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Christian Kullmann—Chairman of the Executive Board, Evonik Industries AG

Statement at the Annual Shareholders' Meeting on August 31, 2020 in Essen (Germany)

Leading Beyond Chemistry

Welcome

Good morning, ladies and gentlemen,

Together with my colleagues on the executive board, I would like to welcome you all most warmly to this year's annual shareholders' meeting in an unusual format.

Exceptional circumstances require us to take exceptional measures. The coronavirus pandemic, which we have all been battling with since the start of this year, has not simply had an impact on how we work together at Evonik. It is also affecting how we hold today's shareholders' meeting. That is why I am speaking to you today via a camera and not, as usual, in person.

We did not make this decision lightly. Our clear preference was to hold our shareholders' meeting in the normal manner. That was why we had decided early on to postpone it until this late date at the end of August. Ultimately, we had to accept that even now it is not possible to hold a large event such as a shareholders' meeting. During the crisis health is top priority for us—especially the health of our employees, and naturally also the health of our shareholders.

However, we did not want you to wait until now for payment of the dividend.

At the beginning of June, we therefore made use of the possibility of making an advance payment of €0.57 per share out of the distributable profit for 2019.

Your rights as shareholders and our dialog with you are very important to us, even in this special format. We will do our best to answer your questions, albeit remotely.

I can also see a number of advantages in using this virtual format for our annual shareholders' meeting. For example, online transmission opens the meeting up to a wider group of participants—not everyone is able to attend annual shareholders' meetings in person for all the shares they hold. Consequently, we are also looking ahead to the future. We will keep an eye on developments and the opportunities offered by the digital world and take part in the debate on whether the previous format for shareholders' meetings can be moved along into a more digital future—, without infringing your rights as shareholders.

Now let us turn our attention to the present!

In particular, our employees deserve our praise and special thanks. We are proud of our team and how we are jointly mastering this crisis. Evonik is a strong team! That is especially evident in these difficult times.

Allow me to use the next few minutes to outline this in more detail.

Coronavirus crisis

I would like to start by looking at how we at Evonik are successfully dealing with the coronavirus.

The health of our employees has top priority at all times. Our sites have very high standards of hygiene and our extensive pandemic plan enabled us to put protective measures in place quickly.

Since March, a company-wide team has been deployed, first and foremost to secure our ability to deliver to our customers and, at the same time, to coordinate our response to the reduction in demand. We are monitoring our supply chains very closely so we can take timely action to counter raw material and supplier bottlenecks. As a result, we have constantly ensured our ability to deliver at all times in the past months.

Naturally, we are also aware of our social responsibility in this period of crisis. Early on, we noticed increased demand for disinfectants, especially ready-to-use hand sanitizers and surface disinfectants. We took timely action and stepped up production capacity at many sites in Germany. That enabled us to support and supply institutions such as hospitals, care homes, and fire services close to our sites.

Together with our customers, we made donations of our high-performance polymer PA12 for the production of medical-grade protective equipment.

Furthermore, in collaboration with the Federal Ministry of Health, we initiated and participated in an emergency disinfectant platform operated by the German chemical industry association VCI. In the present situation, it is particularly important to work in partnership with other companies on such relief measures to ensure rapid and successful crisis management with a clear message—the chemical industry is helping.

Strategy systematically implemented over the past 20 months

Ladies and gentlemen,

The strategy that we have pursued systematically over the past 20 months is paying off, especially in the present crisis.

Thanks not least to our steady portfolio transformation, our company has become more robust—and that is visible in our figures.

We sold the cyclical methacrylates business. At the same time, we extended the resilient business with active oxygens by acquiring the US company PeroxyChem. Like the divestment of the methacrylates business, that has proven to be very good timing. Because active oxygens are used as a disinfectant and there is particularly high demand for disinfectants in the present crisis.

And just last week, we made another acquisition to further strengthen the quality of our portfolio. For 210 million US dollars, we will acquire the US company Porocel, which is active in the catalyst business. Porocel has, among other things, a technology for the highly efficient rejuvenation of used catalysts. CO_2 emissions can be reduced by more than 50 percent compared to the production of a new catalysts with this technology. This is a good example of the fact that sustainability is playing an increasingly important role in our investment decisions.

Porocel's global position strengthens the worldwide presence of Evonik's catalyst activities. In 2019, the company generated sales of approximately 100 million US dollars with an attractive EBITDA margin of around 23 percent. The complementary fit to Evonik's existing catalyst portfolio and especially the available production capacities offer considerable growth opportunities. This acquisition is therefore the next logical step in the strategic development of our portfolio.

A further step in this direction is our new divisional structure, which we announced in March. This was introduced as planned on July 1—despite the challenging situation. We have aligned our corporate structure to the growth engines defined two years ago. Our previous chemical operating segments have now been transferred to four divisions. They are more balanced in size and type of business and are easier to manage because of their clear strategic roles, common end-markets and clear alignment of technology platforms. The four divisions—Specialty Additives, Nutrition & Care, Smart Materials, and Performance Materials—have a lean and efficient setup.

Also with regard to costs, we have made good progress with our SG&A program to reduce selling and administrative expenses. In 2019, implementation was actually €20 million ahead of schedule. This cost discipline is currently helping us to stabilize earnings in the coronavirus crisis.

A strong operating performance in 2019

Ladies and gentlemen,

Although it feels a very long time ago, let us take a look at fiscal 2019.

In the second half of 2019, we noticed a considerable deterioration in the economic environment. Our promise to you, our shareholders, to hold earnings stable at €2.15 billion despite this did not make things easier. However, thanks to our timely and systematic response with costs, we were ultimately able to deliver on our guidance. In addition, we improved our margin slightly to 16.4 percent—quite an achievement in such conditions.

In particular, the tougher conditions showed the increased resilience of our portfolio. The Nutrition & Care segment's consumer-oriented businesses serving the pharmaceuticals and cosmetics industries and most businesses in the Resource Efficiency segment showed a stable and reliable development. That says a good deal about the specialty nature of our products. And we intend to build on that in 2020.

This enabled us to report adjusted net income of just over €900 million, giving adjusted earnings per share of €1.94. On an unadjusted basis, in other words, including the proceeds from the divestment of the methacrylates business, net income was well over €2 billion.

Stable dividend and high dividend yield

Ladies and gentlemen,

Based on earnings in 2019, the executive board and supervisory board are once again proposing a total dividend of €1.15 per share—including the advance payment already made.

The reliability of our dividend—not least in difficult times—is one of our top priorities. With a dividend yield of over 4 percent, this is further confirmation that Evonik is a very attractive dividend-paying stock.

Outlook for 2020/H2 2020

Now let us turn our attention to the present fiscal year.

Here too, we set ourselves the goal of doing our best to overcome the challenging environment. However, due to the effects of the coronavirus crisis, which even we have not been able to avoid, we had to revise our original guidance for adjusted EBITDA of between €2 billion and €2.3 billion in May.

Despite the considerable uncertainty and very low visibility, it was important to us to show you possible scenarios for the crisis and give you the most detailed possible guidance. We did this in May, setting a target range of between €1.7 billion and €2.1 billion. As of now, I can fully confirm this outlook. This shows that we are clearly benefiting from the steps taken to implement our strategy. The improved quality and stability of our portfolio gives us a more reliable basis for planning, even in periods of uncertainty—and that is doubtless in your interest as well!

In the first six months of 2020, sales dropped 8 percent to €6.1 billion. Adjusted EBITDA was €970 million, a decline of 12 percent, and adjusted earnings per share were €0.73.

Our Nutrition & Care and Resource Efficiency growth segments were largely stable in the first half of the year. Examples of this include the robust, non-cyclical business with pharmaceutical active ingredients and personal care products in the Nutrition & Care segment, and for many of the innovative materials from the Resource Efficiency segment that enable resource-saving solutions. This stable trend should continue in the second half of the year.

By contrast, we noticed weaker demand from the automotive industry. This has affected—for example—our polyurethane foams for car seats, silica for the tire industry, and our high-performance polymers. We expect to see a slow, step-by-step recovery here in the second half of the year.

Our Performance Materials segment was held back significantly by the sharp drop in the oil price. The situation here will remain challenging in the coming months.

Share price performance 2019/2020

Ladies and gentlemen,

On the stock market, 2019 was a volatile year both for Evonik shares and for the market as a whole. In the first quarter, our shares benefited from the successful divestment of the methacrylates business and the solid first-quarter results. As a result of geopolitical uncertainty, the share price proved extremely volatile in the following quarters. The prevailing uncertainty was only overcome in early November when we confirmed our outlook in our third quarter report. This supported the share price until the end of the year. In December, our shares rose to a high for the year of just over €27.

Overall, that was a gain of around 25 percent since the beginning of the year. Evonik therefore slightly underperformed the MDAX, which rose by a good 28 percent.

Since the start of this year, the entire market has been affected massively by the effects of the coronavirus. Evonik shares were not immune to investors' enormous uncertainty.

Although our share price is not yet quite back where it was at the start of the year, it has not lost as much ground as shares in many other companies in the European chemicals sector.

To enable our employees to share in the increase in Evonik's value, we launched a further tranche of our employee share program in Germany, the USA, Belgium, and Singapore this spring.

Worldwide, around 10,000 employees acquired shares in Evonik. That was a participation rate of nearly 40 percent.

This year, we purchased 841,030 shares for the employee share program at an average price of €18.72 per share, each of which accounts for a proportionate share of €1.00 of the capital stock.

That was 0.2 percent of our capital stock of €466 million.

We used the authorization of the annual shareholders' meeting in 2016 to purchase these shares.

All the shares have now been transferred to the eligible employees and the surplus has been sold on the market.

Concluding remarks

I trust that you, our esteemed shareholders, will continue to support Evonik in the future and thank you on behalf of my colleagues on the executive board for your trust, your interest, and your attention. Take care and stay safe!

Thank you.

EVONIK INDUSTRIES AG
Rellinghauser Straße 1–11
45128 Essen
Germany

www.evonik.com

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