, the amount released from deferred income over the period in which the benefit is granted is recognized in other operating income.

(7.13) Deferred taxes, 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, 2009 Total	Dec. 31, 2009 thereof with a term to maturity of more than 1 year	Dec. 31, 2008 Total	Dec. 31, 2008 thereof with a term to maturity of more than 1 year	Jan. 1, 2008 Total	Jan. 1, 2008 thereof with a term to maturity of more than 1 year
Deferred tax assets	392	268	364	170	383	226
Other income tax assets	199	40	166	36	73	29
Deferred tax liabilities	626	581	687	627	761	644
Other income tax liabilities	312	61	317	120	397	191

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.

Deferred taxes relate to the following balance sheet items:

	Deferred tax assets			Deferred tax liabilities		
in € million	**Dec. 31, 2009**	Dec. 31, 2008	Jan. 1, 2008	**Dec. 31, 2009**	Dec. 31, 2008	Jan. 1, 2008
Assets						
Intangible assets	8	17	12	234	264	318
Property, plant and equipment, investment property	321	370	333	629	629	676
Financial assets	19	10	26	285	393	333
Inventories	135	153	121	28	42	38
Receivables and other assets	10	29	6	29	42	58
Liabilities						
Provisions	435	439	535	54	77	99
Payables	145	151	123	105	69	45
Special tax allowance reserves (based on local law)	–	–	–	43	52	22
Loss carryforwards	196	224	195	–	–	–
Tax credits	2	–	4	–	–	–
Other	16	13	38	15	24	10
Deferred taxes (gross)	**1,287**	**1,406**	**1,393**	**1,422**	**1,592**	**1,599**
Write-downs	–99	–137	–172	–	–	–
Netting	–796	–905	–838	–796	–905	–838
Deferred taxes (net)	**392**	**364**	**383**	**626**	**687**	**761**

No deferred tax assets were recognized on temporary differences of €912 million (2008: €1,048 million) because it is not probable that future taxable income will enable them to be realized. €29 million of this (2008: €85 million) relates to the interest ceiling pursuant to Section 8 a of the German Corporate Income Tax Act (KStG) in conjunction with Section 4 h of the German Income Tax Act (EStG).

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, together with their expiry dates:

	Corporation taxes (German and foreign)		Local taxes (German and foreign)		Tax credits (foreign)	
in € million	**2009**	2008	**2009**	2008	**2009**	2008
Up to 1 year	7	3	2	1	–	–
2–5 years	79	42	1	36	–	–
6–10 years	–	384	–	9	–	–
Unlimited	531	548	1,333	1,129	155	157
	617	**977**	**1,336**	**1,175**	**155**	**157**

(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 has 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 from acquisitions and divestments of subsidiaries.

The total purchase price for shares in subsidiaries consolidated for the first time was negligible in 2009 (2008: €11 million). In 2009, as in 2008, the entire purchase price for such transactions resulted in cash outflows. The cash and cash equivalents acquired in 2009 and 2008 were negligible.

The total selling prices of subsidiaries divested in 2009 was €73 million (2008: €406 million), all of which was settled in cash and cash equivalents (2008: €392 million). Divestments included outflows of cash and cash equivalents totaling €15 million (2008: €64 million).

Further, cash inflows from divestments in 2009 included €42 million from the sale in 2008 of a company that had been included at equity. In 2008, cash inflows of €14 million were recorded from the sale of shares in connection with the mining technology activities divested in 2007.

(8.3) Cash and cash equivalents

The cash and cash equivalents of €885 million (2008: €542 million) comprise the liquid assets of the continuing operations as well as liquid assets relating to assets held for sale in the previous year. Since the cash and cash equivalents assigned to the assets held for sale have to be 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. In compliance with IFRS 8 Operating Segments, segment reporting is presented using the same structure as 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 comprises the Chemicals, Energy and Real Estate Business Areas.

The following adjustment was made to the reporting structure in 2009:

As of January 1, 2008 Evonik Steag GmbH, Essen (Germany) acquired from Evonik Degussa GmbH, Essen (Germany) 50 percent of the shares in Infracor GmbH, Marl (Germany). This stake was transferred back to Evonik Degussa GmbH effective December 31, 2009. The segment report for fiscal 2009 adopts the new structure. The prior-year figures have been restated accordingly.

The Group's activities are outlined below:

(a) Chemicals

This business area bundles Evonik's global chemicals activities, which are now focused entirely on specialty chemicals, following extensive acquisitions and divestments in recent years.

The portfolio now comprises products that Evonik supplies to customers in the agrochemicals, chemicals, plastics and paper industries for high-quality end-applications. The company also has extensive competencies in the design of inorganic particles and their surface properties, and integrated silicon complexes for the production of a unique range of chlorosilanes and organosilanes. The consumer goods industry uses custom-tailored substances and systems solutions from Evonik in products for personal care, hygiene and cleaning. Evonik produces essential amino acids for animal nutrition, active ingredients for the pharmaceuticals industry, and catalysts, which are required to meet high quality and registration standards. For this, it uses its long-standing experience of organic synthesis, catalysis and biotechnology. Functional polymers and high-quality monomers for the paints and coatings industry, adhesives and sealants are other key aspects of Evonik's specialty chemicals business. The business area's portfolio is rounded out by a broad spectrum of high-performance materials at the heart of which are methylmethacrylate chemistry, integrated production facilities for polyamide 12 and other specialized materials.

Close collaboration with industrial customers—often through long-term development alliances—is another of Evonik's strengths. Many of the chemical specialties developed, produced and commercialized by the Chemicals Business Area are tailored to customers' individual needs through additional application technology services.

Pronounced innovative capacity is a key success factor in the field of specialty chemicals. Evonik provides substantial funding for its efficient, market-oriented research and thus lastingly strengthens the development of new products, processes and applications.

(b) Energy

Evonik's power and heat generation business and related services for power stations are grouped in the Energy Business Area. Its core competencies include planning, financing, building and operating highly efficient fossil-fueled power plants.

As a grid-independent power generator, Evonik operates coal-fired power plants at eight locations in Germany, refinery power plants at two locations and a variety of facilities to generate energy from renewable resources. The business area's international operations comprise coal-fired power stations in Colombia, Turkey and the Philippines. In each of these countries it works closely with local partners. Total installed power is around 9,400 Megawatts (MW) worldwide, including around 7,700 MW in Germany. The main agreements with key customers are based on long-term supply and offtake contracts.

Evonik is well-positioned in the high-growth future market for renewable energies and is one of the German market leaders in the generation of electricity and heat from mine gas, biomass and geothermal energy. Its globally aligned engineering services also deepen its country-specific insight into the energy market, enabling it to develop new business ideas for power plant projects.

(c) Real Estate

The Real Estate Business Area manages a portfolio of around 60,000 company-owned residential units concentrated in the federal state of North Rhine-Westphalia (NRW) in Germany. It also has a 50 percent stake in THS GmbH, Essen (Germany), which owns more than 70,000 residential units. These are also located predominantly in the federal state of NRW. Evonik is thus one of Germany's leading privately owned residential real estate companies. Business focuses on letting homes to private households.

In addition, active portfolio management involving the selective sale and purchase of residential units is used. The business model is rounded out by property development activities on company-owned land to upgrade the portfolio.

The business area's regional focus is the key to above-average market insight and brings advantages in the management of the housing stock.

(d) Corporate, other operations, consolidation

The Corporate Center, which supports the Executive Board of Evonik Industries AG in the management of the Group, the Shared Service Center, which provides services for the Group and a small amount of services for third parties, 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	**2009**	2008
Total sales, reportable segments	**13,061**	**15,739**
Total sales, other operations	510	723
Consolidation	–495	–589
Total sales, corporate, other operations, consolidation	**15**	**134**
Total sales, continuing operations	**13,076**	**15,873**

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. They comprise:

in € million	**2009**	2008
Germany	4,806	6,310
USA	1,597	1,944
China	609	578
Turkey	508	657
Netherlands	449	496
France	434	537
Switzerland	363	349
Italy	326	405
Other countries	3,984	4,597
External sales, continuing operations	**13,076**	**15,873**

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) and operating income.

Operating income is defined as earnings before interest and income taxes and is the earnings parameter that corresponds to the recognition and valuation principles used to prepare 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) comprises earnings before interest, taxes and the non-operating result (subsequently referred to as EBIT).

EBITDA (before non-operating result) is the main parameter that can be influenced by the segment management (subsequently referred to as EBITDA). To calculate EBITDA, EBIT is adjusted for depreciation and amortization, impairment losses and reversals of impairment losses, which are not included in the non-operating result. The EBITDA margin is the ratio of EBITDA to external sales.

Depreciation and amortization relate to the depletion in the value of intangible assets, property, plant and equipment and investment property over their estimated useful life.

The result from investments recognized at equity corresponds to the result for these investments as reported in the income statement; see Note (6.5).

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	2009	2008
EBITDA (before non-operating result)	**2,025**	**2,165**
Depreciation, amortization, impairment losses/reversal of impairment losses	–921	–1,148
Impairment losses/reversal of impairment losses (non-operating result)	90	281
EBIT (before non-operating result)	**1,194**	**1,298**
Non-operating result	–299	–406
Operating income	**895**	**892**
Net interest expense	–483	–530
Income before income taxes, continuing operations	**412**	**362**

In fiscal 2009 the non-operating loss amounted to €299 million, compared with a non-operating loss of €406 million in 2008. In 2009, non-operating income came to €35 million (2008: €138 million) and non-operating expenses were €334 million (2008: €544 million).

In 2009, the income principally resulted from reversals of provisions. The main expenses related to the On Track efficiency enhancement program, impairment losses on assets, the divestment of the NCN chemicals activities, a one-off payment to the German pension insurance association (Pensions-Sicherungs-Verein a.G., Cologne) and restructuring. This item also includes the corresponding reversals of provisions where applicable.

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

in € million	2009	2008
Operating income, reportable segments	**1,141**	**1,215**
Operating income, other operations	–21	–2
Corporate Center and corporate activities	–220	–308
Consolidation	–5	–13
Operating income, corporate, other operations, consolidation	**–246**	**–323**
Operating income, Group, continuing operations	**895**	**892**
Net interest expense	–483	–530
Income before income taxes, continuing operations	**412**	**362**

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.

Capital employed comprises the assets required by the reportable segments for operational purposes. The table shows a reconciliation to the capital employed of the continuing operations:

in € million	Dec. 31, 2009	Dec. 31, 2008
Capital employed, reportable segments	**13,772**	**14,656**
Capital employed, other operations	–60	–94
Corporate, consolidation	–31	86
Capital employed, corporate, other operations, consolidation	**–91**	**–8**
Capital employed, continuing operations	**13,681**	**14,648**

Another major 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. To smooth the closing date effect, the calculation uses average capital employed.

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. 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 subsidiaries.

Additions to investments recognized at equity, other investments, non-current loans and non-current securities and security-type claims made in the reporting period are recognized as financial investments. The acquisition of subsidiaries is shown as an addition to financial investments in the year of acquisiton (including goodwill from capital consolidation). Financial investments by region are based on the location of the subsidiaries.

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 headcount is taken on the reporting date. It shows the number of employees. Part-time employees are included as absolute figures. The headcount by region is based on the location of the subsidiaries.

Goodwill and other intangible assets, property, plant and equipment and investment property are segmented by the location of the subsidiaries. Together, these assets comprise the non-current assets in accordance with IFRS 8 Operating Segments (c.f. IFRS 8.33 b). The following table provides a breakdown of the Group's non-current assets by country:

in € million	Dec. 31, 2009	Dec. 31, 2008
Germany	8,146	8,139
USA	761	835
Belgium	535	542
China	514	524
Other countries	1,259	1,244
Non-current assets	**11,215**	**11,284**

(10) Other disclosures

(10.1) Earnings per share

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

Number of shares	**2009**	2008
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	**2009**	2008
Income after taxes, continuing operations	318	234
Income after taxes, discontinued operations	–6	117
less income after taxes attributable to non-controlling interests	–72	–70
Income after taxes attributable to shareholders of Evonik Industries AG (net income)	**240**	**281**
Earnings per share (basic and diluted) in €		
from continuing operations	+0.68	+0.50
from discontinued operations	–0.01	+0.25
less non-controlling interests	–0.15	–0.15
Earnings per share (basic and diluted) in € attributable to shareholders of Evonik Industries AG	**+0.52**	**+0.60**

(10.2) Performance-related remuneration

Evonik's remuneration system comprises a basic salary, short-term incentives and long-term components, the Long-Term Incentive Plan for executives of the Evonik Group (Evonik LTI Plan) and a Long-Term Incentive Plan for executives of the former Evonik Degussa Group (Evonik Degussa LTI Plan). The value of these LTI Plans is not linked to the development of shares in the company. Instead it is calculated on the basis of defined business indicators. Both LTI Plans are long-term compensation plans and are accounted for in accordance with IAS 19 Employee Benefits.

(a) Evonik LTI Plan

Evonik Industries AG granted the Evonik LTI Plan to executives nominated by the Executive Board for the first time in 2008 and again in 2009. This LTI Plan comprises a three-year performance period, starting on May 1 on the year on which it is granted. The intrinsic value of the plan depends on how the fictitious equity value of Evonik derived from EBITDA develops over the performance period.

The reference base for calculating the increase in value is the fictitious equity value as of December 31 of the year prior to its granting. The actual increase compared with this reference base will be compared with the mid-term plan approved by the Supervisory Board of Evonik Industries AG in the year in which the plan is granted. Assuming that the fictitious equity value after three years is above the reference value set in the mid-term planning, a cash payment is made under the LTI Plan. The level of this payment is based on an individual target and the relationship between the actual and planned target attainment. As of the reporting date a provision of €1 million (2008: €2 million) had been established for the Evonik LTI Plans 2008 and 2009.

(b) Evonik Degussa LTI Plan

Under the Evonik Degussa LTI Plan, performance options were granted to the members of the Board of Management of Evonik Degussa GmbH (for 2003 through 2005) and around 190 executives at the former Evonik Degussa Group (for 2003 through 2006). The indicators for this LTI Plan were the ROCE and EBITDA of Evonik Degussa.

The table shows the number of performance options allocated under the Evonik Degussa LTI Plans between 2003 and 2006:

LTI Plan	2006	2005	2004	2003
As of January 1, 2009	105,657	783,251	724,467	0
Granted	–	–	–	–
Exercised	–842	–	–	–
Lapsed	–3,668	–62,700	–724,467	–
As of December 31, 2009	**101,147**	**720,551**	**0**	**0**

A five-year period was defined as the term of each tranche of the LTI Plan from 2003 through 2006. This five-year period is divided into an initial lock-up period of two years, during which the performance options may not be exercised, followed by a three-year exercise period with four exercise windows. The 2003 and 2004 LTI Plans have now expired.

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 Evonik Degussa and was defined separately for each tranche of the LTI Plan.

EBITDA is used to calculate the value of the options eligible for exercise. The performance options only have an intrinsic value if the increase in EBITDA at Evonik Degussa is at least in line with the average EBITDA performance of the defined peer group companies. 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 €15 million on the reporting date (2008: €18 million). Since the exercise conditions for the 2004 and 2005 tranches of the LTI Plan were not met, no payments were made in 2009. The 2006 tranche of the LTI Plan can only result in marginal exercise as extensive exercise of rights by eligible participants was recorded in 2008. Accordingly, the provisions for amounts above this level were reversed. In 2008 the exercise of rights relating to the tranches for 2003 and 2006 resulted in a total payment of €26 million.

(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.

	2009	At fair value through profit or loss		Available-for-sale	Loans and receivables	Liabilities at fair value	Liabilities at amort. cost
in € million		Trading	Designation				
Proceeds from disposals	–1	–	–	1	–2	–	–
Income from the measurement of derivatives	33	359	–	–	–	–326	–
Impairment losses/reversals of impairment losses	–4	–	–	–1	–3	–	–
Net interest expense	–167	1	–	0	8	–	–176
Income from other investments	15	–	–	15	–	–	–
	–124	**360**	**0**	**15**	**3**	**–326**	**–176**

	2008	At fair value through profit or loss		Available-for-sale	Loans and receivables	Liabilities at fair value	Liabilities at amort. cost
in € million		Trading	Designation				
Proceeds from disposals	–34	–	–35	2	–1	–	–
Income from the measurement of derivatives	–229	340	–	–	–	–569	–
Impairment losses/reversals of impairment losses	–22	–	–	–4	–18	–	–
Net interest expense	–206	0	–	1	18	0	–225
Income from other investments	16	–	–	16	–	–	–
	–475	**340**	**–35**	**15**	**–1**	**–569**	**–225**

Income from the measurement of derivatives does not include income from derivative financial instruments that qualify for hedge accounting.

Interest income of €9 million (2008: €19 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 €187 million (2008: €236 million). Further, 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:

	At fair value through profit or loss		Available-for-sale	Loans and receivables	Not allocated to any category	Dec. 31, 2009	
in € million	Trading	Designation				Carrying amounts	Fair value
Financial assets	**52**	**0**	**183**	**106**	**1,099**	**1,440**	
Other investments	–	–	117	–	–	117	117
Loans	–	–	–	97	–	97	97
Securities and similar claims	–	–	66	–	–	66	66
Receivables from finance leases	–	–	–	–	1,004	1,004	1,599
Receivables from derivatives	52	–	–	–	76	128	128
Other financial assets	–	–	–	9	19	28	28
Trade accounts receivable	–	–	–	2,148	–	2,148	2,148
Cash and cash equivalents	–	–	–	885	–	885	885
	52	**0**	**183**	**3,139**	**1,099**	**4,473**	

	Liabilities at fair value	Liabilities at amort. cost	Not allocated to any category	Dec. 31, 2009	
in € million				Carrying amounts	Fair value
Financial liabilities	**30**	**4,248**	**217**	**4,495**	
Bonds	–	2,040	–	2,040	2,097
Liabilities to banks	–	2,047	–	2,047	2,199
Loans from non-banks	–	71	–	71	73
Liabilities from finance leases	–	–	114	114	148
Liabilities from derivatives	30	–	72	102	102
Other financial liabilities	–	90	31	121	121
Trade accounts payable	–	1,365	–	1,365	1,365
	30	**5,613**	**217**	**5,860**	

in € million	At fair value through profit or loss: Trading	At fair value through profit or loss: Designation	Available-for-sale	Loans and receivables	Not allocated to any category	Dec. 31, 2008: Carrying amounts	Dec. 31, 2008: Fair value
Financial assets	**73**	**0**	**157**	**182**	**1,303**	**1,715**	
Other investments	–	–	112	–	–	112	112
Loans	–	–	–	165	–	165	164
Securities and similar claims	–	–	45	–	–	45	45
Receivables from finance leases	–	–	–	–	1,117	1,117	1,271
Receivables from derivatives	73	–	–	–	145	218	218
Other financial assets	–	–	–	17	41	58	58
Trade accounts receivable	–	–	–	2,572	–	2,572	2,572
Cash and cash equivalents	–	–	–	536	–	536	536
	73	**0**	**157**	**3,290**	**1,303**	**4,823**	

in € million	Liabilities at fair value	Liabilities at amort.cost	Not allocated to any category	Dec. 31, 2008: Carrying amounts	Dec. 31, 2008: Fair value
Financial liabilities	**102**	**4,177**	**1,123**	**5,402**	
Bonds	–	516	774	1,290	1,260
Liabilities to banks	–	3,477	–	3,477	3,577
Loans from non-banks	–	51	–	51	52
Liabilities from finance leases	–	–	132	132	133
Liabilities from derivatives	102	–	170	272	272
Other financial liabilities	–	133	47	180	180
Trade accounts payable	–	1,463	–	1,463	1,463
	102	**5,640**	**1,123**	**6,865**	

Some of the derivative financial instruments, parts of the bond issued by Evonik Degussa GmbH and some of the other financial assets and liabilities included in hedge accounting are not allocated to any of the categories defined in IAS 39 Financial Instruments: Recognition and Measurement.

Non-current receivables 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, receivables from finance leases, liabilities to banks, loans from non-banks and liabilities from finance leases is a risk-free interest rate. The fair value of the bond is its 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.

Fair value hierarchy

Fair value measurement of financial instruments is based on a three-level hierarchy, see Note (3.7) "Financial instruments". The table shows the allocation of financial instruments measured at fair value to the three levels of the fair value hierarchy:

in € million	Dec. 31, 2009 Fair value	Level 1[1)]	Level 2[2)]	Level 3[3)]
Financial assets	**194**	**66**	**128**	**0**
Securities and similar claims	66	66	0	–
Receivables from derivatives	128	–	128	–
Financial liabilities	**102**	**0**	**102**	**0**
Liabilities from derivatives	102	–	102	–

[1)] Quoted price on an active market.
[2)] Quoted price on an active market for similar financial instruments or a valuation method based on observable market data.
[3)] Valuation method not based on observable market data.

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 hedged items 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:

	Dec. 31, 2009			Dec. 31, 2008		
in € million	Total	thereof with a term to maturity of up to 1 year	thereof with a term to maturity of more than 1 year	Total	thereof with a term to maturity of up to 1 year	thereof with a term to maturity of more than 1 year
Currency derivatives	3,931	3,746	185	3,773	3,517	256
Interest derivatives	989	0	989	1,171	36	1,135
Commodity derivatives	522	299	223	492	310	182
Other derivatives	–	–	–	13	13	0
	5,442	**4,045**	**1,397**	**5,449**	**3,876**	**1,573**

Where the criteria for hedge accounting are fulfilled, currency, interest and commodity derivatives are accounted for as fair value hedges, cash flow hedges or hedges of a net investment.

Hedge accounting
The following major hedging transactions qualified for hedge accounting in fiscal 2009:

(a) Fair value hedges
Until August 2009, the €1,250 million bond issued by Evonik Degussa GmbH in November 2003 was hedged by receiver swaps with a notional value of €750 million and an expiration date of 2013. The fair value of these interest rate hedges when they were closed out was €54 million (December 31, 2008: €40 million). A regression analysis was used to provide evidence of the effectiveness of the hedges for the last time as of the date on which they were closed out. In the period January to August 2009, income of €14 million (full-year 2008: €44 million) relating to the fair value measurement of these derivatives and expenses of €14 million (full-year 2008: €47 million) from the fair value measurement of the bond were included in net interest expense. When the hedge was closed out, the accumulated income from the effective portion of the fair value hedge of the bond amounted to €60 million. This will be released to net interest expense over the remaining maturity of the bond using the effective interest method. €5 million of this amount was released in 2009.

The Energy Business Area has long-term master agreements on the purchase and sale of imported coal, including ocean freight. Both fixed and indexed rates have been agreed for such contracts. The price risk relating to pending transactions where purchase and sale are not synchronized is hedged through to 2011 using coal and freight swaps designated as fair value hedges. The fair value of these hedges was €9 million on the reporting date (2008: €5 million). A regression analysis is carried out quarterly to provide evidence of their prospective effectiveness. Their retrospective effectiveness is measured by the cumulative dollar offset method. The fair value measurement of derivatives resulted in income of €17 million in 2009 (2008: €40 million) and expenses of €22 million (2008: €45 million), while the fair value measurement of the pending hedged transactions resulted in expenses of €22 million (2008: €48 million) and income of €17 million (2008: 41 million). These amounts were recognized in other operating income and expenses.

(b) Cash flow hedges
The Energy Business Area has hedged interest payments relating to the financing of power plant projects up to 2026 with interest rate swaps and interest rate caps. In addition, commodity swaps were used to hedge coal and freight price risks relating to the planned supply to company-owned power stations and forward exchange contracts to hedge currency risks relating to the planned procurement of raw materials. These derivatives mature in the period up to 2011. The following fair values were recognized for these derivatives: designated interest rate derivatives minus €33 million (2008: minus €48 million), currency derivatives €4 million (2008: €8 million) and commodity derivatives minus €5 million (2008: minus €16 million).

In the Chemicals Business Area, forward exchange contracts are used to hedge forecast sales as of the balance sheet date amounting to around €526 million (2008: €615 million) up to 2010 against exchange rate movements. The fair value of hedging instruments included in hedge accounting was €3 million (2008: €19 million). In addition, commodity swaps with a fair value of €3 million (2008: minus €56 million) were used to hedge forecast purchases of raw materials against price fluctuations up to 2011.

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. In 2009, the calculation for interest hedges where interest options are used as the hedging instrument was transitioned to the intrinsic value method. Similarly, as from 2009, only the spot components of forward exchange contracts used to hedge currency risks relating to transactions that are highly probable are designated as hedges. As in 2008, only a negligible amount was recognized in income as the ineffective portion of the valuation of cash flow hedges.

(c) Hedge of a net investment

The Energy Business Area uses currency derivatives to hedge the proportionate equity allocated to foreign power plant projects against exchange rate risks. The fair value of these hedges was €22 million (2008: €31 million). €4 million was derecognized from unrealized gains/losses on hedges in accumulated other comprehensive income in 2008 and charged to income as the result of capital reductions or the divestment of shares.

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 both on the value of the company and on profitability in order to check adverse fluctuations in cash flows and earnings without forgoing the opportunity to benefit from positive market trends. For this purpose a systematic financial and risk management system has been established. Interest rate and exchange rate risks are managed centrally at Evonik. Commodity risks are identified by the business units and hedged with the aid of futures in compliance with corporate guidelines.

Financial derivatives are used to reduce financial risks. They are entered into exclusively in connection with the corresponding underlying transaction (hedged item) relating to normal operating business, which provides a risk profile directly opposite to that of the hedge. The instruments used to manage exchange rate and interest rate risks are customary products found on the market such as forward exchange contracts and currency options, interest rate and currency swaps and interest rate caps. Commodity risks relating to coal, gas, electricity and oil are hedged through futures contracts. The procurement of emissions allowances to meet obligations pursuant to Section 6 of the German Emissions Trading Act (TEHG) is optimized through the use of EUA-CER swaps, EUA or CER futures and securities lending transactions.

(a) Market risk

Market risk can basically be subdivided into exchange rate, interest rate and commodity risks.

Exchange rate risks relate to both the sourcing of raw materials and the sale of end-products in currencies other than the functional currency of the company concerned. The aim of currency management is to protect the company's operating business from fluctuations in earnings and cash flows resulting from changes in exchange rates. Account is taken of the opposite effects arising from procurement and sales activities. The remaining currency risks to the Group chiefly relate to changes in the exchange rate of the euro versus the US dollar (USD).

The aim of interest rate management is to protect 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. The receiver swaps with a notional value of €750 million held to hedge the €1,250 million bond issued by Evonik Degussa GmbH in November 2003 were closed out in August 2009. As of December 31, 2009 around 98 percent (2008: around 50 percent) of net financing liabilities were hedged by primary and derivative fixed-interest contracts.

Several scenario analyses were carried out to measure exchange rate and interest rate risk as of December 31, 2009.

A change of 5 percent and 10 percent in the exchange rates of the USD, which is the most important currency for Evonik, was modeled, together with the standard deviation for each of these changes to simulate the possible loss of value of primary and derivative financial instruments.

The scenarios are shown in the table:

	Dec. 31, 2009		Dec. 31, 2008	
in € million	Impact on income	Impact on equity	Impact on income	Impact on equity
+5%	–28	–25	–42	–24
–5%	28	25	42	24
+10%	–56	–50	–83	–49
–10%	56	50	83	49
+ standard deviation	–5	–5	–8	–5
– standard deviation	5	5	8	5

Several scenarios were also simulated for interest rates. These analyzed shifts of 50, 100 and 150 basis points in interest rates or the interest rate curve. The changes modeled relate to the interest rate curves for all foreign currencies and for the euro to simulate the possible loss of value of primary and derivative financial instruments. The scenarios are shown in the table:

	Dec. 31, 2009		Dec. 31, 2008	
in € million	Impact on income	Impact on equity	Impact on income	Impact on equity
+50 basis points	1	20	–24	22
–50 basis points	–1	–21	25	–23
+100 basis points	1	39	–48	43
–100 basis points	0	–44	51	–48
+150 basis points	2	57	–71	62
–150 basis points	0	–68	78	–75

Commodity risks result from changes in the market prices for the purchase and sale of raw materials and the sale of electricity. Raw materials are purchased principally to meet in-house requirements, but steam coal is also purchased for resale to third parties via the market. Commodity management is the responsibility of 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 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.

Financial derivatives were used to hedge procurement price risks. If the price of crude oil or natural gas had altered by 10 percent on the reporting date, the equity impact of the fluctuation in the value of these derivatives would have been €7 million (2008: €8 million). If the price of imported coal or freight rates had been altered by 10 percent, the equity impact of the corresponding derivatives would have been €4 million (2008: €4 million). The sensitivity analysis for these raw materials and for emissions allowances shows a negligible impact on earnings in 2009 and 2008.

(b) Liquidity risk

Liquidity risk is managed through business planning to ensure 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. None of this was in use on the reporting date (2008: €800 million was in use at year end). There are also agreed bilateral credit facilities amounting to €224 million (2008: €180 million) to cover short-term funding requirements, and more than €365 million (2008: €450 million) for letters of credit. Drawings at year end 2009 were €67 million and €265 million respectively (2008: €5 million and €268 million).

The table shows the remaining maturity of the primary financial instruments based on the agreed dates for payment of the sum of interest and installment payments.

	Total		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	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Financial liabilities as of December 31	**5,784**	**6,476**	**576**	**1,463**	**757**	**1,442**	**2,811**	**1,791**	**1,640**	**1,780**
Bonds	2,519	1,570	117	64	233	128	2,169	1,378	–	–
Liabilities to banks	2,901	4,465	334	1,243	461	1,189	584	362	1,522	1,671
Loans from non-banks	74	70	5	14	15	11	16	3	38	42
Liabilities from finance leases	167	191	30	32	44	69	34	48	59	42
Other financial liabilities	123	180	90	110	4	45	8	0	21	25
Trade accounts payable as of December 31	**1,365**	**1,463**	**1,365**	**1,463**	**–**	**–**	**–**	**–**	**–**	**–**

The breakdown of the sum of interest and installment payments by maturity in the following table relates to derivative financial instruments with positive and negative fair values. The table shows the net value of cash inflows and outflows. Since netting was not agreed for currency derivatives, they are presented as gross amounts:

	Total		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	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Receivables from derivatives as of Dec. 31	**191**	**148**	**174**	**96**	**17**	**39**	**0**	**13**	**0**	**0**
Currency derivatives	139	92	127	87	12	5	–	–	–	–
Cash inflows	2,426	1,789	2,349	1,672	74	114	3	3	–	–
Cash outflows	–2,287	–1,697	–2,222	–1,585	–62	–109	–3	–3	–	–
Interest derivatives	0	45	–	9	–	23	–	13	–	–
Commodity derivatives	52	11	47	–	5	11	–	0	–	–
Liabilities from derivatives as of Dec. 31	**–154**	**–241**	**–111**	**–200**	**–49**	**–42**	**–6**	**–1**	**12**	**2**
Currency derivatives	–76	–138	–70	–118	–6	–20	–	–	–	–
Cash inflows	1,495	1,836	1,388	1,748	104	88	3	–	–	–
Cash outflows	–1,571	–1,974	–1,458	–1,866	–110	–108	–3	–	–	–
Interest derivatives	–33	–23	–21	–6	–18	–18	–6	–1	12	2
Commodity derivatives	–45	–80	–20	–76	–25	–4	–	–	–	–

(c) Risk of default

Credit risk management divides default risk into three categories, which are analyzed separately on the basis of their specific features. The three categories are debtor and creditor risk, country risk and the risk of default by financial counterparties.

The debtor and creditor default risks are analyzed and monitored continuously with the aid of an internal limit system. Political risk (country risk) is also taken into account for export orders so that the overall risk assessment takes account of both political and economic risk factors. On the basis of the analysis, a maximum risk exposure limit is set for the contracting party. The credit standing of contracting parties is updated constantly via ratings or scoring processes.

In addition, a specific limit is set for financial counterparties for each type of risk (money market, capital market and derivatives). 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 and our own internal analysis of credit standing. In the case of banks, the level of deposits covered by the deposit insurance system and liable capital are also taken into account.

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.

Owing to the diversity of business and large number of customers, there are no significant cluster risks.

(10.4) Related parties

In addition to the subsidiaries included in the consolidated financial statements, the Group maintains relationships with related parties. The legal relationships to major subsidiaries and investments are listed at the end of this annual report.

Related parties with which the Group maintains business relationships comprise RAG-Stiftung and Gabriel Acquisitions as shareholders of Evonik Industries AG, fellow subsidiaries of Evonik owned by the RAG-Stiftung and associated companies and joint ventures of Evonik, which are recognized at equity.

The transactions between the Group and these companies are shown in the table:

	RAG-Stiftung		Fellow subsidiaries		Evonik Group	
in € million	**2009**	2008	**2009**	2008	**2009**	2008
Goods and services supplied	1	15	42	152	71	84
Goods and services received	–	–	304	464	28	55
Other income	–	–	–	2	6	11
Receivables as of December 31	–	–	195	201	17	14
Liabilities as of December 31	–	–	466	527	34	62

The receivables and liabilities on the reporting date principally result from the supply of coal and electricity.

Further, as of the balance sheet date, €25 million (2008: €28 million) comprised security pledged to a fellow subsidiary for the liabilities of the Real Estate Business Area in connection with the financing of property.

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 comprise the Executive Board and Supervisory Board of Evonik Industries AG, the Executive Board and Board of Trustees of RAG-Stiftung 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 Chemicals, Energy and Real Estate Business Areas.

The Supervisory Board of Evonik Industries AG received total remuneration of €2,075,000 for its work in 2009 (2008: €1,990,000).

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	**2009**	2008	**2009**	2008
Short-term remuneration	3	20	6	6
Post-employment benefits	10	19	9	15
Termination benefits	1	8	–	1
LTI Plans	–	0	–	0

Post-employment benefits comprise pension obligations at the present value of the defined benefit obligation. Current service cost for pensions amounted to €1 million (2008: €1 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, 2009**	Dec. 31, 2008
Guarantee obligations	43	44
Obligations under warranties and indemnity guarantees	125	330
	168	**374**

Obligations under warranties and indemnity agreements include letters of comfort, some of which were issued in conjunction with third parties.

Evonik has 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 table shows the nominal value of obligations from future minimum lease payments for assets leased under operating leases with the following payment terms:

in € million	**Dec. 31, 2009**	Dec. 31, 2008
Due within 1 year	64	44
Due in 1–5 years	162	137
Due in more than 5 years	137	119
	363	**300**

Contingent rental payments amounted to €3 million in 2009 (2008: none).

(10.6) Events after the reporting date

Effective January 1, 2010 Evonik acquired a production site in Tippecanoe, Lafayette (Indiana, USA) from Eli Lilly and Company, Indianapolis (Indiana, USA). This site produces active ingredients and starting products for the pharmaceutical industry. It was agreed not to disclose details of the purchase price.

In parallel with the acquisition of this site, Evonik signed an agreement with Eli Lilly and Company on the supply of pharmaceutical active ingredients and intermediates for a number of years.

Since this acquisition took place close to the reporting date, the recognition of the identifiable assets and liabilities has not yet been completed.

(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) Personnel expense and number of employees pursuant to Section 314 Paragraph 1 No. 4 of the German Commercial Code

The personnel expense for the continuing operations in the reporting period comprised the following items:

in € million	**2009**	2008
Wages and salaries	2,165	2,320
Social security contributions	331	336
Pension expenses	124	142
Other personnel expense	55	18
	2,675	**2,816**

Interest expense on accrued interest on pensions and the expected return on plan assets are included in net interest expense, see Note (6.4).

The table shows the annual average headcount for the continuing operations:

by business area	**2009**	2008
Chemicals	30,761	32,108
Energy	4,763	4,701
Real Estate	441	443
Corporate, other operations	3,803	3,933
	39,768	**41,185**

In addition, an average of 657 employees worked for the discontinued operations in 2008.

(11.3) Remuneration of Board of Management and Supervisory Board pursuant to Section 314 Paragraph 1 No. 6 of the German Commercial Code

Remuneration paid to the members of the Executive Board of Evonik Industries AG for their work in 2009 amounted to €3,447,407.52 (2008: €20,269,173.51).

Total remuneration for former members of the Executive Board was €1,391,101.38 in 2009 (2008: €7,699,000.00).

In 2009 €590,450.00 was allocated to provisions for bonuses for 2008 due to members who left the Executive Board in 2008.

As of the reporting date €13,844,691.00 (2008: €9,657,904.00) was allocated to provisions for pension obligations to former members of the Executive Board.

The remuneration of the Supervisory Board for 2009 totaled €2,075,000.00 (2008: €1,990,343.03).

(11.4) Auditors' fees pursuant to Section 314 Paragraph 1 No. 9 of the German Commercial Code

The auditor for the consolidated financial statements of the Evonik Group is PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf (Germany). PwC rendered the following services to the Group:

in € million	2009
Auditing of annual financial statements	4
Other audit-related services	1
Tax consultation services	0
Other services	1
	6

The fees for auditing annual financial statements include expenses for the audit of the consolidated financial statements and of the separate annual financial statements of Evonik Industries AG and its German subsidiaries.

Other audit-related services comprise services apart from the auditing of annual financial statements, especially the review of interim financial statements.

Essen, February 22, 2010

Evonik Industries AG
The Executive Board

Dr. Engel Blauth Dr. Colberg

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Auditor's report

We have audited the consolidated financial statements prepared by Evonik Industries AG, Essen, comprising the income statement and the statement of comprehensive income, the balance sheet, 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, 2009. 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 on 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 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 those entities included in consolidation, the determination of the entities 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, 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, February 24, 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Norbert Vogelpoth, Wirtschaftsprüfer
(German Public Auditor)

Eckhard Sprinkmeier, Wirtschaftsprüfer
(German Public Auditor)

Report of the Supervisory Board

Ladies and gentlemen:

During the past fiscal year, the Supervisory Board of Evonik Industries AG once again performed the obligations imposed on it by law and the Articles of Incorporation. We maintained an ongoing dialog with the Executive Board of Evonik Industries AG, continuously monitored its management of the company and offered regular advice. The Executive Board provided us with full and timely information on all relevant aspects of business policy, corporate planning and strategic development, and the profitability, business performance and situation of the Group.

We addressed all issues of relevance to the company at four meetings, on March 23, June 17, September 17 and December 16, 2009 and in two cases—in June and October 2009—through a written circulation procedure. In addition, the Executive Board submitted written reports on business trends and processes of particular importance for Evonik. Further, the Chairman of the Supervisory Board was kept constantly informed of all significant business matters.

Fiscal 2009 was dominated by the global financial and economic crisis, which also had a substantial impact on Evonik. A central element of our discussions was the extensive cost-cutting and efficiency enhancement program ("On Track") adopted by the Executive Board to counter the crisis. With the support of the workforce, it was possible to protect Evonik's financial leeway in difficult business conditions.

Following a thorough analysis, the Executive Board presented us with proposals for the future strategic focus of the Evonik Group. These were discussed in detail by the Supervisory Board at its meeting on December 16, 2009 and unanimously approved.

The outcome is that the Group is to be developed into a global leader in specialty chemicals with a focus on growth areas that benefit especially from the global megatrends resource efficiency, health and nutrition, and globalization of technologies. In future, the Energy and Real Estate Business Areas will be operated as largely independent business entities.

Other key issues discussed included:

- the acquisition of the Eli Lilly site in Tippecanoe (USA)
- the divestment of the AlzChem Group in Trostberg (Germany)
- the erection of a monosilane/AEROSIL® complex (Japan)
- the ramp-up of the production of lithium-ion battery cells in Kamenz (Germany)
- extension of production capacity for methionine (Belgium, USA)
- the STEAG 2013 project for the strategic alignment of the Energy Business Area
- the "AYAS" project: development and construction of a hard-coal power plant (Turkey)
- the issue of a €750 million bond with a maturity of five years.

The work of the Supervisory Board was prepared and supported by seven meetings of the Executive Committee, four meetings of the Finance and Investment Committee and four meetings of the Audit Committee.

The Supervisory Board also discussed in detail the personnel changes on the Executive Board of the Evonik Group and the reduction in the size of the Corporate Center. Key aspects included:

- ending the term of office of Heinz-Joachim Wagner as a member of the Executive Board of Evonik Industries AG in connection with his resignation as of April 30, 2009
- ending the term of office of Ulrich Weber as a member of the Executive Board and Chief Human Resources Officer of Evonik Industries AG in connection with his resignation as of June 30, 2009
- the appointment of Ralf Blauth as a member of the Executive Board and Chief Human Resources Officer of Evonik Industries AG for the period from July 1, 2009 through June 30, 2012.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf (Germany) has audited the financial statements of Evonik Industries AG as of December 31, 2009 prepared in accordance with the German Commercial Code (HGB), the consolidated financial statements for the Evonik Group prepared using 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 Evonik Industries AG and the Evonik Group, 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 on the basis of a voluntary request from the Supervisory Board.

The auditors outlined the main findings of their audit at the meeting of the Audit Committee on March 18, 2010 and the full meeting of the Supervisory Board on March 24, 2010. Following a thorough examination of the annual financial statements for the company, consolidated financial statements for the Group and the combined management report, the Supervisory Board raises no objections to the report and concurs with the auditors' findings. The Supervisory Board therefore endorses the annual financial statements for Evonik Industries AG and the consolidated financial statements for the Evonik Group. The annual financial statements for 2009 are thus adopted.

The Board of Management has prepared a report on relations with affiliated companies. This was examined by the auditors, who have issued the following unqualified opinion in accordance with Section 313 of the German Stock Corporation Act:

"In accordance with our professional audit and judgment, we confirm that

1. the facts contained in the report are correct
2. the company's expenditures in connection with the legal transactions contained in the report were not unreasonably high or compensation was received for any disadvantages."

The auditors outlined the main findings of their audit at the meeting of the Audit Committee on March 18, 2010 and the full meeting of the Supervisory Board on March 24, 2010. The Supervisory Board also examined the report on the affiliated companies for completeness and correctness. This examination found that the Executive Board has, with the necessary care,

- identified the affiliated companies
- taken the necessary precautions to identify
  a) the transactions undertaken by the company during the past fiscal year with the controlling company or companies affiliated with it or at the instigation of or in the interests of these companies, further
  b) other action taken or not taken at the instigation of or in the interests of these companies during the past fiscal year
- and has included these actions in their entirety in the report on affiliated companies and established that no reportable activities were undertaken, nor were any actions omitted.

In its examination of the transactions outlined in the report, the Supervisory Board established that, under the circumstances known at the time they were undertaken, the company's expenditures in connection with these transactions were not unreasonably high. On the basis of random samples, it obtained an explanation of how the relevant activities and the remuneration therefor were determined, particularly in the case of transactions of material significance. The Audit Committee discussed the report in advance and gave the Supervisory Board a detailed report on the outcome of its meeting. The Supervisory Board has no objections to raise to the final declaration made by the Executive Board in its report on relations with affiliated companies and concurs with the auditors' findings.

Mr. Gebhard Gaßner stepped down from the Supervisory Board effective June 30, 2009. We would like to thank him for his dedicated and constructive collaboration. Dr. Wilfried Robers has been appointed as his successor on the Supervisory Board.

The Supervisory Board would like to thank the Executive Board, Works Councils and all employees of Evonik Industries AG and its affiliated companies for their achievements in what was a very difficult year.

The Supervisory Board expressly thanks all members of the workforce for their commitment and their willingness to support Evonik, including their personal contribution to the cut-backs. Our special thanks go to the Executive Board for its key role in countering the crisis and in the strategic refocusing of the Group.

Essen, March 2010

The Supervisory Board

Wilhelm Bonse-Geuking, Chairman

Further information on corporate officers

Supervisory Board of Evonik Industries AG

Wilhelm Bonse-Geuking, Essen
Chairman
Chairman of the Executive Board of RAG-Stiftung
a) Deutsche BP AG (Chair)
RAG Aktiengesellschaft (Chair)
RAG Deutsche Steinkohle AG (Chair)
b) HDI-Gerling AG
NRW Commerzbank AG

Werner Bischoff, Monheim
Deputy Chairman
Former member of the National Executive of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) Continental AG
Evonik Degussa GmbH
RWE AG
RWE Dea AG
RWE Power AG

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) BAT (Germany) GmbH (Chair)
TAKKT AG
b) Wilh. Werhahn KG

Dr. Hans Michael Gaul, Düsseldorf
a) EWE Aktiengesellschaft
HSBC Trinkaus & Burkhardt AG
IVG Immobilien AG
Siemens AG
VNG – Verbundnetz Gas AG
Volkswagen AG

Ursel Gelhorn, Essen
Deputy Chairman of the Group Works Council of Evonik Steag GmbH

Stephan Gemkow, Overath
Member of the Board of Management of Deutsche Lufthansa AG
a) Delvag Luftfahrtversicherungs-AG (Chair)
GfK SE
LSG Lufthansa Service Holding AG (Chair)
Lufthansa AirPlus Servicekarten GmbH (Chair)
Lufthansa Cargo AG (Chair)
Lufthansa Systems AG (Chair)
Lufthansa Technik AG (Chair)
b) Amadeus IT Group S.A.
JetBlue Airways Corporation
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

Prof. Wolfgang A. Herrmann, Freising
President of Munich Technical University
a) E.ON Bayern AG
b) Bayerische Forschungsallianz GmbH

Steve Koltes, Küsnacht
Managing Director of CVC Capital Partners Luxembourg, S.à.r.l.
b) DSI International S.à.r.l.
Elster Group S.à.r.l.
Flint Group Holdings S.à.r.l.

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

Dr. Wilfried Robers, Gescher
from July 21, 2009
Chairman of the Group Senior Staff Committee of Evonik Industries AG
Chairman of the Group Senior Staff Committee of Evonik Degussa GmbH
b) Pensionskasse Degussa VVaG

Rainer Schankweiler, Essen
Deputy Chairman 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, Rotterdam
Former Chairman of the Management Board of LyondellBasell Holdings B.V.

Dr. Christian Wildmoser, Savigny
Managing Director of CVC Capital Partners Switzerland GmbH
b) Flint Group Holdings S.à.r.l.

Members who left the Supervisory Board during 2009:

Gebhard Gaßner
until June 30, 2009

Executive Board of Evonik Industries AG

Dr. Klaus Engel, Mülheim a. d. Ruhr
Chairman
a) Evonik Degussa GmbH (Chair)
Evonik Steag GmbH (Chair)
b) Evonik Immobilien GmbH
Evonik Wohnen GmbH

Ralf Blauth, Marl
from July 1, 2009
a) Evonik Services GmbH
Evonik Steag GmbH
Industriepark Wolfgang GmbH
Infracor GmbH (Chair)
b) Evonik Immobilien GmbH (Chair)
Evonik Wohnen GmbH (Chair)
Pensionskasse Degussa VVaG (Chair)
RAG BILDUNG GmbH
THS GmbH

Dr. Wolfgang Colberg, Ratingen
from April 1, 2009
a) Evonik Degussa GmbH
Evonik Services GmbH (Chair)
Evonik Steag GmbH
Roto Frank AG
b) Evonik Immobilien GmbH
Evonik Wohnen GmbH
Pernod Ricard SA

Members who left the Executive Board during 2009:

Heinz-Joachim Wagner, Bad Nauheim
until April 30, 2009

Ulrich Weber, Krefeld
until June 30, 2009

a) Membership of other statutory supervisory boards.
b) Membership of comparable German and foreign supervisory bodies of business enterprises.

Major shareholdings

	Equity[1]	Evonik's stake including shareholdings pursuant to Section 16 German Stock Corporation Act (AktG)		
	in € million	Direct %	Indirect %	Total %
I. Consolidated subsidiaries				
Chemicals Business Area				
Germany				
1. Evonik Degussa GmbH, Essen	2,739	94.90	5.10	100.00
2. Evonik Goldschmidt GmbH, Essen	127		100.00	100.00
3. Evonik Litarion GmbH, Kamenz	8		100.00	100.00
4. Evonik Oxeno GmbH, Marl	39		100.00	100.00
5. Evonik Röhm GmbH, Darmstadt	168		100.00	100.00
6. Evonik RohMax Additives GmbH, Darmstadt	31		100.00	100.00
7. Evonik Stockhausen GmbH, Krefeld	127		100.00	100.00
8. Infracor GmbH, Marl	66		100.00	100.00
Other countries				
9. Degussa Engineered Carbons L.P., Parsippany (NJ, US)	–11		100.00	100.00
10. Evonik Cyro LLC, Parsippany (NJ, US)	23		100.00	100.00
11. Evonik Amalgamation Ltd. (formerly Degussa Amalgamation Ltd.) Milton Keynes (UK)	467		100.00	100.00
12. Evonik Degussa (China) Co. Ltd., Beijing (CN)	48		100.00	100.00
13. Evonik Degussa Antwerpen N.V., Antwerp (BE)	152		99.99	99.99
14. Evonik Degussa Brasil Ltda., São Paulo (BR)	128		100.00	100.00
15. Evonik Degussa Canada Inc., Burlington (CA)	45		100.00	100.00
16. Evonik Degussa Corporation, Parsippany (NJ, US)	1,486		100.00	100.00
17. Evonik Degussa Japan Co. Ltd., Tokyo (JP)	80		100.00	100.00
18. Evonik Degussa UK Holdings Ltd., London (UK)	474		100.00	100.00
19. Evonik Goldschmidt Chemical Corporation, Delaware (formerly Hopewell) (VA, US)	11		100.00	100.00
20. Evonik Monosilane Japan Co. Ltd., Tokyo (JP)	7		100.00	100.00
21. Evonik RohMax USA Inc., Horsham (PA, US)	19		100.00	100.00
22. Evonik Stockhausen LLC, Greensboro (NC, US)	0		100.00	100.00
23. Evonik Speciality Organics Ltd. (formerly Laporte Speciality Organics Ltd.), Milton Keynes (UK)	356		100.00	100.00
24. Nippon Aerosil Co. Ltd., Tokyo (JP)	49		80.00	80.00
Energy Business Area				
Germany				
25. Evonik Steag GmbH, Essen	674	5.10	94.90	100.00
26. Evonik Energy Services GmbH, Essen	8		100.00	100.00
27. Evonik Fernwärme GmbH, Essen	21		100.00	100.00
28. Evonik New Energies GmbH, Saarbrücken	66		100.00	100.00
29. Evonik Power Saar GmbH, Saarbrücken	11		100.00	100.00
30. Evonik Power Minerals GmbH, Dinslaken	34		100.00	100.00
31. Evonik Trading GmbH, Essen	35		100.00	100.00
32. RVG GmbH, Essen	1		51.00	51.00
33. Evonik-EVN Walsum 10 Kraftwerksgesellschaft mbH, Essen	123		51.00	51.00
34. STEAG-Raffinerie-Kraftwerk-Sachsen-Anhalt GmbH, Spergau (formerly Essen)	2		100.00	100.00
Other countries				
35. Compañia Eléctrica de Sochagota S.A.E.S.P., Tunja (CO)	52		51.00	51.00
36. Iskenderun Enerji Üretim ve Ticaret A.S., Ankara (TR)	1,012		51.00	51.00
37. SFW Energia Sp. z o.o., Gliwice (PL)	14		100.00	100.00
38. STEAG State Power Inc., Makati City (PH)	160		51.00	51.00

		Equity[1]	Evonik's stake including shareholdings pursuant to Section 16 German Stock Corporation Act (AktG)		
		in € million	Direct %	Indirect %	Total %
	Real Estate Business Area				
	Germany				
39.	Evonik Immobilien GmbH, Essen	334	100.00		100.00
40.	Aachener Bergmannssiedlungsgesellschaft mbH, Hückelhoven	25		100.00	100.00
41.	Bauverein Glückauf GmbH, Ahlen	11		94.90	94.90
42.	EBV GmbH, Hückelhoven	78		100.00	100.00
43.	Evonik Wohnen GmbH, Essen	3		100.00	100.00
44.	Heinrich Schäfermeyer GmbH, Hückelhoven	10		100.00	100.00
45.	Lünener Wohnungs- und Siedlungsgesellschaft mbH, Lünen	28		100.00	100.00
46.	Rhein Lippe Wohnen GmbH, Duisburg	98		100.00	100.00
47.	Siedlung Niederrhein GmbH, Dinslaken	43		100.00	100.00
48.	Walsum Immobilien GmbH, Duisburg	25		100.00	100.00
49.	Wohnbau Auguste Victoria GmbH, Marl	35		100.00	100.00
50.	Wohnbau Westfalen GmbH, Dortmund	80		100.00	100.00
51.	Wohnungsbaugesellschaft mbH "Glückauf", Moers	44		100.00	100.00
	Other companies				
	Germany				
52.	Evonik Services GmbH, Essen	0	100.00		100.00
53.	Evonik Projekt-Beteiligungs-GmbH & Co. KG, Essen	344	99.00		99.00
54.	RBV Verwaltungs-GmbH, Essen	240	100.00		100.00
II.	**Joint ventures (recognized at equity)**				
	Energy Business Area				
	Germany				
55.	REG Raffinerie-Energie GmbH & Co. oHG (formerly REG Raffinerie-Energie oHG), Cologne	14		80.00	80.00
	Other countries				
56.	Ayas Enerji Üretim ve Ticaret A.S., Ankara (TR)	16		51.00	51.00
	Real Estate Business Area				
	Germany				
57.	THS GmbH, Essen	182		50.00	50.00
III.	**Associated companies (recognized at equity)**				
	Chemicals Business Area				
	Germany				
58.	JSSi GmbH, Freiberg	25		51.00	51.00
59.	Kommanditgesellschaft Deutsche Gasrußwerke GmbH & Co., Dortmund	8		54.35	54.35
	Energy Business Area				
	Germany				
60.	Fernwärmeversorgung Niederrhein GmbH, Dinslaken	44		26.00	26.00
61.	Gichtgaskraftwerk Dillingen GmbH & Co. KG, Dillingen	12		49.90	49.90
62.	Kraftwerk Bexbach Verwaltungsgesellschaft mbH, Bexbach	24		33.33	33.33
	Other countries				
63.	ARKAD Deniz Tasimaciligi A.S., Istanbul (TR)	23		49.00	49.00

[1] Foreign currency amounts are translated at the closing rate on the reporting date.

Market positions

Chemicals Business Area

Product	Application	Global ranking	Capacity in metric tons p.a.
Industrial Chemicals			
Alcoholates	Catalysts for biodiesel, pharmaceuticals, agrochemicals and other applications	1	>150,000
Cyanuric chloride	Crop protection and industrial applications (e.g. optical brighteners)	1	132,000
Hydrogen peroxide	Bleaching of pulp and textiles, oxidation agent for the chemical industry	2	600,000
2-propylheptanol	Plasticizers	2	60,000
Butene-1	Co-monomer for polyolefins	1[1)]	200,000
Isononanol	Plasticizers	2	340,000
Inorganic Materials			
Organosilanes, chlorosilanes	Rubber, silicone rubber, paints and coatings, adhesives and sealants, building protection materials, pharmaceuticals, cosmetics, optical fibers, photovoltaics	1[2)]	270,000
Fumed silicas, fumed metal oxides	Silicone rubber, paints and coatings, adhesives, sealants and plastics, pharmaceuticals, cosmetics, high-temperature insulation, electronics	1	
Precipitated silicas	Reinforcement of rubber, consumer products	1	
Matting agents	Additives for the coatings and printing inks industry	2	470,000
Carbon blacks	Tires, rubber goods, pigments	2	1,400,000
Health & Nutrition			
Exclusive synthesis of fine chemicals	Intermediates and active substances for pharmaceutical and agrochemical applications	3	[3)]
Precious metal powder catalysts	Life sciences and fine chemicals	1	[3)]
Amino acids	Pharmaceutical intermediates and infusion solutions	3	[3)]
DL-methionine	Animal nutrition	1	350,000
Threonine	Animal nutrition	2	30,000
Tryptophan	Animal nutrition	2	[3)]
Consumer Specialties			
Superabsorbents	Diapers, feminine hygiene products, incontinence products, technical applications	1	460,000
Organically modified silicones	Additives for polyurethane foams, coatings and inks, cosmetics; radiation-cured separation coatings	1–2	80,000
Fat chemistry, quaternary derivatives	Fabric softeners	1	[3)]
Amphoteric surfactants	Shampoos, shower gels	1	[3)]
Ceramides, phytosphingosines	Cosmetics	1	[3)]
Skin cremes	Professional skin protection	2–3	[3)]
Coatings & Additives			
Colorants (pigment dispersions)	Decorative and industrial colorants	1–2	[3)]
Polyester resins	Can and coil coating	1	31,000
Isophorone chemistry	Environment-friendly coating systems, high-performance composites	1	[3)]
Pharmaceutical polymers	Coatings for drugs	2	[3)]
Oil additives	Viscosity index improvers	2	[3)]
Thermoplastic and reactive methacrylate resins	Binders for paints and coatings	1	[3)]
Performance Polymers			
Polyamide 12	High-performance specialty polymer applications (e.g. automotive, medical, sport)	1	[3)]
Methylmethacrylate (MMA)	Dispersions, coatings, plastics	2	580,000
Methacrylate specialty momomers	Dispersions, coatings, additives, adhesives, optical lenses	1	[3)]
Methacrylate polymers (PMMA molding compounds)	Construction materials for the automotive and electrical/electronics industries, medical technology	2	240,000
Acrylic glass	Construction industry, illuminated signboards, aviation/aerospace applications	1	150,000

Energy Business Area

Activity	Ranking Germany	Annual volume
Power Germany		
Energy generation from fossil fuels	5	Electricity: 17,435 GWh_{el} Heat: 11,364 TJ
thereof power generation from hard coal	2	16,284 GWh_{el}
Renewables		
Energy generation from renewable resources (biomass, geothermal energy, mine gas) and contracting	1–3	Electricity: 1,509 GWh_{el} Heat: 1,608 GWh_{th}
Power Minerals		
Disposal and reprocessing of power plant residues such as fly ash, gypsum, slag-tap granulate and furnace bottom ash	1	3,000,000 metric tons
	Ranking Other countries	
Power Other Countries		
Power generation in		
• Colombia	9	828 GWh
• Mindanao (Philippines)	3	1,497 GWh
• Turkey	3	10,066 GWh

Real Estate Business Area

Activity	Ranking Germany	No. of residential units
Letting of residential units, mainly to private households	7	approx. 60,000

[1] Freely traded volumes.
[2] Chlorosilanes: freely traded volumes. Overall assessment—market position differs depending on application.
[3] No data available.

Useful information for travelers

General

Here are some basic facts and figures about this annual report:
Dimensions (B x H): 189 x 315 cm
Weight: approx. 800 g
Paper type: Galaxi Keramik
Paper weight: inner pages 135 g, inner wrapper 200 g, cover 300 g

Key terms

Geothermal energy
Geothermal energy, the heat stored beneath the Earth's surface, can be used to heat buildings. If the source is close to the surface, it can be used directly or fed into the district heating grid. Deeper sources first have to brought to the surface. Moreover, power plants can utilize heat from several thousand meters below the Earth's surface to generate electricity.

Monomers
Monomers are simple molecules with a low molecular weight that can react with each other to form polymers

PEEK
Polyetheretherketones (PEEK) are partially crystalline high-performance polymers with outstanding mechanical properties and very good temperature resistance. In view of their exceptional mechanical, thermal and chemical properties, they are mainly used as components and functional parts in automotive engineering, aviation, electronics and medical appliances.

Polymers / oligomers
Long-chain, short-chain or crosslinked macromolecules produced from smaller molecules (e.g. monomers).

Polymethylmethacrylate (PMMA)
Colorless plastic (acrylic glass) that can be colored. Properties: high transparency, good moldability, extremely good stability to weathering. Applications: construction, automotive engineering, optics, optoelectronics, household and designer goods, exhibition stands, illuminated signboards, lamps. Best-known brand: PLEXIGLAS®. Supply form: thermoplastic molding compounds, cast or extruded components (sheet, film, tubes, rods).

Polyurethane (PUR)
Polymers with excellent thermal and sound insulating properties and a very broad spectrum of applications. Flexible foamed PUR is used for cushions, mattresses and interior trims. Rigid PUR is used in automotive engineering, construction and furniture.

Power plant efficiency
This is a measure of energy efficiency. It indicates the proportion of the energy input that is converted into power. The higher the efficiency of a power plant, the more effectively the fuel is used. The efficiency of advanced hard-coal power plants can exceed 45 percent.

Reserve generating capacity
Reserve capacity is required to adjust the supply of power to changes in demand and supply, i.e. to maintain alternating current at a constant frequency. The need to raise or lower the amount of power sourced from reserve capacity may result from an increase or decrease in either demand or supply. For example, fluctuations in supply may be caused by an unexpectedly high amount of wind power being fed into the grid or temporary shutdown of a power plant. Alternatively, demand may differ from the forecast level.

Silanes
A group of chemical compounds made up of silicon and, normally, hydrogen. If they contain chlorine, such compounds are known as chlorosilanes. Silanes are used to produce high-purity silicon for integrated circuits and solar cells and as raw materils for high-purity silicoin dioxide for fiber optics. Chlorosilanes can also be used to produce fumed silicas for a wide variety of applications.

Superabsorbents
Crosslinked polymers that are insoluble in water and can absorb and store large quantities of liquid through a mechanism that causes them to swell and form hydrogen gels. The liquid is not released even under pressure.

Vacancy rate
The number of residential units that are vacant as a percentage of the total real estate portfolio.

Typical quotes

"The sun is our guide through this annual report. It is the source of a vast array of new developments that help improve energy efficiency." (page 1)

"Evonik Industries has the capability to play a leading role in the growing area of resource efficiency—through its core competencies, targeted research and pioneering technologies." (page 1)

"We offer powerful ideas: sustainable solutions that exploit the power of sunlight." (page 4)

"Our aim is to develop Evonik from a conglomerate into a global leader in specialty chemicals. In the future the Energy and Real Estate Business Areas will operate as largely independent entities within the Group." (page 5)

"Evonik's financial performance in 2009 was rewarded by the capital markets." (page 8)

"We have the courage and imagination to move away from trodden paths in order to solve problems for our customers." (page 17)

Evonik's largest sites[1)]

Germany	
Marl	6,499
Essen	3,266
Wolfgang	2,459
Darmstadt	1,503
Wesseling	1,220
Other European countries	
Antwerp	981
Zurich	260
Ham	253
Slovenská Ľupča	170
Gramatneusiedl	169
North America	
Mobile, AL	673
Lafayette, IN	657
Parsippany, NJ	415
Greensboro, NC	271
Hopewell, VA	235
Central and South America	
São Paulo	168
Sochagota	127
Barra do Riacho	54
Americana	42
Paulínia	38
Asia	
Shanghai	765
Dalian	758
Yingkou	638
Nanping	350
Nanning	347
Other / Rest of world	
Port Elizabeth	80
Dandenong	64
Morrinsville	27
Umbogintwini (Durban)	27
Midrand	25

[1)] Top 5 sites in each region based on number of employees.

Credits

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