Openings

Creativity and determination open up new perspectives.

EVONIK INDUSTRIES

Evonik Group: Key figures

in € million	2008	2009	2010	2011	**2012**
Sales	15,873	10,518	13,300	14,540	13,629
Adjusted EBITDA[1)]	2,165	1,607	2,365	2,768	2,589
Adjusted EBITDA margin in %	13.6	15.3	17.8	19.0	19.0
Adjusted EBIT[2)]	1,298	868	1,639	2,099	1,953
ROCE[3)] in %	9.0	7.7	15.0	18.7	17.2
Net income	281	240	734	1,011	1,164
Total assets as of December 31	20,115	18,907	20,543	16,944	16,663
Equity ratio as of December 31 in %	25.6	27.6	29.1	35.8	41.0
Cash flow from operating activities	388	2,092	2,075	1,309	1,420
Capital expenditures[4)]	1,160	569	652	830	1,078
Depreciation and amortization[4)]	842	712	694	647	639
Net financial debt as of December 31	4,583	3,431	1,677	843	1,163
Employees as of December 31	40,767	33,861	34,407	33,556	33,298

Figures for 2008 include the former Energy Business Area; in 2009 and 2010 these operations were classified as discontinued operations.
[1)] Adjusted EBITDA = Earnings before interest, taxes, depreciation, amortization and adjustments.
[2)] Adjusted EBIT = Earnings before interest, taxes and adjustments.
[3)] Return on capital employed.
[4)] Intangible assets, property, plant, equipment and investment property.

Openings

Creativity and determination open up new perspectives.

As a creative industrial group and one of the world leaders in specialty chemicals, we are perfectly at ease in areas that are completely new to us. Together with our customers and business partners, we are happy to leave well-trodden paths and strike out in new directions. In fact, our key attribute has always been the ability to deliver pioneering products, solutions and methods that open up new perspectives.

Evonik at a glance

Evonik is one of the world's leading specialty chemicals companies. Around 80 percent of sales come from market leading positions, which we plan to expand further. We concentrate on high-growth megatrends, especially health, nutrition, resource efficiency and globalization.
As part of our ambitious growth strategy, we are investing considerable amounts to step up our presence in emerging markets, especially Asia. Important competitive advantages come from our integrated technology platforms, which we are constantly refining. Our operations are grouped in three segments, each of which has two business units which act as entrepreneurs within the enterprise.

Consumer, Health & Nutrition

This segment's products are used principally in applications in the consumer goods, animal nutrition and healthcare sectors. It comprises the Consumer Specialties and Health & Nutrition Business Units.

AR See page 84 **Segment performance**

Services

This segment principally comprises Site Services and Evonik Business Services. It mainly provides services for Evonik's specialty chemicals segments and Corporate Center, but also serves third parties.

AR See page 96 **Segment performance**

Resource Efficiency

This segment provides environment-friendly and energy-efficient system solutions. It is comprised of the Inorganic Materials and Coatings & Additives Business Units.

AR See page 88 **Segment performance**

Real Estate

The Real Estate segment, which Evonik plans to exit entirely in the medium term, focuses on letting homes to private households in the federal state of North Rhine-Westphalia. Alongside Evonik's own portfolio of residential real estate, it includes a 50 percent stake in the housing provider THS. Evonik and THS have bundled the management of their properties in the joint venture Vivawest Wohnen.

AR See page 97 **Segment performance**

Specialty Materials

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

AR See page 92 **Segment performance**

Key data for the Consumer, Health & Nutrition segment

in € million	**2012**	2011
External sales	4,204	4,081
Adjusted EBITDA	1,050	1,049
Adjusted EBITDA margin in %	25.0	25.7
Adjusted EBIT	924	917
ROCE in %	48.5	55.9
Employees	6,821	6,384

Key data for the Resource Efficiency segment

in € million	**2012**	2011[1)]
External sales	3,131	4,045
Adjusted EBITDA	655	765
Adjusted EBITDA margin in %	20.9	18.9
Adjusted EBIT	517	611
ROCE in %	32.4	29.5
Employees	5,755	6,381

[1)] Including the carbon black business until July 2011.

Key data for the Specialty Materials segment

in € million	**2012**	2011
External sales	4,843	4,880
Adjusted EBITDA	843	907
Adjusted EBITDA margin in %	17.4	18.6
Adjusted EBIT	691	748
ROCE in %	38.2	43.9
Employees	6,134	6,846

Dr. Klaus Engel, Chairman of the Executive Board

"It's our goal to make Evonik a leading global specialty chemicals company that systematically strives to expand its outstanding market and competitive position."

Ladies and gentlemen:

In 2012 the global economy was dominated by uncertainty. The widespread sovereign debt crisis in Europe, concern about the consolidation efforts in the USA and declining growth rates in emerging markets dampened the sentiment of companies and investors. Moreover, global economic growth fell short of expectations. As a consequence, the development of the global financial markets was marked by high volatility and considerable uncertainty. Evonik was directly affected by this as it resulted in cancelation of our planned stock market listing. However, that has not altered our promising growth prospects. On the contrary, despite the difficult global economic environment, in 2012 Evonik's figures were close to the previous year's very good level.

That is a sound basis. Despite the somewhat mixed financial and economic data, I am therefore confident about the future of Evonik. Our direction and strategy are right. That is shown by our performance and our figures. It also confirms our goal of making Evonik a leading global specialty chemicals company that systematically strives to expand its outstanding market and competitive position and intends to continue to grow in attractive markets and areas of business in the future yet keep costs in check. We are building on firm foundations. Our investments are focused on global megatrends and growth regions, in keeping with our high innovative strength and increasing presence on tomorrow's markets. Last year alone, the global population increased by 80 million people, and that trend is set to gain momentum year by year. Each of the planet's inhabitants has a right to free access to clean water, a healthy diet, health care and housing. A plentiful supply of energy is a key precondition for rising prosperity and increasing purchasing power, not just in the emerging markets and developing nations. Solutions that save energy and resources are becoming more important. The rising number of megacities will be accompanied by an increase in traffic density and demand for sustainable individual mobility in the future. Some reports expect the number of vehicles worldwide to virtually double to almost two billion by 2030.

Evonik's portfolio is focused principally on the health, nutrition, resource efficiency and globalization megatrends. In these areas we offer technologies, processes and products that create genuine added value for our customers. Our amino acids help make fish and meat production more efficient and more

environment-friendly. Our high-performance polymers reduce the weight of automobiles and airplanes, which enhances fuel economy. At the same time, they are opening up new applications, for example, in medical technology and the use of renewable energies. Our competence in silicas and silanes makes a key contribution to modern, fuel-saving tires.

We are already the technology leader in many of our business activities and we want to keep it that way. That's why we are steadily increasing our innovation portfolio. In 2012 Evonik invested a total of €393 million in research and development. That was 8 percent more than in the previous year. As part of our corporate venturing activities we have also invested in a number of young start-ups through three international funds. These are companies focused on energy and resource efficiency and sustainability. In this way, we underscore our claim: Evonik is close to the market, close to its customers and drives technological progress. Through our solutions, we aim to make a contribution to overcoming the major challenges of our times. Pioneering achievements by our research and development staff, engineers and process technologists often empower our customers to strike out in new directions. As you can see from this report, that opens up a wide range of new prospects.

"Evonik 2016" is a major buttress for the successful future of the Group. We launched this corporate program in spring 2012 with a clear target: We want to mobilize our growth forces, raise efficiency further and ensure that leadership and collaboration in our company are shaped by trust and clear objectives. In short, our goal is a healthy balance of efficiency, values and growth.

More than €6 billion has been earmarked for our ambitious investment program between 2012 and 2016, with €2 billion of this allocated to our home market in Germany and the same amount for the Asia-Pacific region. Last year sales in this region accounted for nearly one-fifth of the Evonik Group's total sales and that is set to rise because we have ambitious plans for the Asia-Pacific region. Our mid-term goal is to raise sales significantly in this region. We want to increase the number of employees there by some 2,000 and raise the proportion of sales generated by locally produced products to around 60 percent. We also plan to top the €1 billion sales threshold in South America in 2016 and in Eastern Europe by about 2020.

We aim to support our future growth with a considerable increase in efficiency because we see growth and efficiency as two sides of the same coin. We are therefore driving forward a whole range of efficiency initiatives bundled in

Evonik 2016. They are all focused on achieving further cost savings of €500 million a year by year-end 2016. We successfully achieved the same volume of savings between 2009 and 2011, faster than we had anticipated. I am very confident that we will be equally successful this time, and that in this way we can support profitable growth and safeguard employment. After all, by year-end 2012 we had already defined concrete measures to achieve more than half of our €500 million target.

As part of our focus on specialty chemicals, we divested our Colorants business in spring 2012. In July 2011 we divested our carbon black operations, with sales of over €1 billion. Excluding the carbon black business from the figures for 2011, in 2012 both sales and operating earnings were in line with the high level achieved in 2011. Organic sales of €13.6 billion were only just below the year-back level. Adjusted EBITDA remained high at around €2.6 billion, as did adjusted EBIT, which came in at around €2.0 billion. The adjusted EBITDA margin for the Group was also a very pleasing 19.0 percent. In all, Evonik's net income was nearly €1.2 billion.

The cash flow from operating activities in our continuing operations remained constant at €1.4 billion. There was a significant rise of 30 percent in capital expenditures to almost €1.1 billion. The Group's net financial debt increased by about €0.3 billion to nearly €1.2 billion, partly because we allocated €400 million to trust assets to finance unfunded pension obligations arising from direct pension commitments. The Standard & Poor's rating agency responded to Evonik's continuously positive development by raising its rating for the company for the second time within a year to a sound investment grade rating of BBB+ with a stable outlook.

Evonik believes it is able to finance almost all of its planned future investments out of its own funds. Asia is a focus of these investments. In mid-2012 we held the groundbreaking ceremony for our new DL-methionine plant in Singapore, which is part of our plans to strengthen our strong competitive position in the global market for this important amino acid. Erection of a whole range of new production facilities in China is on schedule. These include plants for organic specialty surfactants, isophorone and isophorone diamine in Shanghai and for hydrogen peroxide in Jilin. For the emerging South American market, we are building a production facility for biodiesel catalysts in Argentina and new facilities in Brazil for cosmetic raw materials, specialty surfactants and the amino acid L-lysine. In addition, we have increased capacity for L-lysine at our site in

Blair (USA). Start-up of a production plant for superabsorbents in Saudi Arabia is planned for the end of this year. At the end of 2012 we also decided to expand our production lines for C4 products in Europe. These products are used, among other things, in the tire industry and as fuel additives. In the next three years we will therefore be investing a sum running into triple-digit millions of euros at our sites in Antwerp (Belgium) and Marl (Germany) to expand our position in this attractive market.

Evonik has also initiated a large number of projects in Germany. Overall, they highlight the importance of our home base. In Essen, for instance, we are building two new research centers for paints and coatings and the cosmetics industry, and have decided to expand capacity for the attractive, fast-growing silicones business. These and other highly specialized and innovative products should secure the roughly 22,000 jobs at Evonik's locations in Germany alone.

Evonik's growing internationalization makes considerable demands on the company. In view of this, we realigned our human resources work in 2012 and stepped up the profile of the Evonik brand on the international employment market.

Our roughly 33,000 employees around the world are the number one growth resource for the Group. It is their hard work, identification and ideas that drive forward Evonik day by day. Intensive dialogue with our employees, their representatives and our shareholders is more important than ever in order to remain successful even in difficult conditions. I am convinced that Evonik will continue its successful course.

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

Company report

Financial report

Executive Board of Evonik Industries AG
From left: Dr. Wolfgang Colberg, Chief Financial Officer | Dr. Thomas Haeberle | Dr. Dahai Yu
Thomas Wessel, Chief Human Resources Officer | Dr. Klaus Engel, Chairman | Patrik Wohlhauser

2016

In 2012 Evonik's sales were around

€13,600,000,000

Organic sales were therefore only slightly lower than in the previous year. Adjusted EBITDA remained very high at **€2.6 billion** and net income was **€1.2 billion**. Evonik therefore believes it can finance almost all of its planned investments for the future out of its own funds.

€500 million

a year.

That's how much Evonik is planning to save by 2016. Specific measures to achieve half of these savings had been defined by the end of 2012 and savings of €140 million are already being implemented.

Evonik invested

€393

million

in R&D in 2012—8 percent more than in 2011—to strengthen its technological leadership in many areas of business.

+8%

Evonik 2016

A dynamic triad

Evonik 2016 is designed to drive forward Evonik's success story. The goal is a healthy balance of efficiency, values and growth. **Evonik 2016 should mobilize growth forces,** raise efficiency still further and ensure trustful and focused leadership and collaboration within the Group.

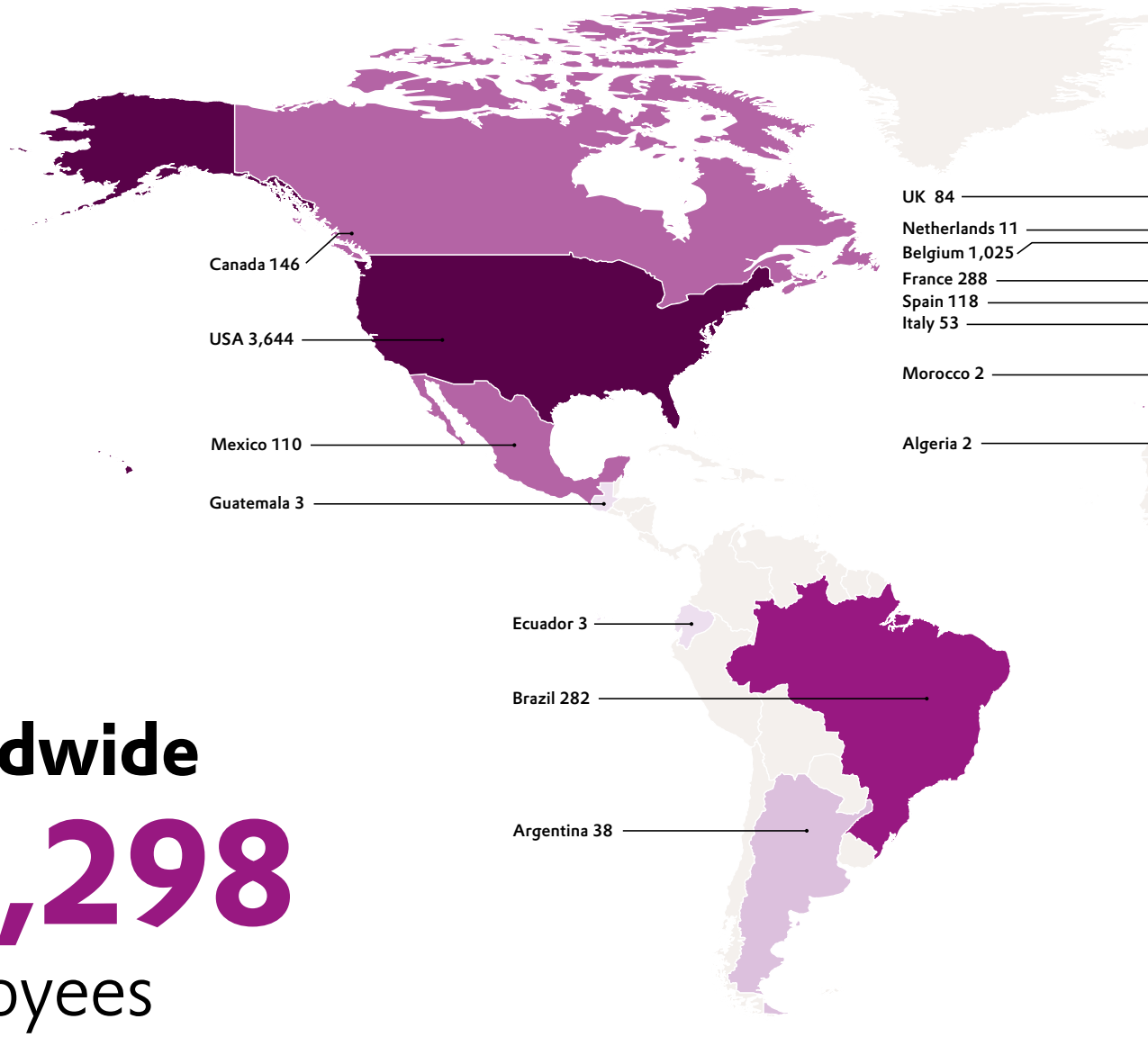
Evonik has budgeted

over €6 billion

for its ambitious investment program between 2012 and 2016. The aim is to reinforce its position as a world leader in specialty chemicals.

Over €500 million

is being invested in a new methionine complex in Singapore. The mid-term objective is a significant increase in sales in the highly attractive and growing Asian market. In addition, Evonik aims to grow sales to over €1 billion in South America by 2016 and in Eastern Europe by 2020.



Worldwide

33,298

employees

North America

3,790

Central and South America

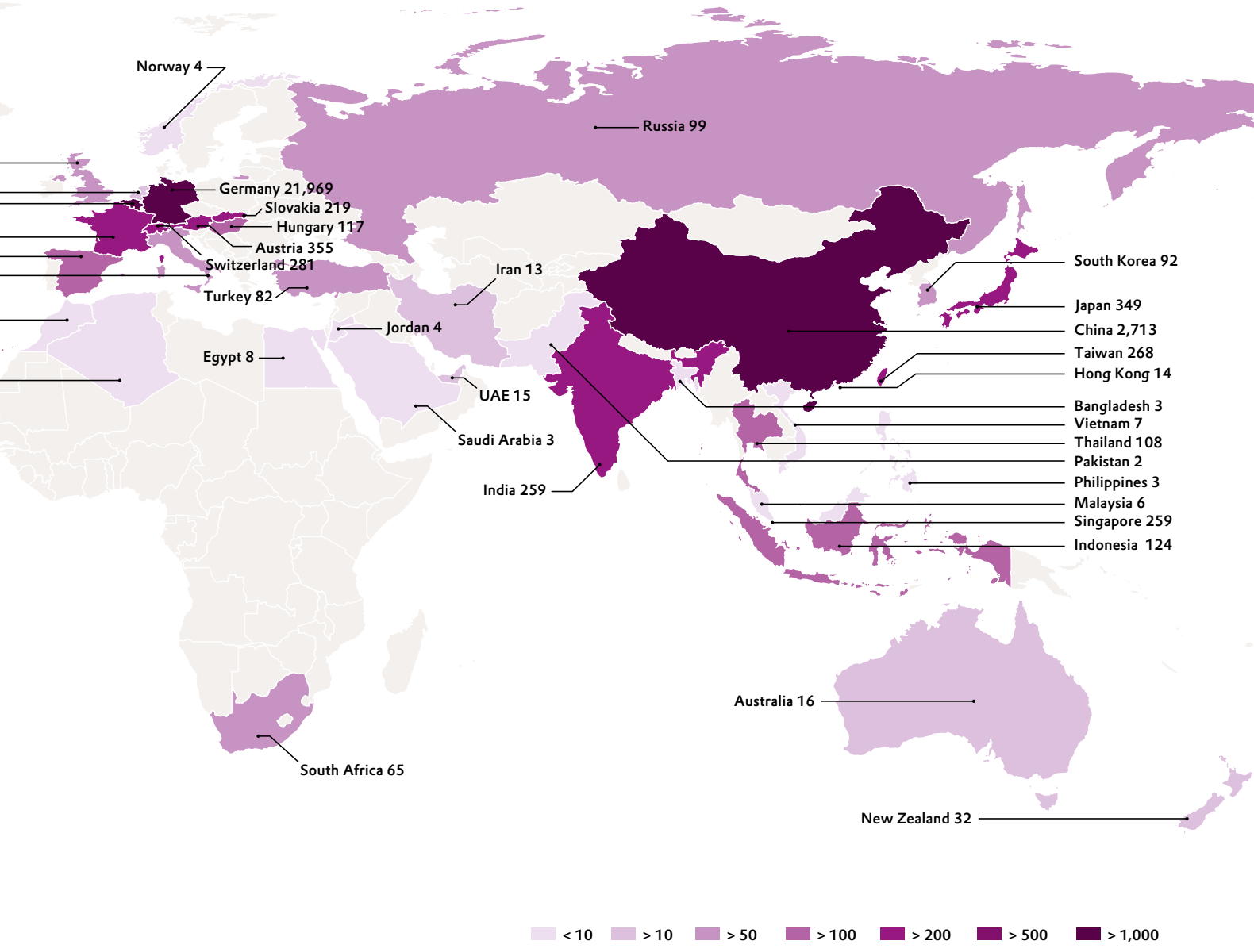
436

Europe

(including Russia)

24,705

One person represents 50 employees (rounded).

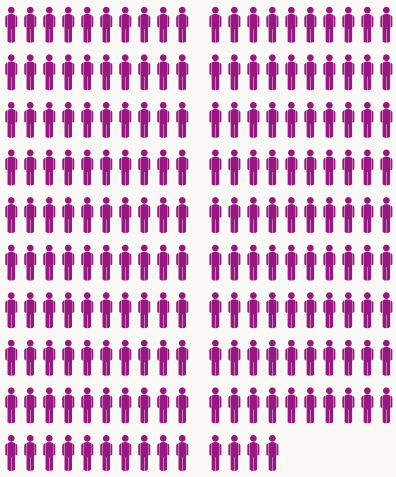


Middle East, Africa

112

Asia-Pacific

4,255



As of December 31, 2012

Exploring the depths.

A team from the Rebikoff-Niggeler Foundation is preparing to explore the dark hunting grounds of the sperm whale in their new Lula 1000 submersible. They are looking for one of the last mysteries of the ocean—the Architeuthis giant squid. And **PLEXIGLAS® from Evonik** will play a key role in this search.

The Atlantic ocean, off the Azores:
A sperm whale encounters Lula.

IT TOOK 3 YEARS
to develop the Lula 1000 submersible from the initial idea to the maiden voyage. This research craft for the Rebikoff-Niggeler Foundation was designed in close collaboration with Germanischer Lloyd and Evonik.

The raw fall wind gnaws at the skin and stirs up the surface of the water in the pretty yacht harbor in Horta. It is a damp, cold morning. Dense clouds are wafting above the Atlantic Ocean, masking the view of Portugal's highest mountain on the neighboring island of Pico. Occasionally the clouds break and a few isolated rays of sunshine light up the surface of the island, like the headlamps of a space capsule. The Azores are the most westerly outpost of the European Union. Around 1,500 kilometers to the east, in Lisbon, Vasco da Gama set out to discover the sea route to India back in 1497. Four years before that, Chrisopher Columbus had landed on the Azores. These great seafarers shared a common goal, a common vision: the search for terra incognita.

Half a millennium later, Joachim Jakobsen slips down through the metal hatch into his Lula 1000. 55-year-old Jakobsen and his wife Kirsten are preparing for a very different kind of voyage of discovery: exploring the underwater world off the Azores. Their new Lula 1000 submersible will enable these two pioneers to dive to previously unexplored depths. Just off the coast, they will be exploring the hunting grounds of the sperm whale. The focus of this manned deep-sea mission is this gentle giant and, above all, its dietary habits. Down in the depths that never see daylight, in icy temperatures and inhospitable conditions, at enormous water pressure, they want to film a mammal that has hardly ever been seen hunting in the wild: the Architeuthis giant squid. That will be made possible by a massive dome made of PLEXIGLAS®, which is marketed as ACRYLITE® in the USA.

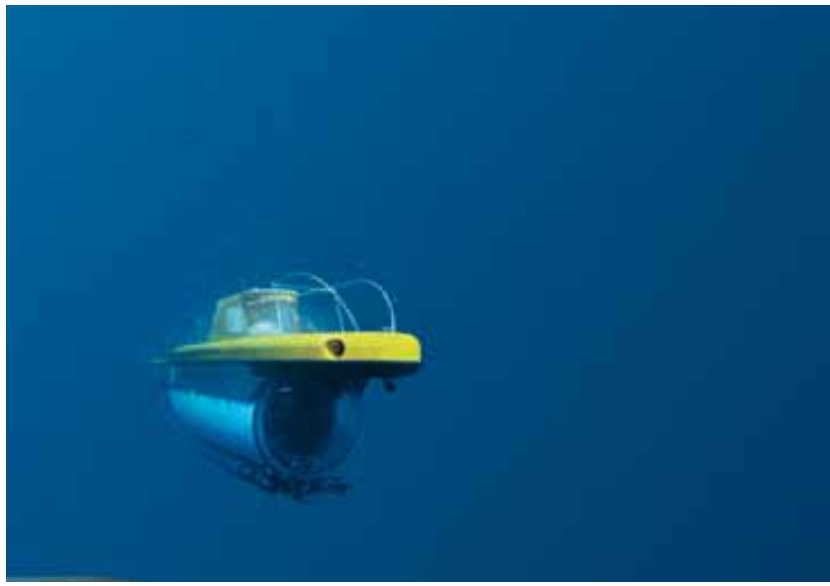
"We were quite sure we wanted a submersible 'made in Germany' and Evonik was prepared to take up our detailed needs in developing the dome," is how Joachim Jakobsen describes the relationship between Evonik and the Rebikoff-Niggeler Foundation. Jakobsen, a German who was born in Italy, is head of this non-profit organization, which is continuing the work of Frenchman Dimitri Rebikoff. Rebikoff dedicated his whole life to researching the ocean depths and developing suitable technologies. For decades he was Jacques Cousteau's closest competitor and was no less successful than he was. ➔

AT A DEPTH OF 1,000 METERS, THE LULA 1000 HAS TO WITHSTAND TOTAL PRESSURE OF

1,000

METRIC TONS A SQUARE METER

The viewing viewing dome therefore had to be made of a special material: PLEXIGLAS®.



HUMANS CAN DIVE TO 600 METERS

in a special atmospheric diving suit—but not with a diving suit like this one.

92

PERCENT LIGHT TRANSMISSION

That means PLEXIGLAS® lets through more light than most glass windows. And that's particularly important at depths where daylight never reaches and the only illumination comes from headlamps.

From childhood dream to the Lula 1000

Jakobsen is continuing Rebikoff's work. His father was one of Rebikoff's closest associates. "I was in on it from my childhood. Rebikoff was my mentor," says Jakobsen looking back proudly. Curiosity, the desire for freedom and the researcher's drive were instilled in him from a young age. "Even as a child I wanted to build my own submarine." In the early 1990s Jakobsen set up the foundation, which is based on the pioneering work of Dimitri Rebikoff and his wife Ada Niggeler. He designed the Lula 500, the predecessor of the present submersible, for depths of up to 500 meters, and has spent three years developing the Lula 1000 with Germanischer Lloyd. The pressure housings were manufactured by the German engineering firm Quast.

"The PLEXIGLAS® dome is the heart of the Lula," says Jakobsen. After all, this is a manned deep sea research expedition. "It's far easier to understand the complex interrelationships in the depths of the ocean if you can see them with your own eyes. The excerpts provided by a camera robot can't achieve that." For this specially designed dome, Evonik had to develop its own pioneering techniques. "The challenge was forming the PLEXIGLAS® block into a dome without optical defects and without any damage to the material," explains Wolfgang Stuber, product manager in Evonik's Acrylic Polymers Business Line. He and his team therefore developed a special process to mold the block using heat and pressure once it had been validated as being free of optical defects. Germanischer Lloyd, one on of the world's renowned ship classification bodies, was involved in the development work and validated the process at the end. The impressive features of the new process are the reliability of the production technology and the extremely high quality of the end-product. "The process is currently being patented," says Stuber. Yet again, Evonik has proven its quality as a development partner and solution provider. An approximately 1,000 kilogram block of PLEXIGLAS® was molded successfully for the Lula 1000. At its thinnest point, the finished dome is 14 centimeters thick. In the depths of the ocean the dome has to withstand massive pressure. At a depth of 1,000 meters, each square meter is subject to pressure of 1,000 metric tons. That is equivalent to a stack of about 1,100 E-Smart cars piled on the surface of mid-sized flat-screen TV. Glass cannot withstand such extreme conditions. Jakobsen was not convinced by other brands of acrylic glass. "In our view, PLEXIGLAS® was the best product on the market." Its exceptionally high light transmission was another argument in its favor. "When we dive, the dome is virtually non-existent." ➔

THE VIEWING DOME HAS A DIAMETER OF 140 CENTIMETERS—optimum conditions for viewing the wonders of the ocean.

THE LULA 1000 CAN DIVE TO A DEPTH OF 1,000 METERS

Thanks to PLEXIGLAS®, the crew can view exotic deep-sea species such as Chaunax suttkusi, a sea toad measuring up to 23 centimeters in length with a soft body and small spiny scales.

Getting to know more about the ocean bed

That is something that has been frequently said about the giant squid as well. As yet, too few submersibles have dived to such depths. While mankind has explored the moon and Mars, so far only about one percent of the ocean's depths have been explored. Yet it can provide answers to central questions. After all, ocean currents are vital for the Earth's climate. The key to a sustainable future for our planet therefore lies beneath the surface of the ocean. Kirsten and Joachim Jakobsen have entered into a range of cooperation agreements with European research institutes and universities in recent years, with projects ranging from bio-erosion to cold water corals and charting underwater archeological sites. The duo has already discovered and documented various unknown or previously unseen species in their work for the foundation. One example is a deep-sea shark that had never before been sighted alive and a deep-sea oyster that can live until it is 500. Now Rebikoff's successors are setting out on a very special expedition. "Hundreds of dives and thousands of hours of discussion and development have gone into preparing this project," says Jakobsen. The Azores have always been home to whales. Whales were hunted off the coast here until a quarter of a century ago and their flesh was boiled. In the summer, pods of whales with their young can be seen off the south coast of Pico and Faial almost every day. Including sperm whales that eat almost nothing apart from squid. 500 kilograms a day. Scientists estimate that the giant squid accounts for about one-fifth of their diet. From summer 2013 the Lula 1000 will be hunting for them—with a camera. The aim is to unlock one of the last great secrets of science.

The wind has dropped. The Lula 1000 is now lying protected in the belly of the Ada Rebikoff catamaran. Motor dinghies are leaving the harbor with a few tourists intent on whale-watching. Kirsten and Joachim are on deck preparing for their big adventure. Two Germans exploring the Azores, one of the outposts of Europe, with German technology.

Further information:
http://www.plexiglas.de/en/

Who dives to what depths?

1,000 m
Maximum penetration of sunlight. To the human eye, darkness starts at a depth of a few hundred meters.

Pressure | Depth

10 bar — 100 m

214 m
Deepest free dive without oxygen (2007)

350–2,000 m
Sperm whale

300 m
and below
Habitat of the giant squid

50 bar — 500 m

534 m
Deepest dive with hydreliox, a mixture of hydrogen, helium, and oxygen (1988)

600 m
Maximum depth in an atmospheric diving suit

600 m
Military submarines

700–1,200 m
Comb jellyfish (Lampocteis cruentiventer), 16 cm long

900–3,000 m
Munnopsis, body size 1–2 cm, legs 15 cm

925 m
William Beebe and Otis Barton in a steel capsule (1934)

1,000 m
Lula 1000

At **100 bar** pressure, there is a weight of **1,000 metric tons** per square meter. That is the weight of **four Airbus A 380** passenger airplanes.

100 bar — 1,000 m

2,000 m

1,000–4,000 m
Soft leftvent angler (Haplophryne mollis), Size: female 8 cm, male 2 cm

4,000 m

6,000 m

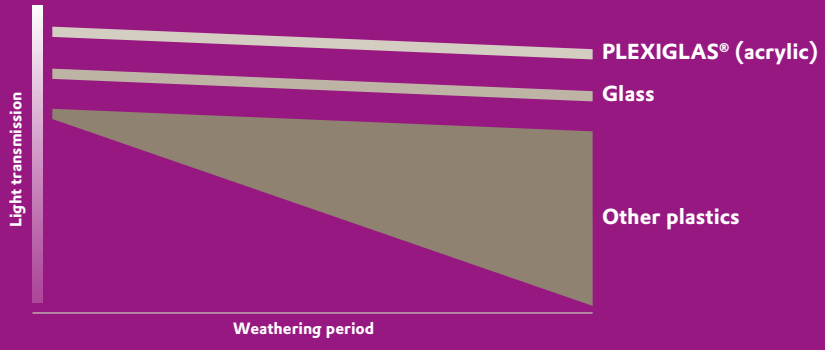
8,000 m

10,000 m

11,034 m
Mariana trench, the deepest point in the ocean

11,034 m

More light



Source: Evonik

A two-pack of methionine.

Pigs, poultry and salmon are already thriving thanks to amino acid supplements from Evonik. Now the Group has found a way of improving shrimp production as well. A new source of methionine helps them digest their feed far more efficiently. That cuts costs—and conserves natural resources.

Shrimp farm, Hainan:
This could be future of animal nutrition.

Fu Gong Cai says he is very grateful to the ocean. Dressed in jeans and a flannel shirt, with a traditional Chinese hat on his head to protect him from the sun, he surveys his realm. His shrimp farm covers 100 Mu (about 6.7 hectares) in the south of Hainan Island. In the background, the murmur of South China Sea, sending a cool breeze inland.

The shrimp farm has 20 ponds, each of which contains several thousand black tiger shrimp. Hainan is one of the most important regions for crustacean aquaculture in China, alongside Guangdong Province. The advantage of this island, which is often dubbed "honeymoon island", is that winters are warm. In a good year, Fu can therefore produce up to five crops from larvae, which he can sell for good money as full-grown shrimp about three months later. His colleagues on the mainland manage three at most. "Our shrimp are cultivated in fresh seawater," explains Fu. "That gives them a refined taste and makes them especially popular."

Fu employs six people. One of them places a small raft in one of the ponds. Barefoot, with a big red plastic bucket of pellets in one hand, he steps onto the raft and starts to feed the shrimps. With one hand, he pulls the raft along by a rope that extends across the entire pond. With the other he scatters the feed pellets into the water. They sink silently. He repeats this three to four times a day. Every time, he empties several 20 kilo sacks. "Feed makes up about 80 percent of our total operating costs," says Fu. ➔

FEED MAKES UP 80 PERCENT
of operating costs in this type of aquaculture.

FU GONG CAI'S SHRIMP FARM COVERS AROUND 100 MU (ABOUT 6.7 HECTARES)
That makes him one of the bigger shrimp farmers on Hainan Island in southern China.

IT TAKES 3 MONTHS
for the tiny larvae to grow into full-size shrimp.
The shrimp pictured here are about six weeks old.

5.58

MILLION METRIC TONS

of crustaceans from aquaculture were sold in 2010. China is the biggest producer.
In many of the country's restaurants they are sold live and freshly prepared by the chef.

Shrimp have special needs

The small brown pellets are a mixture of soya, fishmeal and fish oil, enriched with vitamins and other key nutrients. The problem is that this type of feed contains little methionine. However, shrimp need this essential amino acid to digest their feed optimally and grow healthily. Like all higher species, they are not able to produce methionine, a protein building block that is essential for their survival, so they have to ingest it with their food.

As a result, they eat more than they need to reach the desired weight of maximum 50 grams. That pushes up costs, wastes resources and pollutes both the ocean and other areas (see chart). Fu needs about 1.6 kilograms of feed for every kilogram of shrimp. By comparison, salmon need just 1.1 kilograms because their feed has long been optimized: It normally contains the amino acids methionine and lysine. The amount of methionine added is around 1.5 kilograms per 1,000 kilograms of feed.

Salmon and trout have been thriving sustainably for years with the aid of MetAMINO®, Evonik's brand of DL-methionine. However, their eating habits and metabolism are very different from those of shrimp.

"Consequently, the methionine available in the past was not really suitable for shrimp and other crustaceans," says Dr. Christoph Kobler (42) who works in Evonik's Health & Nutrition Business Unit, one of the world's leading producers of methionine. He is responsible for the company's global aquaculture business. Dr. Niu Jin agrees with him. He is a scientist at South China Sea Fisheries Research Institute in Guangzhou and one of China's leading experts on the nutrition of fish and crustaceans. He examined Evonik's new source of methionine very thoroughly at a branch of this institute on Hainan Island, only a few hours drive from Fu Gong Cai's ponds.

The institute's laboratories resemble a small-scale shrimp farm. Here, the shrimp live in tall tanks rather than in ponds. They are located indoors, with a roof to protect them from too much sunshine. Each tank contains less than a hundred shrimp, unlike the thousands on a shrimp farm.

Dr. Niu carefully inserts a small metal mesh containing feed into one of the tanks. As soon as it reaches the bottom, the shrimp start to eat. "They eat quite slowly," he explains. "That made supplying them with methionine more difficult in the past." The DL-methionine used in aquaculture dissolves relatively quickly in water. That is not a problem with fish such as salmon which grab their food in a fraction of a second. However, shrimp wait for food on the bottom and then masticate it slowly before swallowing it. As a result, most of the methionine leaches out before it reaches their stomach. Some feed producers have therefore started to use a protective coating for the methionine. "But even that doesn't give satisfactory results," says Dr. Niu. "In fact, it doesn't prevent leaching." ➔

EACH SACK OF FEED WEIGHS 20 KILOGRAMS
The shrimp are fed a mixture of fish oil, fishmeal and soya.

DR. CHRISTOPH KOBLER SPENT 4.5 YEARS
developing this new source of methionine for shrimps.

Through years of pioneering work, Kobler has now found a solution to supply methionine to shrimp. Together with his team, he has developed a completely new source of methionine: "Met-Met", methionine dipeptide. Two DL-methionine molecules are bonded together chemically to form a short two-molecule chain. That reduces solubility in water and thus undesired leaching. Shrimp are able to split the Met-Met chain back into two single DL-methionine molecules while they are digesting the other components of their feed. The DL-methionine and the other nutrients therefore reach the organism simultaneously. The shrimp can therefore use these building blocks to ensure optimal production of protein in their bodies. Evonik will be marketing this product globally as AQUAVI® Met-Met in the future.

Industrial-scale production trials

This innovative product will make an enormous contribution to optimal nutrition of shrimp. "AQUAVI® Met-Met is almost twice as efficient as DL-methionine," explains Kobler. Just 0.5 kilograms of AQUAVI® Met-Met per thousand kilograms shrimp feed achieves the same growth rate as 0.9 kilograms of DL-methionine.

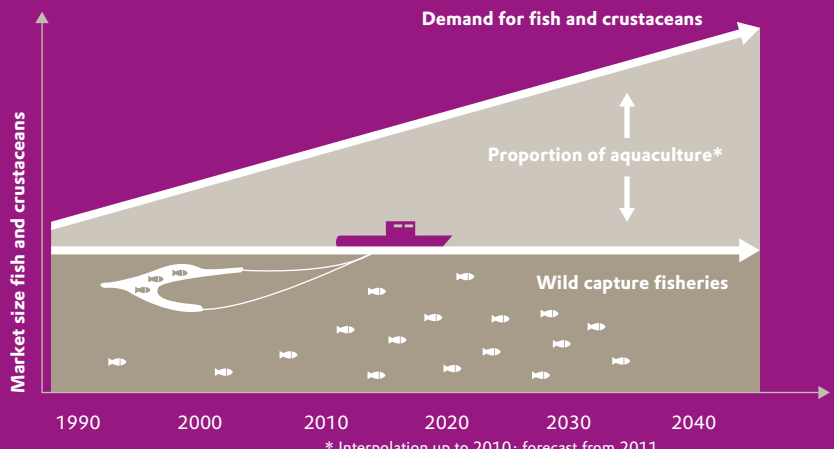
According to the United Nations Food and Agriculture Organization (FAO), in 2010 breeders around the world sold about 5.58 million metric tons of crustaceans with a total value of some US$27 billion. And that is increasing. The main producers are China, Thailand and Vietnam. "AQUAVI® Met-Met could make Evonik the world's first and only supplier of a source of methionine that is specially optimized for shrimp," says Kobler, who is currently preparing the market launch of this product. Evonik has secured extensive rights to protect this innovative product, including patenting its application.

Industrial-scale production of AQUAVI® Met-Met is currently being trialed at Evonik's site in Hanau (Germany). The white powder pours almost silently into large blue containers. The air smells slightly of cauliflower and sulfur. That is the typical odor of methionine. Kohler inspects the filled containers, sometimes plunging his hands into them and letting the Met-Met run through them. He will be shipping many of the containers to Southeast Asia and Latin America. "In collaboration with our local partners, we will be using AQUAVI® Met-Met in selected shrimp farms. That should bring us valuable insight so we should be able to offer customers an optimum product very soon."

Further information:
http://feed-additives.evonik.com

How AQUAVI® Met-Met contributes to sustainable shrimp production

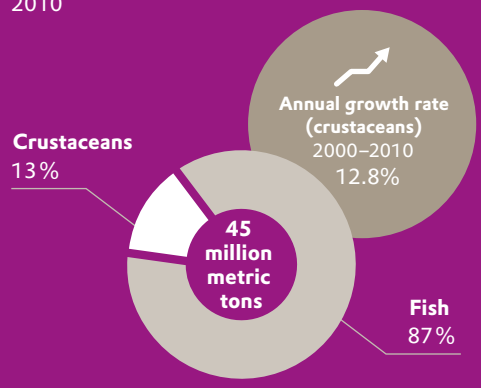
Aquaculture is becoming more important



* Interpolation up to 2010; forecast from 2011.

Fish and crustaceans from aquaculture

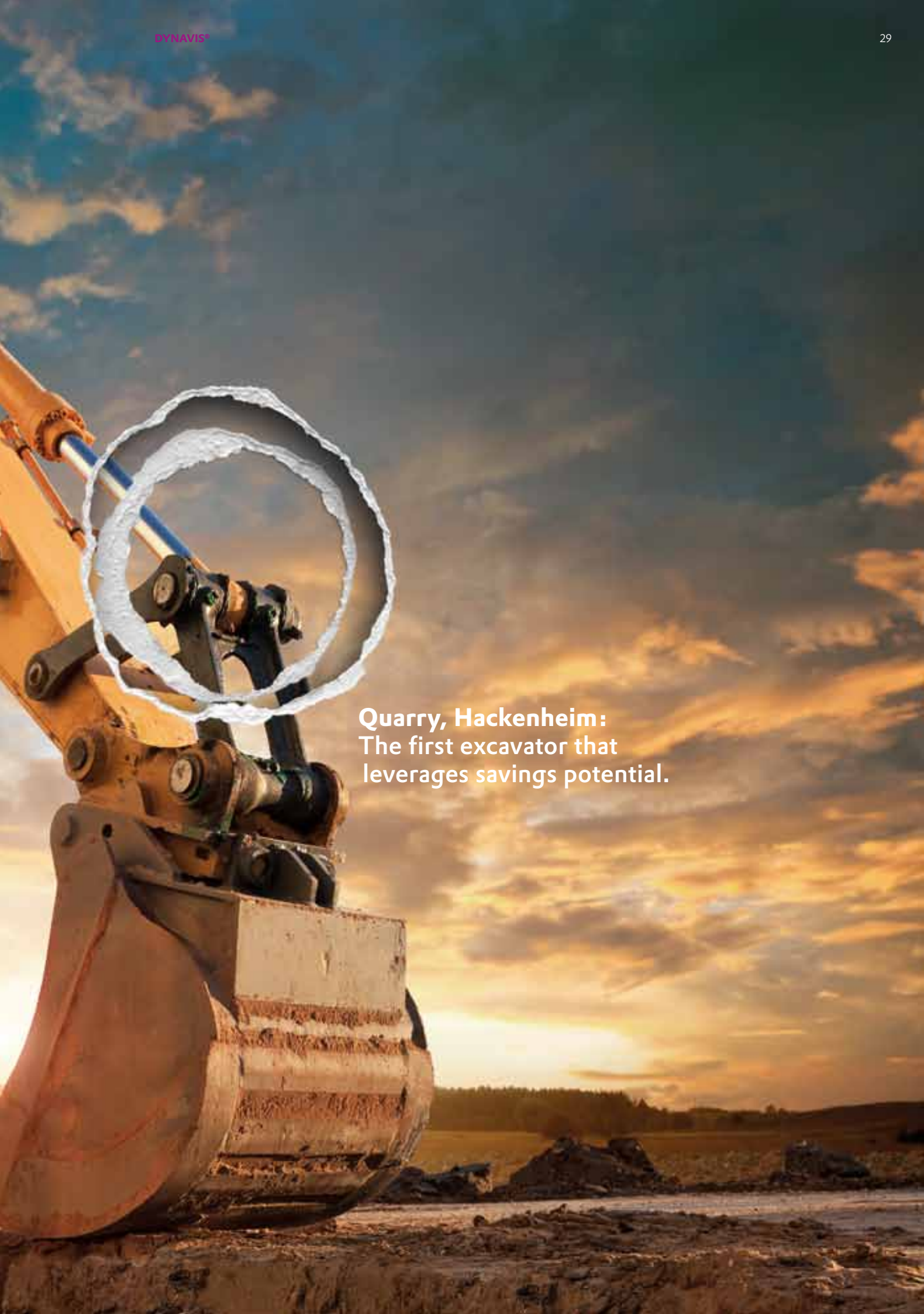
2010



Source: Evonik | FAO

Savings that enhance performance.

Hydraulic construction machinery is indispensable these days. But efficiency can still be improved—as the tests on our new DYNAVIS® additive technology show. DYNAVIS® brings a perceptible improvement in the performance of hydraulic fluids.



Quarry, Hackenheim:
The first excavator that leverages savings potential.

DYNAVIS® TECHNOLOGY CAN RAISE THE EFFICIENCY OF HYDRAULIC FLUIDS BY 10 PERCENT or more, so the machinery can execute more hydraulic movements. And that means operator Friedel Brandt gets more work done in the same amount of time.

Tirelessly the six yellow teeth eat into a huge mass of stone and chippings, leaving a ton-sized hole. It takes just a few seconds to swing the enormous bucket across to the road and deposit its load in a truck. For 20 minutes the excavator burrows further and further into the artificial mountain of stone. Shovel, lift, swivel, tip. The hydraulic system in the black-and-yellow Caterpillar excavator performs its heavy-duty work until Friedel Brandt shuts down his monster machine. The excavator shudders to a halt. Another test is over. And once again DYNAVIS® has proven its superiority as an additive for hydraulic fluids.

Satisfied, Brandt climbs down from the driver's cab at Hackenheim quarry near Bad Kreuznach in Germany. The excavator he was operating weighs 26 metric tons, has a power output of 200 HP and two hydraulic pumps each of which has 350 bar operating pressure. "I notice immediately if the fluid is good or bad," he says. "It's an in-born skill." Brandt, who is now 50 and has been operating such equipment for more than 30 years, has turned his hobby into his job. For just over a year, he has been conducting tests for Evonik. Their aim is to document the superiority of hydraulic fluids formulated with Evonik additives. So far, all the tests have been successful. DYNAVIS® technology can raise the efficiency of hydraulic fluids by more than 10 percent. ➔

THE EXCAVATOR'S TWO HYDRAULIC PUMPS OPERATE AT A PRESSURE OF

350 BAR

The force produced is transmitted to the boom and bucket via cylinders, so the machine can burrow effortlessly into the stone.

FRIEDEL BRANDT USES AN EXCAVATOR WEIGHING 26 METRIC TONS
to test Evonik's new product.

THE CATERPILLAR OPERATED BY FRIEDEL BRANDT HOLDS 140 LITERS OF HYDRAULIC FLUID
Hydraulic fluid is a key factor in the functioning and performance of an excavator: it ensures loss-free transmission of the hydraulic power from the pumps to the cylinders.

DYNAVIS® extends the temperature window

As a rule of thumb, a hydraulic fluid only operates optimally in a specific temperature range. The applications of conventional fluids are therefore restricted. The performance of construction machinery declines when the fluid is cold and at elevated temperatures. Besides, many fluids reach their limits at around 90 °C. The machinery is then more difficult to control. In the worst case, the machinery may shut down because the oil is too thick and the engine cuts out. That is a problem operators are familiar with. And in hot climates, it can bring a complete construction site to a halt. A horror scenario for any construction manager faced with today's cost and time pressure. DYNAVIS® technology permits operation in a far wider temperature range. The hydraulic system is therefore more responsive to the operator's instructions, even in very challenging conditions. Performance and fuel efficiency rise, and CO_2 emissions drop.

"It makes an enormous difference whether I can execute 80 or perhaps 110 movements in 20 minutes," says Brandt, who has moved on to a wheel loader and is using the joystick to steer it precisely, millimeter by millimeter. Thomas Damaske waves him closer. Evonik's field-test engineer has already loosened the screws on the Caterpillar with a spanner and a number 18 wrench and drained off 140 liters of hydraulic fluid. The fluid has to be changed for the next series of tests. "We rinse the system three times to minimize potential contamination by the previous fluid," explains 25-year-old Damaske. He recently completed a combined vocational training program at Evonik including a degree in mechanical engineering and now works in Performance Testing in the Oil Additives Business Line in Darmstadt (Germany). Following his instructions, Brandt edges the loader's fork-lifter closer. Its load is a 200-liter red drum from New Jersey (USA). The yellow-and-blue Lufthansa Cargo sticker provides an insight into the business: Trade in oil and oil additives is global. Evonik ranks among the world leaders in additives for fuels and lubricants, a growth market with attractive prospects. Alongside its production facilities in North America and Europe, the Group is planning to expand capacity in Singapore by 2015. ➔

MANY HYDRAULIC OILS REACH THEIR LIMITS AT

90 °C

DYNAVIS® greatly increases the temperature range at which they perform optimally.

DYNAVIS® as a performance standard

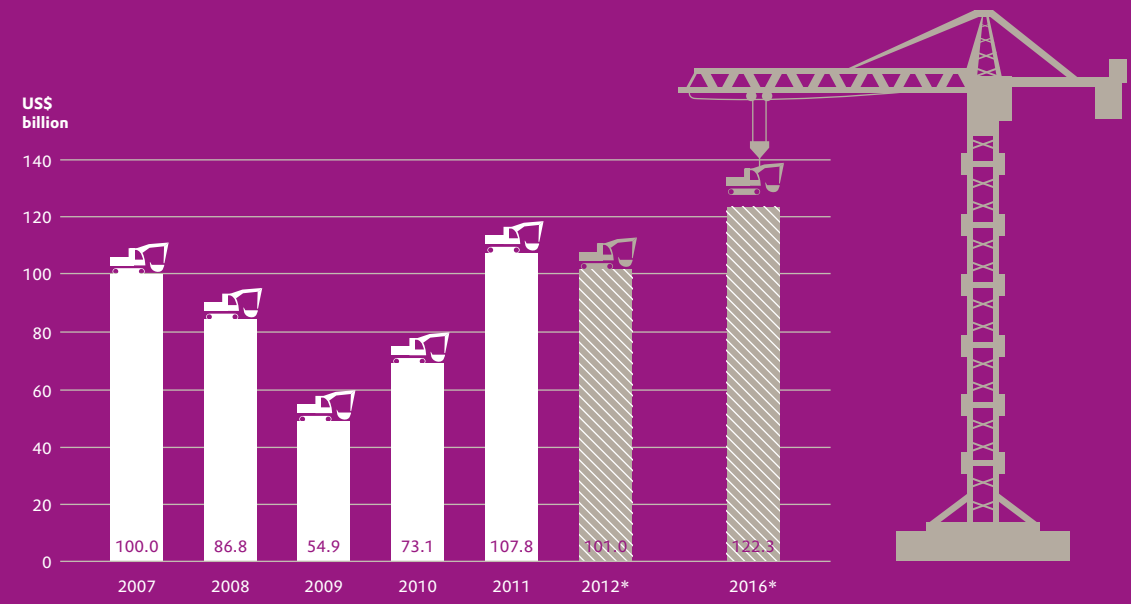
Damaske is now checking the cables, plugs and sensors, including the temperature gauge and flow meter. He reads the data off a display. The CAT 320 has 3,792 operating hours under its belt. Those have been successful hours for Evonik. The new DYNAVIS® technology is starting to make its breakthrough on the market. The slogan "More power—less fuel" has convinced Chinese construction machinery manufacturer SANY Heavy Industry. And Evonik is also doing business with major oil groups. All customers have their own requirements. DYNAVIS® is a bit like the recipe for cola says Damaske, except that it can be varied to suit different customers and applications. Evonik supplies custom-tailored products. "That's made possible by decades of experience and our highly integrated technology platforms," says Thorsten Bartels, who is in charge of the Performance Testing unit.

Evonik is not simply successful in the market for heavy construction machinery. "Our DYNAVIS® technology is a real performance standard. With a certifying stamp from the TÜV technical validation authority. It is giving us access to new markets and applications, for example, in mining, industrial applications such as injection molding and even rice harvesters," reports Dr. Oliver Eyrisch, who is responsible for global marketing of DYNAVIS®. A cooperation agreement has recently been concluded with the French oil giant Total. Total will be using oil additives from Evonik in the latest generation of high-performance hydraulic fluids—with the DYNAVIS® logo on the packaging. Evonik's technology will therefore be visible to end-users. Friedel Brandt takes a pragmatic view: "DYNAVIS® gives me an extra hour or hour-and-a-half operating time a day. If that means I save 20 to 30 liters of fuel a day, that's brilliant." He's right.

Further information:
http://www.dynavis.com

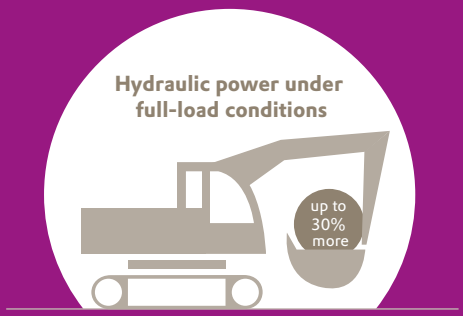
6 Evonik produces additives for lubricants and the plastics industry at **SITES AROUND THE WORLD**

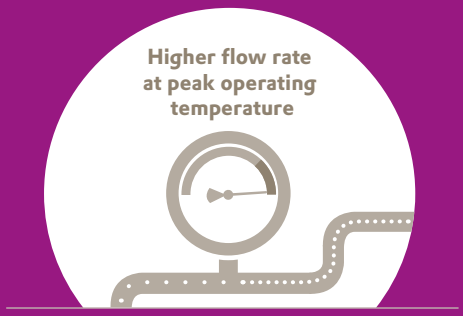
Global unit sales of construction machinery

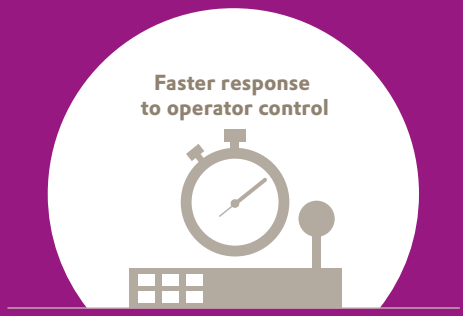


* Forecast.

Benefits of DYNAVIS® technology







Source: Off Highway, Evonik

Power for the future.

Our newly developed SEPURAN® hollow fiber membrane makes upgrading biogas more efficient and more environment-friendly—and saves energy. SEPURAN® could therefore make an important contribution to tomorrow's energy mix.

Production plant, Schörfling:
The first spaghetti strands
that refine biogas.

Highly polished aluminum reflects a blend of daylight and overhead lighting, encasing the new production line in a warm light. Here, in the final stages of the production process, a giant spindle winds tirelessly upwards, taking up 30 thin golden yellow fibers with its six large hooks. The fully automated process is controlled by sensors. Production manager Thomas Mayr refers to the spindle's apparently endless rotation around its own axis as "harvesting". It rotates about 2,000 times, like the gigantic dial on a time machine, then it has drawn sufficient fibers to produce the high-performance polymer for several large membrane modules. Here in Schörfling near Salzburg in Austria Evonik produces SEPURAN®, a highly innovative membrane that could revolutionize biogas processing in the future.

Biogas is a key component in tomorrow's energy mix

Tomorrow's energy policy will not be driven solely by wind and solar power, but by a whole range of energy forms, including biogas. Biogas is regarded as an environment-friendly energy source and is playing an increasingly important role in the generation of heat and electricity. As a domestic source of energy, it is a key building block for decentralized energy management. For example, biogas is a by-product of fermentation of renewable raw materials such as corn, and of sludge, liquid manure and other agricultural waste. The challenge: Its purity is not high enough to feed it directly into the natural gas grid so it needs to be upgraded. There are already processes to remove unwanted by-products such as carbon dioxide. ➔

According to the German government's integrated energy and climate protection program, biogas should be generating

100,000,000,000 **KILOWATT HOURS OF POWER BY 2030**

WITH SEPURAN® IT IS POSSIBLE TO PRODUCE BIOGAS WITH PURITY OF 98 PERCENT OR MORE
provided that high quality standards are observed in production.

DURING ITS LIFE CYCLE SEPURAN® SAVES

100 TIMES MORE CO_2

than is emitted during its production.

THE REFERENCE PLANT IN SACHSENDORF (GERMANY) PRODUCES 150 CUBIC METERS
high-purity biogas—a figure that pleases customers as well as Dr. Christian Schnitzer.

However, treatment with Evonik's SEPURAN® membranes is far more efficient and environment-friendly and saves energy. Consequently, it also reduces the cost of producing biogas. "Our technology does not need additional chemicals, and does not generate solid waste or wastewater. Besides, the modular concept means it is suitable and cost-effective even for small quantities," explains Dr. Goetz Baumgarten, SEPURAN® business manager in Evonik's Performance Polymers Business Unit.

The key lies in the size of the fibers and their surface structure. Although they are only a few micrometers thick, the fibers are hollow. The crude biogas is pressed through the fibers under pressure. Methane molecules find the correct path through the hollow fibers, whereas other molecules such as carbon dioxide are separated out by the membrane. Simple but impressive! In this way, biogas plants can achieve purity levels of 98 percent or above.

SEPURAN® is conquering growing markets

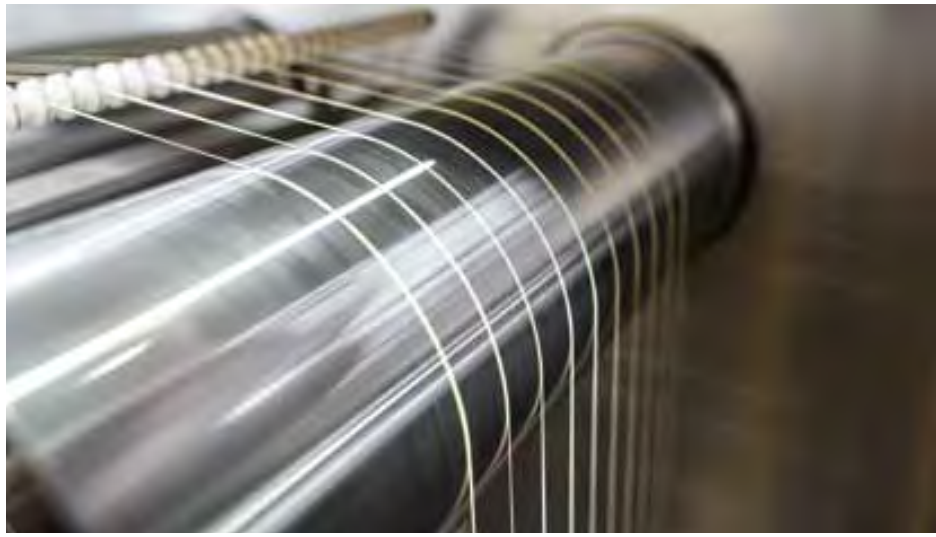
Shortly after market launch, Evonik had gained a number of new customers for this technology. And that trend is expected to continue. Germany alone has ambitious plans. According to the government's integrated energy and climate protection program, by 2030 about 100 billion kilowatt hours of power and heat should be generated from biogas. That would be equivalent to around 10 percent of the country's current consumption of natural gas. At present, biogas only generates about five billion kilowatt hours—about one twentieth of the target. There are also opportunities for SEPURAN® in foreign markets and other applications, for example, for technical gases. "As the next step we want to launch SEPURAN® in Asia and America," says Baumgarten looking forward.

At the end of the production line, chemist Dr. Markus Ugerank is inspecting the output. He is jointly responsible for research and development in the Fibers and Membranes Product Line at Evonik and one of the creative brains behind SEPURAN®. Building the production plant was just as exciting as developing this innovative product. Now Ungerank is monitoring the development of the hollow fiber with a mixture of concentration and scientific curiosity: "We are constantly learning more about it."

Behind him is the large reactor where the whole process starts. The starting product is a polymer solution: brown, viscous and sticky. "Our nectar" he calls it. Next the membrane is precipitated, washed, dried and wound before it is cut into bundles and processed into modules. ➔

30

THIN GOLDEN YELLOW FIBERS
are combined to produce SEPURAN®.



By 2030 biogas could cover

10 **PERCENT OF TODAY'S CONSUMPTION OF NATURAL GAS**

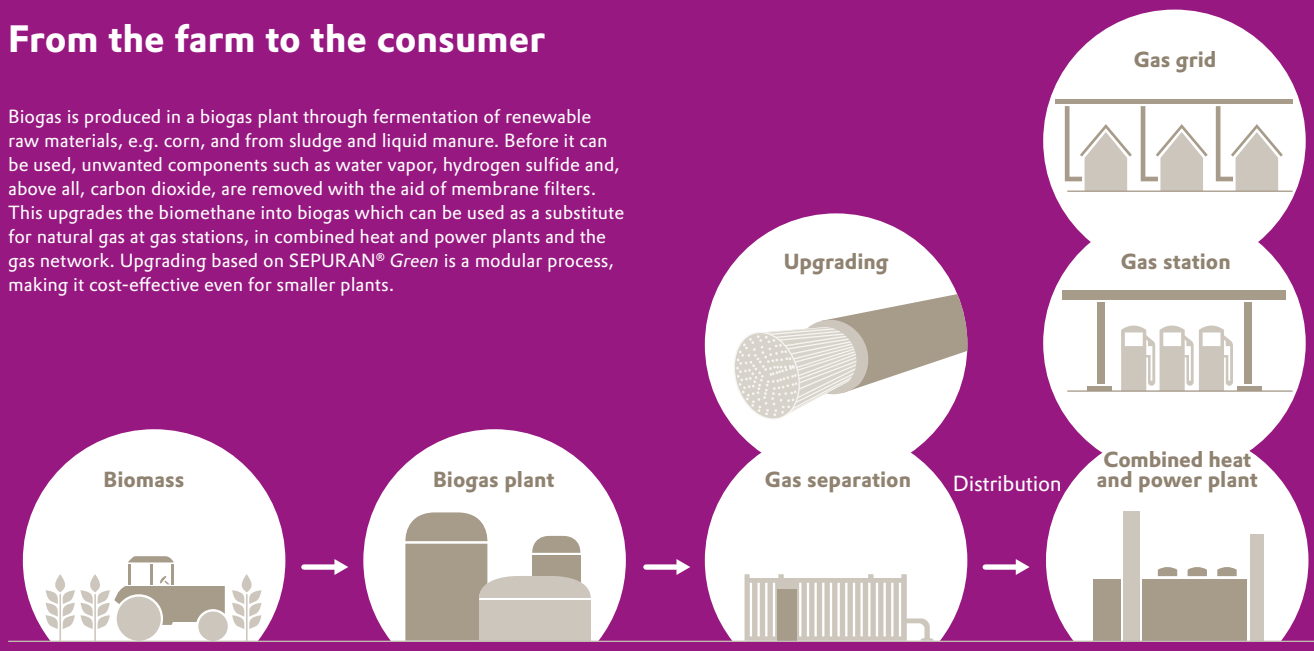
Biogas reference plant uses SEPURAN®

Although it may look like very fine strands of spaghetti or the hairs of a paintbrush, this technology is already being used to good effect in Sachsendorf, a small rural town in Germany, about half way between Magdeburg and Leipzig and 600 kilometers from Schörfling. A biogas reference plant with rated capacity of 150 cubic meters an hour was inaugurated here in October 2012. Built by plant engineering company EnviTec Biogas AG, with Evonik as its technology partner. Now it produces high-purity biogas from agricultural waste and other raw materials. Dr. Christian Schnitzer makes his way between the big green silos and piles of biomass. Schnitzer has a doctorate in microfiltration and now works at Evonik's site in Marl in strategic research, which is bundled at the subsidiary Creavis. He is responsible for the membrane activities at the Eco² Science-to-Business Center. Creavis and the Performance Polymers Business Unit worked together intensively on the development of SEPURAN®, a good example of how closely strategic and operational research are meshed at Evonik. Schnitzer opens the door to the control room at this autonomous plant. The display indicates that the purity of the biomethane is over 98 percent. "Best quality natural gas," he says. "It can now be fed directly into the gas grid." Other clients apart from EnviTec have purchased SEPURAN® for new plants in Germany, the UK and Switzerland. "Evonik is focused on the resource efficiency megatrend and this is an important contribution to the shift in the energy mix," says Schnitzer. Even though it is a polymer, SEPURAN® can be designated as a "green" product. Life cycle analyses conclude that biomethane produced using SEPURAN® results in only 10 percent of the emissions caused by natural gas. If emissions savings made in the production of SEPURAN® are included in this calculation, each module saves about 100 times the CO_2 released during its production. And that's good news for the environment.

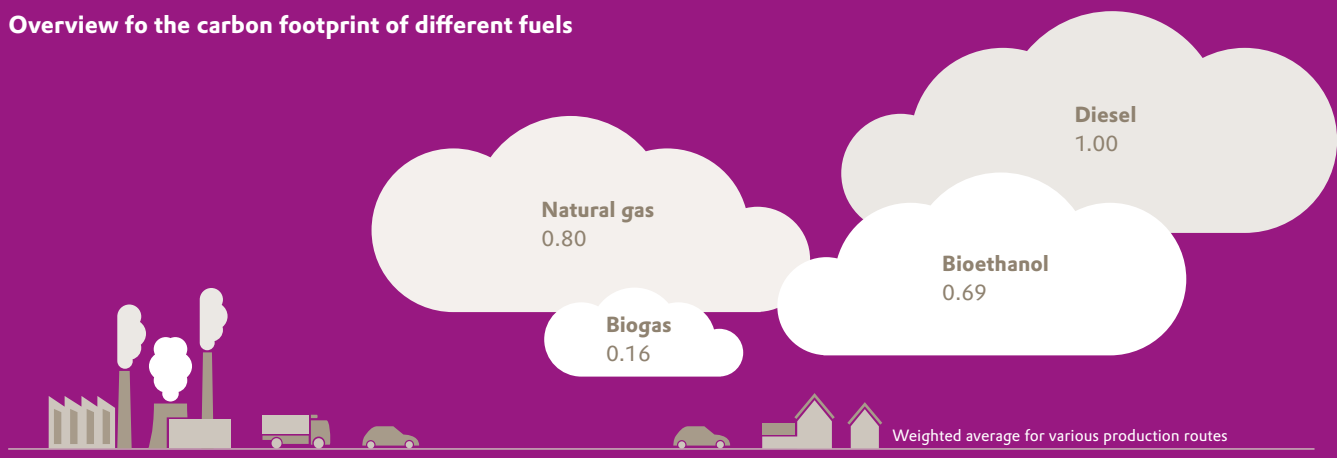
Further information:
http://www.sepuran.com

From the farm to the consumer

Biogas is produced in a biogas plant through fermentation of renewable raw materials, e.g. corn, and from sludge and liquid manure. Before it can be used, unwanted components such as water vapor, hydrogen sulfide and, above all, carbon dioxide, are removed with the aid of membrane filters. This upgrades the biomethane into biogas which can be used as a substitute for natural gas at gas stations, in combined heat and power plants and the gas network. Upgrading based on SEPURAN® *Green* is a modular process, making it cost-effective even for smaller plants.

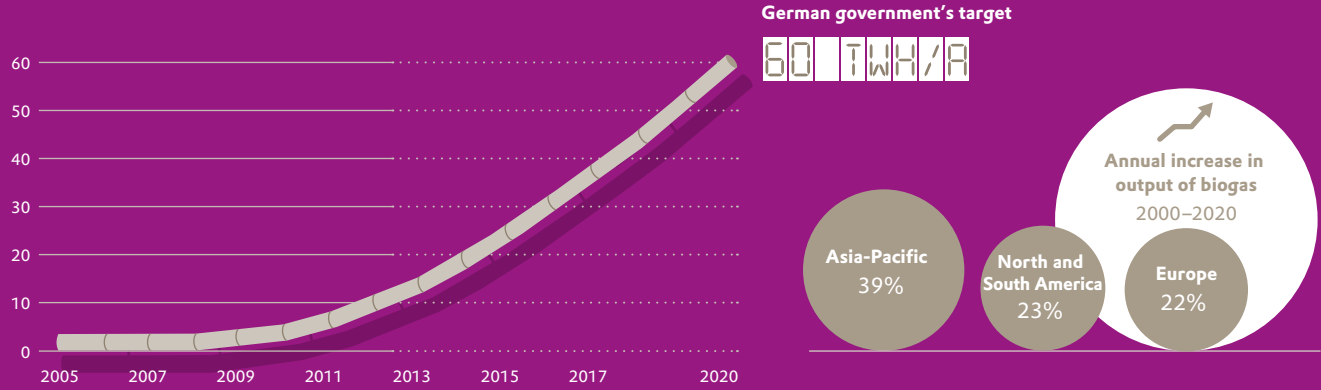


Overview fo the carbon footprint of different fuels



Biogas fed into the German gas grid

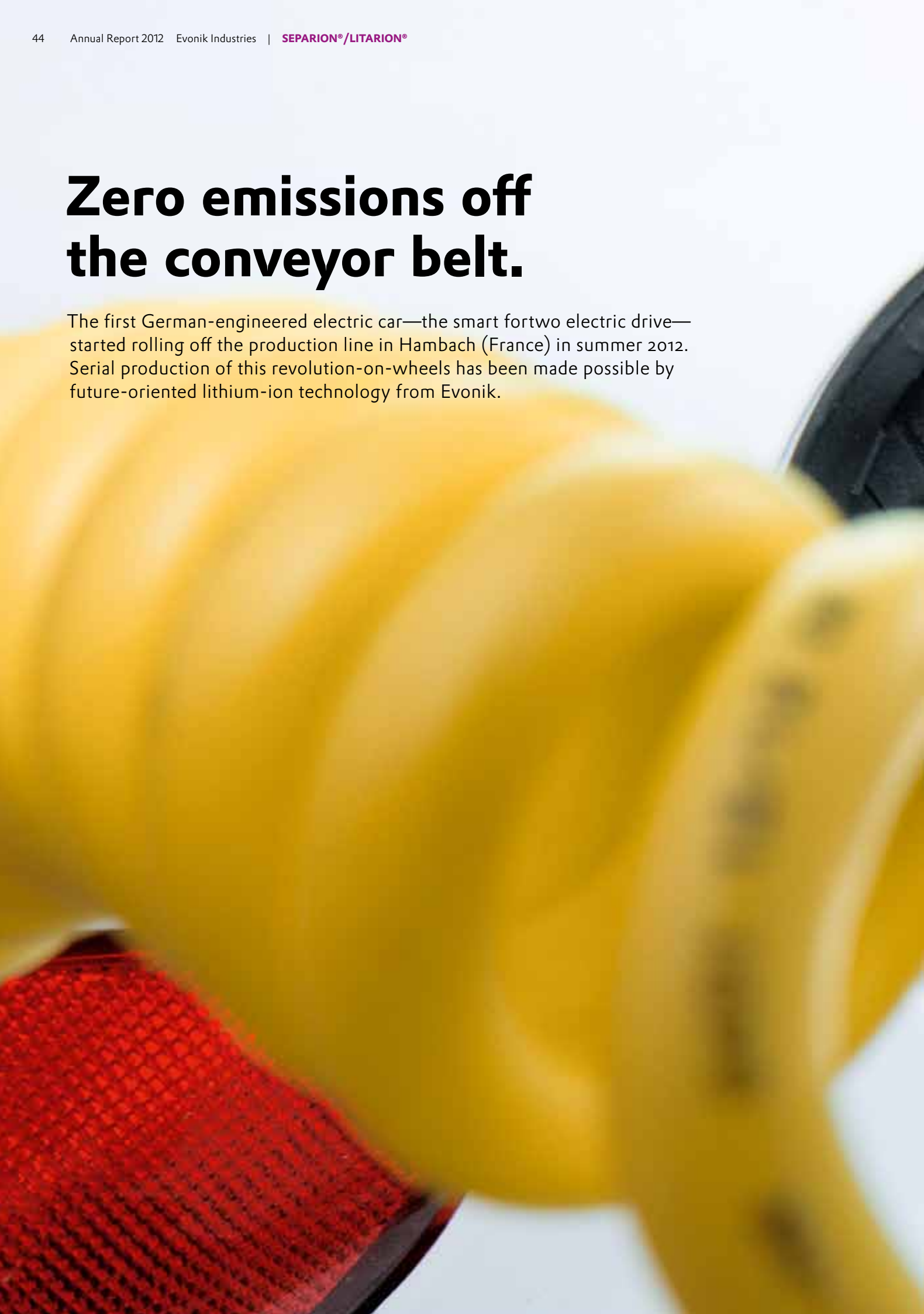
This chart shows how the volume of biogas fed into the gas grid needs to rise to meet the government's target of 60 TWh biogas by 2020.



Source: Evonik | EMPA LCA on Biofuels | dena | Kaiser | BIOMA | Fachverband Biogas | Biogasrat

Zero emissions off the conveyor belt.

The first German-engineered electric car—the smart fortwo electric drive—started rolling off the production line in Hambach (France) in summer 2012. Serial production of this revolution-on-wheels has been made possible by future-oriented lithium-ion technology from Evonik.



Charging station, Düsseldorf:
The first Smart that gets its power from a plug.

A RANGE OF 145 KILOMETERS
means Walter Joecken only has to charge his E-Smart every few days, so it's perfectly suitable for everyday use.

Tomorrow's auto is soundless! Walter Joecken turns the key in the ignition. He is welcomed by the computer in the cockpit: "Open your mind" it says. Joecken grins. Now 67, his attitude to the world's scarce resources has long made him a pioneer. He has been driving electric vehicles for about twenty years. Now he is one of the first people to drive the new E-Smart, the first fully electric vehicle from a German manufacturer to go into serial production. At its heart is lithium-ion technology from Evonik.

"Air, water and the Earth are the basics that support life and we are the first people in the history of humankind who are destroying that for future generations," says Joecken as he steers his new car through the north of Düsseldorf. Yet Joecken is not on a nostalgic eco-trip. He has been a self-employed businessman for more than 40 years, an intellectual who reads Germany's quality newspapers. And he has clear opinions. "We can fly to the moon and to Mars but we don't seem able to make any real progress in reducing greenhouse gas emissions." He started to think about the future as a young man, reading the Club of Rome's "The Limits to Growth" and "Silent Spring" by biologist Rachel Carson. ➔

Walter Joecken only has
to charge his E-Smart every

4 **DAYS**

700

EMPLOYEES

at Evonik's site in Kamenz (Germany) are
working on the future of electromobility.

The battery is composed of 93 battery cells, giving total capacity of

17.6 KWH

And he did not simply read, he took action. In the 1990s he purchased an ERAD—his first electromobile—with a 24 volt battery, 45 kWh power, a chain drive and a range of 15–20 kilometers. "Back then electric vehicles were still very basic." After that he owned a Colenta van, two Danish Kewets, a Peugeot, two Skodas and now the new E-Smart. Joecken has driven about 1,000 kilometers with the E-Smart and is very satisfied with it. "It's got everything I expect of a city hopper," he says: 17.6 kW h battery capacity, 35 kW continuous power and peak power output of 55 kW are sufficient for really sporty handling in an urban environment.

Alliance with Daimler AG

After a short demonstration trip, Joecken plugs the black-and-yellow cable into the charger, the battery symbol lights up green, the cockpit display shows that the residual charge is 84 percent. Joecken doesn't drive more than 30 kilometers a day, which is around the average for Germany. Studies show that on average Germans drive about 40 kilometers a day, mainly from home to work and to go shopping. Joecken never completely runs down the battery but he only has to charge it every four days thanks to lithium-ion technology. Evonik produces the high-performance, state-of-the-art battery cells in collaboration with Daimler AG. Capacity at the production facility in Kamenz, near Dresden (Germany) is being ramped up gradually. One key element of the cells is a ceramic membrane developed by Evonik that is used as a separator. In 2007 Evonik's research workers were nominated for the German Future Prize for this technology. Cells containing this separator are considered superior in terms of safety, performance and durability.

Evonik has invested considerable sums in its lithium-ion technology in recent years. As well as producing the separator, it manufactures the anode and cathode, in other words, three of the four vital chemical components in a battery cell. The electrodes, which Evonik markets as LITARION® are the key to performance and range. The battery cells and finished battery systems are assembled by two joint ventures with Daimler AG. ➔

THE E-SMART'S PEAK POWER OUTPUT IS 55 KW
That's about 75 HP, enough to accelerate from zero o to 100 kilometers an hour in just 11 seconds.
And for a maximum speed of 125 kilometers an hour.

However, this Stuttgart-based auto manufacturer is not Evonik's only customer. Jungheinrich AG in Hamburg (Germany), one of the world's leading producers of hydraulic vehicles, warehousing and material management technology, also relies on Evonik's battery technology: It uses Evonik's battery cells for fuel-saving, emission-free warehouse vehicles.

At the facility in Kamenz there are now around 700 employees working on the future of electromobility. Although recent studies suggest that the German government's goal of one million electric vehicles on the country's roads by 2020 is very ambitious, the long-term prospects for electric vehicles have not changed. It is estimated that the total number of vehicles worldwide will double to around 1.9 billion worldwide by 2030. Increasing emissions will become a problem, especially in megacities and urban areas, making electric vehicles a real alternative. Walter Joecken was convinced long ago. Eight months a year he can charge his E-Smart at no cost via the company's own solar power system. During the remaining cold, dark months, he uses power from the grid "costing less than €0.20 a kilowatt hour at night." The technology used in the Smart allows a choice between 8 and 12 Amps voltage. When he ordered his E-Smart Joecken decided against a 22 kW on-board charger, additional technology that allows the auto to be charged fully at a public station in less than an hour.

More than a thousand charge cycles

Technically, it is already possible to fully charge batteries based on Evonik's technology in less than half an hour. But for that, high-voltage current would be necessary. Joecken is sure than in twenty years time the performance of electric autos will be quite different. "It is important that there are companies like Evonik that want to make such products to improve the basic quality of life." In blue jeans and dark blue rollneck pullover, Joecken is sitting behind his copious desk showing photos of his previous electric vehicles. His blue eyes sparkle, but his voice is serious. "None of us can get away from our planet, so saving resources is essential. The changeover to electric vehicles is quite slow. Industry has to be given time." While we are talking, a bar in the cockpit indicates that the battery is charging. Several thousand cycles are possible without a significant reduction in capacity and performance. With a maximum range of 145 kilometers per charge, Joecken still has plenty of scope for quiet, emission-free travel.

Further information:
http://www.li-tec.de/en/

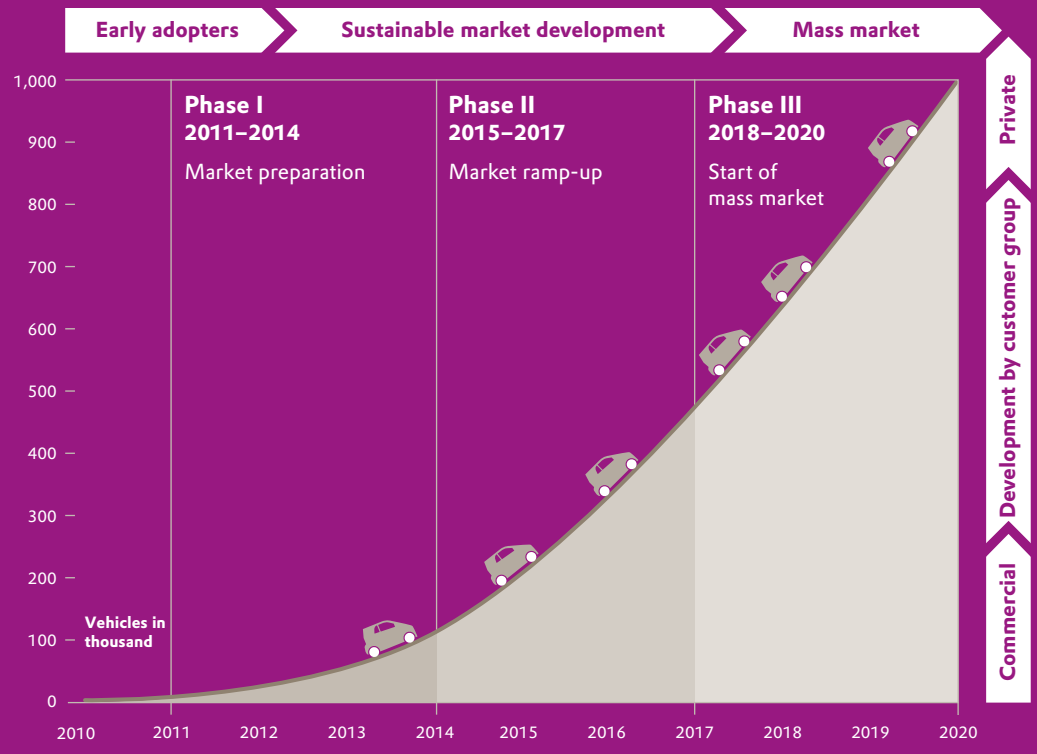
According to the EU, there could eventually be up to

150,000

CHARGING STATIONS IN GERMANY ALONE

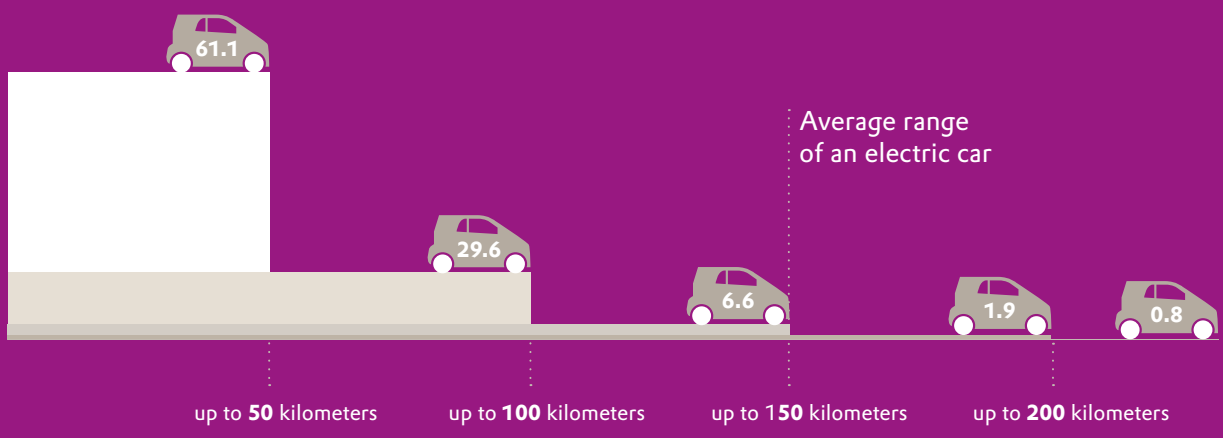
Electromobility in Germany

Target market development 2010–2020



Average distances driven in Germany per day

in %



Source: Nationale Plattform Elektromobilität | TÜV Süd

Financial report 2012

Evonik Group: Key figures

in € million	2008	2009	2010	2011	**2012**
Sales	15,873	10,518	13,300	14,540	13,629
Adjusted EBITDA[1)]	2,165	1,607	2,365	2,768	2,589
Adjusted EBITDA margin in %	13.6	15.3	17.8	19.0	19.0
Adjusted EBIT[2)]	1,298	868	1,639	2,099	1,953
ROCE[3)] in %	9.0	7.7	15.0	18.7	17.2
Net income	281	240	734	1,011	1,164
Total assets as of December 31	20,115	18,907	20,543	16,944	16,663
Equity ratio as of December 31 in %	25.6	27.6	29.1	35.8	41.0
Cash flow from operating activities	388	2,092	2,075	1,309	1,420
Capital expenditures[4)]	1,160	569	652	830	1,078
Depreciation and amortization[4)]	842	712	694	647	639
Net financial debt as of December 31	4,583	3,431	1,677	843	1,163
Employees as of December 31	40,767	33,861	34,407	33,556	33,298

Figures for 2008 include the former Energy Business Area; in 2009 and 2010 these operations were classified as discontinued operations.
[1)] Adjusted EBITDA = Earnings before interest, taxes, depreciation, amortization and adjustments.
[2)] Adjusted EBIT = Earnings before interest, taxes and adjustments.
[3)] Return on capital employed.
[4)] Intangible assets, property, plant, equipment and investment property.

Financial report

Management report

Combined management report for 2012

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

Steady earnings performance, higher capital expenditures, faster pace of innovation.

A successful year—Focus on growth, efficiency and values

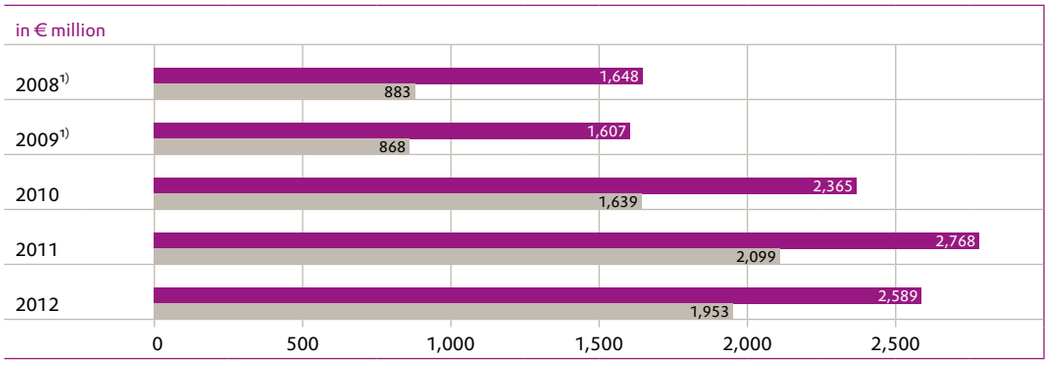
1. Performance and business conditions

Overview

Very high earnings

We posted another successful performance in 2012 although global business conditions remained challenging. Following a very good first half, the economic downturn that set in from the summer led to more cautious ordering patterns by our customers. Nevertheless, we registered high demand around the world. In the main, utilization of our production capacities was therefore high. Overall, sales were €13.6 billion and the operating results were close to the very good numbers reported for 2011[1)]. Our high profitability is evidenced by another excellent adjusted EBITDA margin of 19.0 percent, and an attractive return on capital employed (ROCE) of 17.2 percent. We grew net income perceptibly to €1.2 billion.

Development of adjusted EBITDA and adjusted EBIT in the Evonik Group



[1)] Without the energy business.

Focus on profitable growth

Strategically too, we continued to make progress in 2012. Our mid-term goals for growth, efficiency and values are bundled in the Evonik 2016 program. We drove forward the realization of important investment projects in 2012. Overall, we aim to achieve an ambitious investment program of over €6 billion between 2012 and 2016, a significant part of which will be in the emerging markets. Since product lifecycles in our customers' industries are becoming shorter, we have also introduced a range of new approaches and activities to speed up the pace of innovation. At the same time, to make Evonik even more competitive, we continued our systematic endeavors to raise efficiency throughout the Group. The On Track 2.0 program should bring a lasting reduction in costs of €500 million p.a. by the end of 2016.

A sound financial profile

In 2012 our cash flow from operating activities was €1.4 billion. Taking our ambitious investment program into account, net financial debt remained low at €1.2 billion. Thanks to our strategic and operational success, in May 2012 the Standard & Poor's rating agency increased our investment grade rating to BBB+.

[1)] Excluding the carbon black business divested in July 2011.

A stock market listing is still our goal

Even though the planned stock market listing was canceled in 2012, our owners still intend to place Evonik on the stock exchange. Evonik explicitly supports these plans. From our viewpoint the necessary preparations are now sufficiently advanced for us to realize this goal speedily, subject to decisions by our owners and, above all, appropriate capital market conditions.

Virtually flat organic sales trend

In view of the very challenging business conditions in 2012 we achieved a very good performance. Following a successful start to the year, the organic sales trend weakened somewhat, especially in the second half of the year. While volume sales slipped slightly over the year, selling prices were somewhat higher. In all, this resulted in an organic decline in sales of 1 percent. In total, Group sales fell 6 percent to €13.6 billion. This was principally due to "other effects", mainly the deconsolidation of the carbon black and Colorants activities following their divestment and a change in the method of accounting for sales from the Real Estate segment[1]. By contrast, exchange rates had a positive effect.

Sales 2012 vs. 2011

in %	
Volumes	–2
Prices	1
Organic sales trend	**–1**
Exchange rates	2
Other	–7
Total	**–6**

High operating results

Our operating results were once again high, but did not achieve the excellent comparative level reported for 2011, mainly because earnings from the carbon black business were still included for the first seven months of 2011. Adjusted EBITDA[2] declined 6 percent to €2,589 million. The adjusted EBITDA margin was 19.0 percent, in line with the very good level reported for the previous year (19.0 percent). Adjusted EBIT[2] declined 7 percent to €1,953 million. Earnings increased in the Consumer, Health & Nutrition and Services segments but declined in the Specialty Materials and Real Estate segments. The lower earnings contribution from the Resource Efficiency segment was mainly due to the divestment of the carbon black business. Adjusted EBIT for the other operations was minus €401 million, compared with minus €404 million in 2011. This includes, among others, expenses for the Corporate Center, strategic research, and depreciation of the purchase price allocation from past acquisitions.

[1] See page 97 of this management report.
[2] At the start of 2012, EBITDA (before non-operating result), EBIT (before non-operating result) and the non-operating result were renamed adjusted EBITDA, adjusted EBIT and adjustments without altering the composition of these items.

Adjusted EBIT by segment

in € million	2012	2011	Change in %
Consumer, Health & Nutrition	924	917	1
Resource Efficiency	517	611	–15
Specialty Materials	691	748	–8
Services	68	56	21
Real Estate	154	171	–10
Corporate, other operations	–401	–404	1
Evonik	**1,953**	**2,099**	**–7**

Sales and reconciliation from adjusted EBITDA to net income

in € million	2012	2011	Change in %
Sales	**13,629**	**14,540**	**–6**
Adjusted EBITDA	**2,589**	**2,768**	**–6**
Depreciation and amortization	–636	–669	
Adjusted EBIT	**1,953**	**2,099**	**–7**
Adjustments	16	–175	
Net interest expense	–357	–381	
Income before income taxes, continuing operations	**1,612**	**1,543**	**4**
Income before income taxes, discontinued operations	17	–42	
Income before income taxes (total)	**1,629**	**1,501**	**9**
Income taxes, continuing operations	–460	–451	
Income taxes, discontinued operations	–2	–36	
Income after taxes	**1,167**	**1,014**	**15**
Non-controlling interests	–3	–3	
Net income	**1,164**	**1,011**	**15**

Considerable improvement in net income

The adjustments of €16 million are the net balance of non-operating income and non-operating expense items which are by nature one-off or rare. They can be allocated to four main categories. Restructuring, comprising €135 million, mainly relates to payment claims in connection with settlements[1)] with customers in the photovoltaic industry and expenses for the restructuring of the photovoltaic business in the Resource Efficiency segment. In addition, this item contains expenses for On Track 2.0 and other corporate projects. The impairment losses/reversals of impairment losses totaling minus €167 million principally relate to the production plant in Yokkaichi (Japan) and result from restructuring of the photovoltaic business. Further, impairment losses were recognized for a production facility in the Specialty Materials segment due to a permanent drop in demand and for capitalized expenses for a project that was terminated prematurely. Other mainly contains temporary income in connection with the incident[2)] at the CDT plant. This is the net result of refunds from property insurance less expenses incurred as a result of the incident. Depreciation of the rebuilt and capitalized production facility will result in corresponding expenses in adjustments in future years.

[1)] See page 89 of this management report.
[2)] See page 92 of this management report.

Other also includes income of €12 million in connection with the recognition of the put and call options for the remaining shares in STEAG GmbH (STEAG). These options are remeasured every quarter. The adjustments of minus €175 million in 2011 mainly comprised impairment losses, in particular for property, plant and equipment in the Resource Efficiency and Specialty Materials segments and in connection with divestments.

Adjustments

in € million	**2012**	2011
Restructuring	135	–30
Impairment losses/reversal of impairment losses	–167	–131
Purchase/sale of investments	8	–33
Other	40	19
	16	**–175**

Net interest expense improved to €357 million, principally as a result of lower average net debt. Income before income taxes from the continuing operations rose 4 percent to €1,612 million. Income before income taxes from the discontinued operations was €17 million and comprised post-divestment income from non-core operations sold in prior periods. In 2011, income before income taxes from the discontinued operations was minus €42 million and mainly related to the former Energy Business Area and, in particular, expenses in connection with the divestment of the 51 percent stake in STEAG. Overall, income before income taxes rose 9 percent to €1,629 million. The income tax rate was 28 percent, which was below the expected Group tax rate of 30 percent, mainly because of tax income relating to prior periods. Net income grew 15 percent to €1,164 million.

In addition, since the start of 2012 we have calculated adjusted net income, which reflects the operating performance. Consequently, effects from adjustments and the discontinued operations are not included in this figure. This had a negative impact of €9 million in the reporting period, compared with €245 million in 2011. Adjusted net income therefore dropped 8 percent to €1,155 million.

Reconciliation from net income to adjusted net income

in € million	**2012**	2011
Net income	**1,164**	**1,011**
Adjustments	–16	175
Taxes on adjustments	9	–3
Adjustments attributable to non-controlling interests	13	–5
Income from discontinued operations	–15	78
Adjusted net income	**1,155**	**1,256**

Economic background

Global economy held back by uncertainty in 2012

Following a clear slowdown in the global economy in the second half of 2011, economic growth picked up appreciably at the start of 2012. However, it subsequently lost momentum again. The downward trend could only be halted in the final weeks of the year. In all, the ongoing uncertainty with regard to the sovereign debt crisis in the euro zone, mounting concern about the consolidation efforts in the USA and a clear weakening of growth in the emerging markets held back global growth significantly. Global gross domestic product fell short of our expectations, increasing by just 2.5 percent year-on-year. The increase in gross domestic product was particularly modest in the industrialized countries, and the euro zone actually slipped into recession. Even in the developing and emerging markets, whose economies had grown very fast in the recovery phase immediately after the financial crisis, there was a sharp drop in economic momentum, albeit at a high level.

The emerging markets in Asia were unable to maintain the previous years' pace of growth in the face of declining demand, especially from Europe, and country-specific factors. In 2012 China reported the lowest growth in more than a decade (plus 7.6 percent). Growth was only stabilized by measures to support the economy, which had an impact as the year proceeded. In addition, a clear reduction in growth was registered in India (plus 5.1 percent), mainly as a result of domestic political problems, inflation and structural deficits.

The emerging markets in South America contributed 2.7 percent to global growth, which was only just above average. Brazil, which is the largest economy in this region, did not recover from the economic slowdown in 2011 because of the strength of the currency and a credit squeeze. Growth dropped further to 1.5 percent.

In the industrialized nations (OECD countries), there was a further drop in pace of growth, which had already slowed in 2011. Gross domestic product in the OECD countries only increased by 1.3 percent year-on-year. In the euro zone in particular (minus 0.4 percent) the ongoing sovereign debt crisis in many southern European countries and its increasing impact on the entire euro zone resulted in a slight decline in economic output compared with 2011. As a consequence of the difficult labor market situation in many countries and persistently low confidence in the ability to find a sustained solution to the crisis, there was no positive impetus in 2012. Germany was able to escape the negative trend in the euro zone, especially at the start of 2012, because of its exports to non-European countries and stable consumer spending. With a growth rate of 1.0 percent, Germany had a key stabilizing effect within the euro zone. The economic trend in the USA (plus 2.1 percent) picked up slightly compared with 2011. However, the anticipated broadly based recovery failed to materialize in 2012 as the labor market continued to stagnate and the rebound on the housing market was low. This was compounded at year end by the heightened uncertainty regarding the fiscal situation. At the start of 2012, Japan was still dominated by the effects of the natural disaster that occurred in March 2011. Reconstruction and pent-up demand resulted in a strong rise in economic output relative to growth potential, especially in the first half of the year, but this was followed by a downturn in the second half. Overall, economic output was plus 1.7 percent year-on-year.

Trends in the specialty chemicals sector and key customer industries

In 2012 the increase in global industrial output (plus 2.1 percent) lagged the rise in gross domestic product. Momentum has slowed steadily following the strong growth in the aftermath of the 2008/2009 economic and financial crisis. High growth in China (plus 9.9 percent) remained the main driver of global industrial output.

In the industrialized countries, output was mainly affected by the continued uncertainty and related investment restraint. Massive destocking in many sectors acted as a further strong brake on industrial output at the end of the year. From mid-2012 the drop in demand from Europe started to affect industrial output in Asia, which recorded the lowest growth for many years. Industrial output in the USA decoupled from the negative trend, growing faster than in the previous year.

Within the industries served by the specialty chemicals sector, only the automotive industry was able to set itself apart from the overall trend in 2012. Driven by an exceptionally strong trend in the USA and robust demand in Asia, it posted real growth of 8.0 percent year-on-year.

In other sectors such as electronics (plus 2.3 percent) and information and communication technology (plus 1.7 percent), growth momentum was considerably lower than in the previous year. The food industry (plus 2.0 percent) and the personal care industry (plus 2.1 percent) were affected by declining consumer spending in large parts of Europe, and also posted a perceptible dip in growth worldwide. Growth in the global construction industry (plus 2.0 percent) declined further in 2012. The paints and coatings industry only reported comparatively low growth of 0.3 percent in 2012.

Output in the global specialty chemicals sector was lower than a year earlier owing to weak production trends in the industries it serves, and a decline in output in some parts of Europe. The growth rate of 3.5 percent posted in 2011 was not repeated. Following a positive start to the year with high capacity utilization, global output declined over the year, partly due to increasing destocking by customers. Thanks to the very good start to 2012, real year-on-year growth was 1.9 percent.

Development of raw material prices and exchange rates

The price of oil (Brent crude) was once again very volatile in 2012. On average it was less expensive than in 2011 at US$103 per barrel (2011: US$111). In the light of the increasing deterioration of the global economic situation after the first quarter of 2012 and the high level of uncertainty about economic development in subsequent months, the average monthly oil price dropped to US$92 before rebounding to the annual average by year end. As a consequence of the continuing sovereign debt crisis in Europe, the euro depreciated slightly against the US dollar to US$1.29 (2011: US$ 1.40).

Trends in the residential real estate sector

The residential real estate market in Germany underwent a dynamic development in 2012. Rents, real estate transactions and prices and the number of construction permits granted and new residential units completed have been rising since 2010. However, the trend varies greatly by region. There is still a clear south-north and west-east divide, especially in terms of purchase prices and rents. In light of the ongoing uncertainty resulting from the ongoing euro and sovereign debt crises, investors with a long-term horizon are interested in raising their exposure to the real estate sector in order to diversify risk. Consequently, about 200,000 residential units changed hands for over €10 billion in 2012. This was mainly driven by transactions comprising five major parcels of residential real estate, which accounted for half of the total transaction volume. Despite the steep rise in real estate prices in some urban areas, in Germany as a whole there is no sign of a risky property bubble, although there are isolated signs of overheating in some regions. Many purchasers are interested in long-term preservation of their assets rather than in profit. Besides, there is no sign of excessive growth in mortgage lending.

Demand for housing is directly linked to the change in the number of private households and their disposable incomes. Overall, 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. Trends in net rents for residential real estate (excluding utility charges) also differed by region. In all, average rents increased by 1.2 percent year-on-year in 2012. The trend in residential construction continued in 2012. The number of construction permits rose further, to an estimated 240,000 residential units (2011: 228,000). Favorable factors for the future development of the German housing market include stable incomes, low mortgage rates, government programs to encourage the modernization of properties and high demand for residential real estate in prosperous regions.

Business activities

Corporate strategy geared to profitable growth

Evonik is one of the world's leading specialty chemicals companies. It also has investments in residential real estate and the energy sector. Profitable growth and sustained value creation form the heart of our strategy, which is supported by our owners[1].

More than 80 percent of Evonik's sales from specialty chemicals come from market leading positions, which we are systematically expanding. We concentrate on high-growth megatrends, especially health, nutrition, resource efficiency and globalization. In addition, we are constantly refining our integrated technology platforms, which give us key competitive advantages. Our strengths include the balanced spectrum of our business activities, end-markets and regional presence, and working closely with key customers. Our profitable future growth is driven by our market-oriented research and development.

Evonik 2016: Looking to the future

We have bundled our mid-term strategic goals in a balanced program, "Evonik 2016". Growth, efficiency, values are the key aspects we will be using to achieve our ambitious targets. We intend to invest more than €6 billion between 2012 and 2016 to expand our leading market positions. A significant number of these growth projects are in emerging markets, so the proportion of Group sales generated in these markets will increase considerably in the future. In addition, we plan to make acquisitions to strengthen our core business. By steadily streamlining structures and workflows, we aim to mobilize further room for growth and innovation. The central element is the On Track 2.0 efficiency enhancement program which is designed to make a significant contribution, for example, through further optimization of global procurement, production and related workflows and global business and administrative processes. The values we live provide the foundations for us to enhance our growth impetus and raise efficiency. Diversity therefore has high priority at Evonik. For our customers, who are central to Evonik, we are a strong and reliable partner. We accept responsibility worldwide—for our business, our employees and society.

A market-oriented structure

Our specialty chemicals operations are grouped in three segments, each of which has two business units which act as entrepreneurs within the enterprise. The segments focus on our strategic alignment to the health, nutrition, resource efficiency and globalization megatrends. The Services segment mainly provides central services for the chemicals segments and the Corporate Center. Our real estate activities are bundled in the Real Estate segment. The Corporate Center supports the Executive Board in the strategic management of the Group.

At a glance

Strategy:
Profitable growth and sustained value creation. More than 80 percent of sales from specialty chemicals came from market-leading positions, which Evonik is continuing to expand.

Evonik 2016:
Bundles mid-term strategic goals. The focus is on a balance of growth, efficiency and values.

Profitable:
Another very good adjusted EBITDA margin of 19.0 percent. Attractive return on capital employed: ROCE came in at 17.2 percent.

Rating:
Improved investment grade rating (Standard & Poor's: BBB+).

[1] As of December 31, 2012, the company's owners were RAG-Stiftung (74.99 percent) and funds of the financial investor CVC Capital Partners (25.01 percent).

Efficient organization

To make Evonik even more agile and transparent, we aim to achieve a further reduction in the complexity of the Group. In the mid term, we will therefore be merging key legal entities in Germany. Having transferred operation of the plants owned by five companies to Evonik Industries AG in summer 2011, effective April 1, 2012 the management of all plants operated by Evonik Tego Chemie GmbH, Evonik Oil Additives GmbH, Evonik Technochemie GmbH and Evonik Goldschmidt Rewo GmbH was transferred to Evonik Industries AG. This included transferring all employees of these companies to Evonik Industries AG. Through operating control contracts, Evonik Industries AG is the sole employer of all employees at the entities concerned and the employee representation structures have been adjusted accordingly. At the same time, this gives Evonik a uniform image with customers and business associates, and on the labor market.

Focus on specialty chemicals

In order to focus on specialty chemicals, in 2011 Evonik sold 51 percent of the shares in the energy company STEAG to a consortium of municipal utilities in Germany's Rhine-Ruhr region. We also made binding arrangements to sell our remaining shares in these activities between 2014 and 2017. This comprises a put option, entitling us to sell our 49 percent stake in STEAG in full to the consortium of municipal utilities in four years. At the same time, the consortium has a contractually agreed option to acquire the 49 percent stake in STEAG from January 1, 2014 onwards (call option). The put option is included in the balance sheet as a financial asset, while the call option is shown as a financial liability. Both options are treated as financial instruments and have to be remeasured regularly. They will continue to be remeasured until they are exercised and the gains and losses will be reflected in adjustments.

Our real estate activities, which we plan to exit entirely in the medium term, focus on letting homes to private households in the federal state of North Rhine-Westphalia. These activities, which comprise Evonik's own residential units and a 50 percent stake in THS, cover around 130,000 residential units. Effective January 1, 2012, Evonik and THS bundled the property management activities for their real estate in the Vivawest Wohnen joint venture. To ensure stable long-term ownership structures, Evonik intends to transfer its stake in the real estate activities to the contractual trust arrangement (CTA) that secures employees' long-term pension entitlements. RAG-Stiftung also intends to take a stake in this real estate company.

Active portfolio 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 no longer meet our profitability requirements are divested. In April 2012, the Colorants business in the Resource Efficiency segment was divested to a subsidiary of Arsenal Capital Management LP, New York (New York, USA).

To support the Group's growth strategy, the focus of portfolio management in the coming years will be on acquisitions that give us access to additional high-growth products, markets and technologies. We constantly examine the strategic alignment, management quality and development potential of possible acquisition targets.

Evonik accepts its responsibility

Sustainable development and corporate responsibility are vital for the future viability of companies—including Evonik. We accept responsibility—for our business, our employees and society. That is how we define sustainability and corporate responsibility (CR), respectively. As part of our corporate strategy, our CR strategy takes up economic megatrends such as health, nutrition, resource efficiency and globalization, as well as ecological and social challenges, and supports the development of new business activities. Consequently, our products and technologies make a significant contribution to the sustainable development of society. At the same time, they strengthen our market position. We are systematically extending our CR activities on this strategic basis and inform the general public of our activities.

On Track 2.0 efficiency enhancement program to secure our competitive position

To counter the economic crisis in 2009 we introduced the On Track cost saving program to reduce costs by €500 million by 2012. Thanks to prompt implementation, we achieved that target ahead of schedule, by the end of 2011. In the process we also established a performance culture. In view of the risks associated with the European sovereign debt crisis, at the start of 2012 we initiated the On Track 2.0 efficiency enhancement program to strengthen our competitive and cost position. The aim is to reduce our cost base by a further €500 million a year by 2016 by raising the efficiency of our corporate structures and processes. By 2012 we had already defined measures to achieve 50 percent of these savings and over €140 million were already being implemented. Systematic implementation of On Track 2.0 is a key element in the Evonik 2016 program and will support Evonik's profitable growth course.

Global production network based on integrated technology platforms

Evonik operates worldwide and has production facilities in 24 countries. The largest production sites such as Marl, Wesseling and Rheinfelden (Germany), Antwerp (Belgium), Mobile (Alabama, USA) and Shanghai (China) have integrated technology platforms used by various business units. That ensures excellent use of product streams. For example, by-products from one production process can be used as starting materials for other products. This results in optimum utilization 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 smaller sites around the world that are only used by one business unit.

Efficient procurement

Procurement is an essential element in the value-added chain, so we regard intensive cross-organizational and cross-functional collaboration with the business units as indispensable. In 2012 we used innovative concepts and global strategies to identify new methods of securing long-term supply and further improve efficiency and Evonik's cost position.

Ensuring reliable supply and gaining access to new procurement markets will remain key tasks in the future. For instance, procurement in growth markets will play a greater role in the future. Another increasingly important factor is taking a critical look at the growing opportunities to obtain gas from unconventional sources. As well as participating in procurement alliances and validating new suppliers, we are working intensively on building up new strategic relationships to suppliers. Here, we are looking for further opportunities to reduce risk, improve costs and enhance cooperation with strategically important suppliers. We are aware of our responsibility within the supply chain. Issues such as safety, health, environmental protection, corporate responsibility and quality play an integral part in our procurement strategy.

In 2012 Evonik spent around €9.1 billion on raw materials and supplies, technical goods, services, energy and other operating supplies. Petrochemical feedstocks accounted for about 25 percent of the total. Overall, raw materials and supplies make up around 60 percent of procurement volume.

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

There was a significant rise in raw material prices in the first and third quarters of 2012. However, these price hikes were temporary and both in mid-year and at the end of the year prices dropped back to the level seen at the start of the year. Overall, prices in 2012 were around the average for the previous year.

Value-oriented business management

Evonik is managed on the basis of a consistent system of value-oriented 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 create value by raising profitability and ensuring 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. To sharpen our focus on the goal of profitable growth and enhance its transparency, since 2010 the indicator used for value-oriented management at Evonik has been EVA® (economic value added). The system of indicators also includes other relevant growth drivers and the associated indicators. These are derived from uniformly defined performance indicators taken from the income statement and balance sheet.

Clear value creation

Compared with absolute earnings parameters, EVA® extends the performance view to include the return on capital stipulated by our investors, which is the minimum return the Group has to earn. EVA® is the difference between adjusted EBIT and the cost of capital. If EVA® is positive, the Group creates value (value spread approach).

The cost of capital is calculated by multiplying average capital employed by the risk-adjusted return requirements of our investors, expressed as the weighted average cost of capital. The cost of equity is calculated using the Capital Asset Pricing Model. In the regular review of the cost of capital in 2012 the cost of capital for the Evonik Group was adjusted to 10.5 percent, taking into account the target Group structure (2011: 9.5 percent before taxes).

In 2012, we generated EVA® of €763 million and thus created considerable value. The year-on-year decline of €159 million[1)] was due to the fact that the contribution from the carbon black business was no longer included and to the increase in capital employed, principally as a result of high capital expenditures.

[1)] Prior-year figure restated to reflect the current cost of capital.

Return on capital remains attractive

ROCE measures the return on capital employed. It is calculated from adjusted EBIT in relation to average capital employed.

in € million	**2012**	2011
Adjusted EBIT	**1,953**	**2,099**
Intangible assets	3,228	3,325
+ Property, plant and equipment/investment property	5,896	5,799
+ Investments	1,130	995
+ Inventories	1,716	1,635
+ Trade accounts receivable	1,802	1,861
+ Other interest-free assets	612	782
– Interest-free provisions	–1,131	–1,283
– Trade accounts payable	–1,089	–1,051
– Other interest-free liabilities	–837	–859
= Capital employed[1)]	**11,327**	**11,204**
ROCE (adjusted EBIT/capital employed) in %	**17.2**	**18.7**

[1)] Annual averages.

In 2012 the average capital employed increased slightly to €11.3 billion. The year-on-year increase in capital expenditures to implement our growth strategy increased capital employed, while the divestment of the carbon black business had a counter-effect.

The ROCE of 17.2 percent represents an attractive return. The decrease compared with 2011's excellent ROCE was mainly caused by higher capital expenditures, which increased capital employed but have not yet impacted adjusted EBIT. The return on capital employed in the three chemicals segments was well above-average. The Group's ROCE was considerably lower as capital employed also includes identified hidden reserves from the acquisition of shares in the former Degussa AG and from earlier mergers of the former Degussa AG.

ROCE by segment

in %	**2012**	2011
Consumer, Health & Nutrition	48.5	55.9
Resource Efficiency	32.4	29.5
Specialty Materials	38.2	43.9
Services	13.9	12.7
Real Estate	8.2	9.3
Evonik (including Corporate, other operations)	**17.2**	**18.7**

Adjusted EBTIDA margin in line with the previous year's very good level

Since the adjusted 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 losses are not included in adjusted EBITDA, so the adjusted EBITDA margin can be taken as an approximation of the return on sales-related cash flows.

In 2012 the adjusted EBITDA margin for the Evonik Group was 19.0 percent, unchanged from the previous year's very high level.

Adjusted EBITDA margin by segment

in %	**2012**	2011
Consumer, Health & Nutrition	25.0	25.7
Resource Efficiency	20.9	18.9
Specialty Materials	17.4	18.6
Services	16.3	14.6
Real Estate	83.3	53.2
Evonik (including Corporate, other operations)	**19.0**	**19.0**

2. Earnings position

Higher earnings from continuing operations

When assessing the Group's earnings position, it should be noted that the carbon black business was included for seven months of 2011 as the divestment of this business was closed at the end of July 2011. The 6 percent drop in Group sales to €13,629 million was mainly attributable to this effect. The cost of sales fell by 5 percent to €9,700 million. This was also attributable mainly to the fact that the carbon black business was still included in the prior-year figures. By contrast, changes in raw material prices only had a low impact on the Group overall. The gross profit on sales decreased by 8 percent to €3,929 million. Selling expenses were unchanged year-on-year at €1,242 million. To strengthen our innovative capability still further, we raised research and development spending by 8 percent to €393 million. By contrast, administrative expenses declined by 2 percent to €647 million.

Income statement for the Evonik Group

in € million	2012	2011
Sales	13,629	14,540
Cost of sales	–9,700	–10,247
Gross profit on sales	**3,929**	**4,293**
Selling expenses	–1,242	–1,242
Research and development expenses	–393	–365
General administrative expenses	–647	–663
Other operating income	1,520	1,021
Other operating expense	–1,290	–1,207
Income before the financial result and income taxes, continuing operations	**1,877**	**1,837**
Financial result	–265	–294
Income before income taxes, continuing operations	**1,612**	**1,543**
Income taxes	–460	–451
Income after taxes, continuing operations	**1,152**	**1,092**
Income after taxes, discontinued operations	15	–78
Income after taxes	**1,167**	**1,014**
of which attributable to		
Non-controlling interests	3	3
Shareholders of Evonik Industries AG (net income)	1,164	1,011

The other operating income of €1,520 million includes income from the measurement of derivatives (€384 million), including the call option in connection with the divestment of the stake in STEAG (€17 million) and currency translation of monetary assets and liabilities (€206 million). This item also includes income from insurance refunds (€228 million), principally in connection with the incident at the CDT plant[1)], and income from settlements with two customers in the photovoltaic industry[2)]. These two factors were also the main reasons for the year-on-year increase of €499 million in other operating income. The other operating expenses of €1,290 million included, among other things, expenses for the measurement of derivatives (€355 million), including the put option in connection with divestment of the stake in STEAG (€5 million), currency translation

[1)] See page 92 of this management report.
[2)] See page 89 of this management report.

of monetary assets and liabilities (€226 million), and impairment losses on assets (€274 million). The rise of €83 million compared with 2011 was mainly due to higher impairment losses and expenses in connection with the restructuring of the photovoltaic business and the incident at the CDT plant. Income before the financial result and income taxes from the continuing operations increased 2 percent to €1,877 million.

The financial result improved by €29 million to minus €265 million, principally due to lower interest expense. Income before income taxes from the continuing operations increased 4 percent to €1,612 million. After deducting slightly higher income taxes, income after taxes from the continuing operations was €1,152 million, 5 percent higher than in the previous year.

Considerable improvement in net income

Income after taxes from the discontinued operations was €15 million and comprised post-divestment income from non-core operations sold in prior periods. The previous year's figure of minus €78 million mainly comprised expenses in connection with divestment of the majority stake in STEAG. Income after taxes improved 15 percent to €1,167 million. Non-controlling interests in after-tax income amounted to €3 million, as in the previous year. Overall, the net income of the Evonik Group improved 15 percent to €1,164 million.

3. Financial condition

Effective financial management

The central objectives of financial management are to safeguard the financial independence of the Evonik Group and limit refinancing risks. We therefore apply a central financing strategy. Borrowing and bond issuance are normally undertaken by Evonik Industries AG or its financing company Evonik Finance B.V., whose liabilities are fully guaranteed by Evonik Industries AG. Guarantee obligations for liabilities of Group companies are provided 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.

Rating: Evonik upgraded by Standard & Poor's

Thanks to our successful operational and strategic performance, in May 2012 the Standard & Poor's rating agency upgraded Evonik's rating one notch to BBB+ with a stable outlook. Moody's rating agent confirmed its good rating and outlook (Baa3 with a positive outlook). Maintaining a sound investment grade rating in the long term is part of our financial strategy. To ensure this, the ratio of net debt (including unfunded pension obligations) to adjusted EBITDA should not exceed 2.5. As of December 31, 2012 it was 2.1. The increase from 1.7 in 2011 was mainly due to a reduction of about 1 percentage point in the discount rate for pension obligations and the corresponding rise in the present value of the defined benefit obligation[1)].

[1)] See also Note (7.10).

Rise in net financial debt due to high capital expenditures and further funding allocated to CTA

The net financial debt shown on the balance sheet was €1,163 million, an increase of €320 million compared with year-end 2011. Alongside high capital expenditures, that was attributable to the transfer of further unfunded pension obligations relating to direct commitments to employees. A further €400 million was allocated to the contractual trust arrangement (CTA) set up for this purpose[1]. We intend to transfer further assets and cash to this CTA in the coming years to gradually increase its funding.

As a consequence, financial assets declined by €392 million to €1,671 million while financial debt was €2,834 million, only just below the previous year's level.

Net financial debt

in € million	**Dec. 31, 2012**	Dec. 31, 2011
Non-current financial liabilities	–1,397	–2,657
Current financial liabilities	–1,437	–249
Financial debt	**–2,834**	**–2,906**
– Cash and cash equivalents	741	1,409
– Current securities	928	649
– Other financial assets	2	5
Financial assets	**1,671**	**2,063**
Net financial debt as stated on the balance sheet	**–1,163**	**–843**

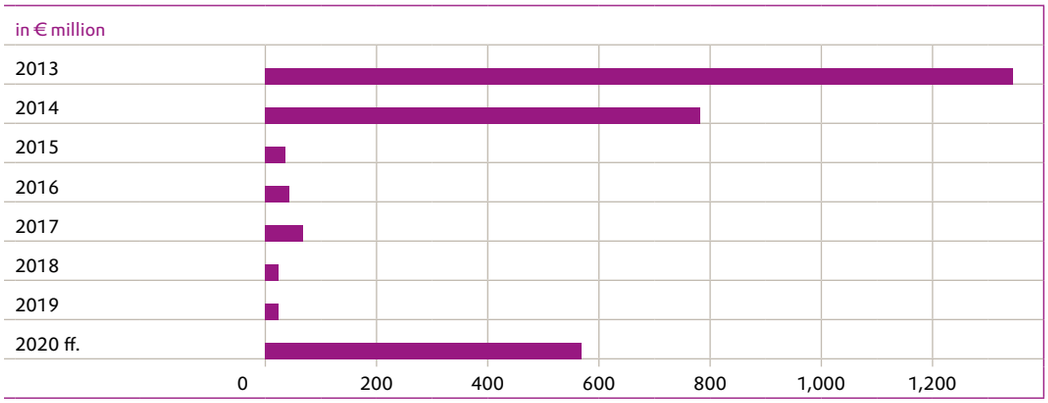
Prior-year figures restated.

Within financial debt, there was a shift between non-current and current financial liabilities. The main reason for this was the reclassification of the Evonik Degussa bond (2003/2013), which matures at the end of 2013 and has a nominal value of €1,093 million.

Interest rate hedges totaling €500 million have been entered into for the expected refinancing requirement in 2013.

[1] See also Note (7.10).

Maturity profile of financial liabilities[1)]



As of December 31, 2012.
[1)] Contains all material financial liabilities relating to bonds, bank loans and promissory notes.

Corporate bond is a central financing instrument

At year-end 2012, the financial debt of €2,834 million comprised two corporate bonds totaling €1,850 million, real estate financing (€516 million), other decentralized borrowing (€220 million), promissory notes (€92 million), and other liabilities (€156 million). The promissory notes were fully repaid on January 24, 2013.

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

Comfortable liquidity cushion

Alongside cash and cash equivalents of €741 million and investments of €928 million in current securities, the Group's central source of liquidity is a €1.5 billion revolving credit facility from a syndicate of around 30 national and international banks. This credit facility is divided into three tranches of €500 million each, with terms running until August 2104, 2015 and 2016. This credit facility was not drawn at any time in 2012. Under the covenants for this revolving credit facility, Evonik has given an undertaking that it will meet specific financial ratios. The most important of these relates to total net debt leverage, in other words, the ratio of net financial debt to adjusted EBITDA. The second is the loan to value ratio, an asset-based indicator that compares the net financial debt of the Real Estate segment to the market value of its property. Timely monitoring of these ratios and forecasting of their development is ensured. Compliance with these covenants has to be reported quarterly to the banking syndicate that provides the credit facility. In 2012 we were able to demonstrate that we had met all contractually agreed minimum requirements by a wide margin on all reporting dates.

There is also a €200 million credit line with the European Investment Bank to finance research and development projects. This expires in mid-2017 and was not used at any time in 2012.

Further, as of December 31, 2012, various unused credit lines totaling some €280 million were available to meet local requirements, especially in the Asia-Pacific region.

Considerable increase in investment spending underscores our growth strategy

In the specialty chemicals segment Evonik is expanding in business segments and markets where it already has—or intends to build—a strong competitive position. Capital expenditures are aimed at utilizing potential for sustained profitable growth and value creation. Every investment project undergoes detailed strategic and economic analyses, including sensitivity analyses and scenario analyses to reflect major risks. Moreover, every project has to meet business-specific, risk-adjusted minimum return requirements, which include covering the cost of central functions.

In 2012 we increased investment in property, plant and equipment by 30 percent to €1,078 million (2011: €830 million). The increase is based mainly on strategic growth projects, which we either started in previous years or initiated in 2012. As part of our growth strategy geared to creating value, these will result in above-average capital expenditures in the coming years compared with previous fiscal years. The biggest single project in 2012 was construction of the new methionine plant in Singapore.

In keeping with our corporate strategy, the chemicals operations once again received the highest proportion of capital expenditures—76 percent—and 10 percent was invested in the Services segment. The regional focus of capital expenditures was Germany, which accounted for 53 percent of the total, followed by the Asia-Pacific (26 percent) and North America (13 percent).

Major projects completed or virtually completed in 2012

Segment	Location	Project
Consumer, Health & Nutrition	Essen (Germany)	New central laboratory for Consumer Specialties
	Essen (Germany)	New production facility for silane-modified polymers
	Essen (Germany)	Expansion of production capacity for hydrogen siloxanes
	Blair (Nebraska, USA)	Expansion of production capacity for Biolys® and lysine for aquaculture
	Darmstadt (Germany)	New production plant for RESOMER®
Resource Efficiency	Ta Yuan (Taiwan)	Expansion of production capacity for precipitated silicas
	Essen (Germany)	New R&D center for additives and specialty binders
Specialty Materials	Marl (Germany) and Shanghai (China)	Expansion of production capacity for polyamide 12
	Marl (Germany)	Rebuilding of the CDT production plant
Real Estate	Dortmund (Germany)	Acquisition of more than 240 residential units and modernization of 80 units

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

Additions to financial assets totaled €36 million, well below the previous year's figure of €140 million.

Another good cash flow

Thanks to our good operating performance, the cash flow from operating activities in our continuing operations was €1,420 million. That was in line with the previous year's good level. Comparing the cash flow with the previous year, positive and negative changes essentially canceled each other out. The cash flow was increased mainly by a slight improvement in income before the financial result and income taxes and a lower rise in net working capital. However, this was countered by the change in other provisions, especially personnel-related provisions, and higher income tax payments. In 2011 the cash flow from operating activities in the discontinued operations related to the former Energy Business Area and comprised an outflow of €126 million. Overall, the cash flow from operating activities increased by €111 million to €1,420 million.

Cash outflows for investing activities amounted to €1,621 million (2011: €598 million), mainly due to outflows of €1,021 million for investment in property, plant and equipment (2011: €885 million). A total cash outflow of €638 million (2011: €662 million) was registered for payments to the contractual trust arrangement for pensions, and for securities, deposits and loans. In 2011 the cash flow for investing activities was dominated by an inflow of €1,021 million, mainly from the divestment of the carbon black business and 51 percent of the shares in STEAG.

The cash outflow of €468 million for financing activities (2011: outflow of €636 million) mainly comprised the payment of €425 million to our shareholders (2011: €400 million).

Cash flow statement for the Evonik Group (excerpt)

in € million	**2012**	2011
Cash flow from operating activities, continuing operations	1,420	1,435
Cash flow from operating activities, discontinued operations	–	–126
Cash flow from operating activities	**1,420**	**1,309**
Cash flow from investing activities[1)]	–1,621	–598
Cash flow from financing activities[1)]	–468	–636
Change in cash and cash equivalents[1)]	**–669**	**75**

Prior-year figures restated.
[1)] Prior-year figures include discontinued operations.

4. Asset structure

Slight reduction in total assets

Total assets decreased slightly from €16.9 billion to €16.7 billion. Non-current assets were unchanged at €11.0 billion. While capital expenditures increased, deferred taxes decreased. Current assets dropped by €0.2 billion to €5.7 billion due to the reduction in financial assets, specifically, cash and cash equivalents, time deposits and current securities. The ratio of non-current assets to total assets rose slightly to 66 percent. Non-current assets are financed by liabilities with the same maturity structure.

Balance sheet structure of the Evonik Group

in € million	**2012**[1]	2011[1]		**2012**[1]	2011[1]
Non-current assets	10,951 (66%)	11,026 (65%)	Equity	6,829 (41%)	6,074 (36%)
			Non-current liabilities	5,617 (34%)	7,484 (44%)
Current assets	5,712 (34%)	5,918 (35%)	Current liabilities	4,217 (25%)	3,386 (20%)
Total assets	**16,663**	**16,944**	**Total equity and liabilities**	**16,663**	**16,944**

[1] As of December 31.

Equity increased by €0.7 billion to €6.8 billion. The equity ratio improved from 35.8 percent to 41.0 percent.

Non-current liabilities decreased by €1.9 billion to €5.6 billion. The main influence was the reclassification of the Evonik Degussa bond, which matures in 2013, to current financial liabilities. Further, pension provisions declined, mainly due to an allocation to the contractual trust arrangement (CTA). Current liabilities increased by €0.8 billion to €4.2 billion. This was due to reclassification of the bond.

5. Research and development

Evonik—a highly innovative company

High innovative capability is vital for Evonik as a world leader in specialty chemicals. It drives profitable growth and strengthens our position as a market and technology leader. We deliberately combine different concepts for our innovation work. These include both ongoing development of established products, processes and applications, and moving into completely new technologies and solutions. In addition, we analyze long-term trends in order to derive new areas of growth for Evonik.

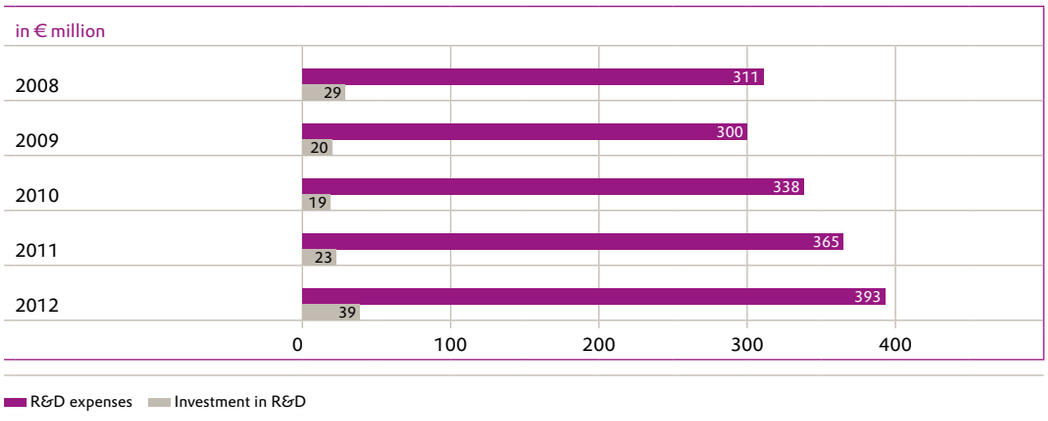
Interdisciplinary collaboration within our decentralized research and development (R&D) structures is a particularly dynamic source of innovation. Around 2,500 employees from a range of disciplines based at more than 35 locations contribute to our global R&D network. Our know-how in attractive future-oriented technologies is bundled in Areas of Competence. At an early stage in R&D projects we combine Evonik's expertise in the areas of specialty chemicals, process technology and engineering. This facilitates rapid translation of new processes into efficient industrial-scale production. Our R&D experts also work closely with their colleagues in Marketing and the International Sales team. Our innovations are therefore very closely aligned to the needs of our customers, enabling us to enhance their competitiveness through new or improved products and applications.

Examples of our latest R&D highlights include hollow polyimide fiber membrane modules for cost- and energy-efficient upgrading of biogas obtained from renewable raw materials, an innovative high-performance insulating material for sustainable construction, and a source of methionine to optimize the nutrition of crustaceans. In all, there are around 500 projects in our pipeline.

The large number of first-time patent applications filed by Evonik places it at the forefront of the specialty chemicals sector. In 2012 we had a total of over 26,000 patents and patent applications. About 260 new patent applications were filed during the year. In view of the strategic importance of R&D, Evonik has raised spending on R&D by an average of 6 percent a year since 2008. In 2012 R&D spending amounted to €393 million, which was 8 percent more than in the previous year. We intend to maintain R&D expenditures at a high level in the future as well.

In addition, we have invested around €130 million in the construction of laboratory facilities and pilot plants in the past five years. One focal area here was the erection of two new R&D centers at our site in Essen (Germany). From 2013, more than 180 employees at these new facilities will be working on environment-friendly additives and specialty binders for the paints and inks industry and future-oriented cosmetics industry.

Research and development Evonik Group



Further increase in the pace of innovation

Since product lifecycles in customers' industries are becoming shorter, Evonik has stepped up the pace of innovation through a range of new approaches and activities. For instance, in 2011 and 2012 we continued our policy of becoming more open to external partners in the sense of "open innovation" and stepped up networking with such partners. New strategic alliances were concluded with the University of Minnesota (USA), Jiaotong University in Shanghai (China) and King Abdullah University of Science and Technology (KAUST) in Saudi Arabia. Evonik has long had a large number of cooperation agreements with universities and scientific institutes to ensure that top research findings on sustainable aspects of chemistry, biology and physics are rapidly transferred to the company. These include, for example, the Leibniz Institute for Catalysis at Rostock University in Germany and the Industrial Technology Research Institute in Hsinchu (Taiwan).

In 2012 Evonik held its first Open Innovation Fair, a special congress and exhibition attended by about 180 employees and many external service providers. This marked the start of a series of open innovation projects utilizing the possibilities offered by Web 2.0. These include online ideas competitions, both on generally available innovation platforms and in the Evonik intranet, where our employees can make interactive suggestions on how to resolve a specific scientific question.

As a complement to our open innovation approach we are driving forward our corporate venture capital activities. In the next few years we plan to invest up to €100 million in promising start-ups whose technologies match our growth strategy—either directly or indirectly through specialized funds. These investments should give Evonik faster access to completely new technologies outside its current portfolio and cover the main technology trends and regions of significance for our company. In 2012 we invested in the High-Tech Gründerfonds II in Germany, the Emerald Cleantech Fund III, which is focused on Europe and North America, and the North American fund Pangaea Ventures Fund III. These funds specialize in innovative technologies that give priority to new materials, energy and resource efficiency and sustainability. We are also planning to place an investment in Asia through a fund.

Efficient innovation structures and processes

Our operational units fund over 85 percent of R&D spending at Evonik. These expenditures are geared to a stepwise improvement in their core technologies and applications. The Group bears a further 15 percent, which is spent on strategic R&D projects with a mid- to long-term time horizon. Our strategic research to build up new business activities outside our present portfolio are bundled at Creavis Technologies & Innovation (Creavis), which also runs our project houses and Science-to-Business (S2B) centers.

In our project houses, experts from several operating units work together for a three-year period on issues that are relatively closely related to Evonik's product and technology portfolio and drive forward research until it is ready for use. The research findings are then commercialized by an internal start-up or our operating units. In 2012 we successfully completed the System Integration Project House and systematically built up the Light & Electronics Project House in Taiwan. Preparations are also under way for a new Composites Project House to develop innovative materials and solutions for lightweight structures.

In our S2B centers, which are established for a longer period than the project houses, experts from Evonik work closely with external scientists, customers and suppliers on projects spanning the entire value chain. Some of our projects receive funding from the German government, the Federal State of North Rhine-Westphalia and the European Union. We currently have two S2B centers: the Bio S2B Center, which is developing new biotechnology products and processes based on renewable raw materials, and the Eco^2 S2B Center, which is working on innovative products and applications in the field of energy efficiency and climate protection.

At a glance

Customer focus:
Research & development is closely aligned to market needs

Innovation pipeline:
Number of projects increased to around 500

Higher pace of innovation:
Open innovation and corporate venturing open up new research approaches for Evonik

Dialogue with talented youngsters:
In the 2012/2013 academic year Evonik will be providing 180 scholarships for students at 180 German universities

Technology scouts:
Identify interesting technologies and business opportunities in regions of significance for Evonik

The Corporate Foresight team at Creavis identifies future business opportunities for Evonik on a 10–15 year time horizon. The focus is on tomorrow's needs: Trend analyses are used to identify challenges that will affect the markets in the future. One example is the increasing number of megacities around the word, i.e. cities with more than ten million inhabitants, and the opportunities that offers for our specialty chemicals activities.

As well as providing creative space to work on unconventional solutions, our R&D projects have to meet the same high value-oriented requirements as our investment projects. We have set up stringent processes in our operating units and at Creavis to allocate the R&D budget to specific projects. I2P® (Idea to Profit)—our all-round project management system—allows efficient identification and evaluation of the entire innovation process.

A strong culture of innovation

Evonik sees itself as an open and learning organization and has anchored this in a long-term innovation management program. Our internal Innovation Award is presented annually in recognition of outstanding application-oriented research achievements. Further, at Evonik's first-ever innovation conference in fall 2012 executives analyzed potential drivers to raise our innovative strength still further.

Sustainable development drives innovation

Evonik accepts its responsibility for its business, the environment and society. We see this as a precondition for a successful future. It is part of our corporate culture and forms an integral part of our innovation strategy. We are keenly committed to expanding the contribution made by our innovative products, systems and solutions to sustainable development. This is implemented through both our operating units and Creavis.

For example, the Bio S2B Center increased its research in the field of white biotechnology by opening two new laboratories in fall 2012. Their focus includes new production routes for vegetable fats and oils from tropical regions and the suitability of vegetable residues for use as alternative raw materials. The Eco^2 S2B Center bundles our strategic research in the fields of energy efficiency and climate protection. For example, it has developed a method to evaluate the carbon footprint of future products and processes at an early stage in their development. Evonik is also engaged in R&D projects with partners from science and industry. These include LionGrid, which is working on research on decentralized energy storage, and KOWIND, which is developing novel technologies to protect offshore wind turbines. With Munich Technical University we are working on products such as PLEXIGLAS®, paints and adhesives made from renewable raw materials.

Evonik fosters close discussion with scientists and talented youngsters

In the 2012/2013 academic year, Evonik will provide a total of 180 German scholarships to support students at twelve universities. These scholarships, which are awarded by the German government in collaboration with private sponsors, are designed to counter the shortage of skilled staff and encourage more young people to take a university degree. Through the Evonik Foundation we have supported students and doctoral candidates with their research for many years. Regular meetings with these young scientists give them an early insight into day-to-day work in the field of specialty chemicals and position us as an attractive employer for talented youngsters.

At the Evonik Meets Science forums, which are held regularly in Germany, the USA and Asia, our experts discuss current scientific issues with leading research scientists. In fall 2012 the opportunities and challenges of megacities were discussed at forums in Darmstadt (Germany) and Shanghai (China).

Further internationalization of R&D

Selective expansion of our research and development activities in economically attractive regions supports our growth strategy. In the future, we will have a more active presence in NAFTA, where we will be cooperating with renowned universities.

Evonik has been stepping up R&D in the Asian growth markets for some time. This is illustrated by the innovation center for coatings additives based in Singapore and Shanghai, which opened in 2011, and the third expansion of our R&D center in Shanghai, which is scheduled for completion in mid-2013. The aim is to help strengthen the competitiveness of our Asian customers through research and applications technology geared specifically to local needs.

Our Light & Electronics Project House is based in Taiwan, whose electronics and lighting industries are among the world leaders. Located in Hsinchu Science Park in the direct vicinity of major producers from these sectors, its work focuses, among other things, on display components, large-area lighting and coatings solutions for electronics. Given the increasingly short innovation and product lifecycles in the optoelectronics sector, strategic development alliances with key customers are very important.

Our technology scouts in all economic regions worldwide that are of significance to Evonik maintain contact to leading companies and scientific institutions. Their role is to act as a radar system and identify interesting technologies and business opportunities. Where necessary, they can rapidly identify suitable cooperation partners for business ideas developed by their colleagues on the operational side.

R&D at Evonik

R&D expenses	€393 million
R&D employees	approx. 2,500
Locations	more than 35
R&D projects	approx. 500
Number of new patent applications filed	approx. 260
Total patents held and applications filed	more than 26,000
Total registered trademarks (including applications filed)	more than 7,700

Market-oriented research & development

In 2012 our operating units once again developed and launched major innovative products and processes. Examples include the TEGO® Pep products marketed by the **Consumer Specialties** Business Unit in the Consumer, Health & Nutrition segment. These highly effective custom-tailored tetrapeptides are a response to consumer demand for products to improve the appearance of aging skin. For instance, TEGO® Pep-4-Even treats pigmentation problems and acne lesions. It also alleviates age spots and uneven skin tone. TEGO® Pep-4-17 is an anti-wrinkle tetrapeptide that is also found in human protein and bolsters the skin from within.

As a leading supplier of additives for rigid and flexible polyurethane foam, Consumer Specialties has successfully launched a newly developed silicone stabilizer which significantly reduces foam defects in the rigid polyurethane core in sandwich elements. This improves surface quality, greatly enhancing the appearance of these elements, which are widely used, especially in industrial construction.

The **Health & Nutrition** Business Unit's site in Halle-Künsebeck (Germany), which celebrated its thirtieth anniversary in 2012, is a hub of Evonik's biotech research. It works closely with Creavis, the Process Technology & Engineering unit and the research organizations in other business units. The Group's expertise in process design for industrial-scale fermentation is bundled at this site. Our experts concentrate in particular on improving biotechnological production processes for the amino acids Biolys® (source of L-lysine), ThreAMINO® (L-threonine) and TrypAMINO® (L-tryptophan), which are used in animal nutrition. Developing new products for health and nutrition is another focus of innovation. Evonik's mid-term goal is to generate sales of €1 billion with products produced by biotech methods in the Health & Nutrition Business Unit alone.

This business unit's activities in the field of functional auxiliaries for pharmaceutical applications comprise technology platforms for methacrylate-based oral drug delivery systems (EUDRAGIT®) and biodegradable lactide polymers for medical products and parenteral controlled-release medications such as injections and implants (RESOMER®, LAKESHORE BIOMATERIALS™). Further innovative products were brought to the market in 2012. These include EUDRAGUARD BMC, which has been specially developed for use in nutritional supplements. The main applications are masking taste and odor. Further, at the end of 2012 an agreement was signed with the Chinese pharmaceutical manufacturer Changzhou Siyao Pharma to develop a long-acting injectible active ingredient.

UV-curing coatings have a natural gloss. So far, producing matt versions has proven a challenge. ACEMATT® 3600, a new matting agent introduced by the **Inorganic Materials** Business Unit in the Resource Efficiency segment, allows simple and controlled reduction in the gloss of environment-friendly UV-curing coatings. This business unit's in-situ post-processing technology is a single-step process for grinding silica particles and applying the coating. It reduces energy requirements by up to 70 percent compared with conventional surface treatment technologies based on precipitated silicas. No organic compounds or waste are produced at any time in this process.

A growing number of suppliers of components for refrigerators and freezers are using AEROSIL® vacuum insulation panels. AEROSIL® fumed silica has excellent insulating properties and the insulating layer can be produced with a filigree structure. The vacuum insulating panels work on the same principle as a dual-wall thermos flask: the AEROSIL® is vacuum-packed and fused into a multi-layer film with exceptionally high moisture and air resistance. The vacuum results in a five-fold increase in the already good insulating properties of this substance. Vacuum insulating panels therefore make a key contribution to saving energy and climate protection.

An innovation in the VESTANAT® product line marketed by the **Coatings & Additives** Business Unit allows higher yields in the production of urethane acrylate resins without unwanted by-products, so they can be manufactured more cheaply. Urethane acrylates are used in radiation-curing coatings, for example, for anti-scratch high-gloss surfaces for the housings of cell phones and tablet PCs. The market for such systems is growing very fast, especially in the Asian electronics industry. The new process is very environment-friendly as it does not use organic solvents and requires far less energy than conventional curing methods.

In 2012 Coatings & Additives developed a range of bio-based polyester polyol grades for reactive hot melt adhesives to market maturity. Branded as DYNACOLL® Terra, they are based principally on monomers from renewable resources. Researchers in this business unit established that the monomers obtained from millet, corn and the castor-oil plant are very different from those synthesized from petrochemical feedstocks. This has advantages in areas of timber processing. Hot melt adhesives formulated with bio-based polyester polyols offer good initial adhesion and shorter setting times, yet allow the same time for final processing, which is a new feature.

At a glance

Innovation Award 2012

Category
"New Product/New System Solutions"

Project:
Dual cure adhesive for textiles for fiber-reinforced composites

Consumer Specialties Business Unit

Category
"New or Improved Process"

Project:
OxiCat—a new mixed-oxide catalyst that makes production of methionine and superabsorbents more cost-effective

Consumer Specialties, Health & Nutrition and Inorganic Materials Business Units and Process Technology & Engineering

Category
"Creative Communication"

Project:
DYNAVIS® "ingredient brand"—Communicate value to end markets

Coatings & Additives Business Unit

In the Specialty Materials segment, collaboration between the **Performance Polymers** Business Unit and a customer has produced a new product generation of low dosage kinetic hydrate inhibitors (LDHI) for natural gas extraction. These are based on a specialty methacrylate and prevent the formation of gas hydrates in pipelines. Gas hydrates are solid, iron-type compounds formed from gas molecules and water, which—depending on their size—can cause cracks, excessive wear or even breakage of a pipeline. A patent application has been filed for this innovation which is far more efficient than existing LDHI systems and conventional methods based on dosing methanol or glycol into the pipeline.

Over the years Performance Polymers has steadily improved its integrated technology platform for the production of polyamide 12. With a view to the planned construction of a new polyamide 12 line in Singapore, a further significant improvement in the process in Marl has been achieved. This will greatly improve the selectivity and yield of several steps in the future.

Since 2012 the **Advanced Intermediates** Business Unit has offered customers a biovariant of its premium methyl-tertiary butylether (MTBE) antiknock agent. So far, bio-MTBE is the only commercially available second-generation biofuel component for gasolene in Germany and does not compete with the production of food. Evonik produces bio-MTBE from isobutene and bio-methanol. The raw material for bio-methanol is raw glycerin, a coupling product generated in the production of biodiesel. Using this by-product makes bio-MTBE a promising option for fuel producers to meet the EU requirements for the use of biofuel and to reduce CO_2.

In addition, this business unit is extending its offering of sustainable plasticizers and has started to build up production in Marl (Germany). Production of a phthalate-free plasticizer is expected to start in the second half of 2013. Advanced Intermediates plans successive additions of innovative products to this new generation of plasticizers, including a bio-based plasticizer.

6. Segment performance

Consumer, Health & Nutrition segment

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

Key data for the Consumer, Health & Nutrition segment

in € million	**2012**	2011	Change in %
External sales	4,204	4,081	3
Adjusted EBITDA	1,050	1,049	0
Adjusted EBITDA margin in %	25.0	25.7	–
Adjusted EBIT	924	917	1
Capital expenditures	303	186	63
Depreciation and amortization	132	123	7
Capital employed (annual average)	1,906	1,640	16
ROCE in %	48.5	55.9	–
Employees as of December 31	6,821	6,384	7

Development of sales in the Consumer, Health & Nutrition segment

Further rise in sales

2012 was another very successful year for the Consumer, Health & Nutrition segment. Globally, it saw demand for its products grow so overall production capacity was once again well utilized. However, selling prices slipped slightly, especially in the second half of the year. Buoyed by higher volumes, the segment posted slight organic sales growth. Together with the positive effect of exchange rates, sales grew 3 percent to €4,204 million.

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

Excellent earnings performance

Thanks to the good volume trend, the operating results were once again excellent. Adjusted EBITDA matched the previous year's level at €1,050 million and adjusted EBIT rose 1 percent to €924 million. The adjusted EBITDA margin declined slightly but at 25.0 percent it was still excellent.

Growth initiated

As a result of the growth strategy, capital expenditures increased substantially to €303 million (2011: €186 million). In response to the sustained growth momentum of the health and nutrition megatrends and the expansion of business activities in the emerging markets, significant investments are under way to create new capacities. Consequently, capital expenditures were well above depreciation, which amounted to €132 million in 2012. The average capital employed increased by €266 million to €1,906 million, principally because of the high capital expenditures. ROCE was excellent at 48.5 percent, although it was slightly lower than in the previous year due to the growth-induced rise in average capital employed.

At a glance

Main areas of operation:
Products for applications in the consumer goods, animal nutrition and health-care sectors

Business performance:
Organic sales growth driven by rising global demand

Profitability:
Once again excellent

Consumer Specialties

A high proportion of this business unit's operations comprises ingredients, additives and system solutions, especially for high-quality consumer goods and specific industrial applications. The business unit has outstanding knowledge of interfacial chemistry. Its products are based on an extensive range of oleochemical derivatives, organically modified silicones, biochemistry and combinations of these. Key success factors are high innovative capability, integrated technology platforms and strategic partnerships with major consumer goods manufacturers.

Further improvement in earnings

In 2012 the Consumer Specialties Business Unit was able to continue its very successful performance reported in 2011. In view of the uncertain market environment, customers were more cautious. For example, orders were placed for smaller quantities. Overall, volume sales were almost unchanged from the previous year. The 2 percent rise in sales to €2,056 million was mainly attributable to currency effects and the first full-year consolidation of the activities of Evonik Hanse GmbH, which were acquired the previous year. The operating results were higher than in 2011.

Investment in new markets

At the site in Essen (Germany), around €17 million was invested in construction of a research center for innovative and future-oriented products for the cosmetics industry.

This business unit has undertaken two major expansion projects to pave the way for profitable growth in attractive emerging markets in the future. The superabsorbents facility in Saudi Arabia and the production plant for organic specialty surfactants in China are expected to be completed by year-end 2013.

In Saudi Arabia, Evonik has established Saudi Acrylic Polymers Company (SAPCo), a joint venture with Saudi Acrylic Acid Company (SAAC), with capacity to produce 80,000 metric tons of superabsorbents a year. SAAC is a joint venture of the Saudi companies National Industrialization Company (Tasnee) and Sahara Petrochemicals. Total investment will run into triple-digit millions of euros, and Evonik's share is in the double-digit millions range. SAPCo's superabsorbent production facilities will use Evonik's state-of-the-art superabsorbent technology and are part of a new acrylic acid and derivatives complex at the Tasnee site in the Al Jubail Chemical Park in Saudi Arabia. They will benefit from low-cost propylene from the neighboring cracker operated by Tasnee and Sahara in conjunction with LyondellBasell. The acrylic acid required to produce superabsorbents will be supplied from a neighboring plant operated by a joint venture between SAAC and Dow Chemicals. The facility in Al Jubail strengthens our global leadership in this business and will meet rising demand for hygiene products in the fast-growing markets of the Middle East and in parts of Africa and Asia.

In Shanghai (China), Evonik is currently investing a sum in the upper double-digit millions of euros in a production complex for organic specialty surfactants. It will use renewable raw materials as the basis for ingredients for cosmetics, fabric care products and specialty surfactants for industrial applications. This will enable Consumer Specialties to support the growth of key customers in Asia, and especially the Chinese cosmetic industry, through local production. China, which is the largest market for cosmetic products in Asia, is expected to account for 25 percent of global growth in this market in the medium term.

Health & Nutrition

The Health & Nutrition Business Unit produces and markets essential amino acids, mainly for animal nutrition and the health-care industry. Key success factors are enormous technical experience of organic synthesis and biotechnology, which we regard as key growth drivers for the Evonik Group. Other significant competitive advantages are its global distribution network and extensive and differentiated service offering. Further success factors are a broad technology base, global access to markets and customers, and long-standing experience of patent protection and compliance with regulatory requirements.

Very successful business performance

Global demand for the Health & Nutrition Business Unit's products remained strong in 2012. The amino acids methionine, lysine, threonine and tryptophan, which are important for animal nutrition, continued their dynamic development as a result of global population growth and rising per capita income in the emerging markets. In Asia, in particular, people in the growing and affluent middle class are altering their eating habits, resulting in far higher meat consumption. Business with health-care products continued to develop positively. Cooperation with key customers was successfully expanded. Good progress was made with the integration of the acquisitions made in 2011, the RESOMER® activities acquired from Boehringer Ingelheim and the pharmaceuticals business purchased from SurModics (USA). Sales grew 4 percent to €2,148 million, mainly because of the pleasing volume trend. Operating earnings were almost on a par with the previous year's excellent level.

Investing in further growth

In response to the sustained growth in demand for the amino acid methionine for animal nutrition, expansion of capacity for DL-methionine at three sites—Antwerp (Belgium), Wesseling (Germany) and Mobile (Alabama, USA)—was completed in 2012, almost a year ahead of schedule. This has raised capacity by 70,000 metric tons p.a. to a total of 430,000 metric tons p.a. In addition, Evonik is building a new production complex for DL-methionine in Singapore at a cost of more than €500 million. In a fully backwardly integrated complex on Jurong Island, Health & Nutrition will produce all key strategic starting products required for the production of methionine. This production complex with capacity of 150,000 metric tons p.a. is expected to come on stream in the second half of 2014. It will increase Evonik's total production capacity for this product to 580,000 metric tons p.a.

Evonik is investing around €350 million to expand its market and competitive position in the feed additive L-lysine. Evonik's L-lysine, which is marketed as Biolys®, is produced using biotechnological methods and is regarded worldwide as an extremely effective source of lysine for animal nutrition. The increased production capacity for Biolys® at our site in Blair (Nebraska, USA) came on stream in fall 2012, doubling capacity to 280,000 metric tons p.a. New production facilities with nearly 200,000 metric tons p.a. additional capacity are to be built in Brazil and with partners in Russia. In Russia Evonik plans to produce around 100,000 metric tons p.a. Biolys® from 2014 through a joint venture in Volgodonsk in the Rostow-on-Don region, while in Castro (Paraná, Brazil) we are building a plant at a site operated by the US company Cargill. This is also due to come into service in 2014. The advantage of both sites is the high growth momentum of the local markets and the very good availability of the materials for fermentation: wheat in Russia and corn in Brazil.

Resource Efficiency segment

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

Key data for the Resource Efficiency segment

in € million	**2012**	2011[1)]	Change in %
External sales	3,131	4,045	–23
Adjusted EBITDA	655	765	–14
Adjusted EBITDA margin in %	20.9	18.9	–
Adjusted EBIT	517	611	–15
Capital expenditures	171	170	1
Depreciation and amortization	136	152	–11
Capital employed (annual average)	1,596	2,068	–23
ROCE in %	32.4	29.5	–
Employees as of December 31	5,755	6,381	–10

[1)] Including the carbon black business until July 2011.

At a glance

Main areas of operation:
Environment-friendly and energy-efficient system solutions

Business performance:
Sales down year-on-year due to divestment of non-core operations

Profitability:
Adjusted EBITDA margin increased to 20.9 percent and ROCE improved to 32.4 percent

Lower sales due to divestment of non-core operations

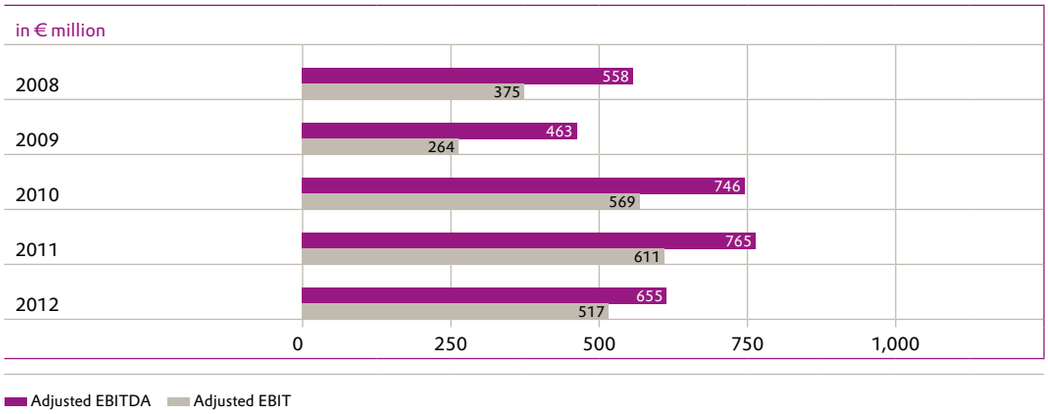
Sales in the Resource Efficiency segment dropped by 23 percent to €3, 131 million, principally as a result of the divestment of the non-core carbon black activities at the end of July 2011 and the colorants business at the end of April 2012. After adjustment for these factors and the positive currency effect, organic sales were only slightly lower than in the previous year. The drop in volumes, caused mainly by lower demand from the photovoltaic industry, was partly offset by slightly higher selling prices.

Development of sales in the Resource Efficiency segment

Photovoltaic business restructured

In response to the persistently difficult competitive situation on the photovoltaic market, Evonik reached settlements with two of its main customers in September 2012, principally to wind up long-term supply agreements for silanes. Under the settlements, Evonik receives around €270 million and waives all rights relating to the underlying agreements. In addition, the production facility in Merano (Italy) was transferred to the customer. The production plant in Yokkaichi (Japan) was shut down and written down completely. The income from these settlements and all expenses relating to the restructuring of the photovoltaic business are reported outside operating income.

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



Higher adjusted EBITDA margin

The operating results declined, mainly because earnings from the carbon black business were included in the previous year's figures until July. Adjusted EBITDA therefore decreased by 14 percent to €655 million, while adjusted EBIT fell 15 percent to €517 million. The adjusted EBITDA margin improved from 18.9 percent to 20.9 percent for operational reasons and as a result of the divestment of the non-core businesses.

Improved return on capital

Capital expenditures amounted to €171 million, which was around the previous year's level, and were once again well above depreciation, which totaled €136 million. Average capital employed dropped by €472 million to €1,596 million, principally due to divestment of the carbon black and colorants activities. ROCE improved from 29.5 percent to 32.4 percent thanks to lower average capital employed.

Inorganic Materials

A central feature of the Inorganic Materials Business Unit, one of the leading producers of a wide range of silicas and silanes, is its integrated silicon technology platform. Key customers include the tire, electronics, construction and plastics industries. Its expertise in designing organic particles and their surface properties is also used in the catalysts business.

Performance unchanged

This business unit's sales dropped 36 percent to €1,473 million. Excluding the carbon black business, the decline was 1 percent. Positive currency effects were mainly offset by lower volumes. The business with silanes for the photovoltaic industry proved particularly tough as key customers scaled back or ceased production in response to high overcapacity. As a result, settlements were reached with two former major customers to end long-term supply agreements. By contrast, we registered a pleasing business trend with silicas for energy- and environment-efficient applications such as tires that enhance fuel economy and for the electronics and construction sectors. Further, silanes for the fiber optics industry were in high demand for the extension of high-speed networks, especially in Asia. The operating results were below the previous year's figures, which still contained earnings from the carbon black business.

Investment in growth markets

A production plant for hexachlorodisilane (HCDS) came on stream in Rheinfelden (Germany) at the end of 2012. Evonik markets hexachlorodisilane as Siridion® HCDS. Applications for this silicon-based starting product for the semiconductor industry include efficient and cost-effective production of very high density flash memory chips, which are used, for example, in smart phones, digital cameras, MP3 players and USB sticks.

To support growth of key global customers in the tire industry, Inorganic Materials is raising capacity for precipitated silicas by 30 percent between 2010 and 2014, principally at existing production sites in Europe, North America and Asia. Total investment will be in the upper double-digit million euro range. The main growth driver in the market for precipitated silicas is the trend to energy-saving tires with low rolling resistance. Using a combination of silica and silanes, it is possible to manufacture tires with considerably lower rolling resistance than conventional auto tires, resulting in fuel savings of up to 8 percent. Evonik is the only producer that offers both components, making it a competent partner for high-performance tire blends for customers in the tire and rubber industries. Labeling of tires became mandatory in Europe at the start of November 2012, giving consumers transparent information on the fuel and CO_2 saving properties of the tires, their braking efficiency on wet surfaces and their noise level. In Japan there is a voluntary labeling program and other countries such as Korea and Brazil are introducing their own labeling. In addition, the growing automotive market in emerging markets, especially China, offers enormous growth potential for this technology.

Coatings & Additives

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

Sales and earnings at a good level

2012 was another very successful year for the Coatings & Additives Business Unit. Globally, demand was strong, especially from the automotive, construction and transportation industries which use oil additives to enhance the performance of engines and gears. High demand was also registered for products for the coatings industry, especially in the first half of the year. By contrast, business with composites weakened somewhat. Overall, sales slipped 5 percent to €1,658 million in the Coatings & Additives Business Unit. This was attributable to the divestment of the colorants business in April 2012. After adjustment for this effect, there was a slight improvement in sales. The operating results were slightly below the previous year's good level for the same reason.

Investment in new products

In Essen (Germany) the Coatings & Additives Business Unit invested €14 million in a new R&D center for the development of environment-friendly additives and specialty binders for the paints and coatings industry and applications technology services.

The groundbreaking ceremony for a major new facility for the production of functionalized polybutadiene was held in Marl (Germany) in summer 2012. This facility is scheduled to come on stream in mid-2013 and investment will be in the mid-double-digit millions of euros. Functionalized polybutadiene, which Evonik will be marketing as POLYVEST® HT, is mainly used in sealing components, for example, for double and triple-glazed windows and in adhesives for lightweight structures in automotive engineering. In automotive engineering, adhesives are increasingly being used to complement traditional welding processes or as structural adhesives for composites that cannot be welded. The new plant will make optimal use of the existing infrastructure and supply lines at the Marl Chemical Park and leverage synergies with existing polybutadiene plants.

In Shanghai (China) the Coatings and Additives Business Unit is investing more than €100 million in production plants for isophorone and isophorone diamine, which should come into service in the first quarter of 2014. Applications for isophorone include heavy-duty industrial flooring and colorants for high-quality, durable corrosion protection, while its derivative isophorone diamine is used in environment-friendly coating technologies. This capacity increase will be used to systematically strengthen the business unit's position and enable it to participate in the growing demand for these applications, especially in Asia. In addition, Evonik is building a technical service center at the Xinzhuang site in Shanghai. It will be equipped with state-of-the-art application technology laboratories in order to offer customers in the region customized products and technology services.

Specialty Materials segment

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

Key data for the Specialty Materials segment

in € million	**2012**	2011	Change in %
External sales	4,843	4,880	–1
Adjusted EBITDA	843	907	–7
Adjusted EBITDA margin in %	17.4	18.6	–
Adjusted EBIT	691	748	–8
Capital expenditures	344	210	64
Depreciation and amortization	151	153	–1
Capital employed (annual average)	1,811	1,702	6
ROCE in %	38.2	43.9	–
Employees as of December 31	6,134	6,846	–10

At a glance

Main areas of operation:
Production of polymer materials and intermediates, mainly for the rubber and plastics industries

Business performance:
Sales slightly below the previous year's very good level

Profitability:
Adjusted EBITDA margin declined slightly to 17.4 percent and ROCE slipped to 38.2 percent

Slightly lower sales

This segment's sales dropped 1 percent to €4,843 million. Positive currency effects essentially offset the organic sales decline. The production stoppage resulting from the fire at the CDT plant and lower demand, especially for methacrylates, resulted in lower volumes. Selling prices increased slightly as some of the rises in raw material costs were passed through to customers.

Fire at the CDT plant

On March 31, 2012 there was an explosion followed by a fire at a production facility for cyclododecatriene (CDT) operated by the Performance Polymers Business Unit in Marl (Germany). CDT is a precursor for polyamide 12, which is used in innovative, high-end products in the automotive, electrical and electronics sectors and in gas and offshore oil pipelines. The facility was rebuilt as quickly as possible and came back into service in December 2012. The damage caused by the fire and the earnings shortfall resulting from the production stoppage were covered by insurance (apart from a low share borne by Evonik). The insurance refunds to cover marginal income forgone are recognized in the operating results. Any refunds above this level—mainly for reconstruction of the plant—do not form part of the operating results.

Development of sales in the Specialty Materials segment

Operating results lower than in the previous year

The operating results were below the very good level achieved in the previous year, mainly due to the demand-induced drop in volumes, the rise in raw material costs, and, in some cases, lower selling prices. Adjusted EBITDA decreased by 7 percent to €843 million, while adjusted EBIT fell 8 percent to €691 million. The adjusted EBITDA margin dropped from 18.6 percent in 2011 to 17.4 percent.

Investment stepped up considerably

To strengthen market leadership, capital expenditures were increased by 64 percent to €344 million and were thus well above depreciation, which amounted to €151 million. As a result of the capital expenditures, the average capital employed increased by €109 million to €1,811 million. ROCE slipped from 43.9 percent to 38.2 percent owing to the lower earnings and higher average capital employed.

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

Performance Polymers

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

Sales and earnings below the very high levels of the previous year

This business unit's performance in 2012 was dominated by the accident at the CDT plant. The shortfall in the supply of the starting product CDT led to a massive shortage of polyamide 12 products on the market. Evonik endeavored to alleviate the situation for its customers by purchasing starting products and offering alternative products from its range. The CDT facility was rebuilt in record time and technical work was completed in November 2012. The first commercial batches were produced in December 2012. Overall, the incident caused a significant drop in sales volume. At the same time, there was a sharp drop in demand for methacrylate-based products, especially in southern Europe, and this put pressure on selling prices. By contrast, business with polyimide foam (ROHACELL®) and polyimide membranes developed well. Overall, sales in the Performance Polymers Business Unit shrank 9 percent to €1,775 million. The operating results contracted, mainly because of the demand-driven drop in volumes.

Substantial capacity expansion

Rebuilding of the CDT plant in Marl (Germany) had top priority. Start-up of the planned capacity expansion for the specialty polymer polyamide 12 in Marl (Germany) and Shanghai (China) was therefore postponed to early 2013. In addition, a new polyamide 12 line is planned for Asia. Performance Polymers is planning this substantial capacity increase to secure its leading position in the market for polyamide 12.

Evonik has commenced basic engineering for the new methylmethacrylate production facility based on the innovative AVENEER® process in Mobile (Alabama, USA). A sum in the triple-digit millions of euros has been budgeted for this world-scale facility, which will have capacity of 120,000 metric tons a year and is scheduled to come into service in mid-2015. Methacrylate monomers and their derivatives are the basis for innovative products for resource-saving solutions such as lightweight automotive construction. The AVENEER® process developed by Evonik is convincing on both economic and environmental grounds: Catalysts developed internally by Evonik reduce by-products and raise yields, bringing a significant reduction in both costs and CO_2 emissions. Process-related carbon emissions are also lower.

Advanced Intermediates

Key factors in the success of the Advanced Intermediates Business Unit are advanced chemical processes, which Evonik has developed systematically over decades. This applies in particular for the integrated C4 technology platform, where C4 crack is processed into specialties. This business unit has gained access to new growth markets for hydrogen peroxide thanks to its innovative capability, which is demonstrated above all by the hydrogen peroxide to propylene oxide (HPPO) process which reduces pressure on the environment. In addition, Evonik is the world market leader in alcoholates, which are used as catalysts in the production of biodiesel.

High demand

Demand was good in 2012. Sales grew 5 percent to €3,068 million, driven by positive exchange rate effects and, above all, higher volumes. There was particularly sound demand worldwide for plasticizer alcohols, butadiene, hydrogen peroxide and alcoholates for the production of biodiesel. However, increased raw material costs could only be recouped in part through higher selling prices. The operating results were therefore below the previous year's very good level. At year-end, the cyanuric chloride joint venture in China was dissolved by agreement with our partner. Since then, account management and supply to international customers for this substance in the plastics, paper and textile have been managed directly from Germany.

Investing in the future

Advanced Intermediates is building a new plant in Puerto General San Martino (Argentina) to produce catalysts for the production of biodiesel from renewable raw materials. This new plant is expected to supply over 60,000 metric tons p.a. of these products in the future, mainly to Argentina and Brazil. Through this investment Advanced Intermediates aims to participate in the fast-growing South American market for biodiesel.

In Jilin (China) Evonik is currently building a new production facility for hydrogen peroxide, which should be completed by the end of 2013. This will raise Advanced Intermediates' annual production capacity by almost 40 percent to over 800,000 metric tons. This investment in the lower triple-digit millions of euros is a further step into the market for new applications for this environment-friendly oxidation agent. Under a long-term agreement, most of the hydrogen peroxide from the facility in Jilin will be supplied to the neighboring propylene oxide plant operated by Jishen Chemical Industry Co., Ltd., via a direct pipeline. Jishen will use the hydrogen peroxide to produce propylene oxide using the innovative HPPO process developed by Evonik and ThyssenKrupp Uhde. Propylene oxide is mainly used in the manufacture of starting products for polyurethane and the market is growing rapidly, especially in Asia.

To reinforce its market leadership in C4-based products, Advanced Intermediates intends to invest a sum running into triple-digit millions of euros up to 2015 to expand its production facilities.

Services segment

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

Key data for the Services segment

in € million	**2012**	2011	Change in %
External sales	999	952	5
Adjusted EBITDA	163	139	17
Adjusted EBITDA margin in %	16.3	14.6	–
Adjusted EBIT	68	56	21
Capital expenditures	103	84	23
Depreciation and amortization	91	82	11
Capital employed (annual average)	486	442	10
ROCE in %	13.9	12.7	–
Employees as of December 31	11,900	10,946	9

Higher earnings

The Services segment's sales totaled €2,715 million in 2012. Internal sales with the specialty chemicals segments and the Corporate Center accounted for €1,716 million of the total. The external sales of €999 million were mainly attributable to services and procurement activities for external customers. The 5 percent increase in external sales mainly resulted from higher demand for the services provided by Site Services. Adjusted EBITDA increased 17 percent to €163 million, while adjusted EBIT rose 21 percent to €68 million. Site Services, in particular, reported higher earnings as a result of improved capacity utilization and successful cost-cutting measures.

ROCE improved from 12.7 percent to 13.9 percent thanks to the higher adjusted EBIT.

Real Estate segment

The Real Estate segment, which Evonik plans to exit entirely in the medium term, focuses on letting homes to private households in the federal state of North Rhine-Westphalia. Alongside Evonik's portfolio of residential real estate, it comprises a 50 percent stake in THS.

Key data for the Real Estate segment

in € million	**2012**	2011	Change in %
External sales	239	412	–42
Adjusted EBITDA	199	219	–9
Adjusted EBITDA margin in %	83.3	53.2	–
Adjusted EBIT	154	171	–10
Capital expenditures	60	74	–19
Depreciation and amortization	48	47	2
Capital employed (annual average)	1,880	1,833	3
ROCE in %	8.2	9.3	–
Employees as of December 31	617	1,135	–46

Altered structure

Since January 1, 2012, the operational management of the Real Estate segment's property holdings has been assigned to Vivawest Wohnen GmbH, a joint venture with THS. To this end, leasing agreements have been concluded between Vivawest Wohnen (lessee) and the companies that own the real estate (lessors). Since Vivawest Wohnen is included at equity, from the start of 2012 sales from rental business were no longer recognized. Instead, the rental revenues of the fully consolidated owner companies are recognized after deducting the attributable management expenses. Thus, sales declined 42 percent to €239 million. The operating results, which comprise the at-equity earnings of Vivawest Wohnen and THS, were lower than in the previous year. Earnings included special effects from the revaluation of deferred tax assets at THS. These are included in the at-equity income from THS and were €6 million in 2012 and €20 million in 2011. Overall, adjusted EBITDA declined by 9 percent to €199 million, while adjusted EBIT slipped 10 percent to €154 million.

ROCE was 8.2 percent in the Real Estate segment, compared with 9.3 percent in 2011.

Targeted investment

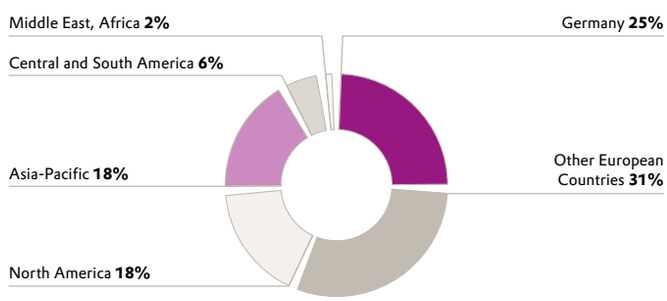
Capital expenditures declined from €74 million to €60 million. The focus was on modernizing the housing stock to improve energy efficiency and on the construction and acquisition of new properties. The objective is to raise the value of the real estate portfolio in the long term through selective investment in modernization to secure or raise rental revenues and energy efficiency, and the purchase and construction of sustainable, future-oriented residential units at attractive locations in the federal state of North Rhine-Westphalia. The focus is on selected acquisition of residential properties that meet market requirements and offer attractive potential for rent rises in large and mid-sized cities in the Ruhr region.

Amalgamation with THS initiated

The planned merger of our real estate business with THS, in which Evonik and the German Mining, Chemical and Energy industrial union (IG BCE) each have a 50 percent stake, will create Germany's third-largest residential real estate company. Since the roughly 130,000 residential units owned by Evonik and THS are managed jointly by Vivawest Wohnen GmbH, the employees of Evonik Wohnen GmbH were transferred to Vivawest Wohnen GmbH through a transfer of undertaking.

7. Regional development

Sales by region[1) 2)]



[1)] By point of sale.
[2)] The allocation of countries to regions at Evonik was altered slightly at the start of 2012. See Note (9.2). The prior-year figures have been restated accordingly.

A global presence

In 2012, 75 percent of our sales were generated outside Germany. Sales in Germany declined by 10 percent to €3,388 million, mainly because of changes in the structure of the Real Estate[1)] segment, and due to the divestment of the carbon black and colorants activities in the Resource Efficiency segment. This reduced the proportion of consolidated sales generated in Germany by 1 percentage point to 25 percent. Capital expenditures increased 18 percent to €567 million. The biggest project in Germany is still the expansion of production capacity for lithium-ion cells for use in lithium-ion batteries in Kamenz (Germany). Together with Daimler AG, Stuttgart (Germany), we are ramping up capacity stepwise for mass production of lithium-ion batteries. From 2014 the facility should be producing 3 million cells a year. Cells for more than 1,300 E-Smart batteries have been delivered since serial production of lithium-ion cells for this model commenced in June 2012. This allowed successful market launch of the E-Smart. In Marl, a new large-scale plant for functionalized polybutadienes is scheduled for completion by mid-2013 and in Rheinfelden, a production plant for hexachlorodisilane came on stream at year-end 2012. In addition, construction of two research centers for products for the paints and coatings and cosmetics industries has been completed in Essen. The Real Estate segment undertook selective investments to modernize its housing stock.

[1)] See page 97 in this management report.

In the Other European Countries sales declined 3 percent to €4,206 million because the prior-year figures still contained the carbon black business. Higher sales were reported by the Specialty Materials and Consumer, Health & Nutrition segments. This region's share of the Group's total sales increased by 1 percentage point to 31 percent. Capital expenditures in this region decreased by 9 percent to €79 million. In Antwerp (Belgium), we expanded the production facilities for DL-methionine and also started to increase C4 capacity. In Russia, a joint venture in which Evonik is involved is building the country's first L-lysine production facility to produce the feed additive Biolys® from 2014. A letter of intent on this was signed in January 2013.

Higher investment in the Americas

In North America sales were also lower due to the carbon black business, which was still included in the prior year. Sales slipped 6 percent to €2,423 million. The Specialty Materials segment posted far higher sales, boosted mainly by acquisition of the hydrogen peroxide plant in Maitland (Canada) in November 2011 and by higher demand for alcoholates for use in the production of biodiesel. This region's share of Group sales was unchanged at 18 percent. Capital expenditures rose 29 percent to €139 million. In Blair (Nebraska, USA), we completed the doubling of production capacity for Biolys®. Basic engineering for a new production facility for methylmethacrlyate (MMA) using the AVENEER® process has started in Mobile (Alabama, USA).

In Central and South America Evonik generated sales of €832 million. That was 1 percent less than in 2011, when the carbon black business was still included. A substantial rise in sales was reported by the Consumer, Health & Nutrition segment, which benefited from expansion of business with amino acid feed additives. This region accounted for an unchanged 6 percent of total sales. Capital expenditures increased to €14 million. In Argentina we are currently building a production plant for alcoholates, which are used as catalysts in the production of biodiesel. In Brazil, we are constructing production plants for cosmetic raw materials, specialty surfactants and the amino acid feed additive Biolys® for the South American market.

Expansion of our market position in Asia-Pacific

Sales dropped 7 percent to €2,463 million in the Asia-Pacific region. The Resource Efficiency segment contributed far lower sales than in the previous year, when the carbon black activities were still included, while higher sales came from the Consumer, Health & Nutrition segment. As a result, the region's share of Group sales was unchanged at 18 percent. Capital expenditures increased—by 90 percent—to €278 million as some major projects have started. A new backwardly integrated production complex for the amino acid DL-methionine is under construction in Singapore and in China we are erecting new plants to produce isophorone and isophorone derivatives, organic specialty surfactants and hydrogen peroxide.

An increased presence in emerging markets

As part of our growth strategy, we are expanding our presence in emerging markets. We define these as selected countries in Asia, South America, Eastern Europe and the Middle East. In these countries we generated sales of €3.8 billion in 2012, which was 28 percent of total sales.

Our aim is to increase sales substantially in particularly attractive Asian growth markets by 2015. In South America, which is a dynamic growth market for Evonik, our aim is to top €1 billion sales by 2016. We will also be driving forward growth in Eastern Europe in the coming years and aim to double sales in this region to €1 billion by 2020, through a mixture of capital expenditures, strategic alliances and expansion of sales and marketing.

As a result of our ambitious investment program, the proportion of Group sales generated in attractive growth regions will increase greatly in the future. That will give us a balanced presence in both developed countries and emerging markets.

8. 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. As of the reporting date RAG-Stiftung held 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). The earnings performance of Evonik Industries AG is essentially dependent on fees received for the management of plants, the earnings of its subsidiaries and income and expenses relating to corporate financing and portfolio management.

Effective April 1, 2012, the management of all plants operated by Evonik Goldschmidt Rewo GmbH, Evonik Oil Additives GmbH, Evonik Tego Chemie GmbH and Evonik Technochemie GmbH was transferred to Evonik Industries AG. In connection with this, around 570 employees of these companies were transferred to Evonik Industries AG. The management of five German companies had already been transferred to Evonik Industries in the previous year. The companies remain the economic owners of the assets and liabilities of the plants. Consequently the opportunities and risks are still borne by and assigned to these companies. As the operator, Evonik Industries AG recognizes all liabilities entered into in its name and capitalizes a claim for compensation from the owners of the plants. As a result of this structure, the sales revenues shown on the income statement of Evonik Industries AG merely comprise fees for the management of these plants. These totaled €70 million in 2012 (2011: €27 million). All other income and expenses are allocated to the companies that own the plants and are recognized in their annual financial statements.

Income statement for Evonik Industries AG

in € million	**2012**	2011
Sales	71	51
Other operating income	505	529
Personnel expense	–79	–87
Depreciation of property, plant and equipment, amortization of intangible assets	–3	–3
Depreciation of current assets	0	–1
Other operating expenses	–707	–811
Operating result	**–213**	**–322**
Income from investments	365	101
Write-downs of financial assets	–4	–5
Net interest expense	–93	–147
Income before taxes	**55**	**–373**
Extraordinary income	8	11
Extraordinary expense	–10	–17
Extraordinary loss	**–2**	**–6**
Income taxes	23	–46
Net income/net loss	**76**	**–425**
Profit carried forward from previous year	0	115
Withdrawals from revenue reserves	353	735
Net profit	**429**	**425**

Since January 1, 2008 Evonik Industries AG has charged its subsidiaries for services rendered. These charges amounted to €1 million in 2012 and were recognized as sales, together with plant management fees totaling €70 million. The increase compared with 2011 was mainly due to the four further companies included in this structure for the first time and to the payment of full-year fees by the five companies which were transferred to the plant management structure as of August 1, 2011. Other operating income, which totaled €505 million, mainly comprised income from currency translation gains (€421 million). In the gross presentation, currency translation losses (€477 million) are shown in other operating expenses, separately from the currency translation gains. The net effect was a loss of €56 million. Personnel expenses declined to €79 million. This was principally because the previous year's figures contained a one-off charge for pension provisions. This item does not include personnel expense for the employees transferred under the new plant management structure because economically they are still attributable to the companies that own the plants.

The net interest expense of €93 million mainly resulted from borrowing for the company's financing activities for the Group. This item also contains interest income and expense from the Group-wide cash pool, which is concentrated at Evonik Industries AG. Income from investments increased to €365 million. This was principally due to a profit-and-loss transfer agreement concluded with Evonik Oxeno GmbH as of January 1, 2012. Income before taxes improved to €55 million, up from minus €373 million in 2011, as a result of the increase in income from investments. The extraordinary loss of €2 million comprised expenses in connection with the planned stock market listing. It also includes costs of €8 million for preparations for the planned stock market listing that were reimbursed by the shareholders. The income tax of €23 million mainly related to previous years. The company recorded net income of €76 million compared with a net loss of €425 million in the previous year. Including withdrawals from revenue reserves totaling €353 million, the net profit was €429 million. The Executive Board will propose to the Annual Shareholders' Meeting that the entire net profit should be distributed in full. That corresponds to a dividend of €0.92 per no-par share.

Balance sheet for Evonik Industries AG

in € million	Dec. 31, 2012	Dec. 31, 2011
Assets		
Intangible assets, property, plant and equipment	11	8
Financial assets	8,818	8,813
Non-current assets	**8,829**	**8,821**
Receivables and other assets	3,281	3,156
Other securities	900	635
Cash and cash equivalents	421	1,192
Current assets	**4,602**	**4,983**
Prepaid expenses and deferred charges	**2**	**2**
Total assets	**13,433**	**13,806**
Equity and liabilities		
Issued capital	466	466
Capital reserve	720	720
Revenue reserves	2,285	2,638
Net profit	429	425
Equity	**3,900**	**4,249**
Provisions	**1,743**	**1,960**
Liabilities and deferred income	**7,790**	**7,597**
Total equity and liabilities	**13,433**	**13,806**

Evonik Industries AG's total assets decreased by €0.4 billion to €13.4 billion. Financial assets mainly comprise shares in subsidiaries. The receivables mainly comprise claims for reimbursements in connection with plant management and financial receivables of €1.2 billion, principally for loans and cash pooling activities. Equity decreased by €0.3 billion to €3.9 billion. The equity ratio therefore declined from 30.8 percent to 29.0 percent. Provisions of €1.7 billion include €1.3 billion relating to the plants managed by Evonik Industries AG. The receivables and liabilities reflect the financing activities of Evonik Industries AG in its role as the holding company for the Group. Liabilities contain financial liabilities of €7.0 billion, including €6.1 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.

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."

9. Corporate Responsibility

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

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

Sustainability management at Evonik

Joint solutions are needed
To respond to social and ecological challenges, we aim to develop solutions with our business partners at all stages in the value chain. In 2012 we discussed the challenges and ways of addressing them with our stakeholders at the Evonik Sustainability Business Forum on the productivity of resources. We aim to set demanding objectives in order to create value and contribute to the ongoing success of our business.

Product stewardship at Evonik
Product stewardship has top priority at Evonik and includes an extensive evaluation of health and environmental risks along the value chain. This responsibility is put into practice via the Evonik Chemicals Management System (CMS), which identifies and evaluates substance-related risks, allowing an early response to ensure safe handling. In this way we meet our voluntary commitments to the Responsible Care initiative, and the Global Product Strategy (GPS) of the International Council of Chemical Associations (ICCA). The CMS is an important basis for the development of a sustainable and future-proof product portfolio. Evonik provides generally understandable information on its chemicals in the form of GPS Safety Summaries, which are posted on our website and the portal operated by the International Council of Chemical Associations (ICCA).

Playing an active role in major industry associations and their working groups is a matter of course to us. At European level, we register our substances with the European Chemicals Agency (ECHA) and the European List of Notified Chemical Substances (ELINCS) within the deadlines set. Alongside registration, which is the precondition for lawful production, import and marketing, and complex communication along the supply chain, authorization and restriction are becoming increasingly important. We constantly compare the substances included in the list of substances of very high concern with our portfolio of substances to identify any that are affected as early as possible and take appropriate action where necessary. We also work closely with our customers to work out the next steps.

Supplier validation extended

A close relationship with our suppliers based on trust is important to us. We can only be a strong and reliable partner for our customers worldwide if we have a stable network of suppliers. We expect our suppliers to be responsible and to respect the objectives set out in our sustainability strategy. We use a multi-step selection process for suppliers. This includes personal contact, self-assessment questionnaires and audits. The results are carefully evaluated and documented. In the event of deficiencies or risks, we develop action plans with our suppliers to help them improve their sustainability performance. On-site audits are conducted by a pool of qualified external auditors. Through the "Together for Sustainability" initiative, in 2012 we defined uniform criteria for supplier audits in collaboration with other multinational chemical companies and gave a voluntary undertaking to apply them. We expect this to bring a far better overall understanding by suppliers of our sustainability standards and greatly reduce the time and expense for potential suppliers, who now only have to undergo one assessment using a common data platform.

Employees

HR work "with a common stamp"

Evonik's human resources function actively supports the Group's growth strategy, efficiency targets and focus on values. It therefore makes a key contribution to Evonik's performance and competitiveness. Our aim is to ensure excellence in HR work, add value for employees and executives and ensure that our HR work is perceived as bearing a "common stamp." Lean and efficient structures and uniform quality standards form the basis for that.

To achieve these objectives, the services provided by Human Resources at the German sites were bundled in three sub-regions effective January 1, 2012 and now operate as "HR Management Germany". On October 1, 2012 a recruiting center and an advisory center were established. These are the first point of contact for employees on all Human Resources (HR) issues.

We also aligned our human resources structures and concepts more closely to the business in the growing Asia Region through the "HR in Asia" project. The North America region launched the "HR OnTheMove" project, which is also designed to ensure excellence in Human Resources. Since January 2013, this region has had clearly defined regional and local responsibilities based on our global definition of roles. We will be systematically continuing to roll out these transparent structures and efficient and harmonized processes in other regions.

As a complement to this, the Global HR Data Core project will include all employees worldwide in a new global SAP HR system. For the first time, we will therefore have a global source of data which can deliver reliable master data on employees and the organization to other systems.

Human resources strategy—Leadership as a central element

To implement our ambitious growth strategy, Evonik will be hiring several thousand new employees around the world in the next few years. We are aware that demographic trends in many regions, differences in the values held by different generations and cultures and our more complex and more closely networked world make people a key factor for Evonik's growth strategy. Consequently, the central issue for us is how to recruit, develop and retain talented and qualified employees. In response to this, we refocused our human resources strategy in 2012 and added "Leadership" and "Performance" to our strategic drivers "Attract", "Develop", "Retain" and "HR Excellence." We see personnel leadership as a central and cohesive element in our human resources activities around the world and the basis for long-term success.

Structural change—A single employer

In 2011, the management of many plants in Germany was transferred to Evonik Industries AG. Effective April 1, 2012, the management of all plants operated by Evonik Goldschmidt Rewo GmbH, Evonik Oil Additives GmbH, Evonik Tego Chemie GmbH and Evonik Technochemie GmbH was also transferred to Evonik Industries AG. Evonik Industries AG is now the sole employer for more than 14,000 employees at these plants. The service companies Infracor GmbH and Industriepark Wolfgang GmbH will be transferred to this model on July 1, 2013. The employee representation structures have been and will be adapted to the new structure.

Global realignment of remuneration systems

In 2012 we achieved further milestones in the global realignment and harmonization of our remuneration systems, which we embarked on in 2011. In almost all regions and countries in Asia, we have completed the evaluation of all relevant functions on the basis of the Evonik Global Grading System, bringing a significant increase in transparency and harmonization. The plan now is to roll this out to Europe, North America, Middle East and Africa and Central and South America in 2013.

Employee participation program is increasingly popular

Around 9,000 employees purchased participation rights with a total value of around €17.7 million in the German employee participation plan in 2012. This plan enables them to share in Evonik's success. The capital invested earns a return based on the Group's return on capital employed (ROCE). Although the formula used to calculate the return was adjusted to take account of the reduction in global interest rates, the participation rate rose by 20 percent to around 40 percent, a clear sign of our employees' confidence in the future of Evonik.

Vocational training—An integral part of our recruitment strategy

Evonik intends to continue its policy of sourcing specialists mainly from within the company so vocational training remains a key element in our recruitment strategy.

In Germany, around 650 young people embarked on vocational training in some 40 courses at 20 sites in 2012, including 550 being trained directly for our needs. A further 100 were offered an opportunity to prepare for work in a special pre-training program. In all, there were more than 2,100 apprentices on vocational training or other preparatory programs at year-end 2012. Apprentices thus still account for more than 9 percent of the workforce, which is well above the national average. In 2012, we invested around €52.8 million in vocational training.

Once again, we were able to offer permanent employment contracts to more than 50 percent of those who completed their training. We also expanded our range of combined courses, offering a combination of a recognized vocational qualification and a bachelor's degree in administrative and scientific subjects.

At a glance

Strategy:
HR work refocused on the basis of corporate structure. The areas of action Attract, Develop, Retain, and HR Excellence have been supplemented by two new aspects, Leadership and Performance

Diversity:
Mindset workshops rolled out; program initiated to foster female managers and specialists

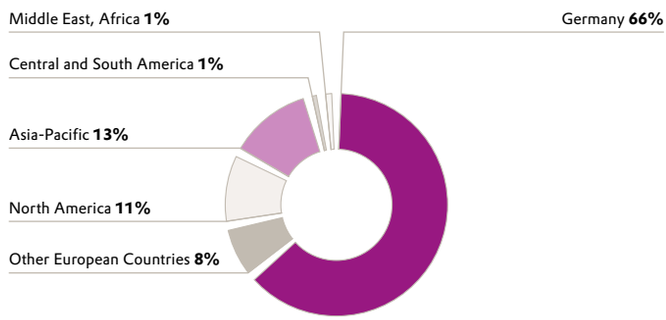
Harmonized structures:
Central point of contact for employees in Germany; HR structures and concepts realigned in Asia and North America

Responsibility:
Apprentices still account for an above-average level of 9 percent of the workforce in Germany; more than 50 percent hired on permanent employment contracts at the end of their apprenticeship

Employer branding:
New global employer branding position

Vocational training is also becoming more important in an international context. In China, Evonik has supported the vocational training of young people for many years in cooperation with the Shanghai Petrochemical Academy (SPA). Germany provides support through a Group-wide vocational training library with around 100 different materials in Mandarin. In North America as well, a pool of training materials has been prepared for the multi-user site in Mobile (Alabama, USA) and the roughly 300 English-language learning media are now available in the vocational training library.

Employees by region



Employer branding @ Evonik—Global acclaim

In the competition to attract the ablest specialists and managers, our new employer branding concept focuses on highlighting Evonik's unique strengths as an employer. Our triad of growth, efficiency and values shows what sets us apart from our competitors and makes us attractive to future employees.

"Exploring Opportunities. Growing Together", the new global employer branding position developed in 2012, will be introduced in 2013. It represents Evonik's promise to its worldwide employees. On the one hand, it encompasses the wide range of global development and career opportunities offered by the group, while on the other it draws attention to international collaboration and team spirit.

In addition, we have introduced a new recruitment strategy to drive forward targeted cooperation with schools and universities to foster personal contact and to expand use of modern communication channels such as social media. As part of this, we supplemented our German Facebook presence with a US presence in 2012.

Talent management—Development at all levels

In the competition for the most competent employees, Evonik is fostering talented employees to prepare them for key functions. We use a consistent system to identify talented employees, promote them across functions, borders and different levels in the company and open up career opportunities for them. To supplement our talent management and succession planning for corporate executives, in 2012 we introduced worldwide coordination of the development process of all talents in order to fill mid-management vacancies. The aim is to define specific development steps on the basis of regular discussions between employees and line managers and to place career planning on a systematic basis. To achieve this, talent management is being integrated more closely into management training.

Executives—Fostering talent from within the company

We undertook further activities to foster talented employees, from established programs and collaboration with well-known business schools through leadership programs for all management levels, discussion forums for top executives and upcoming managers and the international Management Talents Training program for middle managers.

In addition, about 20 percent of talents identified as potentials for key corporate functions took on new roles as part of selective job rotation to give them cross-departmental, cross-functional and intercultural experience.

Based on our competency model, we launched a new Evonik Executive Development Program with the Wharton Business School. During a seven-month, work-related global "learning voyage" across three continents, executives have an opportunity to broaden their personal competencies to help the Group achieve its ambitious growth targets.

In 2012 our TalentDays focused on the definition of values. By building a therapeutic meeting place for the "Lebenshilfe" charity in Hattingen it became clear how common values can be translated into specific action on a day-to-day basis.

360° feedback—A top-down feedback culture

360° feedback has been used by managers and specialists at Evonik for years as an established tool for employee and organizational development. A 360° feedback appraisal was conducted by the Executive Board in fall 2011 and it is now being extended systematically to executives. Management teams in the operational units took the first step by offering each other feedback on the basis of the competency model. This individual feedback was used for personal development, while evaluation in the group strengthened reflection of the strengths and development needs of specific teams or units.

The example set by the executives shows that a feedback culture is desired in the company and is seen as an opportunity for development. This process will therefore be continued. The aim is to utilize opportunities for feedback in day-to-day working situations and actively respond to the feedback received.

Diversity—Driving creativity and innovation

Diversity provides a sustainable basis for ideas and innovations and thus makes Evonik more competitive. We define diversity as the interaction of different nationalities, genders, educational backgrounds, professional experience and age structures.

To reinforce management understanding of diversity, in 2012 we cascaded the mindset workshops already held for top managers down to the next levels in the hierarchy. "WoMentoring", a new program to foster female managers and specialists was launched. During this 18-month program mentees receive individual support and advice from experienced Evonik managers. This builds on the Women@Work training, which has now been included in the training catalog for our personnel development landscape.

Our first Diversity Day in December 2012 gave about 120 participants from all areas of the Group an opportunity for an extensive exchange of experience. During the day, they developed creative ideas on how to anchor diversity in our corporate culture in the future.

Employee Survey 2012

Employees can actively shape the future of Evonik by taking part in the global employee survey that is conducted every two years. We take the outcome seriously, as can be seen by the fact that more than 250 improvements were initiated on the basis of the 2010 survey. In the 2012 survey we included aspects that employees consider to be very important: workloads, health and diversity.

In November 2012, around 31,500 employees in more than 50 countries were invited to take part in the survey. There was a further increase in the participation rate to an excellent 83.4 percent. Online participation increased from 20 percent to 69.2 percent. We aim to increase this further as it reduces costs and speeds up evaluation of the results.

well@work—Fostering employability and the quality of life

Evonik needs healthy, motivated and satisfied employees if it is to achieve its ambitious growth targets. Our human resources strategy is therefore geared to establishing a healthy performance culture throughout the Group. well@work is designed to strengthen the ability of our employees to work and—as an inseparable part of that—strengthen the quality of life. It relies on the self-responsibility of our employees, and also provides extensive support for their health and well-being through measures such as early identification of risk factors. The JP Morgan Corporate Race in Frankfurt marked the start of the Group-wide well@work initiative. It will be rolled out internationally in 2013, taking into account cultural factors.

A family-friendly company—Prioritizing employees' needs

Evonik sees a family-friendly management policy as part of its value-oriented human resources strategy and as an expression of social responsibility. Having been certified as a family-friendly company by the not-for-profit Hertie Foundation in 2009, we have therefore given a voluntary undertaking to drive forward these policies. All the targets set were achieved or exceeded so we were successfully re-audited in 2012. The goals for the next three years include increasing the number and quality of the offers available and giving family-friendliness an even firmer place in our corporate culture and leadership behavior.

On December 5, 2012 we were presented with the Human Resources Excellence Award for outstanding personnel management achievements at a ceremony in Berlin for our "New Horizons" exchange program for employees' children. This award is presented annually by the Human Resources Manager magazine published by the German Association of HR Managers for unusual and innovative strategies.

Headcount in 2012

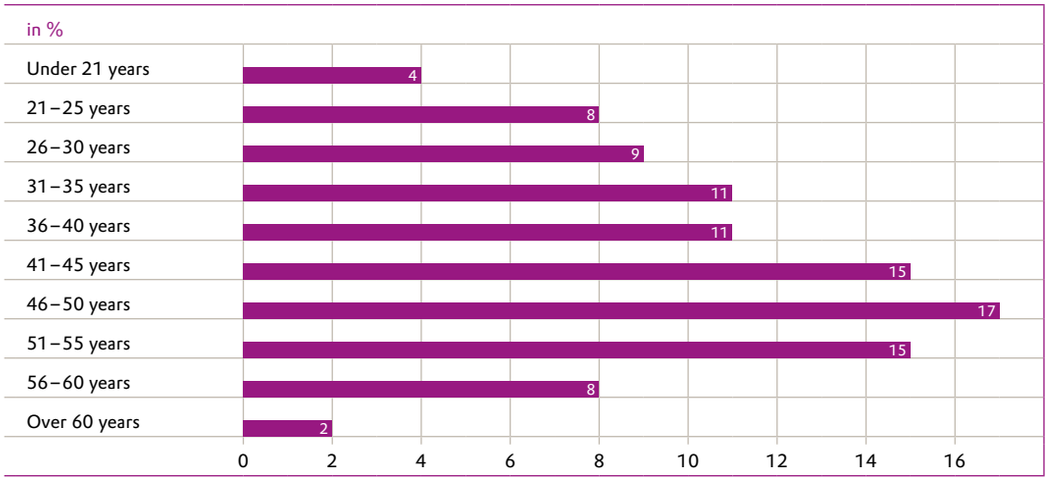
At year-end 2012 the Evonik Group had 33,298 employees, around 24 percent of whom were female. The average age of the workforce was 41.2 years. 34 percent were employed outside Germany. The headcount was 258 lower than at year-end 2011. Growth-driven hiring in many units was offset by divestments and transfers: the sale of shares in Evonik Sanzheng (Yingkou) Fine Chemicals Co., Ltd., the divestment of the Colorants business and the transfer of the property management activities to Vivawest Wohnen GmbH, which is recognized at equity.

Employees by segment

	Dec. 31, 2012	Dec. 31, 2011
Consumer, Health & Nutrition	6,821	6,384
Resource Efficiency	5,755	6,381
Specialty Materials	6,134	6,846
Services	11,900	10,946
Real Estate	617	1,135
Other operations	2,071	1,864
Evonik	**33,298**	**33,556**

Headcount trends differed in the segments. The increase in the workforce in the Consumer, Health & Nutrition segment was mainly attributable to growth projects. The decline in the Resource Efficiency segment was caused principally by the divestment of the Colorants business and the transfer of the Rheinfelden site in Germany to the Services segment at the start of the year. The main factors in the Specialty Materials segment were the deconsolidation of the Chinese joint venture and the transfer of the site in Lülsdorf (Germany) to the Services segment. The transfer of the sites was the main reason for the increase in the headcount of the Services segment, while the transfer of the property management activities to Vivawest Wohnen GmbH impacted the number of employees in the Real Estate segment.

Age structure in the Evonik Group



Environment, safety and health

In view of the global challenges such as climate change, limited resources and demographic trends, we are firmly convinced that a sustainability-oriented long-term focus is vital for lasting corporate success. Our binding Group-wide Environment, Safety and Health (ESH) strategy, including rules that have been audited externally, forms the basis for our action. Audits are conducted to monitor implementation by the business groups, regions and sites. Alongside many internal audits in operating units, in 2012 we conducted 24 corporate audits. Over 95 percent of our global production has been validated externally as conforming to ISO 14011, the internationally recognized environmental management standard.

Health management and contingency planning go hand-in-hand

Employees are central to the Evonik Group and are our key face to our customers and business partners. Our social responsibility is demonstrated in programs such as well@work, which contains a wide range of measures to maintain the employability of our staff and thus the quality of life for them and their families. Evonik's uniform system of occupational health management focuses first and foremost on encouraging a healthy lifestyle, with offerings in the areas of exercise, diet, work-life balance, and preventing infections and addiction. To supplement this, special annual campaigns are held to highlight different aspects. Preventive occupational health care includes fixed systems based on hazard assessments. Potential dangers at work are identified in advance and employees receive special health and safety training. The effectiveness of these measures is monitored through medical checkups. Further optional preventive health-care offerings are also available. For instance, in 2013 we are planning to introduce a health check to supplement occupational health checks in order to allow early identification of risk factors and disease. Medical contingency management at Evonik is based on a global corporate policy that sets out the necessary emergency organization and the equipment and personnel to be provided, taking the regional emergency response infrastructure into account. Exercises are conduced regularly to check the functioning of this system.

Development of occupational and plant safety

Measured by accident frequency (number of accidents at work involving company employees and contractors' employees receiving direct instructions from Evonik per million hours worked), our occupational safety performance improved slightly year-on-year to 2.0 (2011: 2.1). Excluding the Real Estate segment, accident frequency was 1.4, which was below the previous year's level and also under our target (maximum 1.5). This positive trend was overshadowed by four fatal accidents in 2012. One employee died in a traffic accident in Marl (Germany) and at our site in Greensboro (North Carolina, USA) an accident occurred while maneuvering a truck. Following a major overhaul in Marl, there was an explosion and fire during start-up of the CDT plant in March, in which two employees died.

Accident frequency[1)]

	2012	2011
Chemicals operations including Services	1.4	1.5
Real Estate (Wohnen)	–[2)]	1.1
Real Estate (other activities)	29.8	28.2
Total	**2.0**	**2.1**

[1)] Number of accidents at work involving company employees and contractors' employees receiving direct instructions from Evonik per million hours worked.
[2)] No data available due to the transfer of employees to Vivawest Wohnen GmbH.

At the end of 2011 we conducted a survey of about 50 percent of employees worldwide on safety culture and occupational safety. The outcome of the Safety First survey provides a basis for dialogue between managers and employees at our sites about causes, influences and improvements. We will be launching a Group-wide initiative on safety culture in 2013. As a kick-off we will be developing a uniform safety guideline and setting out our expectations of a good safety culture and good leadership for our managers and employees.

A Global Process Safety Competence Center (GPS) was established at the start of 2012. Its task is to ensure that safety experts and the methods used to analyze process safety in our production plants meet uniformly high quality standards. To this end, all internal experts are grouped in a global competence network, and additional experts are made available for the many investment projects associated with our global growth initiative. In the future, only experts approved by the GPS will be able to undertake safety analyses of production facilities that work with hazardous substances and processes. The GPS will also draw up a binding Group-wide policy on the procedure for safety analyses. Management systems for safe operation of production plants, overhauls and changes are constantly being refined. In this, we take account of lessons learnt from accidents and other incidents. For constant monitoring of plant safety we use a key performance indicator which, analogously to the accident frequency indicator for occupational safety, covers incidents involving the release of substances, fire or explosion, even with little or no damage. Since the beginning of 2012 this indicator has been reported on the basis of harmonized criteria for the European chemical industry (based on the criteria of the European Chemical Industry Council, Cefic). However, the criteria do not differ significantly from those previously used by Evonik to document such incidents. Comparability is sufficient to ensure that improvements versus the past can be tracked. Using the old system, the indicator was 36 points (2011: 52 points), confirming a steady improvement since its introduction in 2008 (reference base = 100 points). The new, refined indicator is agreed within the sector and will provide a uniform basis for external reporting. It is calculated from the number of events per million hours worked in each business unit's production facilities. As a result of the change in the calculation base, the plant safety indicator for 2012 was 46 points. The first indicator, calculated in 2008, remains in place as the reference.

Award-winning climate reporting is continuing

Companies that address the challenges of climate change, systematically integrate them into their business strategy and ultimately, take them into account in the structure of their portfolio of products and services stand to benefit from the growth potential offered by economically relevant aspects of climate change. Maximizing transparency and comparability in this area is the aim of the Carbon Disclosure Project (CDP), which is supported by around 650 institutional investors who together have assets under management in excess of US$ 75 trillion. That makes it the biggest and most important initiative by the financial community on climate change as an investment criterion.

Evonik[1] took part in the CDP[2] for the first time in 2012 and immediately achieved the highest quality level of extensive and transparent reporting (disclosure score 81 out of 100). However, we are not satisfied with that. In November 2012 we took a decision on further elements of a transparent and exacting climate strategy and initiated further structured measures. These include implementing climate responsibility at Executive Board level and integrating a climate-specific opportunity and risk matrix into our risk management system.

We continued to work on our Corporate Carbon Footprint in 2012. In particular, we track the potential to optimize carbon emissions in our value chain. For a range of products, we also look at reduction in emissions resulting from the use/benefits of these products for our customers compared with alternative products and applications. At the same time, together with our suppliers we endeavor to achieve a steady improvement in the CO_2 profile of our inputs. Other indirect CO_2 emissions and selected projects are reviewed by an auditor.

Clear reduction in production-related CO_2 emissions

CO_2 emissions totaled 9.0 million metric tons[1] in 2012, which was far lower than in 2011 (10.7 million metric tons). Both direct and indirect CO_2 emissions (from energy sources) are included in these figures. Direct CO_2 emissions (Scope 1 emissions under the Greenhouse Gas Protocol) come from energy generation and production, and from Evonik's fleet. Indirect CO_2 emissions come from purchased energy (Scope 2 emissions). The 16 percent decline is mainly due to the divestment of the carbon black business, changes in the energy mix (substitution of natural gas for carbon) and specific energy initiatives and a large number of other measures to improve energy efficiency.

The European facilities that fall within the scope of the European Union's Emissions Trading System (EU ETS) emitted 3.1 million metric tons of CO_2 in 2012 (2011: 3.6 million tons CO_2). The Emissions Trading System only covers direct CO_2 emissions in Europe (= Scope 1). The binding allocation of free allowances for the third trading period (2013–2020) is expected for the first quarter of 2013. Political endeavors to push up the price of allowances, which have recently dropped significantly, are only likely to have an impact—if at all—during 2013.

Environmental protection costs and expenses for environmental protection equipment[1]

We invested €39 million in 2012 (2011: €48 million) to achieve a further improvement in environmental protection. Investment in environmental protection is divided among a large number of individual investments in effective end-of-pipe measures and measures integrated into plants and processes. The decline in investment was partly attributable to the divestment of the carbon black business at the end of July 2011. Operating costs for environmental protection were unchanged at €251 million in 2012.

[1] Excluding the Real Estate segment.
[2] CDP Mittelstandsinitiative.

10. Events after the reporting date

Evonik has launched a debt issuance program to place bonds with a total volume of up to €3 billion. The base prospectus for this program was approved by the Luxembourg financial regulator CSSF on February 6, 2013. Bonds can be issued at short notice under this program. No bonds had been issued under this program as of the date on which these financial statements were prepared.

As part of their preparations for a possible stock market listing of Evonik Industries AG, Evonik's owners, RAG-Stiftung and funds advised by CVC Capital Partners, have divested some of their shares to German and foreign institutional investors. Both owners divested the same proportion of their shares through a private placement. The placement comprised less than 10 percent of the issued no-par shares.

11. 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 we 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 risk management structure covering the entire Group. Alongside organizational measures and internal control systems, this is supported by Corporate Auditing as a process-unrelated controlling and consulting body.

Risk management 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 the organizational units are responsible for coordinating the relevant risk management activities. A central Corporate Risk Officer coordinates and oversees the processes and systems. He is the contact for all risk officers and is responsible for information, documentation and coordination at Group level. Further responsibilities include ongoing development of the methodology used by the risk management system. A Risk Committee was established in 2010. It is chaired by the CFO and includes representatives of the Corporate Center. The role of the committee is to validate the Group-wide risk situation and to verify that it is adequately reflected in financial reporting.

Risk management is a central element in Evonik's controlling processes at all levels in the Group. That includes strategic and operational planning, preparations for investment decisions, monthly reporting and projections, and, from a certain threshold, immediate reporting of risks. The organizational units conduct an extensive annual risk inventory in connection with the mid-term planning process. Special risk management software is used for this. All risks are systematically identified and documented and the probability of the risks occurring and the potential damage are evaluated. The evaluation is viewed against the current planning so the opportunities and risks are defined as deviations from the plan. The organizational units are required to provide details of action to be taken with regard to risks identified in the risk inventory and track their timely implementation. The annual risk inventory, which looks at risks on the basis of deviation from planned net income over a period of one year and at least five years, is supplemented by a quarterly review of all risks and monthly risk reports on changes in risk factors previously identified and newly identified risks for the current year. A binding policy on risk management has been issued.

In fiscal 2012 Corporate Auditing inspected risk management during 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.

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. In accordance with our risk catalog, we monitor risks on the basis of the four categories defined by the COSO Enterprise Risk Management model: strategic, operational, compliance/legal and financial.

Due to the fields in which it operates, the Evonik Group is confronted with constantly changing national and international political, societal, demographic, legal and economic operating conditions. 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.

Overall, the relationship between opportunity and risk at Evonik was virtually unchanged in 2012 compared with 2011. However, there were some shifts between individual risk categories. The slight reduction in risk resulting from lower exchange rate volatility, stabilization of the European sovereign debt crisis and lower interest rates partially offset the increase in risks from, for example, tougher competition in some markets and moderate rises in raw material prices, which could not always be passed on to customers immediately or in full as a result of the market or competitive situation.

1. Strategic risks

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

Market and competitive risks

One general risk factor is the intensive competition in some market segments. In particular, competitors in low-wage countries increase competitive pressure through aggressive pricing policies. To counter this we are broadening our foreign production base and gaining access to new markets in high-growth regions such as Asia and South America. The operating units affected also use various methods of increasing customer loyalty to reduce these risks. These include, in particular, strategic research alliances with customers and improving the services offered. We are constantly developing attractive and competitive new products 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.

The Real Estate segment 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.

Acquisition and divestment risks

Active portfolio management, combined with value-based controlling, has 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.

We have set out clear procedures for preparing, analyzing and undertaking acquisitions. In particular, these include clear rules on accountability and approval processes. For example, an intensive examination of potential acquisition targets (due diligence) is undertaken before they are acquired. This involves systematic identification of all major risks and opportunities and an appropriate valuation. Key aspects of this process are strategic focus, management quality and development potential and any legal, financial and environmental risks. New companies 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 also systematically implemented. Post-transaction management closely monitors any liability and guarantee risks resulting from divestments. In connection with the divestment of the former energy business (STEAG), Evonik is exposed to risks arising from contractually agreed indemnification arrangements, relating, among others, to a new coal-fired power plant that has not yet come into service as a result of technical problems. Provisions have been established for these risks.

2. Operational risks

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

Sales and marketing risks

Due to their customer base, the chemicals segments only bear a low cluster risk. However, some operational units have a certain dependence on key customers. A decline in demand from the industries served or a deterioration in the competitive position of customers could adversely affect the chemicals business. We respond to these risks by permanently monitoring the market, acquiring new customers, and endeavoring to establish new applications and gain access to new markets as early as possible.

Procurement risks

The availability of starting products and intermediates and dependence on commodity and energy prices are further potential risk factors. The chemicals segments are particularly dependent on the development of the price of strategic raw materials, including petrochemical feedstocks derived directly or indirectly from oil. They are 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 and agreeing price formulae with established suppliers wherever 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. In fiscal 2012 we were able to recoup or pass on the moderate rise in raw material prices compared with the previous year by raising the price of our products. The competitive situation means that cost rises cannot always be passed on to customers through price rises either immediately or in full.

Production risks

As a specialty chemicals company, Evonik is exposed to the risk of business interruptions, quality problems and unexpected technical difficulties. Group-wide policies on project and quality management, highly qualified employees and regular maintenance of our plants effectively minimize these risks. Insofar as is economically viable, we take out insurance to cover damage to our plants and sites and production stoppages, so the financial consequences of potential production risks are fully or partially insured. So far, the damage caused by the fire at the CDT plant has been covered by our insurance policies, with the exception of a small amount to be borne by the company (deductible plus costs borne by the Group-owned reinsurer).

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.

3. Compliance and legal risks

Compliance risks

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

The issues grouped at the "House of Compliance" include fighting corruption, data protection, IT compliance, know-how protection and antitrust and foreign trade law.

Data protection and IT compliance risks

Group-wide rules and regulations provide details of how to handle information and on the secure use of information systems. Modern information 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. These are expanded and adapted to the constantly changing risk situation to ensure that we have adequate protection against potential risks in the future. Internal communication methods such as IT security campaigns are used to heighten employees' awareness of the need for security in the handling of information technology.

Know-how protection risks

Know-protection comprises principles and actions designed to ensure legally compliant corporate conduct. The business units are exposed to a risk that intellectual property cannot be adequately protected, even through patents, especially when building new production facilities in certain countries. The Group-wide Intellectual Property Management (IPM) unit supports the operational units in protecting, developing and utilizing intellectual property and patents. It is assisted by a worldwide network of correspondent lawyers. For this purpose, the function of Chief Know-how Protection Oficer (CKPO) was established in 2012.

Legal risks

Evonik is exposed to risks relating to legal disputes, administrative proceedings and fines. 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.

Our subsidiary RBV Verwaltungs-GmbH is currently involved in an ongoing appraisal process in connection with the settlement paid to former shareholders. Based on the present status, the company deems that the provisions allocated for this are adequate.

Environmental risks (environment, safety, health, quality)

As a specialty chemicals company, Evonik is exposed to risks in the fields of plant safety, product safety, occupational safety and failure to comply with other environmental regulations. Group-wide policies on the environment, health and safety effectively reduce these risks. Moreover, audits are conducted at the request of the Executive Board to check the controlled handling of such risks. Furthermore, our environment and safety management systems, which are validated as conforming to international standards, undergo constant development and improvement. Adequate provisions have been established to secure or remediate contaminated sites where necessary. As a responsible company with significant chemical activities, Evonik ensures that such processes are operated in accordance with the principles of the global Responsible Care initiative and the UN Global Compact.

[1] The Corporate Governance Report is contained in this annual report (see page 227).

4. Financial risks

For financial risk management purposes, Evonik follows the principle of separation of trading, risk controlling and back office functions and takes as its guide the banking-specific "Minimum Requirements for Risk Management" (MaRisk) and the requirements of the German legislation on corporate control and transparency (KonTraG). Binding trading limits, responsibilities and controls are thus set in accordance with recognized best practices, 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 (10.2) to the consolidated financial statements.

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 (10.2) to the consolidated financial statements and Note (23) to the annual financial statements of Evonik Industries AG.

Liquidity risks

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

Details of the financing of the Evonik Group and action to protect liquidity can be found on page 72 (Financial condition).

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

Internal control system for financial accounting

The main financial reporting risks are identified through the internal control system (ICS), which is based on a qualitative and quantitative analysis. Controls are defined for each risk area of the accounting process. Their efficacy is tested at regular intervals and improved where necessary. All elements of the control process are verified by Internal Auditing on the basis of random samples.

To ensure the quality of financial statements we have a Group-wide policy which defines uniform accounting and valuation principles for all German and foreign companies included in the consolidated financial statements for the Evonik Group. The majority of companies have delegated the preparation of their financial statements to Evonik Business Services (EBS). Through systematic process orientation, standardization and the utilization of economies of scale, this leverages sustained cost benefits and can improve the quality of accounting. 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 SAP SEM-BCS. Group companies submit their financial statements via a web-based interface. A range of technical validations are performed at this stage. Computerized and manual process controls and checking by a second person are the key oversight functions performed in the financial reporting process. The preparation of the monthly consolidated income statement and 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 of the Supervisory Board.

Aspects that may represent opportunities or risks for financial reporting in the future are identified and evaluated early through the integrated risk management system (RMS). This ensures that risk management can be closely aligned to controlling and accounting processes.

12. Report on expected developments

Global economic conditions

Global economic situation will remain challenging in 2013

On the basis of our internal analyses, which are derived from the evaluation of a variety of reports and our own estimates, we expect global growth to pick up slightly in 2013 compared with 2012. Gross domestic product will probably not rise by more than 3.0 percent. Regionally, the discrepancies in economic development are likely to continue. In our view, sustained uncertainty and low consumer spending momentum—partly due to fiscal savings programs—are likely to hold back growth in the industrialized countries.

Projections for 2013 are marked by considerable uncertainty. Global economic growth could prove far lower than anticipated if there is a renewed escalation of the sovereign debt crisis in some European countries, growth in the emerging markets is slower than expected and the USA undergoes fiscally induced stagnation.

We expect economic growth in the euro zone, which is a particularly important market for us, to be flat (0.0 percent growth) versus 2012. Although we assume a steady economic upturn compared with the second half of 2012, at most this will maintain economic output at an unchanged level in 2013. Persistently high unemployment and fiscal consolidation in most economies is likely to prevent a significant economic rebound. The growth differential between the euro-zone countries will remain in 2013. For Germany, we assume 0.7 percent GDP growth, whereas Italy, Spain and Portugal are likely to report a further reduction in economic output.

For the major industrialized countries outside the euro zone we are predicting moderate growth. Our estimate for the USA is that the economy will probably grow by around 1.9 percent again in 2013. Uncertainty about the development of the fiscal situation is holding back growth at the start of the year. Moreover, continued high unemployment is likely to dampen consumer spending over the entire year, preventing a significant economic upturn. By contrast, we feel that positive impetus on the US housing market is possible in 2013.

For Japan, we are predicting far lower growth in economic output of around 0.7 percent. Following a substantial drop in exports and consumer spending, Japan seems to have started 2013 in a recession, from which it can only emerge with the aid of the global recovery, and that is progressing slowly.

The emerging markets and developing countries (non-OECD states), especially China, will provide greater support for global growth after a slight dip in 2012, with total growth coming in at 5.1 percent. Looking at China, the key driver of the global economy, we expect the economic recovery of recent months to continue thanks to measures to stimulate the economy, leading to GDP growth of 8.0 percent.

Development of specialty chemicals and key customer industries

According to our estimates, global industrial output should grow faster in 2013 than in 2012. Our assumption is that it will rise by 3.5 percent, driven mainly by the emerging markets and developing countries.

Despite continued weak demand from its most important markets in Europe, we expect China (plus 9.3 percent) to remain the driving force behind global growth. The Chinese government's action to support exports should mainly stimulate industrial output in 2013. By contrast, industrial output in the euro zone is likely to decline slightly. Even Germany will probably be unable to generate much momentum as it seems unlikely to escape the negative European environment.

Globally, we expect key industries served by the specialty chemicals sector to grow slightly faster in 2013 than in 2012. That said, we assume that there will be considerable differences between different industries and regions.

According to our estimates, automobile production around the world will weaken perceptibly in 2013. The key factors here will be the European market, which will be flat at most, and considerably slower growth in Asia.

Our expectation for the food and pharmaceutical industries is that growth will be in line with or slightly above the previous year's level but still below the long-term trend. Consumer restraint in Europe and the United States is still holding back the global development of personal care products. In our view, growth will only be slightly higher than in 2012.

The global construction industry should experience a rise in momentum in 2013 thanks to a slow recovery in the US housing market and stabilization of construction in southern Europe. Analogously to the development of its main customers, we expect the paints and coatings industry to report slightly higher growth in output in 2012. In the electronics industry, the dip in 2012 could give way to a clear upturn and above-average growth.

Given the global economic trends and conditions outlined for industries served by the specialty chemicals sector, we assume that this sector should be able to lift output by 3.0 percent in 2013. While momentum in China is likely to be around the same level as in 2012, in the emerging markets as a whole it should be higher. With production volumes expected to be flat in virtually all European sectors served by the specialty chemicals industry, we anticipate a slight decline in output of specialty chemicals in Europe. However, we still anticipate slight growth in the German specialty chemicals industry. In the USA, growth in industrial output is mainly likely to be visible in commodity chemicals so lower momentum is expected for specialty chemicals. Producer prices could rise faster than in 2012 as slightly higher raw material prices are passed on to customers. Consequently, sales should grow far faster than output.

We assume that global inflation will remain low as economic growth will be modest. The low momentum will have an impact on the commodity markets. In 2013 the price of Brent crude is only likely to be marginally above the 2012 average of US$102 per barrel. Risks here still include geopolitical factors, which could adversely affect supply. Appreciation of the euro is likely be limited by the still unresolved sovereign debt crisis, so we only expect a slight rise in the exchange rate versus the US dollar compared with 2012.

Development of the residential real estate sector
Residential real estate prices will continue to rise in most German cities in 2013, although the increases will generally be lower than in 2012. Rents are also expected to increase in almost all cities, but with considerable regional differences. While Berlin, Hamburg, Munich and Frankfurt am Main are likely to experience the highest increases in property prices and rents, in cities in the Ruhr district real estate prices and rents are likely to be flat or even decline.

Mid-term expectations for the global economy
Since it is difficult to predict the course of the European sovereign debt crisis, mid-term forecasts for the global economy entail a high degree of uncertainty. This is compounded by the consolidation efforts in the USA and the uncertainty about China's long-term economic development. Fundamentally, our mid-term expectation is that global growth will be above the level forecast for 2013.

Opportunities

Our strategic focus on the promising, high-margin specialty chemicals business opens up further profitable growth opportunities for Evonik. We concentrate on global megatrends such as health, nutrition, resource efficiency and globalization. At the same time, we are investing considerable amounts to step up our presence in emerging markets where we see tremendous potential thanks to their economic momentum. Our focus here is on selected Asian markets, especially China, and on South America, the Middle East and Eastern Europe.

Opportunities offered by the nutrition megatrend
Business prospects for our amino acids for healthy and environmentally compatible nutrition of livestock are very good. Demand for meat is rising as the global population grows. In Asia, in particular, people in the growing and affluent middle class are altering their eating habits, resulting in far higher meat consumption. Additional business prospects for Evonik come from the fact that it markets all amino acids via a global platform. To step up utilization of growth potential in the Asia-Pacific region, the most dynamic market for DL-methionine, we are building a new backwardly integrated production complex in Singapore, which is scheduled for completion in 2014. In addition, Evonik is launching innovative products that open up new applications for DL-methionine, for example in aquaculture, thus expanding the basis for profitable growth.

Opportunities offered by the health megatrend

In emerging markets, there is rising demand from the affluent middle class for personal care products and cosmetics. Looking forward, we expect that in the next few years South America will become the world's second-largest market for personal care products, with China in third place. From this we derive promising opportunities for our business. The production facilities for oleochemical specialty surfactants currently under construction in China and Brazil will enable us to make systematic use of this growth potential.

Opportunities offered by the resource efficiency megatrend

Renewable energies and efficient use of natural resources are key innovation and growth drivers at Evonik. Evidence includes the construction of a new production facility for hydroxy-terminated polybutadiene (HTPB) in Marl (Germany). Applications for this polymer material include sealants for triple glazing with high insulating properties and for lightweight construction in the automotive industry. This investment strengthens our position as a supplier of solutions for sustainable products for the adhesives and sealants industry.

The resource efficiency megatrend is also driving demand for our isophorone chemicals. Very high growth is being posted by environment-friendly coating technologies such as UV-curing systems and solvent-free powder coatings, especially in Asia. To participate in this dynamic market trend, we are currently erecting our first isophorone facility in Asia, at our multi-user site in Shanghai Chemical Industry Park. This facility is scheduled to come on stream in 2014. Further, we are strengthening our competitive position with Asian customers through research and applications-oriented technical service geared specifically to their needs. For this, they have access to our innovation center for additives for paints and coatings in Singapore and Shanghai.

Opportunities offered by the globalization megatrend

Progressive globalization offers attractive opportunities for Evonik. Production of biodiesel is growing fastest in South America. We aim to serve this dynamic market through a new facility in Argentina, which will produce alcoholates for use as catalysts in biodiesel production. At present we produce these specialty catalysts in Germany and the USA.

Global growth drivers also include new applications for existing business activities. One example is the HPPO process developed by Evonik and ThyssenKrupp Uhde to produce propylene oxide from hydrogen peroxide. Propylene oxide is a key starting product for polyurethane and the market for this product is growing particularly fast in Asia. The world's first HPPO facility licensed by Evonik and ThyssenKrupp Uhde came on stream in Ulsan (South Korea) in 2008. Another plant is currently being constructed in the Province of Jilin in China. By year-end 2013, the hydrogen peroxide required for this facility will be sourced directly from a new Evonik plant. As part of PETRONAS' RAPID project, we plan to build a new hydrogen peroxide plant for HPPO technology in Malaysia, probably by 2016, plus facilities for isononanol and butene-1. A letter of intent on this was signed in January 2013.

Opportunities offered by ongoing development of integrated technology platforms

We gain key competitive advantages by constantly refining our integrated technology platforms. In the light of the construction of a new isophorone line in Shanghai, the entire process chain was reviewed in a bid to achieve a new dimension in the selectivity of isophorone and isophorone diamine at the local world-scale plants.

As one of the world's leading suppliers of methylmethacrylate (MMA) Evonik has pioneered a new production process that is convincing both economically and ecologically. This process, which is based on catalysts developed within the Group, reduces by-products and raises yields, resulting in a perceptible reduction in both costs and CO_2 emissions. Evonik intends to utilize business opportunities arising from the new AVENEER® process by building a world-scale production plant at its site in Mobile (Alabama, USA).

Opportunities offered by active portfolio management
Systematic portfolio management generates additional opportunities for Evonik. To support our growth strategy, in the coming years, portfolio management will focus on acquisitions that give us access to additional high-growth products, markets and technologies. We constantly examine the strategic alignment, management quality and development potential of possible acquisition targets.

Businesses that no longer fit our strategy or no longer meet our profitability requirements are divested. For example, on April 30, 2012 we closed the divestment of our global Colorants business, which mainly developed, produced and marketed colorant systems for decorative applications in the architectural sector.

Opportunities offered by improving our cost position
We aim to leverage additional scope for profitable growth by steadily streamlining structures and workflows within the organization. The central element is the On Track 2.0 efficiency enhancement program which is designed to make a significant contribution, for example, through further optimization of global procurement, production and related workflows and global business and administrative processes.

Opportunities offered by a secure raw material supply
We want to improve the supply of raw materials to our specialty chemicals business still further by extending our relationship with strategically significant suppliers as well as participating in purchasing alliances and validating new suppliers. That includes the search for additional opportunities to reduce risk, improve costs and enhance cooperation. In addition, opportunities could arise to obtain gas from unconventional sources.

Opportunities offered by diversity
Diversity has a special place at Evonik. In the coming years, we will be reinforcing efforts to foster diversity (gender, nationality, age structure and experience of different functions and organizational units). That will increase Evonik's innovative potential and strengthen our competitiveness.

Regular review of opportunities
Evonik regularly reviews potential opportunities as part of the strategic planning process. Our Corporate Foresight team identifies future business opportunities on a 10-15 year time horizon. The focus is on future needs: Trend analyses are used to identify the challenges that will confront tomorrow's markets and where they interface with or offer development potential for our specialty chemicals portfolio.

Outlook

2013: Another successful year expected

The global economic situation remains challenging. At present, a rapid recovery in the global economy seems unlikely. Moreover, the smoldering sovereign debt crisis in Europe is still causing considerable uncertainty that could impair economic development.

Assuming that the trends outlined in the section "Global economic conditions" materialize, we expect to report another good business performance in 2013. While the economic situation will remain challenging, implementation of the first of our growth investments will make a positive contribution. Thanks to these new production capacities and rising demand, we expect sales to be higher, while the operating results should be in line with the very good level reported for 2012.

Investment to secure growth

As outlined in detail in the section on "Opportunities", as part of our growth strategy we have initiated significant investment projects, especially in attractive economic regions. Overall, we have earmarked more than €6 billion for this between 2012 and 2016. €1.1 billion was spent in 2012 and we are budgeting €1.5 billion for capital expenditures in 2013. Capital expenditures will therefore once again be far higher than depreciation and amortization. Although investments should be financed mainly out of cash flow, net debt will nevertheless rise in 2013.

Development of the segments

We expect the positive trend in the Consumer, Health & Nutrition and Resource Efficiency segments to continue. Assuming higher demand, there should therefore be a further improvement in sales and the operating results. The Specialty Materials segment should also grow sales as a result of rising volumes, but the forecast cost trend for raw materials is likely to put pressure on margins and thus on the operating results. We do not expect the Services segment to match the very high performance achieved in 2012. Development of the Real Estate segment, by contrast, should be stable.

2014: Sales and operating results expected to rise

We assume far stronger growth in the global economy in 2014. The anticipated upswing is likely to be driven principally by the positive development in the emerging markets and, in particular, an upturn in North America and Europe. Based on these assumptions, we expect business to pick up substantially in 2014. Driven by higher demand, we expect sales and the operating results to be considerably higher than in 2012 and 2013. This should be driven partly by higher production capacity, which we anticipate will enable us to derive above-average benefit from the forecast market growth.

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.

Consolidated financial statements

Enhanced efficiency, sharper financial profile, value creation.

Income statement

Evonik Group

in € million	Note	**2012**	2011
Sales	(6.1)	13,629	14,540
Cost of sales		–9,700	–10,247
Gross profit on sales		**3,929**	**4,293**
Selling expenses		–1,242	–1,242
Research and development expenses		–393	–365
General administrative expenses		–647	–663
Other operating income	(6.2)	1,520	1,021
Other operating expenses	(6.3)	–1,290	–1,207
Income before financial result and income taxes, continuing operations		**1,877**	**1,837**
Interest income	(6.4)	35	50
Interest expense	(6.4)	–392	–431
Result from investments recognized at equity	(6.5)	87	80
Other financial income	(6.6)	5	7
Financial result		**–265**	**–294**
Income before income taxes, continuing operations		**1,612**	**1,543**
Income taxes	(6.7)	–460	–451
Income after taxes, continuing operations		**1,152**	**1,092**
Income after taxes, discontinued operations	(5.3)	15	–78
Income after taxes		**1,167**	**1,014**
thereof attributable to			
Non-controlling interests		3	3
Shareholders of Evonik Industries AG (net income)		1,164	1,011
Earnings per share in € (basic and diluted)	**(6.8)**	**+2.50**	**+2.17**

Additional voluntary information

in € million	Note	**2012**	2011
Income before financial result and income taxes, continuing operations		1,877	1,837
Result from investments recognized at equity		87	80
Other financial income		5	7
EBIT		**1,969**	**1,924**
Adjustments[1)]		–16	175
Adjusted EBIT[1)]		**1,953**	**2,099**
Depreciation and amortization		636	669
Adjusted EBITDA[1)]		**2,589**	**2,768**

[1)] The terminology has been altered since 2011, see Note (9.3).

Statement of comprehensive income

Evonik Group

in € million	Note	2012	2011
Income after taxes		**1,167**	**1,014**
thereof attributable to			
Non-controlling interests		3	3
Shareholders of Evonik Industries AG (net income)		1,164	1,011
Unrealized gains/losses on available-for-sale-securities		11	2
Gains/losses on hedging instruments		96	–116
Currency translation adjustment		–71	173
Deferred taxes		–31	15
Other comprehensive income after taxes	(7.9)	**5**	**74**
thereof attributable to			
Non-controlling interests		–1	71
Shareholders of Evonik Industries AG		6	3
Total comprehensive income		**1,172**	**1,088**
thereof attributable to			
Non-controlling interests		2	74
Shareholders of Evonik Industries AG		1,170	1,014

Balance sheet

Evonik Group

in € million	Note	**Dec. 31, 2012**	Dec. 31, 2011
Intangible assets	(7.1)	3,190	3,272
Property, plant and equipment	(7.2)	4,497	4,356
Investment property	(7.3)	1,550	1,545
Investments recognized at equity	(7.4)	1,132	1,057
Financial assets	(7.5)	197	255
Deferred tax assets	(7.14)	329	477
Other income tax assets	(7.14)	21	23
Other receivables	(7.7)	35	41
Non-current assets		**10,951**	**11,026**
Inventories	(7.6)	1,718	1,645
Other income tax assets	(7.14)	79	60
Trade accounts receivable	(7.7)	1,687	1,711
Other receivables	(7.7)	367	358
Financial assets	(7.5)	1,086	688
Cash and cash equivalents	(7.8)	741	1,409
		5,678	**5,871**
Assets held for sale	(5.3)	34	47
Current assets		**5,712**	**5,918**
Total assets		**16,663**	**16,944**
Issued capital		466	466
Reserves		6,252	5,515
Equity attributable to shareholders of Evonik Industries AG		**6,718**	**5,981**
Equity attributable to non-controlling interests		111	93
Total equity	(7.9)	**6,829**	**6,074**
Provisions for pensions and other post-employment benefits	(7.10)	2,377	2,805
Other provisions	(7.11)	889	1,014
Deferred tax liabilities	(7.14)	463	481
Other income tax liabilities	(7.14)	115	70
Financial liabilities	(7.12)	1,464	2,745
Other payables	(7.13)	309	369
Non-current liabilities		**5,617**	**7,484**
Other provisions	(7.11)	1,130	1,174
Other income tax liabilities	(7.14)	223	352
Financial liabilities	(7.12)	1,483	402
Trade accounts payable	(7.13)	1,096	1,086
Other payables	(7.13)	272	284
		4,204	**3,298**
Liabilities associated with assets held for sale	(5.3)	13	88
Current liabilities		**4,217**	**3,386**
Total equity and liabilities		**16,663**	**16,944**

Prior-year figures restated, see Note (3.4).

Statement of changes in equity

Evonik Group Note (7.9)

in € million	Issued capital	Reserves			Attributable to shareholders of Evonik Industries AG	Attributable to non-controlling interests	Total equity
		Capital reserve	Accumulated income	Accumulated other comprehensive income			
As of January 1, 2011	**466**	**1,165**	**3,948**	**–203**	**5,376**	**593**	**5,969**
Capital increases/decreases	–	–	–	–	–	18	18
Dividend distribution	–	–	–400	–	–400	–14	–414
Changes in ownership interests in subsidiaries without loss of control	–	–	–3	–	–3	–	–3
Income after taxes	–	–	1,011	–	1,011	3	1,014
Other comprehensive income after taxes	–	–	–	3	3	71	74
Total comprehensive income	–	–	1,011	3	1,014	74	1,088
Other changes	–	–	12	–18	–6	–578	–584
As of December 31, 2011	**466**	**1,165**	**4,568**	**–218**	**5,981**	**93**	**6,074**
Capital increases/decreases	–	–	–	–	–	31	31
Dividend distribution	–	–	–425	–	–425	–11	–436
Changes in ownership interests in subsidiaries without loss of control	–	–	–7	–	–7	4	–3
Income after taxes	–	–	1,164	–	1,164	3	1,167
Other comprehensive income after taxes	–	–	–	6	6	–1	5
Total comprehensive income	–	–	1,164	6	1,170	2	1,172
Other changes	–	–	2	–3	–1	–8	–9
As of December 31, 2012	**466**	**1,165**	**5,302**	**–215**	**6,718**	**111**	**6,829**

Cash flow statement

Evonik Group

in € million	Note	**2012**	2011
Income before financial result and income taxes, continuing operations		1,877	1,837
Depreciation, amortization, impairment losses/reversal of impairment losses on non-current assets		800	785
Gains/losses on disposal of non-current assets		–4	5
Change in inventories		–127	–255
Change in trade accounts receivable		–32	–121
Change in trade accounts payable and current advance payments received from customers		–30	76
Change in provisions for pensions and other post-employment benefits		–191	–200
Change in other provisions		–161	–76
Change in miscellaneous assets/liabilities		–180	–108
Cash outflows for interest		–162	–194
Cash inflows from interest		29	32
Cash inflows from dividends		66	58
Cash inflows/outflows for income taxes		–465	–404
Cash flow from operating activities, continuing operations		**1,420**	**1,435**
Cash flow from operating activities, discontinued operations		–	–126
Cash flow from operating activities	(8.1)	**1,420**	**1,309**
Cash outflows for investments in intangible assets, property, plant and equipment, investment property		–1,021	–885
Cash outflows for investments in shareholdings		–32	–134
Cash inflows from divestments of intangible assets, property, plant and equipment, investment property		82	62
Cash inflows/outflows from divestments of shareholdings		–12	1,021
Cash inflows/outflows relating to securities, deposits and loans		–238	–262
Cash outflows to fund the contractual trust arrangement	(7.10)	–400	–400
Cash flow from investing activities (thereof discontinued operations)	(8.2)	**–1,621** (–)	**–598** (14)
Cash inflows/outflows relating to capital contributions		31	18
Cash outflows for dividends to shareholders of Evonik Industries AG		–425	–400
Cash outflows for dividends to non-controlling interests		–11	–14
Cash inflows/outflows from changes in ownership interests in subsidiaries without loss of control		–	–3
Cash inflows from the addition of financial liabilities		209	264
Cash outflows for repayment of financial liabilities		–272	–501
Cash flow from financing activities (thereof discontinued operations)		**–468** (–)	**–636** (–8)
Change in cash and cash equivalents		**–669**	**75**
Cash and cash equivalents as of January 1		**1,411**	**1,351**
Change in cash and cash equivalents		–669	75
Changes in exchange rates and other changes in cash and cash equivalents		–1	–15
Cash and cash equivalents as of December 31	(8.3)	**741**	**1,411**
Cash and cash equivalents included in assets held for sale		–	–2
Cash and cash equivalents as on the balance sheet as of December 31	(7.8)	**741**	**1,409**

Prior-year figures restated, see Note (3.4).

Notes to the consolidated financial statements of the Evonik Group

(1) Segment report

by operating segments Note (9.1)

	Reporting segments					
	Consumer, Health & Nutrition		Resource Efficiency		Specialty Materials	
in € million	**2012**	2011	**2012**	2011	**2012**	2011
External sales	4,204	4,081	3,131	4,045	4,843	4,880
Internal sales	91	77	73	57	115	114
Total sales	4,295	4,158	3,204	4,102	4,958	4,994
Adjusted EBITDA[1)]	1,050	1,049	655	765	843	907
Adjusted EBITDA margin [1)] in %	25.0	25.7	20.9	18.9	17.4	18.6
Depreciation and amortization	–132	–123	–136	–152	–151	–153
Result from investments recognized at equity	33	18	–8	1	1	2
Adjusted EBIT[1)]	924	917	517	611	691	748
Capital employed (annual average)	1,906	1,640	1,596	2,068	1,811	1,702
ROCE in %	48.5	55.9	32.4	29.5	38.2	43.9
Capital expenditures	303	186	171	170	344	210
Financial investments	24	87	–	19	2	22
Other significant non-cash income and expenses	–99	–102	–259	–202	–92	–213
Employees as of December 31	6,821	6,384	5,755	6,381	6,134	6,846

[1)] The terminology has been altered since 2011, see Note (9.3).

by regions Note (9.2)

	Germany		Other European Countries		North America	
in € million	**2012**	2011	**2012**	2011	**2012**	2011
External sales	3,388	3,784	4,206	4,331	2,423	2,567
Goodwill as of December 31[2)]	1,596	1,607	542	541	278	283
Other intangible assets, property, plant and equipment, investment property as of December 31[2)]	4,495	4,317	481	540	646	606
Capital expenditures	567	481	79	87	139	108
Employees as of December 31	21,969	21,909	2,736	2,826	3,790	3,795

Prior-year figures restated, see Note (3.4).
[2)] Non-current assets according to IFRS 8.33 b.

Services		Real Estate		Corporate, other operations, consolidation		**Total Group (continuing operations)**	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
999	952	239	412	213	170	13,629	14,540
1,716	1,471	1	1	–1,996	–1,720	–	–
2,715	2,423	240	413	–1,783	–1,550	13,629	14,540
163	139	199	219	–321	–311	2,589	2,768
16.3	14.6	83.3	53.2	–	–	19.0	19.0
–91	–82	–48	–47	–81	–90	–639	–647
–	–	33	44	28	15	87	80
68	56	154	171	–401	–404	1,953	2,099
486	442	1,880	1,833	3,648	3,519	11,327	11,204
13.9	12.7	8.2	9.3	–	–	17.2	18.7
103	84	60	74	97	106	1,078	830
–	–	2	6	8	6	36	140
–244	–242	–1	–6	–224	–137	–919	–902
11,900	10,946	617	1,135	2,071	1,864	33,298	33,556

Central and South America		Asia-Pacific		Middle East, Africa		**Total Group (continuing operations)**	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
832	841	2,463	2,648	317	369	13,629	14,540
27	27	265	286	1	–	2,709	2,744
33	45	862	913	11	8	6,528	6,429
14	7	278	146	1	1	1,078	830
436	419	4,255	4,513	112	94	33,298	33,556

(2) General information

Evonik Industries AG is an international specialty chemicals company headquartered in Germany. It also has investments in residential real estate and the energy sector. The company's registered office is Rellinghauser Straße 1–11, 45128 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 held 74.99 percent of the shares in Evonik Industries AG as of December 31, 2012. 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 Federal Gazette (www.bundesanzeiger.de). As of the reporting date, 25.01 percent of the shares were held by Gabriel Acquisitions GmbH (Gabriel Acquisitions), Gadebusch (Germany). Gabriel Acquisitions is an indirect subsidiary of funds advised by CVC Capital Partners SICAV-FIS S.A., Luxembourg (Luxembourg), and its direct and indirect subsidiaries (together, the CVC Group).

The consolidated financial statements of Evonik Industries AG and its subsidiaries (referred to jointly as Evonik or the Group) were prepared and approved for publication by the Executive Board of Evonik Industries AG at its meeting on February 20, 2013, and presented to the Supervisory Board by the Audit Committee for approval at its meeting on March 11, 2013. These consolidated financial statements are also published in the German Federal Gazette (Bundesanzeiger).

(3) Basis of preparation of the financial statements

(3.1) Compliance with IFRS

As permitted by Section 315 a Paragraph 3 of the German Commercial Code, the present consolidated financial statements have been prepared on the basis of the International Financial Reporting Standards (IFRS) and comply with these standards. The IFRS comprise the standards (IFRS, IAS) issued by the International Accounting Standards Board (IASB), London (UK) and the interpretations (IFRIC, SIC) of the IFRS Interpretations Committee (IFRS IC), 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, 2012 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 the Notes.

The income statement has been prepared using the cost-of-sales method. Expenses are divided by function.

The statement of comprehensive income is a reconciliation from income after taxes as shown in the income statement to the Group's total comprehensive income, taking into account other comprehensive income.

On the balance sheet, 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) New accounting standards

Accounting standards applied for the first time

The amendments to IFRS 7 Financial Instruments: Disclosures issued by the IASB in October 2010 became mandatory for the first time in fiscal 2012. They comprise supplementary disclosure requirements for the transfer of financial assets to provide a better understanding of the nature of the risks associated with continuing involvement. The amended standard has not had a material impact on the consolidated financial statements.

Accounting standards that are not yet mandatory

The IASB issued further accounting standards up to December 31, 2012 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 November 2009 the IASB published the new 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. In this first step 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 a financial 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. Financial 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 IASB has extended standard IFRS 9 Financial Instruments and a new version was issued in October 2010. Supplementary to IFRS 9 (2009), IFRS 9 (2010) contains rules on the classification and measurement of financial liabilities and derecognition of financial assets and liabilities. The main changes relating to financial liabilities refer to the fair value option. In future, changes in the fair value resulting from the company's credit risk must be recognized in other comprehensive income in the statement of comprehensive income, while all other changes in the fair value must be recognized in income after taxes in the income statement. The standard takes over the present ruling on derecognition. The IASB issued further amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures in December 2011. As a result of these amendments, the mandatory date for first time application of IFRS 9 has been postponed from January 1, 2013 to January 1, 2015 and the restatement of prior-year figures is not required when it is first applied. Moreover, additional disclosures specified by IFRS 7 are required in the transition period to allow better assessment of the impact of first-time application of IFRS 9 on the measurement and valuation of financial instruments. Earlier application of IFRS 9 is still permitted. This standard is applicable retrospectively. The impact on the consolidated financial statements is currently being examined.

In December 2010 the IASB published amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards. The previous reference to January 1, 2004 is replaced by reference to the date of transition to the IFRS. It also contains new rules if a company is unable to apply all IFRS standards as a result of hyperinflation. In March 2012 the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards: Government Loans. This amendment exempts first-time adopters from full retrospective application of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance with respect to accounting for low-interest government loans. In the European Union the amended standard is applicable for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. This amendment is not relevant for the consolidated financial statements.

In December 2010 the IASB also published an amendment to IAS 12 Income Taxes. This clarifies the treatment of temporary tax differences relating to application of the fair value model in IAS 40 Investment Property. In future, it will be presumed that such tax differences will be recovered entirely through sale and not through continued use of the investment property. According to the IASB, the amended standard is applicable retrospectively for fiscal years beginning on or after January 1, 2012. However, the European Commission has postponed the date for first-time application to January 1, 2013. Earlier application is permitted. This amendment is not currently relevant for the consolidated financial statements.

In May 2011 the IASB published three new and two revised standards on accounting for shares in other companies.

The new standard IFRS 10 Consolidated Financial Statements replaces the guidelines on control and consolidation contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities. IFRS 10 alters the definition of "control" so that the same principles are applied to all companies to determine a relationship of control. This definition is supported by extensive application guidance. The new standard does not alter the previous core principle set out in IAS 27 that consolidated financial statements present the parent company and its subsidiaries as a single economic entity, nor does it alter the consolidation procedure. IAS 27 is to be renamed "Separate Financial Statements" and will in future only contain the unchanged rulings on the preparation of separate financial statements. SIC-12 will be withdrawn.

The new standard IFRS 11 Joint Arrangements supersedes IAS 31 Interests in Joint Ventures. As a result of the amended definitions in IFRS 11, there are now two types of joint arrangements: joint operations and joint ventures. In future, joint ventures will be recognized using the equity method in accordance with the amended standard IAS 28 Investments in Associates and Joint Ventures. The previous option of pro rata consolidation has been abolished. Companies that have a stake in joint operations will in future have to apply rules that are comparable to the present accounting standards for joint assets or joint operations.

The new standard IFRS 12 Disclosure of Interests in Other Entities brings together the revised and extended disclosures in the notes to financial statements required by the present standards IAS 27, IAS 28 and IAS 31.

In June 2012 the IASB published amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements und IFRS 12 Disclosure of Interests in Other Entities. The amendments clarify the transition guidance for the three standards and grant relief for first-time application. In the case of IFRS 10, the amendments explain that the "date of initial application" is the beginning of the annual reporting period in which the standard is applied for the first time. As of this date, an entity must decide whether to consolidate another entity in accordance with IFRS 10. If the consolidation conclusion under IFRS 10 is the same as when applying IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation—Special Purpose Entities, retrospective adjustment is not required. This exemption also applies to subsidiaries divested in the comparative period. If the consolidation conclusion under IFRS 10 deviates from previous practice, retrospective adjustments are required for the comparative period immediately preceding the fiscal year in which it is applied for the first time. Similarly, relief is provided for first-time application of IFRS 11 and IFRS 12 insofar as the presentation of comparative information is only required for the period immediately preceding the date of initial application. In addition, the requirement to present comparative information for unconsolidated

structured entities is eliminated for first-time application of IFRS 12. According to the IASB the initial date of application for the new and amended standards is January 1, 2013. However, the European Commission has postponed this to January 1, 2014. Earlier application is permitted if all new and amended standards are applied earlier. The exception to this rule is IFRS 12. This standard on disclosures in the notes can also be applied earlier, without mandatory application of the other standards. The impact on the consolidated financial statements is currently being examined.

In October 2012, the IASB issued further amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 27 Separate Financial Statements. These define the term investment company and add the requirement that such companies must carry certain investments in subsidiaries controlled by them at fair value through profit and loss instead of consolidating them. The revised standards are applicable for fiscal years starting on or after January 1, 2014. Earlier application is permitted. The amendments are not relevant for the consolidated financial statements.

In May 2011 the IASB published the new standard IFRS 13 Fair Value Measurement. This prescribes uniform rules for the measurement of fair value and extends the disclosures on fair value. It does not provide information on when fair value is to be used. This standard must be applied for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. The impact on the consolidated financial statements is currently being examined.

In June 2011 the IASB published amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income. The amendments mainly relate to the presentation of items of other comprehensive income after taxes. In future, these will have to be classified into items that will be reclassified ("recycled") to income after taxes in subsequent years and those that might not. The amended standard is applicable for fiscal years beginning on or after July 1, 2012. Earlier application is permitted. The amendment will affect the presentation of other comprehensive income after taxes.

In June 2011 the IASB also published amendments to IAS 19 Employee Benefits. The amendments relate to the recognition and measurement of expense for defined benefit pension plans and termination benefits. The corridor method currently used by Evonik, where actuarial gains and losses are only recognized if they exceed certain minimum thresholds, will no longer be applicable from fiscal 2013. In future, all actuarial gains and losses will have to be recognized immediately in other comprehensive income, which will increase the volatility of provisions and equity. Other amendments relate to the recognition of past service cost, net interest cost, the treatment of top-up payments under phased early retirement arrangements and more extensive disclosure requirements on employee benefits. The amended standard is applicable for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. The anticipated impact of the amendments to IAS 19 are outlined below. In the opening balance sheet as of January 1, 2012 the retrospective application of these new regulations would increase provisions for pensions and other post-employment benefits by about €1,030 million and reduce other provisions by about €100 million. Taking into account deferred taxes, equity would decline by roughly €640 million. Provisions for pensions and other post-employment benefits in fiscal 2012 would be further increased by about €975 million, in other words, by a total of some €2,005 million as of year-end 2012. Accordingly, other provisions would increase by about €10 million, giving a total reduction of around €90 million at year-end 2012. Taking deferred taxes into account, there would be a further decline in equity of around €685 million, in other words, a reduction of around €1,325 million as of year-end 2012. On the income statement, the impact on interest before the financial result and income taxes, continuing operations, would mainly relate to income as amounts would no longer be recognized for amortization of actuarial gains and losses and expense in connection with the asset ceiling, while top-up payments for phased early retirement programs would be included for the first time. These effects should basically cancel each other out. The introduction of net interest cost and the lower interest resulting from the reduction in personnel-related provisions would result in negligible income and negligibly lower expenses in the financial result. Application of the new provisions of IAS 19 will improve earnings before the financial result and income taxes in the continuing operations by about €75 million in 2013 compared with the old provisions and reduce the financial result by about €40 million.

In October 2011 the IASB published the interpretation IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. This interpretation is concerned with the recognition and measurement of costs incurred in the removal of overburden during surface mining and is applicable for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. This interpretation is not relevant for the consolidated financial statements.

Further, in December 2011 the IASB published amendments to IAS 32 and IFRS 7. The amendment to IAS 32 comprises application guidance giving further details of the conditions for offsetting financial instruments. For instance, it explains the current legally enforceable right of set-off and defines which systems with a gross set-off can be regarded as a net set-off within the meaning of the standard. The changes to IFRS 7 comprise supplementary disclosure requirements on the offsetting of financial instruments. The amended version of IFRS 7 is applicable for fiscal years beginning on or after January 1, 2013, while the amendment to IAS 32 is applicable for fiscal years starting on or after January 1, 2014. Earlier application is permitted. The amended standards will not have a material impact on the consolidated financial statements.

In May 2012 the IASB issued amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 as part of the Annual Improvements Project 2009-2011 Cycle. These amendments comprise improvements and clarification of existing standards. The amended standards are applicable retrospectively for fiscal years starting on or after January 1, 2013. Earlier application is permitted. The amended standards will not have a material impact on the consolidated financial statements.

(3.4) Restatement of prior-year figures

An enterprise may only change 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 retrospectively for the prior period. For the present consolidated financial statements, the following prior-year figures have been restated:

Due to the reassessment of possible fluctuations in the value of some current securities in accordance with IAS 7.7, these are now recognized in current financial assets and not in cash and cash equivalents. This has no impact on equity. Since the securities concerned were acquired in 2011, this does not have an impact on the balance sheet as of January 1, 2011. Cash and cash equivalents as of December 31, 2011 are reduced by €200 million, while current financial assets are increased by the same amount. In the cash flow statement as of December 31, 2011, cash outflows relating to securities, deposits and loans in the cash flow from investing activities are increased by €200 million, while both cash and cash equivalents and the change in cash and cash equivalents as of December 31, 2011 are reduced by the same amount.

In the segment report, slight adjustments to the regional reporting structure resulted in restatement of the prior-year figures, see Note (9).

(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 the Group is able to exert a significant influence or exercises joint control. Initial consolidation or deconsolidation takes place as of the date on which the company gains or loses control.

Companies whose influence on the assets, financial position and earnings of the Group, both individually and in aggregate, is negligible are recognized at amortized cost in the consolidated financial statements in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Changes in the scope of consolidation are outlined in Note (5.1).

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. Ancillary acquisition costs are not included in the carrying amount of the subsidiary. Instead they are recognized as expense in the income statement. The assets and liabilities (net assets) of the subsidiary are included at their fair values. If shares in the subsidiary are held before acquiring control, they must be revalued and any resultant change in value must be recognized in the income statement in other operating income or other operating expenses. Gains or losses recognized in other comprehensive income must be derecognized in the same way as if the acquirer had divested the shares previously held. 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.

Changes in shareholdings in a previously consolidated subsidiary that do not result in a loss of control are recognized directly in equity as a transaction between owners. In this case, the shares attributable to the owners of the parent company and to the other shareholders are adjusted to reflect the changes in their respective stakes in the subsidiary. Any difference between this adjustment and the fair value of the consideration paid or received is recognized directly in equity and allocated to the shares attributable to the owners of the parent company. Directly related transaction costs are also recognized as a transaction between owners that has no impact on income, with the exception of costs for the issuance of debt or equity instruments, which are still measured in accordance with the criteria for recognizing financial instruments. Cash inflows and outflows relating to these transactions are presented in the cash flow from financing activities.

The subsidiary must be deconsolidated as of the date on which control is lost. The net assets of the subsidiary and non-controlling interests (proportionate net assets of the subsidiary) are derecognized. The gain or loss on the divestments must be calculated from the Group viewpoint. This is derived from the difference between the proceeds of the divestment (selling price less costs to sell) and the proportionate divested net assets of the subsidiary (including the remaining hidden reserves and liabilities, and any goodwill shown on the balance sheet). The shares in the former subsidiary still held by Evonik are revalued at fair value as of the date on which control is lost. All resulting gains and losses are recognized in the income statement as other operating income or other operating expenses. In addition, amounts shown in equity under accumulated other comprehensive income are also rebooked to the income statement, expect where another accounting standard requires direct transfer to revenue reserves.

Intragroup 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 and 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, see Note (3.7) "Investments recognized at equity".

(3.6) Currency translation

Foreign currency transactions are measured at the exchange rate on 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 using the equity method 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 rates		Closing rates	
€1 corresponds to	**2012**	2011	**Dec. 31, 2012**	Dec. 31, 2011
Brazilian real (BRL)	2.52	2.33	2.70	2.42
British pound (GBP)	0.81	0.87	0.82	0.84
Chinese renminbi yuan (CNY)	8.15	9.01	8.22	8.16
Japanese yen (JPY)	103.24	111.12	113.61	100.20
Swiss franc (CHF)	1.21	1.23	1.21	1.22
US dollar (US$)	1.29	1.40	1.32	1.29

(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
Evonik mainly generates sales by selling specialty chemicals to industrial customers for further processing, see Note (9.1) for more detailed information.

The Consumer, Health & Nutrition segment's products are used principally for applications in the consumer goods, animal nutrition and health-care sectors.

The Resource Efficiency segment provides environment-friendly and energy-efficient system solutions.

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

The Services segment mainly provides services for the specialty chemicals segments and the Corporate Center, but also serves third parties.

Since January 1, 2012, the operational management of the Real Estate segment's property holdings has been assigned to Vivawest Wohnen GmbH (Vivawest Wohnen), Essen (Germany), a joint venture with THS GmbH (THS), Essen (Germany). To this end, leasing agreements have been concluded between Vivawest Wohnen (lessee) and the companies that own the real estate (lessors). Since Vivawest Wohnen is included at equity, sales from rental business are no longer recognized. Instead, the pro rata rental revenues of the fully consolidated owners are recognized after deducting the attributable management expenses.

The following comments on revenue recognition apply:
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 such sales 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.

(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. Their useful life 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 segments, 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 value of goodwill is determined from the market value of the relevant segment. The market value is the present value of future cash flows determined using a valuation model. Future cash flows are derived from the current five-year mid-term plan. The mid-term planning is based on a mixture of experience and expectations of future market trends. The main economic data, such as growth in gross domestic product, the development of interest rates, exchange rates, and raw material prices used in the mid-term planning are derived from internal and external market expectations and set centrally by Evonik. The specific growth rates for individual segments are derived from experience and future expectations.

The expected future cash flows are discounted using the weighted average cost of capital (WACC) after taxes. WACC is determined for each segment 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-free interest rate is identical for all segments. The risk premium is derived by multiplying the beta factor by the market risk premium. The beta factor is obtained from the capital market by comparison with the values for comparable companies for the segment (peer group). The cost of debt for the Consumer, Health & Nutrition, Resource Efficiency, Specialty Materials and Services segments takes account of a risk-free interest rate and premiums for the credit risk and tax rates for the relevant segment. In the Real Estate segment the actual cost of debt is used. A terminal growth rate is assumed for individual segments.

The table shows the parameters used and the allocation of goodwill:

	Risk-free interest rate (in %)		WACC after taxes (in %)		Growth rate (in %)		Goodwill (in € million)	
	2012	2011	**2012**	2011	**2012**	2011	**Dec. 31, 2012**	Dec. 31,2011
Consumer, Health & Nutrition	1.75	3.25	4.91	6.35	1.50	1.50	1,001	1,009
Resource Efficiency	1.75	3.25	8.22	8.82	1.50	1.50	875	894
Specialty Materials	1.75	3.25	7.80	8.41	1.50	1.50	715	724
Services	1.75	3.25	7.00	7.89	1.50	1.50	52	52
Real Estate	1.75	3.25	3.46	4.29	1.00	1.00	40	40
Corporate, other operations	1.75	3.25	5.97	7.18	1.50	1.50	26	25

The carrying amounts of goodwill are allocated among the segments for the purpose of impairment testing. The goodwill allocated to the three chemicals segments principally relates to earlier acquisitions of shares in Evonik Degussa GmbH (Evonik Degussa), Essen (Germany). In the segment reporting, it is assigned to "Corporate, other operations, consolidation".

Investments recognized at equity

Material associated companies and joint ventures are recognized using the equity method if Evonik is able to exert a significant influence or exercises joint control.

Initially they are measured at cost of acquisition. The cost of acquisition also contains all ancillary acquisition costs directly attributable to the investment.

As the basis for the measurement of the investment in subsequent periods, the difference between the cost of acquisition and the proportionate equity must be determined. This is then analyzed to see whether it contains hidden reserves or hidden liabilities. Any positive difference remaining after allocation of hidden reserves or liabilities is treated as goodwill and recognized in the carrying amount of the investment. Negative differences are immediately included in income by increasing the carrying amount of the investment.

Starting from the cost of acquisition of the investment, in subsequent periods its carrying amount is increased or reduced by the proportionate net income. Further adjustments to the carrying amount of the investment are necessary if the equity of the investment alters as a result of items contained in other comprehensive income. Subsequent measurement must take into account depreciation of hidden reserves identified at the time of initial consolidation and deducted from the proportionate net income. To avoid dual recognition, any dividends received must be deducted from the carrying amount.

If there are indications of a possible impairment, the investment must be tested for impairment, see Note (3.7) "Impairment test". No separate impairment test is performed for the proportionate goodwill. The impairment test is performed for the entire carrying amount of the investment. Accordingly, impairment losses are not allocated to the proportionate goodwill included in the carrying amount of the investment and can be reversed in full in subsequent periods.

Inventories

Inventories are measured at the lower of cost and net realizable value. The historical cost of acquisition or production is the upper limit. The net realizable value corresponds to the selling price in the ordinary course of business less the production and selling expenses incurred prior to sale. 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 production 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 and which does not comprise a large number of regularly produced inventories.

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.

Cash and cash equivalents

This item contains checks, cash and cash equivalents and balances held at banks. It also contains highly liquid financial instruments with a maturity, calculated as of the date of purchase, of no more than three months, that can be converted into cash and cash equivalents at any time and are only subject to negligible fluctuations in value. They are measured at fair value.

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 2005G mortality tables published by Klaus Heubeck. Pension obligations outside Germany are determined using country-specific parameters and measurement 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 tax rate includes a solidarity surcharge of 5.5 percent of the German corporation tax and average trade tax of around 14 percent. For German companies that utilize the right to extended trade tax reductions pursuant to Section 9 No. 1 Sentence 2 ff of the German Trade Tax Act (GewStG), a tax rate of 16 percent is used to calculate deferred taxes. This corresponds to German corporation tax including the solidarity surcharge. The tax rates used for foreign companies are their national tax rates. These vary between 10 percent (Hungary) and 41 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 divided into derivative and non-derivative financial instruments and are recognized on the balance sheet as financial assets or financial liabilities or as trade accounts receivable or trade accounts payable.

Financial instruments are initially measured at fair value plus any directly attributable transaction costs. Transaction costs for financial instruments held at fair value through profit or loss are included directly in the income statement. Fair value measurement is based on a three-level hierarchy. The fair value is the quoted price on an active market, if such price data are available (Level 1). If such 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 price data should be used (Level 2). In all other cases, valuation methods that are not based on observable market data are used (Level 3). Discounted cash flow analyses or option pricing models have been selected as established valuation methods. To measure non-current financial instruments that do not bear interest at market 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) Non-derivative financial instruments

Evonik classifies non-derivative 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 Evonik 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.

Non-derivative 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, in the case of 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, taking into account deferred taxes. 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. 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 loans. 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 to hedge the risk of changes in exchange rates, the price of commodities and interest rates. Hedging instruments such as interest rate swaps, options, forward exchange contracts and forward commodity contracts are recognized on the balance sheet either on a stand-alone basis or as a valuation unit with the corresponding hedged items (hedge accounting). 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 financial valuation 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 by discounting future cash flows.

Stand-alone financial derivatives are assigned to the category at fair value through profit or loss and classified as held for trading. Financial instruments assigned to this category are recognized at fair value on each reporting date. Any gain or loss resulting from a change in their fair value is recognized in the income statement.

Both the hedging instrument and the hedged item have to meet specific criteria to qualify for hedge accounting. In particular, hedge accounting requires extensive documentation of the hedging 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 type of hedge, hedging instruments for which hedge accounting is used, 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 relating to the hedged risk as well as changes in the value of the hedged item are recognized in the income statement. 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 which affects income. 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. The effective portion of changes in the fair value of a hedging instrument is recognized in other comprehensive income and 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 hedges on the procurement of goods are included in the cost of sales. If the hedged future transaction comprises a non-financial asset or liability, the gain 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 accounted for in the same way as cash flow hedges. Gains and losses recognized in other comprehensive income are reclassified to the income statement when the foreign subsidiary is divested or investment in it is reduced.

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, long-term supply agreements, 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 minimum lease payments, whichever is the lower. The payment obligations arising from future lease payments are recognized as a liability at the discounted settlement value. Where Evonik is the lessor, it recognizes a receivable equivalent to the net investment value rather than the property, plant and equipment.

Assets recognized by the lessee are depreciated in accordance with IAS 16. For subsequent measurement of the lease liability or lease receivable, the lease rate paid or received is divided into an interest portion and a repayment portion using the effective interest method. The interest portion is recognized in the income statement as interest income or expense over the term of the contract. The repayment portion is calculated as the difference between the lease rate and interest portion and steadily decreases the lease liability or lease receivable.

Receivables and liabilities from finance leases are recognized on the balance sheet as financial assets or financial liabilities.

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 presented separately.

The assets and liabilities must be measured in accordance with the relevant accounting standards immediately before initial classification as held for sale. They are subsequently valued at the lower of the carrying amount and fair value less costs to sell. Where the assets and liabilities do not fall within the scope of the measurement criteria set out in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, subsequent revaluation is performed in accordance with the relevant accounting standards. At Evonik these are mainly:

- IAS 2 Inventories
- IAS 12 Income Taxes
- IAS 19 Employee Benefits and
- IAS 39 Financial Instruments: Recognition and Measurement.

Unless they are classified as discontinued operations, the results of the valuation and the sale of the asset are still 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 flows from the operating activities of discontinued operations are 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 construction of such assets. They are reflected in the income statement over the useful life of the assets through lower depreciation. The benefit arising from low-interest government loans is accrued in other liabilities and released to income over the term of the loans in the same amount as the interest on the loans. The amount released is recognized in sales revenues if the low-interest loan was granted as compensation for rental revenues forgone. If the interest benefit was granted in connection with an investment, the amount released over the period for which the benefit is granted is recognized in other operating income. Other grants are accrued and recognized as income over the same period as the expenses for which they are expected to compensate.

Contingent liabilities, contingent receivables 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.

Contingent receivables are possible assets arising from past events, which cannot be recognized on the balance sheet, and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not fully under the company's control. A contingent receivable is indicated where an inflow resulting from its economic benefits is probable.

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 considerable 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 of 10 percent in the weighted cost of capital (WACC) after taxes as a result of changes in capital market interest rates would not result in any impairment losses.

(b) Impairment testing of deferred tax assets

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

(c) Impairment of other assets

Estimates are made about the useful life, depreciation/amortization period and value of other intangible assets, property, plant and equipment, investment property, investments, and loans and receivables. These estimates are based on experience and planning data, which contain assumptions on business conditions, sector trends and the creditworthiness of customers.

If there is a considerable change in such assumptions or circumstances, the estimates have to be reviewed. This may result in impairment of the related assets.

(d) 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.

As of December 31, 2012, the data formerly used to calculate the discount rate for the measurement of provisions for pensions and other post-employment benefits in the euro zone was adjusted, see Note (7.10). Until this date, the discount rate was determined using the basket of corporate bonds with top credit-worthiness defined by iBoxx EUR Corporate AA. However, the number of bonds in this index declined so sharply in 2012 owing to rating downgrades that it no longer provided an adequate basis for determining a stable discount rate that was commensurate with the accounting standards. The basic data have therefore been extended and now include bonds with a lower outstanding volume that have at least an AA rating from one of the three major internationally recognized rating agencies.

Before this change, the discount rate would have been 3.25 percent as of December 31, 2012. The new discount rate is 3.75 percent.

At a discount rate of 3.25 percent for the euro zone, the provisions for pensions and other post-employment benefits would have been €654 million higher at year-end 2012. Under the amendments to IAS 19, in 2013 this would have led to €26 million higher service costs and €2 million higher net interest cost.

A reduction of one percentage point in the Group-wide discount rate would increase the present value of the defined benefit obligation by €1,575 million. Conversely, increasing the discount rate by one percentage point would decrease the defined benefit obligation by about €1,220 million.

If the trend in health-care costs were to increase by one percentage point, the accumulated health-care benefit obligation would increase by €13 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 €11 million and personnel expense by €1 million.

(e) 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. The Group uses different interest rates for different currencies and terms to maturity.

(5) Changes in the Group

(5.1) Scope of consolidation and list of shareholdings

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.

Companies whose influence on the assets, financial position and earnings of the Group, both individually and in aggregate, is negligible are recognized at amortized cost in the consolidated financial statements.

The scope of consolidation changed as follows in 2012:

Number of companies	Germany	Other countries	**Total**
Evonik Industries AG and consolidated subsidiaries			
As of December 31, 2011	**68**	**115**	**183**
Acquisitions	–	–	–
Other companies consolidated for the first time	3	7	10
Divestments	–1	–4	–5
Intragroup mergers	–3	–	–3
Other companies deconsolidated	–	–11	–11
As of December 31, 2012	**67**	**107**	**174**
Investments recognized at equity			
As of December 31, 2011	**11**	**5**	**16**
Acquisitions	–	1	1
Other investments recognized at equity for the first time	–	2	2
Divestments	–	–	–
Other companies deconsolidated	–	–	–
As of December 31, 2012	**11**	**8**	**19**
	78	**115**	**193**

Further information on acquisitions and divestments in 2012 can be found in Note (5.2).

The impact of changes in shareholdings in subsidiaries that did not result in a loss of control is negligible.

The following list shows Evonik's shareholdings in accordance with Section 313 Paragraph 2 of the German Commercial Code (HGB). The shareholdings have been calculated in accordance with Section 16 of the German Stock Corporation Act (AktG). Accordingly, the calculation includes shares held by the parent company, a subsidiary included in the consolidated financial statements or a person acting on behalf of these companies.

German subsidiaries that make use of the provisions of Sections 264 Paragraph 3 and 264 b 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 are indicated.

Also indicated are companies in which Evonik's shareholding amounts to more than 50 percent of the capital but which are recognized at equity as Evonik does not have a majority of the voting rights.

The following subsidiaries were included in the consolidated annual financial statements:

Name of company	Registered office	Shareholding in %
Consolidated subsidiaries		
Germany		
Aachener Bergmannssiedlungsgesellschaft mbH	Hückelhoven	100.00
AQura GmbH	Hanau	[1] 100.00
Bauverein Glückauf GmbH	Ahlen	100.00
BHS Liegenschaften GmbH & Co. KG	Peißenberg	100.00
BHS Liegenschaften Verwaltungs-GmbH	Peißenberg	100.00
BHS Projektentwicklungs-GmbH & Co. KG	Peißenberg	100.00
BK-Wolfgang-Wärme GmbH	Hanau	100.00
CyPlus GmbH	Hanau	100.00
EBV Gesellschaft mit beschränkter Haftung	Hückelhoven	100.00
Evonik Beteiligungs-GmbH	Frankfurt am Main	[1] 100.00
Evonik Chempower GmbH	Essen	100.00
Evonik Dahlenburg GmbH	Dahlenburg	100.00
Evonik Degussa GmbH	Essen	100.00
Evonik Degussa Immobilien GmbH & Co. KG	Marl	100.00
Evonik Degussa Immobilien Verwaltungs-GmbH	Marl	100.00
Evonik Goldschmidt GmbH	Essen	100.00
Evonik Goldschmidt Rewo GmbH	Steinau an der Straße	100.00
Evonik Gorapur GmbH	Wittenburg	[1] 100.00
Evonik Hanse GmbH	Geesthacht	[1] 100.00
Evonik IP GmbH (i.G.)	Eschborn	100.00
Evonik Litarion GmbH	Kamenz	[1] 100.00
Evonik Oil Additives GmbH	Darmstadt	100.00
Evonik Oxeno GmbH	Marl	100.00
Evonik Peroxygens GmbH	Essen	100.00
Evonik Peroxygens Holding GmbH	Essen	100.00
Evonik Polymer Technologies GmbH	Wörth am Main	[1] 100.00
Evonik Projekt-Beteiligungs-GmbH & Co. KG	Essen	99.00
Evonik Projekt-Beteiligung Verwaltungs-GmbH	Essen	100.00
Evonik Risk and Insurance Services GmbH	Essen	[1] 100.00
Evonik Röhm GmbH	Darmstadt	100.00
Evonik Services GmbH	Essen	[1] 100.00
Evonik Technochemie GmbH	Dossenheim	[1] 100.00
Evonik Tego Chemie GmbH	Essen	[1] 100.00
Evonik Wohnen GmbH	Essen	100.00

[1] Utilizes the exemptions permitted under Sections 264 Paragraph 3 and 264 b of the German Commercial Code.

Name of company	Registered office		Shareholding in %
Consolidated subsidiaries			
Goldschmidt ETB GmbH	Berlin	[1]	100.00
Goldschmidt SKW Surfactants GmbH	Essen		100.00
HD Ceracat GmbH	Frankfurt am Main		100.00
Heinrich Schäfermeyer GmbH	Hückelhoven		100.00
Hüls Service GmbH	Marl	[1]	100.00
HVG Grünflächenmanagement GmbH	Essen		99.00
Industriepark Wolfgang GmbH	Hanau		100.00
Infracor GmbH	Marl		100.00
Infracor Lager- und Speditions-GmbH	Marl	[1]	100.00
KMV Vermögensverwaltungs-GmbH	Marl		100.00
Li-Tec Battery GmbH	Kamenz		50.10
Lünener Wohnungs- und Siedlungsgesellschaft mbH	Lünen		100.00
Mönch-Kunststofftechnik GmbH	Bad König	[1]	100.00
R & B Industrieanlagenverwertung GmbH	Essen		100.00
RBV Verwaltungs-GmbH	Essen		100.00
RCIV Vermögensverwaltungs-GmbH	Essen		100.00
Rhein Lippe Wohnen GmbH	Duisburg		100.00
RHZ Handwerks-Zentrum GmbH	Gladbeck		99.00
RIAG Immobilienverwaltung GmbH	Essen		100.00
RÜTGERS Dienstleistungs-GmbH	Essen		100.00
RÜTGERS GmbH	Essen		100.00
RÜTGERS Rail Verwaltungs GmbH	Essen		100.00
Siedlung Niederrhein GmbH	Dinslaken		100.00
Stockhausen Unterstützung-Einrichtungs GmbH	Krefeld		100.00
Th. Goldschmidt-Fürsorge GmbH (i.L.)	Essen		100.00
Vivawest Beteiligungen GmbH & Co. KG	Essen		94.90
Vivawest GmbH	Essen		100.00
Walsum Immobilien GmbH	Duisburg		94.90
Westgas GmbH	Marl		100.00
Wohnbau Auguste Victoria GmbH	Marl		100.00
Wohnbau Westfalen GmbH	Dortmund		100.00
Wohnungsbaugesellschaft mit beschränkter Haftung "Glückauf"	Moers		100.00
Other countries			
Cosmoferm B.V. (i.L.)	Delft (Netherlands)		100.00
Degussa Africa Holdings (Pty) Ltd.	Johannesburg (South Africa)		84.37
Degussa International Inc.	Wilmington (Delaware, USA)		100.00

[1] Utilizes the exemptions permitted under Sections 264 Paragraph 3 and 264 b of the German Commercial Code.

Name of company	Registered office	Shareholding in %
Consolidated subsidiaries		
Degussa Limited	Milton Keynes (UK)	100.00
Degussa SKW Co.	Milton Keynes (UK)	100.00
Egesil Kimya Sanayi ve Ticaret A.S.	Istanbul (Turkey)	51.00
EGL Ltd.	Milton Keynes (UK)	100.00
Evonik Acrylics Africa (Pty) Ltd.	Johannesburg (South Africa)	51.00
Evonik Aerosil France S.A.R.L.	Salaise-sur-Sanne (France)	100.00
Evonik Agroferm Zrt.	Kaba (Hungary)	100.00
Evonik Amalgamation Ltd.	Milton Keynes (UK)	100.00
Evonik Australia Pty Ltd.	Mount Waverley (Victoria, Australia)	100.00
Evonik Canada Inc.	Calgary (Canada)	100.00
Evonik Carbon Black Nederland B.V.	Botlek (Netherlands)	100.00
Evonik CB LLC	Wilmington (Delaware, USA)	100.00
Evonik Cristal Materials Corporation	Taipei (Taiwan)	52.00
Evonik Cyro Canada Inc.	Etobicoke (Canada)	100.00
Evonik Cyro LLC	Wilmington (Delaware, USA)	100.00
Evonik Degussa Africa (Pty) Ltd.	Midrand (South Africa)	100.00
Evonik Degussa Antwerpen N.V.	Antwerp (Belgium)	100.00
Evonik Degussa Argentina S.A.	Buenos Aires (Argentina)	100.00
Evonik Degussa Brasil Ltda.	São Paulo (Brazil)	100.00
Evonik Degussa Canada ULC	Calgary (Canada)	100.00
Evonik Degussa Carbons, Inc.	Wilmington (Delaware, USA)	100.00
Evonik Degussa Chile S.A.	Santiago (Chile)	99.99
Evonik Degussa (China) Co., Ltd.	Beijing (China)	100.00
Evonik Degussa Corporation	Parsippany (New Jersey, USA)	100.00
Evonik Degussa France Groupe S.A.S.	Ham (France)	100.00
Evonik Degussa Hong Kong Ltd.	Hong Kong (Hong Kong)	100.00
Evonik Degussa Ibérica S.A.	Granollers (Spain)	100.00
Evonik Degussa India Pvt. Ltd.	Mumbai (India)	100.00
Evonik Degussa International AG	Zurich (Switzerland)	100.00
Evonik Degussa Iran AG	Teheran (Iran)	100.00
Evonik Degussa Italia S.p.A.	Milan (Italy)	100.00
Evonik Degussa Japan Co., Ltd.	Tokyo (Japan)	100.00
Evonik Degussa Korea Ltd.	Seoul (South Korea)	100.00
Evonik Degussa Mexico S.A. de C.V.	Mexico City (Mexico)	100.00
Evonik Degussa Mexico Servicios, S.A. de C.V.	Mexico City (Mexico)	100.00
Evonik Degussa Peroxid GmbH	Klagenfurt (Austria)	100.00
Evonik Degussa Services LLC	Wilmington (Delaware, USA)	100.00
Evonik Degussa Specialty Chemicals (Shanghai) Co., Ltd.	Shanghai (China)	100.00

Name of company	Registered office	Shareholding in %
Consolidated subsidiaries		
Evonik Degussa Taiwan Ltd.	Taipei (Taiwan)	100.00
Evonik Degussa Ticaret Ltd. Sirketi	Tuzla/Istanbul (Turkey)	100.00
Evonik Degussa UK Holdings Ltd.	Milton Keynes (UK)	100.00
Evonik Dutch Holding B.V.	Amsterdam (Netherlands)	100.00
Evonik Fermas s.r.o.	Slovenská L'upča (Slovakia)	100.00
Evonik Fibres GmbH	Schörfling (Austria)	100.00
Evonik Finance B.V.	Amsterdam (Netherlands)	100.00
Evonik Foams Inc.	Wilmington (Delaware, USA)	100.00
Evonik Forhouse Optical Polymers Corporation	Taichung (Taiwan)	51.00
Evonik Goldschmidt Corp.	Wilmington (Delaware, USA)	100.00
Evonik Goldschmidt UK Ltd.	Milton Keynes (UK)	100.00
Evonik Gulf FZE	Dubai (United Arab Emirates)	100.00
Evonik International Holding B.V.	Amsterdam (Netherlands)	100.00
Evonik Jayhawk Fine Chemicals Corporation	Carson City (Nevada, USA)	100.00
Evonik Malaysia Sdn. Bhd.	Kuala Lumpur (Malaysia)	100.00
Evonik MedAvox SpA (i.L.)	Milan (Italy)	100.00
Evonik Membrane Extraction Technology Limited	Milton Keynes (UK)	100.00
Evonik Methionine SEA Pte. Ltd.	Singapore (Singapore)	100.00
Evonik Metilatos S.A.	Rosario (Argentina)	100.00
Evonik Mexico S.A. de C.V.	Mexico City (Mexico)	100.00
Evonik Monosilane Japan Co., Ltd.	Tokyo (Japan)	100.00
Evonik Oil Additives Asia Pacific Pte. Ltd.	Singapore (Singapore)	100.00
Evonik Oil Additives Canada Inc.	Morrisburg (Canada)	100.00
Evonik Oil Additives S.A.S.	Lauterbourg (France)	100.00
Evonik Oil Additives USA, Inc.	Horsham (Pennsylvania, USA)	100.00
Evonik Oxeno Antwerpen N.V.	Antwerp (Belgium)	100.00
Evonik Para-Chemie GmbH	Gramatneusiedl (Austria)	99.00
Evonik Pension Scheme Trustee Limited	Milton Keynes (UK)	100.00
Evonik Peroxide Africa (Pty) Ltd.	Umbogintwini (South Africa)	100.00
Evonik Peroxide B.V.	Amsterdam (Netherlands)	100.00
Evonik Peroxide Holding B.V.	Amsterdam (Netherlands)	100.00
Evonik Peroxide Ltd.	Morrinsville (New Zealand)	100.00
Evonik Re S.A.	Luxembourg (Luxembourg)	100.00
Evonik Rexim (Nanning) Pharmaceutical Co., Ltd.	Nanning (China)	100.00
Evonik Rexim S.A.S.	Ham (France)	100.00
Evonik (SEA) Pte. Ltd.	Singapore (Singapore)	100.00
Evonik Silquimica S.A.	Zubillaga-Lantaron (Spain)	100.00
Evonik Solar Norge AS	Trondheim (Norway)	100.00

Name of company	Registered office	Shareholding in %
Consolidated subsidiaries		
Evonik Speciality Organics Ltd.	Milton Keynes (UK)	100.00
Evonik Specialty Chemicals (Chongqing) Co., Ltd.	Chongqing (China)	100.00
Evonik Specialty Chemicals (Jilin) Co., Ltd.	Jilin (China)	100.00
Evonik Stockhausen LLC	Wilmington (Delaware, USA)	100.00
Evonik Thai Aerosil Co. Ltd.	Bangkok (Thailand)	100.00
Evonik (Thailand) Ltd.	Bangkok (Thailand)	100.00
Evonik Tianda (Liaoyang) Chemical Additive Co., Ltd.	Liaoyang (China)	97.04
Evonik Trustee Limited	Milton Keynes (UK)	100.00
Evonik United Silica Industrial Ltd.	Tao Yuan Hsien (Taiwan)	100.00
Evonik United Silica (Siam) Ltd.	Rayong (Thailand)	70.00
Evonik Wellink Silica (Nanping) Co., Ltd.	Nanping (China)	60.00
Insilco Ltd.	Gajraula (India)	73.11
JIDA Evonik High Performance Polymers (Changchun) Co., Ltd.	Changchun (China)	84.04
Laporte Industries Ltd.	Milton Keynes (UK)	100.00
Laporte Nederland (Holding) B.V.	Amsterdam (Netherlands)	100.00
Laporte Organisation Ltd. (i.L.)	London (UK)	100.00
Nilok Chemicals Inc. (i.L.)	Parsippany (New York, USA)	100.00
Nippon Aerosil Co., Ltd.	Tokyo (Japan)	80.00
OOO Destek	Podolsk (Russian Federation)	62.25
OOO Evonik Chimia	Moscow (Russian Federation)	100.00
PT. Evonik Indonesia	Cikarang Bekasi (Indonesia)	100.00
PT. Evonik Sumi Asih	Bekasi Timur (Indonesia)	75.00
Qingdao Evonik Chemical Co., Ltd.	Jiaozhou (China)	52.00
Roha B.V.	Tilburg (Netherlands)	100.00
RÜTGERS Organics Corporation	State College (Pennsylvania, USA)	100.00
SKC Evonik Peroxide Korea Co., Ltd.	Ulsan (South Korea)	55.00
Stockhausen Nederland B.V.	Amsterdam (Netherlands)	100.00
The St. Bernard Insurance Company Ltd.	Douglas (Isle of Man)	100.00

The following joint ventures and associated companies were included in the consolidated financial statements using the equity method:

Name of company	Registered office	Shareholding in %
Joint ventures (recognized at equity)		
Germany		
JSSi GmbH	Freiberg	[2] 51.00
StoHaas Management GmbH	Marl	50.00
StoHaas Monomer GmbH & Co. KG	Marl	50.00
THS GmbH	Essen	50.00
Vivawest Wohnen GmbH	Essen	50.00
Other countries		
Daicel-Evonik Ltd.	Tokyo (Japan)	50.00
DSL. Japan Co., Ltd.	Tokyo (Japan)	[2] 51.00
Evonik Headwaters LLP	Milton Keynes (UK)	50.00
Evonik Lanxing (Rizhao) Chemical Industrial Co., Ltd.	Rizhao (China)	50.00
Evonik Treibacher GmbH	Treibach-Althofen (Austria)	50.00
Perorsa – Peróxidos Orgánicos S.A. (i.L.)	Barcelona (Spain)	50.00
Rusferm Limited	Nicosia (Cyprus)	49.00
Associated companies (recognized at equity)		
Germany		
ARG mbH & Co. KG	Duisburg	[3] 19.93
Deutsche Industrieholz GmbH	Essen	45.00
RAG Verkauf GmbH	Herne	49.00
STEAG GmbH	Essen	49.00
TÜV NORD InfraChem GmbH & Co. KG	Marl	49.00
TÜV NORD InfraChem Verwaltungsgesellschaft mbH	Marl	49.00
Other countries		
Saudi Acrylic Polymers Company, Ltd.	Jubail (Saudi Arabia)	25.00

[2] Recognized at equity as Evonik does not have a majority of the voting rights.
[3] Evonik is able to exercise a material influence under contractual agreements.

The following companies were included in the consolidated financial statements at amortized cost on the grounds of materiality:

Name of company	Registered office	Shareholding in %
Non-consolidated subsidiaries (recognized at amortized cost)		
Germany		
GSB Gesellschaft zur Sicherung von Bergmannswohnungen mbH	Essen	[4] 50.00
PKU Pulverkautschuk Union GmbH (i.L.)	Marl	100.00
RWS Wohnpark Sanssouci GmbH	Essen	67.10
SJ Brikett- und Extrazitfabriken GmbH	Hückelhoven	100.00
Studiengesellschaft Kohle mbH	Mülheim	69.99
Other countries		
Ariens Steenfabriek I B.V.	Almelo (Netherlands)	100.00
Evonik Degussa Romania S.R.L. (i.L.)	Bucharest (Romania)	100.00
Inspec Fine Chemicals Ltd. (i.L.)	Milton Keynes (UK)	100.00
Laporte Chemicals Ltd.	Milton Keynes (UK)	100.00
RÜTGERS S.r.L. (i.L.)	Milan (Italy)	99.99
Sarclear Ltd. (i.L.)	Milton Keynes (UK)	100.00
SKW Chemicals UK Ltd. (i.L.)	Milton Keynes (UK)	100.00
Joint ventures (recognized at amortized cost)		
Germany		
Faserwerke Hüls Gesellschaft mit beschränkter Haftung	Marl	50.00
Landschaftsagentur Plus GmbH	Essen	50.00
Associated companies (recognized at amortized cost)		
Germany		
Interkommunale Entwicklungsgesellschaft Hückelhoven-Wassenberg mbH	Hückelhoven	25.00
Umschlag Terminal Marl GmbH & Co. KG	Marl	50.00
Umschlag Terminal Marl Verwaltungs-GmbH	Marl	50.00
Wohnbau Dinslaken GmbH	Dinslaken	46.45
Other investments (recognized at amortized cost)		
Germany		
Industriepark Münchsmünster GmbH & Co. KG	Münchsmünster	[5] 30.00
Industriepark Münchsmünster Verwaltungsgesellschaft mit beschränkter Haftung	Münchsmünster	[5] 38.00

[4] Evonik has a controlling interest.
[5] Evonik does not exercise any material influence.

(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
No significant acquisitions were made in the reporting period.

Divestments
On March 5, 2012 Evonik signed an agreement to divest its global Colorants business to a subsidiary of Arsenal Capital Management LP., New York (New York, USA). The transaction was closed on April 30, 2012. It comprised the assets and liabilities of companies located in the USA, Canada, Brazil, Australia, China, Malaysia and the Netherlands. Three subsidiaries were deconsolidated as a result of this divestment. Until then, the Colorants business was part of the Resource Efficiency segment. It was agreed not to disclose the financial terms of the transaction.

On June 30, 2012, Evonik signed an agreement to divest its shares in the subsidiary Evonik Sanzheng (Yinghou) Fine Chemicals Co. Ltd. to its Chinese partner. The transaction was closed on December 25, 2012. This company's agrochemicals operations previously belonged to the Specialty Materials segment.

In addition, a number of small divestments were made. Their impact on the consolidated financial statements was also negligible.

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

in € million	Carrying amounts divested
Non-current assets	89
Current assets (excluding cash and cash equivalents)	63
Cash and cash equivalents	4
Non-current liabilities	3
Current liabilities	51
Selling price (gross)	125

(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 smaller non-core operations. Where these divestment processes have not yet been completed, the businesses are still included in the consolidated financial statements. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations sets out the valuation and accounting principles to be used for such operations, see Note (3.7), and their presentation in the consolidated financial statements.

Assets held for sale and the associated liabilities have to be stated separately from other assets and liabilities on the balance sheet. The amounts recognized for these assets and liabilities in 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-period figures in the income statement have to be restated.

Post-divestment income and expenses resulted from various past transactions relating to businesses previously classified as discontinued operations.

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 income after taxes		Divestment gains/losses after taxes		Income after taxes from discontinued operations	
in € million	**2012**	2011	**2012**	2011	**2012**	2011
Former Energy Business Area	–	16	6	–106	6	–90
Other discontinued operations	–	–	9	12	9	12
	–	**16**	**15**	**–94**	**15**	**–78**

The following income and expense items relate to the operating income of the former Energy Business Area:

Income statement

in € million	**2012**	2011
Income	–	700
Expenses	–	–649
Operating earnings before income taxes, discontinued operations	–	**51**
Income taxes	–	–35
Operating earnings after taxes, discontinued operations	–	**16**

The divestment gains/losses from discontinued operations comprise the following:

Income statement

in € million	2012	2011
Income before income taxes from the divestment of discontinued operations	**17**	**–93**
Former Energy Business Area	7	–105
Other discontinued operations	10	12
Income taxes	**–2**	**–1**
Former Energy Business Area	–1	–1
Other discontinued operations	–1	–
Income after taxes from the divestment of discontinued operations	**15**	**–94**
Former Energy Business Area	6	–106
Other discontinued operations	9	12

The assets and liabilities reclassified on the balance sheet as of December 31, 2012 relate to a subsidiary that had been reported under "Corporate, other operations, consolidation" in the segment report.

As of December 31, 2011, assets held for sale mainly comprised the property management activities of Evonik Wohnen GmbH (Evonik Wohnen), Essen (Germany). These activities were transferred to Vivawest Wohnen effective January 1, 2012. Vivawest Wohnen is a joint venture of Evonik and THS. The property management business was part of the Real Estate segment until its transfer.

Balance sheet

in € million	Dec. 31, 2012	Dec. 31, 2011
Property, plant and equipment	6	9
Deferred taxes/other income tax assets	3	6
Inventories	7	9
Trade accounts receivable	16	18
Other receivables	2	4
Cash and cash equivalents	–	1
Assets held for sale	**34**	**47**
Provisions for pensions and other post-employment benefits	–	29
Other provisions	1	27
Deferred taxes/other income taxes liabilities	1	–
Financial liabilities	8	11
Trade accounts payable	3	3
Other liabilities	–	18
Liabilities associated with assets held for sale	**13**	**88**

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

(6) Notes to the income statement

(6.1) Sales

in € million	**2012**	2011
Revenues from the sale of goods and services	13,462	14,178
Revenues from investment property	167	362
	13,629	**14,540**

(6.2) Other operating income

in € million	**2012**	2011
Income from the measurement of derivatives (excluding interest rate derivatives)	384	375
Income from insurance refunds	228	11
Gains on currency translation of monetary assets and liabilities	206	272
Income from the reversal of provisions	123	120
Income from non-core operations	93	92
Income from the reversal of impairment losses	77	19
Income from the disposal of assets	38	14
Income from research subsidies	9	16
Income from the reversal of deferred items	2	2
Other income	360	100
	1,520	**1,021**

Income from the measurement of derivatives in 2012 includes €366 million (2011: €273 million) relating to currency derivatives, €1 million (2011: none) relating to commodity hedges, and €17 million relating to the call option for the remaining 49 percent of shares in STEAG that can be exercised by KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG (KSBG), Essen (Germany) (2011: €102 million relating to the put option held by Evonik on the remaining 49 percent of shares in STEAG).

An explanation of the economic effect of income from currency derivatives and from currency translation of monetary assets and liabilities and the corresponding expenses can be found in Note (6.3).

The income from insurance refunds mainly refers to an incident at a production facility operated by the Specialty Materials segment at the site in Marl (Germany) and essentially offsets income lost as a result of the subsequent production stoppage.

The income from non-core operations contains income from occasional, unplanned business activities that are not intended to be permanent operations.

The income from reversals of impairment losses in accordance with IAS 39 Financial Instruments: Recognition and Measurement includes €12 million (2011: €2 million) relating to trade accounts receivable and loans. In addition, reversals of impairments totaling €65 million (2011: €17 million) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and IAS 36 Impairment of Assets are divided as follows among the segments:

	Reversal of impairment losses	
in € million	**2012**	2011
Resource Efficiency	24	5
Specialty Materials	27	9
Real Estate	13	2
Corporate, other operations	1	1
	65	**17**

Income from the disposal of assets comprises €13 million (2011: €7 million) from the divestment of property, plant and equipment and investment property, €21 million (2011: €7 million) from the sale of investments, and €4 million (2011: none) from loans and receivables.

The increase in other income is mainly attributable to income from settlements in connection with the restructuring of the photovoltaic business. In addition, this item includes commission income, income from contractual penalties and the sale of scrap, and income relating to other periods.

(6.3) Other operating expenses

in € million	**2012**	2011
Losses on the measurement of derivatives (excluding interest rate derivatives)	355	369
Losses on currency translation of monetary assets and liabilities	226	233
Impairment losses pursuant to IAS 36	222	146
Additions to provisions	55	120
Losses on the disposal of assets	51	38
Expenses for restructuring	9	8
Expenses relating to the REACH Regulation	9	7
Impairment losses pursuant to IAS 39	8	17
Expenses for recultivation and environmental protection	6	7
Miscellaneous tax expense	6	4
Impairment losses pursuant to IFRS 5	4	9
Other expense	339	249
	1,290	**1,207**

Losses on the measurement of derivatives in 2012 include €349 million (2011: €287 million) relating to currency derivatives, €1 million (2011: none) relating to commodity hedges, and €5 million relating to the put option held by Evonik on the remaining 49 percent of shares in STEAG (2011: €82 million relating to the call option for the remaining 49 percent of shares in STEAG that can be exercised by KSBG).

One of the principal objectives of the Group's financial hedging strategy is to minimize the earnings risk arising from the translation of monetary assets and liabilities in foreign currencies through back-to-back currency hedges. Since these take the form of macro-hedges on the net identified currency exposures and therefore do not qualify for hedge accounting in accordance with IAS 39, income and expenses relating to currency translation of monetary assets and liabilities and income and expenses relating to the associated currency hedges are recognized as gross amounts in the income statement. The economic effect of these currency hedges is shown by the following overview of the items contained in the net currency result:

in € million	**2012**	2011
Income from currency derivatives	366	273
Income from currency translation of monetary assets and liabilities	206	272
Losses on currency derivatives	–349	–287
Losses on currency translation of monetary assets and liabilities	–226	–233
Net currency result	**–3**	**25**

The net currency result contains the result from currency derivatives used to hedge currency risks relating to off-balance-sheet firm commitments and the ineffective portion of hedging the foreign currency items recognized on the balance sheet.

Impairment losses determined in accordance with IAS 36 Impairment of Assets in response to indications of a possible impairment were divided among the segments as shown in the next table. In each case, the recoverable amount is determined as the value in use.

	Impairment losses	
in € million	**2012**	2011
Consumer, Health & Nutrition	–	1
Resource Efficiency	177	58
Specialty Materials	30	39
Services	5	–
Real Estate	10	2
Corporate, other operations	–	46
	222	**146**

The impairment losses in the Resource Efficiency segment mainly related to property, plant and equipment and were caused by the persistently tough competitive situation in the photovoltaics business.

In the Specialty Materials segment an impairment loss had to be recognized for one plant in South America as volume sales in the region were too low. Further, an impairment was recognized on capitalized project expenses in this segment as the underlying project has been abandoned.

The impairment losses in the Real Estate segment were chiefly on investment property.

Losses on the disposal of assets include €41 million (2011: €9 million) relating to the divestment of intangible assets, property, plant and equipment and investment property, and €10 million (2011: €29 million) relating to the sale of investments.

The impairment losses on financial instruments and other receivables determined in accordance with IAS 39 Financial Instruments: Recognition and Measurement comprised €8 million (2011: €16 million) on trade accounts receivable. In 2011 this item also included an impairment loss of €1 million on other receivables.

The increase in other expense mainly comprised expenses for restructuring the photovoltaic business and the incident at a production facility in Marl (Germany). This item also included expenses for outsourcing, M&A projects, commission payments and legal and consultancy fees.

(6.4) Net interest expense

in € million	**2012**	2011
Income from securities and loans	21	24
Interest and similar income from interest rate derivatives	3	–
Other interest-type income	11	26
Interest income	**35**	**50**
Interest expense on financial liabilities	–148	–170
Other interest-type expense	–21	–32
Net interest expense for pensions	–164	–183
Interest expense on accrued interest on other provisions	–59	–46
Interest expense	**–392**	**–431**
	–357	**–381**

Borrowing costs of €15 million (2011: €7 million) are capitalized. The average underlying cost of financing was 5.6 percent (2011: 4.6 percent).

(6.5) Result from investments recognized at equity

in € million	**2012**	2011
Income from measurement at equity	96	83
Expenses from measurement at equity	–9	–3
	87	**80**

Until the put or call option for the remaining 49 percent of shares in STEAG is exercised, Evonik has a claim on the majority owner, KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG (KSBG), Essen, (Germany), for a guaranteed annual dividend. The guaranteed dividend is included in income from measurement at equity and replaces the pro rata income from STEAG.

(6.6) Other financial income

Other financial income includes income of €5 million (2011: €7 million) from other investments.

(6.7) Income taxes

Income taxes comprised the following:

in € million	**2012**	2011
Current income taxes	358	392
(thereof relating to other periods)	(–40)	(–35)
Deferred taxes	102	59
(thereof relating to other periods)	(–6)	(30)
(thereof relating to temporary differences)	(–14)	(–46)
	460	**451**

The tax reconciliation shows the development of expected income taxes relative to the effective income taxes stated in the income statement. As in the previous year, the expected income taxes for 2012 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 of around 14 percent. The effective income taxes include current income taxes and deferred taxes.

in € million	**2012**	2011
Income before income taxes, continuing operations	**1,612**	**1,543**
Expected income taxes	483	463
Variances due to differences in the assessment base for trade tax	4	8
Deviation from the expected tax rate	29	23
Changes in valuation allowances on deferred taxes	–4	–73
Losses not affecting deferred taxes and the use of loss carryforwards	21	11
Changes in tax rates and tax legislation	–	2
Non-deductible expenses	23	16
Interest ceiling	–1	2
Tax-free income	–32	23
Result from investments recognized at equity	–23	–18
Other	–40	–6
Effective income taxes (current income taxes and deferred taxes)	**460**	**451**
Effective income tax rate in %	28.5	29.2

The change in the valuation allowances on deferred taxes in 2011 was principally due to the adjustment of deferred tax assets relating to the real estate business. "Other" contained current income taxes and deferred taxes relating to different periods.

(6.8) Earnings per share

Earnings per share as shown in the income statement are calculated by dividing net income by the weighted average number of shares issued, i.e. 466,000,000 shares. 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. Since there were no potential ordinary shares in either 2012 or 2011, diluted earnings per share are identical to basic earnings per share.

in € million	**2012**	2011
Income after taxes, continuing operations	1,152	1,092
Income after taxes, discontinued operations	15	–78
Less income after taxes attributable to non-controlling interests	–3	–3
Income after taxes attributable to shareholders of Evonik Industries AG (net income)	**1,164**	**1,011**
Earnings per share in € (basic and diluted)		
from continuing operations	2.47	2.34
from discontinued operations	0.04	–0.16
less earnings per share attributable to non-controlling interests	–0.01	–0.01
Earnings per share in € (basic and diluted) attributable to shareholders of Evonik Industries AG	**+2.50**	**+2.17**

(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, 2011	**2,976**	**1,735**	**167**	**480**	**5,358**
Currency translation	25	3	–	–	28
Additions from business combinations	18	35	6	2	61
Other additions	–	12	–	1	13
Reclassification pursuant to IFRS 5	–163	–62	–2	–2	–229
Disposal	–	–28	–3	–	–31
Reclassification	–	5	–1	–3	1
As of December 31, 2011	**2,856**	**1,700**	**167**	**478**	**5,201**
Currency translation	–22	–2	–	1	–23
Additions from business combinations	2	2	–	–	4
Other additions	–	38	–	–	38
Reclassification pursuant to IFRS 5	–12	–10	–	–	–22
Disposal	–3	–44	–	–1	–48
Reclassification	–	6	–	–2	4
As of December 31, 2012	**2,821**	**1,690**	**167**	**476**	**5,154**
Amortization and impairment losses					
As of January 1, 2011	**112**	**1,225**	**136**	**399**	**1,872**
Currency translation	–	3	–	–	3
Additions from business combinations	–	–	–	–	–
Amortization	–	74	4	16	94
Impairment losses	44	4	–	–	48
Reversals of impairment losses	–	–2	–	–	–2
Reclassification pursuant to IFRS 5	–44	–10	–	–1	–55
Disposal	–	–27	–3	–1	–31
Reclassification	–	–	–	–	–
As of December 31, 2011	**112**	**1,267**	**137**	**413**	**1,929**
Currency translation	–	–1	–	–	–1
Additions from business combinations	–	–	–	–	–
Amortization	–	63	6	13	82
Impairment losses	–	2	–	–	2
Reversal of impairment losses	–	–	–	–	–
Reclassification pursuant to IFRS 5	–	–4	–	–	–4
Disposal	–	–44	–	–	–44
Reclassification	–	2	–	–2	–
As of December 31, 2012	**112**	**1,285**	**143**	**424**	**1,964**
Carrying amounts as of Dec. 31, 2011	**2,744**	**433**	**30**	**65**	**3,272**
Carrying amounts as of Dec. 31, 2012	**2,709**	**405**	**24**	**52**	**3,190**

Franchises, trademarks and licenses include trademarks with an indefinite useful life totaling €207 million (2011: €208 million).

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, 2011	**2,915**	**10,651**	**1,000**	**587**	**15,153**
Currency translation	22	73	1	7	103
Additions from business combinations	30	39	7	2	78
Other additions	20	176	46	504	746
Reclassification pursuant to IFRS 5	–199	–819	–62	–27	–1,107
Disposal	–19	–141	–52	–4	–216
Reclassification	31	399	14	–446	–2
As of December 31, 2011	**2,800**	**10,378**	**954**	**623**	**14,755**
Currency translation	–17	–67	–2	–2	–88
Additions from business combinations	–	–	–	–	–
Other additions	30	198	61	694	983
Reclassification pursuant to IFRS 5	–31	–132	–6	–9	–178
Disposal	–29	–287	–39	–12	–367
Reclassification	41	348	28	–421	–4
As of December 31, 2012	**2,794**	**10,438**	**996**	**873**	**15,101**
Depreciation and impairment losses					
As of January 1, 2011	**1,571**	**8,276**	**838**	**13**	**10,698**
Currency translation	8	41	1	1	51
Additions from business combinations	2	8	1	–	11
Depreciation	55	400	51	3	509
Impairment losses	3	87	–	7	97
Reversal of impairment losses	–2	–11	–	–	–13
Reclassification pursuant to IFRS 5	–97	–598	–55	–9	–759
Disposal	–17	–128	–50	–	–195
Reclassification	–9	19	–8	–2	–
As of December 31, 2011	**1,514**	**8,094**	**778**	**13**	**10,399**
Currency translation	–10	–51	–2	–	–63
Additions from business combinations	–	–	–	–	–
Depreciation	57	395	59	–	511
Impairment losses	28	166	3	14	211
Reversal of impairment losses	–1	–30	–	–	–31
Reclassification pursuant to IFRS 5	–13	–66	–5	–	–84
Disposal	–25	–270	–36	–8	–339
Reclassification	–1	1	–	–	–
As of December 31, 2012	**1,549**	**8,239**	**797**	**19**	**10,604**
Carrying amounts as of Dec. 31, 2011	**1,286**	**2,284**	**176**	**610**	**4,356**
Carrying amounts as of Dec. 31, 2012	**1,245**	**2,199**	**199**	**854**	**4,497**

The carrying amounts of assets from finance leases comprised €3 million (2011: €4 million) for land, land rights and buildings, €1 million (2011: €20 million) for plant and machinery and €1 million (2011: €1 million) for other plant, office furniture and equipment.

The carrying amount of property, plant and equipment pledged as security for Group liabilities was €8 million (2011: €15 million).

The Group had commitments of €110 million (2011: €187 million) to purchase property, plant and equipment.

As a lessor, Evonik mainly leases out land and investment property under operating leases. The expected future minimum lease payments for these assets over the non-cancelable term of the lease are due as follows:

in € million	**2012**	2011
Due within 1 year	119	5
Due in more than 1 and up to 5 years	13	11
Due in more than 5 years	105	107
	237	**123**

The year-on-year increase was principally attributable to new lease agreements with a non-cancelable term of one year concluded in 2012 between Vivawest Wohnen (lessee) and the companies that own the real estate (lessors). They replace rental contracts that could be terminated at any time in accordance with the statutory provisions.

(7.3) Investment property

in € million	Land, land rights	Buildings	Buildings under construction	**Total**
Cost of acquisition/production				
As of January 1, 2011	**321**	**2,259**	**21**	**2,601**
Currency translation	–	1	–	1
Additions from business combinations	–	–	–	–
Other additions	7	50	14	71
Reclassification pursuant to IFRS 5	–	–	–	–
Disposal	–1	–2	–1	–4
Reclassification	–2	4	–17	–15
As of December 31, 2011	**325**	**2,312**	**17**	**2,654**
Currency translation	–1	–2	–	–3
Additions from business combinations	–	–	–	–
Other additions	3	44	10	57
Reclassification pursuant to IFRS 5	–	–	–	–
Disposal	–3	–	–	–3
Reclassification	2	–3	–13	–14
As of December 31, 2012	**326**	**2,351**	**14**	**2,691**
Depreciation and impairment losses				
As of January 1, 2011	**8**	**1,065**	**–**	**1,073**
Currency translation	–	1	–	1
Additions from business combinations	–	–	–	–
Depreciation	–	44	–	44
Impairment losses	–	1	–	1
Reversal of impairment losses	–	–2	–	–2
Reclassification pursuant to IFRS 5	–	–	–	–
Disposal	–	–1	–	–1
Reclassification	–	–7	–	–7
As of December 31, 2011	**8**	**1,101**	**–**	**1,109**
Currency translation	–	–2	–	–2
Additions from business combinations	–	–	–	–
Depreciation	–	46	–	46
Impairment losses	–	9	–	9
Reversals of impairment losses	–	–13	–	–13
Reclassification pursuant to IFRS 5	–	–	–	–
Disposal	–	–	–	–
Reclassification	–	–8	–	–8
As of December 31, 2012	**8**	**1,133**	**–**	**1,141**
Carrying amounts as of Dec. 31, 2011	**317**	**1,211**	**17**	**1,545**
Carrying amounts as of Dec. 31, 2012	**318**	**1,218**	**14**	**1,550**

Other additions comprise retroactive acquisition costs of €29 million (2011: €26 million). The fair value of investment property was €2,927 million (2011: €2,899 million).

The income statement comprises operating expenses totaling €84 million (2011: €224 million) that relate directly to investment property which generates rental revenues. In 2012 there were no operating expenses (2011: €8 million) relating directly to investment property which does not generate rental revenues.

The carrying amount of investment property with restrictions to title amounted to €998 million (2011: €1,038 million). This mainly comprised registered land charges for loans, which totaled €749 million on the reporting date (2011: €787 million).

In 2012 there were no commitments to purchase real estate classified as investment property (2011: commitments totaling €14 million). Apart from this, there were only contractual commitments in respect of statutory obligations to undertake maintenance, repairs and improvements under rent contracts.

(7.4) Investments recognized at equity

This item comprises associated companies and joint ventures recognized using the equity method. The carrying amount of €1,132 million (2011: €1,057 million) mainly relates to the joint ventures THS and StoHaas Monomer GmbH & Co. KG, Marl (Germany), and to the associated company STEAG. A complete list of companies recognized at equity can be found in Note (5.1).

The combined financial data from the last available financial statements of the companies recognized at equity, based on the Group's interest, are as follows:

	Associated companies		Joint ventures	
in € million	**2012**	2011	**2012**	2011
Non-current assets as of December 31	1,236	1,368	1,370	1,390
Current assets as of December 31	1,098	999	258	132
Non-current liabilities as of December 31	–931	–966	–820	–853
Current liabilities as of December 31	–746	–662	–257	–157
Income	1,805	1,631	763	417
Expenses	–1,795	–1,522	–708	–364

The increase in income and expenses is principally due to the transfer of the property management activities to the Vivawest Wohnen joint venture effective January 1, 2012.

(7.5) Financial assets

in € million	Dec. 31, 2012 Total	Dec. 31, 2012 thereof non-current	Dec. 31, 2011 Total	Dec. 31, 2011 thereof non-current
Other investments	45	45	46	46
Loans	62	30	78	58
Securities and similar claims	951	23	697	48
Receivables from finance leases	–	–	1	1
Receivables from derivatives	189	99	113	102
Other financial assets	36	–	8	–
	1,283	**197**	**943**	**255**

Prior-year figures restated.

(a) Other investments

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

(b) Loans

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

The risk and maturity structure of loans is as follows:

in € million	Dec. 31, 2012	Dec. 31, 2011
Impaired loans	**1**	**1**
Nominal value	4	7
Impairment losses	–3	–6
Non-impaired loans	**61**	**77**
Not yet due	61	77
Overdue	–	–
	62	**78**

As in the previous year, Evonik did not renegotiate the terms and conditions of any long-term loans in 2012.

(c) 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. All securities are classified as available-for-sale and are measured at market price. Securities listed on a stock exchange are exposed to a risk of changes in their market price. In 2012, investment in these securities was increased by €250 million. As explained in Note (3.4), the prior-year figures have been restated.

(d) Receivables from derivatives

The breakdown of receivables from derivatives at year end was as follows:

in € million	**Dec. 31, 2012**	Dec. 31, 2011
Receivables from interest rate derivatives	2	–
Receivables from currency derivatives	89	11
Receivables from commodity derivatives	1	–
Receivables from other derivatives	97	102
	189	**113**

The fair value of the put option for the remaining 49 percent of shares in STEAG is recognized under receivables from other derivatives.

(e) Other financial assets

Other financial assets comprise time deposits at banks, receivables from profit-and-loss transfer agreements with investments that are not fully consolidated and claims relating to the termination of contracts.

The risk and maturity structure of the other financial assets is as follows:

in € million	**Dec. 31, 2012**	Dec. 31, 2011
Impaired other financial assets	**14**	–
Nominal value	29	–
Impairment losses	–15	–
Non-impaired other financial assets	**22**	**8**
Not yet due	22	8
Overdue	–	–
	36	**8**

(f) Security pledged

Financial assets pledged as security for Group liabilities amounted to €14 million (2011: €40 million). They comprised current securities provided as security for commitments to employees under the partial retirement program in Germany.

(7.6) Inventories

in € million	**Dec. 31, 2012**	Dec. 31, 2011
Raw materials and supplies	434	442
Work in progress	115	123
Finished goods and merchandise	1,169	1,080
	1,718	**1,645**

Impairment losses on raw materials, supplies and other goods totaling €44 million were recognized in 2012 (2011: €19 million) while reversals of impairment losses amounted to €14 million (2011: €25 million). Reversals of impairment losses were mainly due to higher selling prices and improved market conditions.

(7.7) Trade accounts receivable and other receivables

	Dec. 31, 2012		Dec. 31, 2011	
in € million	**Total**	thereof non-current	**Total**	thereof non-current
Trade accounts receivable	1,687	–	1,711	–
Advance payments made	39	14	38	16
Miscellaneous other receivables	285	10	289	12
Deferred expenses	78	11	72	13
	2,089	**35**	**2,110**	**41**

The risk and maturity structure of trade accounts receivable is as follows:

in € million	**Dec. 31, 2012**	Dec. 31, 2011
Impaired receivables	**16**	**30**
Nominal value	40	42
Impairment losses	–24	–12
Non-impaired receivables	**1,671**	**1,681**
Not yet due	1,443	1,478
Overdue	228	203
up to 3 months	218	192
more than 3 and up to 6 months	4	5
more than 6 and up to 9 months	1	3
more than 9 and up to 12 months	3	–
more than 1 year	2	3
	1,687	**1,711**

At year end, trade accounts receivable totaling €519 million (2011: €555 million) were covered by credit insurance. In 2011 the terms for trade accounts receivable classified as not yet due with a carrying amount of €5 million were renegotiated and would otherwise have been impaired or overdue.

(7.8) Cash and cash equivalents

The cash and cash equivalents totaling €741 million (2011: €1,409 million) include balances with banks, checks and cash. This item also includes financial securities with high liquidity, which can be converted to cash at any time and where there is only a negligible risk that their value will fluctuate. As explained in Note (3.4), the prior-year figures have been restated.

(7.9) 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 no-par bearer shares.

On December 3, 2007, RAG-Stiftung notified Evonik Industries AG, pursuant to Section 20 Paragraphs 4 and 1 of the German Stock Corporate Act (AktG), that it holds a majority of the capital stock of Evonik Industries AG pursuant to Section 16 Paragraph 4 of the German Stock Corporate Act through its majority stake in RAG Aktiengesellschaft, Essen (Germany). On January 8, 2008 RAG-Stiftung submitted notification pursuant to Section 20 Paragraph 4 of the German Stock Corporation Act, that it directly holds a majority of the capital stock of Evonik Industries AG.

Gabriel Acquisitions notified Evonik Industries AG on September 15, 2008 pursuant to Section 20 Paragraphs 1 and 3 of the German Stock Corporation Act that it directly holds more than a quarter of the shares in Evonik Industries AG.

Further, on September 15, 2008 the following companies submitted notification pursuant to Section 20 Paragraphs 4 and 1 of German Stock Corporation Act that they indirectly hold more than a quarter of the shares in Evonik Industries AG through their investment in Gabriel Acquisitions:

Gabriel Investments S.à r.l. (Gabriel Investments), Gabriel Holdings S.à r.l. (Gabriel Holdings), Clear Vision Capital Fund SICAV-FIS S.A., all of Luxembourg (Luxembourg) and 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 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., all of George Town (Grand Cayman, Cayman Islands) and CVC Nominees Ltd., CVC European Equity V Ltd., CVC European Equity Tandem GP Ltd., CVC Capital Partners Finance Ltd., and CVC Capital Partners Advisory Company Ltd., all of St. Helier (Jersey, Channel Islands).

(b) Capital reserve

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

(c) Accumulated income

The accumulated income of €5,302 million (2011: €4,568 million) comprises Group earnings from fiscal 2012 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 2012. 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, 2012, Evonik Industries AG's profit reserves totaled €2,285 million (2011: €2,638 million). €47 million of this comprised the statutory reserve that is not available for distribution.

A proposal will be submitted to the Shareholders' Meeting that the net profit of €428,720,000 for fiscal 2012 should be distributed in full. That corresponds to a dividend of €0.92 per no-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 gains and losses on hedging instruments comprises changes in the fair value of the effective portion of hedging instruments that are accounted for as cash flow hedges or 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 were consolidated for the first time on or before December 31, 2009. The reserve for currency translation adjustment comprises differences arising from the translation of foreign financial statements.

The changes in accumulated other comprehensive income (OCI) attributable to shareholders of Evonik Industries AG 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	**Total**
As of January 1, 2011	**–**	**58**	**41**	**–302**	**–203**
Other comprehensive income as in the statement of comprehensive income	**2**	**–117**	**–**	**118**	**3**
Unrealized gains/losses included in OCI	2	–42	–	–	–40
Amounts reclassified to the income statement	–	–91	–	–	–91
Amounts reclassified to assets and liabilities	–	–3	–	–	–3
Currency translation adjustment	–	–	–	118	118
Deferred taxes	–	19	–	–	19
Other changes	**–**	**–**	**–18**	**–**	**–18**
As of December 31, 2011	**2**	**–59**	**23**	**–184**	**–218**
Other comprehensive income as in the statement of comprehensive income	**9**	**67**	**–**	**–70**	**6**
Unrealized gains/losses included in OCI	11	20	–	–	31
Amounts reclassified to the income statement	–	74	–	–	74
Amounts reclassified to assets and liabilities	–	2	–	–	2
Currency translation adjustment	–	–	–	–70	–70
Deferred taxes	–2	–29	–	–	–31
Other changes	**–**	**–**	**–3**	**–**	**–3**
As of December 31, 2012	**11**	**8**	**20**	**–254**	**–215**

In 2012, an overall hedging result of minus €74 million (2011: €91 million) was reclassified from the reserve for gains/losses on hedging instruments to the income statement as follows:

in € million	**2012**	2011
Sales	–61	39
Cost of sales	–9	–3
Other operating expenses	–4	–
Income after taxes, discontinued operations	–	55
	–74	**91**

(e) Non-controlling interests

Non-controlling interests amounting to €111 million (2011: €93 million) 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) attributable to non-controlling interests were as follows:

in € million	Unrealized gains/losses on hedging instruments	Currency translation adjustment	**Total**
As of January 1, 2011	**–16**	**–52**	**–68**
Other comprehensive income as in the statement of comprehensive income	**16**	**55**	**71**
Unrealized gains/losses included in OCI	20	–	20
Currency translation adjustment	–	55	55
Deferred taxes	–4	–	–4
As of December 31, 2011	**–**	**3**	**3**
Other comprehensive income as in the statement of comprehensive income	**–**	**–1**	**–1**
Unrealized gains/losses included in OCI	–	–	–
Currency translation adjustment	–	–1	–1
Deferred taxes	–	–	–
As of December 31, 2012	**–**	**2**	**2**

(7.10) 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 93.7 percent (2011: 93.6 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. In addition, some pension obligations have been transferred to a contractual trust arrangement.

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

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

	Group		Germany	
in %	**2012**	2011	**2012**	2011
Discount rate as of December 31	3.78	4.76	3.75	4.75
Future salary increases	2.58	2.60	2.50	2.50
Future pension increases	1.99	2.02	2.00	2.00
Expected return on plan assets as of December 31	4.86	5.05	4.71	4.80
Health-care cost trend	7.26	7.70	–	–

The expected return on plan assets was 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 2012:

in € million	**2012**	2011
Present value of the defined benefit obligation as of January 1	**7,787**	**7,472**
Current service cost	119	107
Interest cost	361	363
Employee contributions	43	32
Actuarial gains (–) and losses (+)	1,223	303
Benefits paid	–406	–413
Past service cost	–	7
Changes due to divestments	–33	–53
Reclassification pursuant to IFRS 5	–	–66
Curtailments	–2	–3
Settlement	–1	5
Currency translation	–3	33
Present value of the defined benefit obligation as of December 31	**9,088**	**7,787**

The fair value of the plan assets changed as follows in fiscal 2012:

in € million	**2012**	2011
Fair value of plan assets as of January 1	**4,045**	**3,551**
Expected return on plan assets	197	180
Employer contributions	518	514
Employee contributions	12	12
Actuarial gains (+) and losses (–)	212	–13
Benefits paid	–165	–176
Changes due to divestments	–32	–46
Reclassification pursuant to IFRS 5	–	–6
Currency translation	3	29
Fair value of plan assets as of December 31	**4,790**	**4,045**

In 2012 the plan assets were split as follows: €2,722 million (2011: €2,490 million) at Pensionskasse Degussa VVaG Marl (Germany), and €1,091 million (2011: €610 million) at Evonik Pensionstreuhand e. V., Essen (Germany), which received funding of €400 million in fiscal 2012. The remaining plan assets mainly comprised €566 million (2011: €532 million) in the UK and €366 million (2011: €338 million) in the USA.

The actual return on plan assets was €409 million in fiscal 2012 (2011: €167 million).

Employer contributions of €115 million are expected to be incurred for 2013.

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	**2012**	2011	2010	2009	2008
Present value of the defined benefit obligation as of December 31	9,088	7,787	7,472	7,430	6,815
Fair value of plan assets as of December 31	4,790	4,045	3,551	3,161	2,910
Funded status as of December 31	**4,298**	**3,742**	**3,921**	**4,269**	**3,905**
Experience adjustments to the defined benefit obligation	2	–41	37	–37	–21
Experience adjustments to plan assets	212	–13	–15	116	–152

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, 2012**	Dec. 31, 2011
Present value of the defined benefit obligation	9,088	7,787
Fair value of plan assets	4,790	4,045
Funded status	**4,298**	**3,742**
Unrecognized past service cost	1	1
Unrecognized actuarial loss	–2,004	–1,030
Other changes (including asset ceiling and IFRIC 14)	82	92
Pension provisions recognized on the balance sheet	**2,377**	**2,805**

As of the reporting date, €488 million (2011: €453 million) of the present value of all defined benefit obligations was unfunded and €8,497 million (2011: €7,236 million) was fully or partially funded. In addition, there were health-care obligations totaling €103 million (2011: €98 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 was split as follows:

	Dec. 31, 2012		Dec. 31, 2011	
	in € million	in %	in € million	in %
Shares	290	6.0	238	5.9
Debt instruments	3,926	82.0	3,247	80.3
Real estate	71	1.5	41	1.0
Other assets	503	10.5	519	12.8
	4,790	**100.0**	**4,045**	**100.0**

Shares amounting to €56 million (2011: €66 million) were hedged. None of the other assets (2011: €29 million) were used by the company.

The pension provisions included concessionary coal and power allowances in Germany and the entitlements, mainly of retirees of US subsidiaries, to receive health-care benefits.

The actuarial loss was €2,004 million (2011: €1,030 million) and exceeded 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 for the continuing operations is broken down as follows:

in € million	**2012**	2011
Current service cost	119	107
Interest cost	361	363
Expected return on plan assets	–197	–180
Amortization of actuarial gains and losses	34	7
Amortization of past service cost	–	6
Gains/losses due to plan changes and curtailments	–3	2
Effect of asset ceiling	–12	12
Net pension expense	**302**	**317**

Preventive health-care benefits accounted for €4 million of the total expense (2011: €5 million).

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 €18 million (2011: €16 million) was paid into foreign subsidiaries' defined-contribution plans, which are also included in personnel expense (pension expenses).

Further, €126 million (2011: €128 million) was paid into defined-contribution state plans (statutory pension insurance) in Germany and abroad. This is also reported in personnel expense (expenses for social security contributions).

(7.11) Other provisions

	Dec. 31, 2012		Dec. 31, 2011	
in € million	**Total**	thereof non-current	**Total**	thereof non-current
Personnel-related	1,071	511	1,076	538
Recultivation and environmental protection	268	223	260	224
Restructuring	133	57	193	119
Sales and procurement	92	9	130	15
Other taxes and interest on taxes	64	20	53	9
Dismantling obligations	2	2	5	1
Other obligations	389	67	471	108
	2,019	**889**	**2,188**	**1,014**

The other provisions were €169 million lower than in 2011, principally due to the reduction of provisions for restructuring, sales and procurement, and other obligations. Further details can be found in the schedule of provisions. Slightly over half of other provisions are expected to result in payments in 2013. Year-on-year there was a slight reduction in the proportion of non-current provisions.

Personnel-related provisions are established for many different reasons. They include provisions for bonuses and variable remuneration, statutory and other early retirement arrangements, unused vacation entitlements, lifetime working arrangements and anniversary bonuses. Only a small proportion of these non-current provisions will result in payments after 2017.

Provisions are established for recultivation and environmental protection on the basis of laws, contracts and regulatory requirements. They cover soil reclamation expenses, water protection, the recultivation of landfills and site decontamination obligations. The non-current portion of these provisions is divided roughly equally between those that will result in payments between 2014 and 2017 and those that will result in payments after 2017.

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 other shutdown and wind-up expenses. At year-end 2012 there were provisions of €100 million (2011: €145 million) in connection with the divestment of the former Energy Business Area in 2011. The decline was mainly due to utilization.

All of the non-current provisions 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. Most of these provisions will be utilized in the short term and about one third will be utilized between 2014 and 2017.

Provisions for dismantling obligations relate to dismantling that is not part of a restructuring program. The non-current portion will be utilized by the end of 2017.

Provisions for other obligations include risks relating to legal disputes, administrative proceedings or fines, especially in the areas of product liability, patent, tax, cartel and environmental law, legal and consultancy expenses and audit expenses. Guarantee claims against the company may result from divestments. Adequate provisions have been established in case such risks should materialize. Most of these provisions will be utilized within one year. The remainder will probably be utilized by year-end 2017.

Other provisions changed as follows in fiscal 2012:

in € million	Personnel-related	Recultivation, environmental protection	Restructuring	Sales, procurement	Other taxes, interest on taxes	Dismantling obligations	Other obligations	**Total**
As of January 1, 2012	**1,076**	**260**	**193**	**130**	**53**	**5**	**471**	**2,188**
Additions	452	24	6	57	15	1	100	655
Utilization	–470	–18	–59	–43	–3	–	–80	–673
Reversal	–24	–3	–10	–45	–1	–4	–110	–197
Addition of accrued interest/interest rate adjustments	43	8	4	–	–	–	2	57
Reclassification pursuant to IFRS 5	–3	–	–	–1	–	–	2	–2
Other	–3	–3	–1	–6	–	–	4	–9
As of December 31, 2012	**1,071**	**268**	**133**	**92**	**64**	**2**	**389**	**2,019**

(7.12) Financial liabilities

	Dec. 31, 2012		Dec. 31, 2011	
in € million	**Total**	thereof non-current	**Total**	thereof non-current
Bonds	1,850	746	1,860	1,860
Liabilities to banks	811	568	872	677
Loans from non-banks	74	47	80	63
Liabilities from finance leases	6	4	28	23
Liabilities from derivatives	112	67	240	88
Other financial liabilities	94	32	67	34
	2,947	**1,464**	**3,147**	**2,745**

(a) Bonds

The amount stated under bonds includes a bond issued by Evonik Industries AG with a nominal value of €750 million. This bond matures in October 2014 and has an annual coupon of 7.0 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 €1,093 million (2011: €1,093 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.

Fixed-interest bonds are exposed to a risk of price fluctuations while variable-rate liabilities are exposed to a risk of changes in interest rates. These risks may affect their fair value or future cash flows. The stock market price of the bond issued by Evonik Industries AG was 110.5 percent on the reporting date (2011: 111.9 percent), valuing it at €829 million (2011: €839 million). The stock market price of the bond issued by Evonik Degussa GmbH was 103.9 percent on the reporting date (2011: 105.0 percent), valuing it at €1,135 million (2011: €1,148 million, calculated from the volume outstanding as of the reporting date).

(b) Liabilities to banks, loans from non-banks

The liabilities to banks include low-interest loans from public-sector banks to finance subsidized residential property. These are reported at fair value. The difference between the fair value of the loan and the amount disbursed is shown as deferred income and included in other liabilities, see Note (7.13).

Further, in 2009 Evonik Industries AG issued promissory notes. €92 million was still outstanding on the reporting date and is recognized mainly in liabilities to banks. The promissory notes were fully repaid on January 24, 2013.

The accrual of €14 million (2011: €15 million) for payment of the coupon on the bonds was recognized in current loans from non-banks.

(c) 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, 2012**	Dec. 31, 2011
Future minimum lease payments	**7**	**29**
due within 1 year	2	5
due in more than 1 and up to 5 years	4	14
due in more than 5 years	1	10
Interest included therein	–1	–1
Present value of future minimum lease payments (liabilities from finance leases)	**6**	**28**
due within 1 year	2	5
due in more than 1 and up to 5 years	3	13
due in more than 5 years	1	10

Some of the assets leased under finance leases are sub-leased. The expected minimum future lease payments for the non-cancelable sub-leasing agreements totals €2 million (2011: €3 million).

The agreement concluded in June 2011 between Evonik and Taiyo Nippon Sanso Silane Gas Service Co., Tokyo (Japan) on the lease-back of a monosilane plant, was terminated prematurely as of September 30, 2012. The remaining carrying amount of around €18 million for this plant was derecognized in accordance with IAS 16 and is shown as expense in other operating expenses. The lease liability of around €18 million as of this date was also derecognized in accordance with IAS 39 and the resulting income is included in other operating income. Evonik repurchased the monosilane plant concurrently with termination of the lease agreement.

(d) Liabilities from derivatives

The breakdown of liabilities from derivatives at year end was as follows:

in € million	**Dec. 31, 2012**	Dec. 31, 2011
Liabilities from interest rate derivatives	17	–
Liabilities from currency derivatives	26	147
Liabilities from commodity derivatives	4	11
Liabilities from other derivatives	65	82
	112	**240**

The fair value of the call option that can be exercised by KSBG for the remaining 49 percent of shares in STEAG is recognized under liabilities from other derivatives.

(7.13) Trade accounts payable and other payables

	Dec. 31, 2012		Dec. 31, 2011	
in € million	**Total**	thereof non-current	**Total**	thereof non-current
Trade accounts payable	1,096	–	1,086	–
Advance payments received	22	–	11	–
Miscellaneous other payables	248	50	259	43
Deferred income	311	259	383	326
	1,677	**309**	**1,739**	**369**

Deferred income includes accrued government grants amounting to €232 million (2011: €240 million) which represents the benefit arising from low-interest loans from public-sector banks to finance subsidized residential properties, see Note (7.12).

(7.14) Deferred taxes, other income taxes

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

	Dec. 31, 2012		Dec. 31, 2011	
in € million	**Total**	thereof non-current	**Total**	thereof non-current
Deferred tax assets	329	230	477	266
Current income tax assets	100	21	83	23
Deferred tax liabilities	463	413	481	439
Current income tax liabilities	338	115	422	70

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 related to the following balance sheet items:

	Deferred tax assets		Deferred tax liabilities	
in € million	**Dec. 31, 2012**	Dec. 31, 2011	**Dec. 31, 2012**	Dec. 31, 2011
Assets				
Intangible assets	5	7	142	156
Property, plant and equipment, investment property	107	108	431	474
Financial assets	246	153	77	63
Inventories	72	81	2	8
Receivables and other assets	119	73	17	20
Liabilities				
Provisions	277	344	243	132
Payables	59	103	85	114
Special tax allowance reserves (based on local law)	–	–	22	12
Loss carryforwards	68	162	–	–
Tax credits	–	1	–	–
Other	12	5	3	4
Deferred taxes (gross)	**965**	**1,037**	**1,022**	**983**
Write-downs	–77	–58	–	–
Netting	–559	–502	–559	–502
Deferred taxes (net)	**329**	**477**	**463**	**481**

No deferred taxes were recognized on temporary differences of €657 million (2011: €471 million) because it is not probable that future taxable income will enable them to be realized. Deferred tax assets of €10 million (2011: €76 million) were recognized for companies that made a loss. Utilization will be ensured by tax measures.

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

	Corporation taxes (German and foreign)		Local taxes (German and foreign)		Tax credits (foreign)	
in € million	**2012**	2011	**2012**	2011	**2012**	2011
Tax loss carryforwards by expiration date						
up to 1 year	7	3	–	1	–	–
more than 1 and up to 5 years	86	113	1	–	–	–
more than 5 and up to 10 years	1	–	–	–	–	–
unlimited	278	252	176	185	158	153
	372	**368**	**177**	**186**	**158**	**153**

(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 of 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 inflows from divestments and outflows for investments in shareholdings include the following:

The total gross cash inflow from the divestment of subsidiaries was €104 million in 2012 (2011: €1,295 million). The outflow of cash and cash equivalents resulting from divestments amounted to €4 million in 2012 (2011: €295 million).

In addition, cash inflows/outflows from divestment of shareholdings include outflows of €71 million due to the spin-off of the property management activities. Further, cash outflows of €47 million were recorded in connection with the divestment of the former Energy Business Area. This amount had been booked as an expense in the previous year.

(8.3) Cash and cash equivalents

The cash and cash equivalents of €741 million (2011: €1,411 million) comprise the liquid assets of the continuing operations as well as liquid assets relating to assets held for sale. 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 to the balance sheet, see Note (7.8).

(9) Notes on the segment report

(9.1) Reporting based on operating segments

As the chief operating decision-maker for the Evonik Group, the Executive Board of Evonik Industries AG decides on the allocation of resources and evaluates the earnings power of the Group's operations on the basis of the operating segments described below (subsequently referred to as segments). The operating activities are divided into business units within the segments. The reporting based on segments reflects the Group's internal organizational and reporting structure (management approach).

The same accounting standards are applied as for external financial reporting, see Notes (3.4) to (3.7).

In accordance with the strategic focus on specialty chemicals, the Executive Board of Evonik Industries AG took the following decisions, which impact on the segment reporting:

Alongside Evonik's own portfolio of residential real estate, the Real Estate segment comprises a 50 percent stake in THS. Since January 1, 2012, Evonik and THS have bundled the management of their residential properties in the Vivawest Wohnen joint venture, see Note (5.3). As a consequence, some of the sales revenues previously generated by the Real Estate segment and the associated material expenses are no longer recognized by this segment. They are now reported by the Vivawest Wohnen joint venture, which is included in the consolidated financial statements at equity. This has not significantly affected the earnings KPIs.

Evonik's segments are outlined below:

(a) Consumer, Health & Nutrition

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

The Consumer, Health & Nutrition segment focuses principally on ingredients, additives and system solutions for high-quality consumer goods. Its outstanding knowledge of interfacial chemistry is also used for selected industrial applications. Key success factors are high innovative capability, integrated technology platforms and strategic partnerships with major consumer goods manufacturers. In addition, this segment is the world's only supplier of all four key amino acids for animal nutrition. In the market, this segment differentiates itself through its substantial technical expertise in organic synthesis and biotechnology. Key competitive advantages include its global distribution network and extensive range of specialist services. Moreover, in view of its activities in the areas of exclusive synthesis, pharmaceutical amino acids and pharmaceutical polymers this segment is also a strategic partner and leading solution supplier to the global health-care industry.

(b) Resource Efficiency

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

Its integrated silicon technology platform positions it as a market leader in a wide range of silicas and silanes. These are supplied, for example, to the tire, electronics, construction and plastics industries. The Resource Efficiency segment also uses its expertise in designing organic particles and their surface properties in its catalysis business. Other operations include supplying high-quality functional polymers and specialty monomers, especially to the paints, coatings, adhesives and sealants industries. Examples include crosslinkers used in the construction of rotor blades for wind turbines. The segment also produces high-performance additives to optimize the flow properties and lubricating behavior of engine and hydraulic fluids and fuels.

(c) Specialty Materials

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

This segment produces a broad spectrum of high-performance materials. Here it benefits from its integrated technology platforms for methacrylate chemistry and polyamide 12. In addition, it manufactures high-performance polymers based on polyethereether ketone (PEEK) and polyimides to meet extremely high-tech mechanical, thermal and chemical requirements. Further key factors for the success of Specialty Materials are advanced chemical processes, which Evonik has developed systematically over decades. This applies in particular for the integrated C_4 technology platform, where C_4 crack is processed into specialties. The Specialty Materials segment has opened up new growth markets for hydrogen peroxide thanks to its innovative prowess. The prime example is the hydrogen peroxide to propylene oxide (HPPO) process. It also produces alcoholates, which are used as catalysts in the production of biodiesel. Key sectors supplied by this segment are the plastics, paints and coatings, automotive and aviation industries. Thanks to their specific properties, its products are also used for architectural, light and design applications.

(d) Services

This segment principally comprises Site Services and Evonik Business Services. It mainly provides services for the specialty chemicals segments and the Corporate Center, but also serves third parties.

The Site Services unit bundles cross-site infrastructure services, such as supply, disposal, logistics and facility management.

Evonik Business Services supports the specialty chemicals operations and the Corporate Center by providing standardized administrative services, including IT, human resources, accounting and legal services.

(e) Real Estate

The Real Estate segment, which Evonik plans to exit entirely in the medium term, focuses on letting homes to private households in the federal state of North Rhine-Westphalia. Alongside Evonik's own portfolio of residential real estate, it comprises a 50 percent stake in the housing provider THS. Evonik and THS have bundled management of their real estate in the Vivawest Wohnen joint venture.

(f) Corporate, other operations, consolidation

This covers the Corporate Center, strategic research and development, the 49 percent shareholding in STEAG and corporate operations that are not assigned to any of the reporting segments. It also includes hidden reserves and charges and the goodwill from earlier acquisitions of shares in Evonik Degussa and intersegment consolidation effects.

(9.2) Reporting based on regions

For this purpose, countries and country groups are aggregated into regions. Details of the reporting based on regions is outlined in more detail in Note (9.3). To align the regional allocation of companies and businesses more closely to comparable companies, at the start of 2012 the Asia region was renamed Asia-Pacific and the "Other" region was renamed Middle East, Africa. At the same time, some countries and country groups were allocated to different regions. Turkey, Azerbaijan, Kazakhstan and Uzbekistan, which were previously allocated to Asia, have been included in Other European Countries since 2012. Similarly, the Middle East, which was previously allocated to the Asia region, and Africa, which was included in Other, are now allocated to the Middle East, Africa region.

Australia, New Zealand and Oceania have been moved from Other to Asia-Pacific. Mexico and the Bermudas are now included in Central and South America rather than North America. The prior-year figures have been restated accordingly.

(9.3) Notes to the segment data

In line with the terminology used by peers, from the start of 2012 the non-operating result, EBITDA (before non-operating result) and EBIT (before non-operating result) were changed to adjustments, adjusted EBITDA and adjusted EBIT, without altering the composition of these items.

The data for the five reportable segments take account of consolidation effects relating to the business units within each segment. Consolidation effects that arise at Group level and the related earnings impact, together with goodwill, hidden reserves and charges are included in Corporate, other operations, consolidation in the segment report.

The segment data are explained below.

External sales reflect the segments' sales with parties outside the Group. Sales generated between the segments are internal sales and are cross-charged at market prices or using the cost-plus method.

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

in € million	**2012**	2011
Sales, reportable segments	**15,412**	**16,090**
Sales, other operations	450	389
Consolidation	–2,233	–1,939
Sales, corporate, other operations, consolidation	**–1,783**	**–1,550**
External sales of the Evonik Group	**13,629**	**14,540**

The total sales reported for the other operations mainly relate to services provided within the Group, especially the procurement of electricity by energy management.

External sales by country are divided by point of sale. They comprise:

in € million	**2012**	2011
Germany	3,388	3,784
USA	2,250	2,395
Switzerland	866	756
China	815	829
Netherlands	487	487
France	426	511
UK	425	311
Japan	416	427
Italy	327	428
Other countries	4,229	4,612
External sales of the Evonik Group	**13,629**	**14,540**

The Executive Board of Evonik Industries AG uses economic value added (EVA®) as the main financial indicator for internal management purposes. EVA® shows the value created with capital employed after covering the cost of capital. Since adjusted EBIT is the operating parameter used to calculate EVA®, it is the central earnings indicator used for internal management purposes.

The other internal management indicator used to measure operational performance, adjusted EBITDA, is reported to the Executive Board of Evonik Industries AG.

Adjusted EBIT is the main earnings parameter that can be influenced by the segment management. It comprises earnings before interest, income taxes and adjustments.

To calculate adjusted EBITDA, adjusted EBIT is further adjusted for depreciation and amortization, impairment losses and reversals of impairment losses. The adjusted EBITDA margin is the ratio of adjusted 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 adjusted EBITDA and adjusted EBIT and the external earnings parameter income before income taxes from the continuing operations.

in € million	2012	2011
Adjusted EBITDA	**2,589**	**2,768**
Depreciation, amortization, impairment losses/reversals of impairment losses	–803	–750
Impairment losses/reversals of impairment losses included in adjustments	167	81
Adjusted EBIT	**1,953**	**2,099**
Adjustments	16	–175
Net interest expense	–357	–381
Income before income taxes, continuing operations	**1,612**	**1,543**

The adjustments reflect 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. In 2012, the adjustments amounted to €16 million (2011: minus €175 million). This mainly comprised income from settlements in connection with restructuring of the photovoltaic business, and expenses and impairment losses for property, plant and equipment. Further adjustments comprised insurance refunds and expenses in connection with the incident at a production plant in Marl (Germany).

In addition, income and expenses resulting from the put and call options for the agreed divestment of the remaining 49 percent stake in STEAG were included in adjustments.

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

in € million	2012	2011
Adjusted EBIT, reportable segments	**2,354**	**2,503**
Adjusted EBIT, other operations	–54	–25
Adjusted EBIT, Corporate Center and corporate activities	–313	–334
Consolidation	–34	–45
Adjusted EBIT, corporate, other operations, consolidation	**–401**	**–404**
Adjusted Group EBIT	**1,953**	**2,099**
Adjustments	16	–175
Net interest expense	–357	–381
Income before income taxes, continuing operations	**1,612**	**1,543**

Capital employed comprises the net assets required by the reportable segments for their operations. Capital employed is calculated by determining the total of intangible assets, property, plant and equipment, investment property, investments, inventories, trade accounts receivable, and other non-interest-bearing assets. The sum of interest-free provisions, trade accounts payable, and other interest-free liabilities is then deducted from this.

Another major internal management parameter used by the Group is the return on capital employed (ROCE). ROCE is calculated from the ratio of adjusted EBIT to capital employed. To smooth the closing date effect, the calculation uses average capital employed in the reporting period.

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 similar 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 acquisition (including goodwill from capital consolidation).

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, 2012**	Dec. 31, 2011
Germany	6,091	5,924
USA	829	792
China	641	590
Belgium	479	494
Other countries	1,197	1,373
Non-current assets	**9,237**	**9,173**

(10) Other disclosures

(10.1) Performance-related remuneration

Evonik's remuneration system comprises a basic salary, short-term incentives and, as a long-term component, the Long-Term Incentive Plans for members of the Executive Board and other executives of the Evonik Group (Evonik LTI Plans). 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.

(a) Evonik LTI Plans for members of the Executive Board

The Evonik LTI Plans were granted to members of the Executive Board by the Supervisory Board of Evonik Industries AG for the first time in 2008. They comprise a five-year performance period, starting on January 1 of the year in which they are granted. The intrinsic value of the LTI Plans depends on how the fictitious equity value of Evonik derived from adjusted 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 the grant date. The actual increase versus this reference base is 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 after five years this reaches or exceeds the fictitious equity value set in the mid-term planning, a cash payment is made under the LTI Plans. The level of this payment is based on an individual target and the relationship between the actual and planned target attainment. The first payment for serving members of the Executive Board will be in 2013. For members who leave the Executive Board before expiry of the five-year period, a three-year qualifying period is applied. As of December 31, 2012, a provision of €5 million (2011: €4 million) was established for the Evonik LTI Plans for members of the Executive Board for 2008 through 2012.

(b) Evonik LTI Plans for Group executives

Evonik Industries AG granted the Evonik LTI Plans to executives nominated by the Executive Board for the first time in 2008. These LTI Plans comprise a three-year performance period, starting on May 1 of the year in which they are granted. The intrinsic value of the LTI Plans depends on how the fictitious equity value of Evonik derived from adjusted EBITDA develops over the performance period. From 2010 attainment of the mid-term EVA® budget was added as an additional target.

The reference base for calculating the increase in value is the fictitious equity value as of December 31 of the year prior to the grant date. The actual increase versus this reference base is 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 after three years this reaches or exceeds the fictitious equity value set in the mid-term planning, a cash payment is made under the LTI Plans. The level of this payment is based on an individual target and the relationship between the actual and planned target attainment. Under the conditions for the 2009 tranche of the LTI Plan, regular rights totaling €10 million were exercised in 2012.

As of December 31, 2012, a provision of €22 million (2011: €24 million) was established for the Evonik LTI Plans for Group executives for 2010 through 2012.

(10.2) Additional information on financial instruments

Net result from financial instruments

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

in € million	Net result by valuation category: Available-for-sale assets	Loans and receivables	Assets held for trading	Liabilities held for trading	Liabilities at amortized cost	2012
Proceeds from disposals	–7	4	–	–	–	–3
Income from the measurement of derivatives	–	–	383	–350	–	33
Impairment losses/reversals of impairment losses	–	5	–	–	–	5
Net interest expense	8	13	2	–	–163	–140
Income from other investments	4	–	–	–	–	4
	5	**22**	**385**	**–350**	**–163**	**–101**

in € million	Net result by valuation category: Available-for-sale assets	Loans and receivables	Assets held for trading	Liabilities held for trading	Liabilities at amortized cost	2011
Proceeds from disposals	2	–	–	–	–	2
Income from the measurement of derivatives	–	–	273	–287	–	–14
Impairment losses/reversals of impairment losses	–	–14	–	–	–	–14
Net interest expense	6	18	–	–	–177	–153
Income from other investments	4	–	–	–	–	4
	12	**4**	**273**	**–287**	**–177**	**–175**

Income from the measurement of derivatives does not include income from derivative financial instruments for which hedge accounting is applied.

Including interest income and expense relating to finance leases, interest income from financial instruments not allocated to the category held for trading amounted to €21 million (2011: €24 million) while the corresponding interest expense was €163 million (2011: €177 million). As in 2011, net interest expense did not include any interest income on the impaired portion of financial assets or trade accounts receivable.

Carrying amounts and fair values of financial instruments

Financial instruments that fall within the scope of IFRS 7 Financial Instruments: Disclosures are to be disclosed by classes that take into account the characteristics of the financial instruments. At Evonik, the classification is based on the presentation on the balance sheet. The carrying amounts of each class are broken down to the valuation categories defined in IAS 39 Financial Instruments: Recognition and Measurement and are reconciled to the carrying amounts of the balance sheet items. Financial instruments not assigned to a valuation category are presented separately. Further, the fair value of each class as of the balance sheet date is disclosed.

The following tables provide a reconciliation of the financial assets:

	Carrying amount by valuation category				Dec. 31, 2012	
in € million	Available-for-sale assets	Loans and receivables	Assets held for trading	Not allocated to any category	Carrying amount	Fair value
Financial assets	**996**	**98**	**144**	**45**	**1,283**	**1,284**
Other investments	45	–	–	–	45	45
Loans	–	62	–	–	62	62
Securities and similar claims	951	–	–	–	951	951
Receivables from finance leases	–	–	–	0	0	1
Receivables from derivatives	–	–	144	45	189	189
Other financial assets	–	36	–	–	36	36
Trade accounts receivable	–	**1,687**	–	–	**1,687**	**1,687**
Cash and cash equivalents	–	**741**	–	–	**741**	**741**
	996	**2,526**	**144**	**45**	**3,711**	**3,712**

	Carrying amount by valuation category				Dec. 31, 2011	
in € million	Available-for-sale assets	Loans and receivables	Assets held for trading	Not allocated to any category	Carrying amount	Fair value
Financial assets	**743**	**86**	**110**	**4**	**943**	**943**
Other investments	46	–	–	–	46	46
Loans	–	78	–	–	78	78
Securities and similar claims	697	–	–	–	697	697
Receivables from finance leases	–	–	–	1	1	1
Receivables from derivatives	–	–	110	3	113	113
Other financial assets	–	8	–	–	8	8
Trade accounts receivable	**–**	**1,711**	**–**	**–**	**1,711**	**1,711**
Cash and cash equivalents	**–**	**1,409**	**–**	**–**	**1,409**	**1,409**
	743	**3,206**	**110**	**4**	**4,063**	**4,063**

Cash and cash equivalents and securities and similar claims relating to 2011 have been restated as explained in Note (3.4).

The following tables provide a reconciliation of the financial liabilities:

	Carrying amount by valuation category			**Dec. 31, 2012**	
in € million	Liabilities held for trading	Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
Financial liabilities	**89**	**2,829**	**29**	**2,947**	**3,253**
Bonds	–	1,850	–	1,850	1,964
Liabilities to banks	–	811	–	811	999
Loans from non-banks	–	74	–	74	77
Liabilities from finance leases	–	–	6	6	7
Liabilities from derivatives	89	–	23	112	112
Other financial liabilities	–	94	–	94	94
Trade accounts payable	**–**	**1,096**	**–**	**1,096**	**1,096**
	89	**3,925**	**29**	**4,043**	**4,349**

	Carrying amount by valuation category			Dec. 31, 2011	
in € million	Liabilities held for trading	Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
Financial liabilities	**158**	**2,879**	**110**	**3,147**	**3,436**
Bonds	–	1,860	–	1,860	1,987
Liabilities to banks	–	872	–	872	1,034
Loans from non-banks	–	80	–	80	82
Liabilities from finance leases	–	–	28	28	26
Liabilities from derivatives	158	–	82	240	240
Other financial liabilities	–	67	–	67	67
Trade accounts payable	**–**	**1,086**	**–**	**1,086**	**1,086**
	158	**3,965**	**110**	**4,233**	**4,522**

That part of derivative financial instruments for which hedge accounting is applied is not allocated to any of the categories defined in IAS 39 Financial Instruments: Recognition and Measurement.

The fair value determination of those financial instruments carried on the balance sheet at fair value was based on a three-level hierarchy:

- Level 1: Quoted price in an active market
- Level 2: Quoted price in an active market for similar financial instruments or valuation methods based on observable market data
- Level 3: Valuation methods not based on observable market data

The table shows the allocation of financial instruments measured at fair value to the three levels of the hierarchy:

	Fair value based on			Dec. 31, 2012
in € million	Level 1	Level 2	Level 3	
Financial assets	**951**	**92**	**97**	**1,140**
Securities and similar claims	951	–	–	951
Receivables from derivatives	–	92	97	189
Financial liabilities	**–**	**–47**	**–65**	**–112**
Liabilities from derivatives	–	–47	–65	–112

	Fair value based on			Dec. 31, 2011
in € million	Level 1	Level 2	Level 3	
Financial assets	**697**	**11**	**102**	**810**
Securities and similar claims	697	–	–	697
Receivables from derivatives	–	11	102	113
Financial liabilities	**–**	**–158**	**–82**	**–240**
Liabilities from derivatives	–	–158	–82	–240

The fair values shown under Level 3 result from the valuation of the put option and the call option for the remaining 49 percent shareholding in STEAG. These options are measured using a binomial model. A sensitivity analysis of the derivatives in Level 3 can be found in the section headed "market risk".

Fair value measurement of financial instruments that are not included in the balance sheet at fair value was based on the following method:

Non-current receivables were valued using a variety of parameters. Impairment losses were recognized for any expected defaults on receivables. Accordingly, the net carrying amount of these receivables basically corresponded 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 was a risk-free interest rate. The stock market price of the bonds on the reporting date was taken as their fair value. In all other cases the fair value of the financial instruments recognized on the balance sheet was their carrying amount on the reporting date.

Notional value of derivatives

The notional value of interest rate derivatives comprises the sum of the hedged items during their term to maturity, while the notional value of the currency derivatives is the hedged foreign exchange amount converted into euros, and the notional value of the commodity derivatives is the hedged procurement cost translated into euros. The notional value of embedded derivatives corresponds to one of the above definitions, depending on the type of derivative.

Notional value of derivative financial instruments:

	Dec. 31, 2012			Dec. 31, 2011		
in € million	**Total**	thereof current	thereof non-current	**Total**	thereof current	thereof non-current
Interest rate derivatives	542	500	42	59	1	58
Currency derivatives	3,972	3,925	47	3,286	3,252	34
Commodity derivatives	29	23	6	31	18	13
	4,543	**4,448**	**95**	**3,376**	**3,271**	**105**

The notional value of the put and call options for the remaining 49 percent of shares in STEAG depends on a formula set out in the options contract and was €520 million on the reporting date (2011: €498 million).

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

Hedge accounting

Hedge accounting was applied for the following major transactions in 2012:

(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. When the hedge was closed out in August 2009, the accumulated income from the effective portion of the fair value hedge of the bond amounted to €60 million. This amount will be released to net interest expense over the remaining maturity of the bond using the effective interest method and taking into account the partial buyback of the bond in 2011. The amount released in 2012 was €13 million (2011: €17 million).

Commodity swaps with a notional value of €10 million were used to hedge the fair value risk relating to firm commitments to purchase natural gas in 2012/2013. As of December 31, 2012, the notional value of the outstanding derivatives was €7 million and their fair value was €1 million. The other operating income of €1 million from the change in the value of these hedging instruments was offset by other operating expense of the same amount reflecting the change in the value of the hedged item.

(b) Cash flow hedges

As of the balance sheet date, forward exchange contracts were used to hedge forecast sales amounting to around €1,166 million (2011: €1,038 million) up to the end of 2013 against exchange rate movements. The fair value of these hedging instruments was €41 million (2011: negative fair value of €67 million). At year-end 2012 gains of €39 million (2011: losses of €67 million) were recognized in other accumulated comprehensive income from gains/losses on hedging instruments ("hedge reserve").

Further, currency derivatives with a notional value of €41 million (2011: €27 million) and foreign currency holdings of Chinese companies totaling €28 million (2011: none) were designated to hedge the exchange rate risk of planned purchases of property, plant and equipment. The fair value of the outstanding derivatives was minus €1 million at year-end 2012 (2011: close to zero). As in the previous year, the impact on the hedge reserve was close to zero.

Between December 2011 and December 2012 Evonik successively purchased a total of ten forward starting payer swaps with a notional value of €50 million each to hedge the interest-rate risk of a highly probable refinancing transaction totaling €500 million forecast for 2013. In this way, a 5-year swap rate of 1.6 percent was locked in for a period of five years starting from June 2013. The interest swaps were classified as current because it is planned to close them out when the refinancing is carried out. As of the reporting date, these derivatives had a negative fair value of €17 million (2011: fair value close to zero). This amount could be recognized entirely in the hedge reserve.

As of year-end 2012 commodity swaps with a negative fair value of €2 million (2011: negative fair value of €11 million) were used to hedge forecast purchases of raw materials against price fluctuations up to 2014. As in the previous year, this amount was recognized almost entirely in the hedge reserve.

The effectiveness of hedge relations was determined using the dollar offset method, critical term match, the hypothetical derivatives method, regression analysis and sensitivity analyses. When hedging the currency risk of highly probable forecast transactions, in general only the spot components of forward exchange contracts used to hedge currency risks are designated to hedge accounting. In 2012 €4 million (2011: a negligible amount) was recognized in other operating expense as the ineffective portion of the valuation of cash flow hedges.

(c) Hedge of a net investment

Since March 2010 the investment in UK subsidiaries has been hedged against foreign currency risks on a rolling basis. The hedging contracts normally have terms of one to three months. As of December 31, 2012, the notional value of the hedges was £74 million (2011: £76 million). The fair value of the outstanding hedging contracts was €1 million at year-end 2012 (2011: close to zero). Between the start of hedging in March 2010 and year-end 2012, total of expenses of €9 million (up to year-end 2011: €7 million) were transferred to the hedge reserve.

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 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 were entered into exclusively in connection with the 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 were customary products found on the market such as forward exchange contracts and currency options, interest rate and currency swaps and interest rate collars. Commodity risks relating to coal, gas, electricity and oil were hedged through forward contracts. The procurement of emissions allowances to meet obligations pursuant to Section 6 of the German Emissions Trading Act (TEHG) was optimized through the use of EUA-CER swaps and EUA or CER forward contracts.

(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. The opposite effects arising from procurement and sales activities are taken into account. The remaining currency risks to the Group chiefly relate to changes in the exchange rate of the euro versus the US dollar (USD) and are generally hedged by Evonik Industries AG through a portfolio approach.

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 by using derivative and non-derivative financial instruments. 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. At year-end 2012, as in the previous year, 93 percent of non-derivative financial instruments were hedged by fixed-interest contracts.

Several scenario analyses were carried out to measure exchange rate and interest rate risk as of December 31, 2012.

For currencies, changes of 5 percent and 10 percent in the exchange rate of the USD, which is the most important currency for Evonik, were modeled, together with the standard deviation for these changes to simulate the possible loss of value of derivative and non-derivative financial instruments. The scenarios are summarized in the table:

	Dec. 31, 2012		Dec. 31, 2011	
in € million	Impact on income	Impact on equity	Impact on income	Impact on equity
+5%	–21	–42	–26	–45
–5%	21	42	26	45
+10%	–42	–85	–53	–90
–10%	42	85	53	90
+standard deviation	–4	–8	–5	–9
–standard deviation	4	8	5	9

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 related to the interest rate curves for all foreign currencies and for the euro to simulate the possible loss of value of derivative and non-derivative financial instruments. The scenarios are summarized in the table:

	Dec. 31, 2012		Dec. 31, 2011	
in € million	Impact on income	Impact on equity	Impact on income	Impact on equity
+50 basis points	2	12	1	–1
–50 basis points	–2	–12	–1	1
+100 basis points	3	23	2	–2
–100 basis points	–3	–25	–2	1
+150 basis points	5	34	3	–3
–150 basis points	–5	–38	–3	2

Commodity risks resulted from changes in the market prices for the purchase and sale of raw materials and electricity. Raw materials were purchased principally to meet in–house demand. 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. 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. Pricing and procurement risks are reduced through worldwide procurement and optimized processes to ensure immediate sourcing of additional raw material requirements. Further, 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 been 10 percent higher or lower on the reporting date, the impact of the fluctuation in the value of the commodity derivatives on the accumulated other comprehensive income from gains/losses from hedging instruments would have been +€1 million or –€1 million at year-end 2012 (2011: +€2 million or –€2 million). As in the previous year, the earnings impact would have been negligible.

Concurrently with the divestment of 51 percent of the shares in STEAG, a put option and a call option for the remaining 49 percent stake in STEAG were agreed with KSBG. The purpose of these options is to hedge the purchase price against the risk of a change in the fair value of the 49 percent stake in STEAG, while guaranteeing flexibility with regard to the future date of sale. Since the options are not eligible for hedge accounting, accounting risks arise from the different treatment of the options and the hedged item under IFRS rules. The options and the related unrealized gains and losses are recognized gross in the receivables and liabilities from derivatives in financial assets and liabilities and in income and expenses from the measurement of derivatives (excluding interest rate derivatives) in other operating income or other operating expenses. The result of the valuation of the options is included in adjustments. The options are valued using a binomial model. Its central input variables are the formula-based exercise price of the options and an estimate of the fair value of the 49 percent stake in STEAG.

As of December 31, 2012 the net value of the options was calculated as €32 million (2011: €20 million). If the fair value of the 49 percent stake in STEAG had been 10 percent lower on December 31, 2012, the net value of the options would have been €52 million (2011: €48 million) higher and would have resulted in an additional unrealized gain of the same amount. A 10 percent increase in the fair value of the 49 percent stake in STEAG as of December 31, 2012 would have reduced the net value of the options by €52 million (2011: €49 million), resulting in a corresponding additional unrealized loss.

(b) Liquidity risk

Liquidity risk is managed through business planning to ensure that that the funds required to finance the current operating business and current and future investments in all Group companies are available at the right time and in the right currency at optimum cost. Liquidity requirements for business operations, investments and other financial activities are derived from a financing status and liquidity planning, which form part of liquidity risk management. Liquidity is pooled in a central cash management pool where this makes economic sense and is legally permissible. Central liquidity risk management facilitates low-cost borrowing and advantageous offsetting of financial requirements.

Alongside financial assets, which comprised cash and cash equivalents of €741 million (2011: €1,409 million), current securities amounting to €928 million (2011: €649 million) and time deposits totaling €2 million (2011: €5 million) at year end, the Group's central source of liquidity comprises a €1.5 billion revolving credit facility from a group of almost 30 German and international banks. This is divided into three €500 million tranches, running until August 2014, 2015 and 2016. This credit facility was not drawn at any time in 2012. There is also a €200 million credit line with the European Investment Bank to finance research and development projects. This expires in mid-2017 and was not used at any time in 2012. Further, as of December 31, 2012, various unused credit lines totaling some €280 million were available to meet local requirements, especially in the Asia-Pacific region.

The table shows the remaining maturity of the non-derivative financial instruments based on the agreed dates for interest and redemption payments.

	Payments due in				Dec. 31, 2012
in € million	up to 1 year	more than 1 and up to 3 years	more than 3 and up to 5 years	more than 5 years	
Financial liabilities	**1,560**	**937**	**120**	**779**	**3,396**
Bonds	1,202	803	–	–	2,005
Liabilities to banks	264	114	111	703	1,192
Loans from non-banks	28	6	6	54	94
Liabilities from finance leases	2	3	1	1	7
Other financial liabilities	64	11	2	21	98
Trade accounts payable	**1,096**	**–**	**–**	**–**	**1,096**

	Payments due in				Dec. 31, 2011
in € million	up to 1 year	more than 1 and up to 3 years	more than 3 and up to 5 years	more than 5 years	
Financial liabilities	**393**	**2,237**	**127**	**844**	**3,601**
Bonds	109	2,004	–	–	2,113
Liabilities to banks	221	193	114	752	1,280
Loans from non-banks	19	18	6	60	103
Liabilities from finance leases	5	9	5	10	29
Other financial liabilities	39	13	2	22	76
Trade accounts payable	**1,086**	**–**	**–**	**–**	**1,086**

The Group did not infringe the payment terms agreed for its financial liabilities.

The breakdown of the sum of interest and redemption 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 without the liquidity impact of the put option and the call option for the remaining 49 percent of shares in STEAG. If the call option is exercised on the earliest possible date, January 1, 2014, from the present vantage point that would result in a cash inflow of €520 million. Since netting was not agreed for currency derivatives, they are presented as gross amounts:

	Payments due in			Dec. 31, 2012
in € million	up to 1 year	more than 1 and up to 3 years	more than 3 and up to 5 years	
Receivables from derivatives	**87**	**–2**	**–1**	**84**
Interest rate derivatives	–	–2	–1	–3
Currency derivatives	86	–	–	86
Cash inflows	2,785	2	2	2,789
Cash outflows	–2,699	–2	–2	–2,703
Commodity derivatives	1	–	–	1
Liabilities from derivatives	**–47**	**–3**	**–**	**–50**
Interest rate derivatives	–17	–	–	–17
Currency derivatives	–27	–2	–	–29
Cash inflows	1,220	41	–	1,261
Cash outflows	–1,247	–43	–	–1,290
Commodity derivatives	–3	–1	–	–4

	Payments due in			Dec. 31, 2011
in € million	up to 1 year	more than 1 and up to 3 years	more than 3 and up to 5 years	
Receivables from derivatives	**10**	**–**	**–**	**10**
Currency derivatives	10	–	–	10
Cash inflows	636	–	–	636
Cash outflows	–626	–	–	–626
Commodity derivatives	–	–	–	–
Liabilities from derivatives	**–146**	**–4**	**–**	**–150**
Currency derivatives	–138	–2	–	–140
Cash inflows	2,619	34	–	2,653
Cash outflows	–2,757	–36	–	–2,793
Commodity derivatives	–8	–2	–	–10

In 2012, receivables from interest rate derivatives comprised cross-currency swaps with negative cash flows resulting from the inflows in euros and outflows in Chinese renminbi yuan (CNY). In each maturity bracket, the CNY outflows translated into euros exceed the actual inflows in euros. To calculate the present value, the CNY side of these swaps is discounted using a CNY yield curve while the euro side is discounted using a euro yield curve. Since interest rates are higher in China, discounting results in a positive fair value and thus a positive overall carrying amount for the instruments despite the negative net cash flows.

(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 this 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 predominantly based on the ratings issued by international rating agencies and our own internal credit analysis. In addition, the development of CDS and equity prices (where available) is analyzed. Country limits are set for the money and capital markets to ensure diversification of country risks.

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 non-derivative financial instruments, there is also a maximum 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 were no significant cluster risks in the reporting period.

(10.3) Related parties

In addition to the subsidiaries included in the consolidated financial statements, the Group maintains relationships with related parties.

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 RAG-Stiftung and associated companies and joint ventures of Evonik, which are recognized at equity.

Under IAS 24 Related Party Disclosures, for fiscal 2011 for the first time the following were classified as related parties: the Federal Republic of Germany and the federal states of North-Rhine Westphalia and the Saarland. They are able to exercise a significant influence on RAG-Stiftung through their membership of the Board of Trustees of RAG-Stiftung. Transactions effected between Evonik and these federal and state governments and their subsidiaries or joint ventures in the reporting period comprised generally available government grants and subsidies, loans from public-sector banks to finance subsidized housing, and investments in their securities. Further, customary business relationships were maintained with the Deutsche Bahn Group, the Deutsche Telekom Group and the Duisport Group.

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

	RAG-Stiftung		Fellow subsidiaries		Joint ventures		Associated companies	
in € million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Goods and services supplied	8	11	6	7	178	60	19	36
Goods and services received	–	–	–59	–26	–12	–11	–42	–33
Other income	–	–	–	–	–	–	5	4
Receivables as of December 31	–	7	3	1	10	9	1	9
Liabilities as of December 31	–	–	–22	–23	–	–1	–2	–5
Contingent liabilities as of December 31	–	–	–	–	–	–	–14	–14

The receivables mainly resulted from trade relations while the liabilities mainly referred to financial relations. There was an increase in goods and services supplied to joint ventures in 2012 because, for the first time, lease revenues were received from Vivawest Wohnen.

As of the balance sheet date, €22 million (2011: €22 million) of the receivables comprised security pledged to a fellow subsidiary for the liabilities of the Real Estate segment 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 management members who hold key positions in the Group.

The remuneration paid to such related parties is shown in the table:

	Executive Board of Evonik Industries AG		Supervisory Board of Evonik Industries AG		Other management members	
in € thousand	**2012**	2011	**2012**	2011	**2012**	2011
Short-term remuneration	9,623	11,141	3,322	2,584	6,794	6,639
Long-term performance-related remuneration (LTI Plans)	612	–	–	–	2,307	2,672
Current service cost for pensions and other post-employment benefits	1,961	1,192	–	–	441	604
Termination benefits	–	2,181	–	–	–	1,666

Short-term remuneration comprises both amounts not related to performance and short-term performance-related payments. Due to expiry of the performance period for LTI Plans, the Executive Board's total remuneration of €10,235 thousand includes, for the first time, long-term performance-related remuneration totaling €612 thousand. A provision was recognized for this as of December 31, 2012 and the final amount will be calculated and disbursed in 2013.

The present value of pension obligations (defined benefit obligation) was €22,360 thousand for the Executive Board (2011: €16,245 thousand) and €14,324 thousand (2011: €10,453 thousand) for other members of the management.

Further, the employee representatives elected to the Supervisory Board of Evonik Industries AG continued to receive the regular salary agreed in their employment contract. The level of their salary provided appropriate remuneration for the exercise of their functions and tasks in the company.

In 2012, business relations with the Evonik Group amounting to €4.3 million were maintained by one member of the Board of Trustees of RAG-Stiftung through companies attributable to this person.

Apart from the relationships stated above, Evonik did not have any other significant business relationships with related parties.

(10.4) Contingent liabilities, contingent receivables and other financial commitments

Contingent liabilities were as follows on the reporting date:

in € million	**2012**	2011
Guarantee obligations	13	22
Obligations under warranties and indemnity guarantees	36	50
	49	**72**

Further insurance refunds are expected in connection with the incident at a production plant in Marl (Germany). The amount has not yet been finalized.

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	**2012**	2011
Due within 1 year	72	66
Due in more than 1 and up to 5 years	189	196
Due in more than 5 years	88	133
	349	**395**

The leased assets mainly comprise land and buildings, plant and equipment, and other plant, office furniture and equipment.

Total payments of €101 million (2011: €93 million) were recognized as expense for operating leases in the reporting period. The entire amount (2011: €92 million) related to minimum lease payments. No contingent rental payments were made in 2012 (2011: €1 million).

Some of the assets leased under operating leases were sub-leased. Evonik expects to receive future minimum lease payments of €1 million from these agreements.

(10.5) Other agreements between managers and third parties

In connection with the acquisition of 25.01 percent of the shares in Evonik Industries AG by Gabriel Acquisitions, selected managers at Evonik were granted a right to participate indirectly in Evonik's success. To this end, the managers purchased, at market price, limited partnership shares in the partnership Angel MEP GmbH & Co. KG, Frankfurt am Main (Germany) which held 25.01 percent of the shares in Evonik Industries AG at year-end 2012 jointly with Gabriel Holding through two intermediate companies (Gabriel Investment and Gabriel Acquisitions).

The purpose of this program is to provide an incentive to managers to contribute to the future growth and sustained performance of the Group.

On the reporting date, the managers participating in this program held an indirect stake of 0.66 percent (2011: 0.67 percent) in Evonik Industries AG. The cash contribution for this was equivalent to the market value of the partnership shares and was determined by a suitable enterprise valuation method. Since the managers paid the fair value of the shares when they acquired them, the fair value of the equity instruments allocated in return was zero. For this reason, no expense would have to be recognized at any time, either in the event of an exit or if a manager were to leave the company.

Evonik will not at any time be required to make payments to the eligible managers under this program.

(10.6) Events after the reporting date

Evonik has launched a debt issuance program allowing the placement of bonds with a total volume of up to €3 billion. The base prospectus for this program was approved by the Luxembourg financial regulator CSSF on February 6, 2013. Bonds can be issued at short notice under this program. No bonds had been issued under this program as of the date on which these financial statements were prepared.

As part of their preparations for a possible stock market listing of Evonik Industries AG, Evonik's owners, RAG-Stiftung and funds advised by CVC Capital Partners, have divested some of their shares to German and foreign institutional investors. Both owners divested the same proportion of their shares through a private placement. The placement comprised less than 10 percent of the issued no-par shares.

(11) Disclosures in compliance with German legislation

(11.1) Information on shareholdings pursuant to Section 313 Paragraph 2 of the German Commercial Code

The Group's shareholdings are listed in Note (5.1). The list indicates which companies have made use of the provisions in Sections 264 Paragraph 3 and 264 b 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. In fiscal 2012 for the first time these exemptions were not applicable for some subsidiaries under Section 3 No. 38 and Section 6 b No. 1 of the German Energy Industry Act (EnWG).

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

The personnel expense in the reporting period comprised the following items:

in € million	**2012**	2011
Wages and salaries	2,168	2,140
Social security contributions	326	315
Pension expenses	156	149
Other personnel expense	25	24
	2,675	**2,628**

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:

Employees	**2012**	2011
Consumer, Health & Nutrition	6,721	6,259
Resource Efficiency	5,845	7,161
Specialty Materials	6,670	6,797
Services	11,637	10,515
Real Estate	601	1,119
Corporate, other operations	1,997	1,826
	33,471	**33,677**

(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 2012 amounted to €10,235 thousand (2011: €11,141 thousand). In 2012 provisions for bonus payments for Executive Board members for the previous year amounting to €537 thousand were released. Due to expiry of the performance period for LTI Plans, the total remuneration includes, for the first time, long-term performance-related remuneration totaling €612 thousand. A provision was established for this as of December 31, 2012 and the final amount will be calculated and disbursed in 2013.

The total value of the LTI Plan 2012 for Executive Board members is €2,100 thousand, assuming that target attainment is 100 percent and the eligible Executive Board members are still serving at the end of the five-year performance period.

Total remuneration of former members of the Executive Board and their surviving dependents was €1,081 thousand in 2012 (2011: €946 thousand).

As of the balance sheet date, the present value of pension obligations (defined benefit obligations) for former members of the Executive Board and their surviving dependents amounted to €23,192 thousand (2011: €23,276 thousand).

The remuneration of the Supervisory Board for 2012 totaled €3,322 thousand (2011: €2,584 thousand).

(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 was PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf (Germany). PwC rendered the following services to the Group:

in € million	**2012**	2011
Auditing of annual financial statements	3.5	3.1
Other audit-related services	2.4	4.5
Tax consultation services	0.8	1.2
Other services	3.5	2.3
	10.2	**11.1**

The fees for auditing annual financial statements included 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 comprised services apart from the auditing of annual financial statements, especially the review of interim financial statements and other assurance services in connection with projects.

Essen, February 20, 2013

Evonik Industries AG
The Executive Board

Dr. Engel	Dr. Colberg	Dr. Haeberle
Wessel	Wohlhauser	Dr. Yu

Supplementary information

Solutions for customers, new openings, access to new markets.

Independent Auditor's Report

To Evonik Industries AG, Essen

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Evonik Industries AG, Essen, and its subsidiaries, which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements for the business year from January 1, to December 31, 2012.

Executive Board's Responsibility for the Consolidated Financial Statements
The Executive Board of Evonik Industries AG, Essen, is responsible for the preparation of these consolidated financial statements. This responsibility includes ensuring that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Executive Board is also responsible for the internal controls as the Executive Board determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

According to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2012 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Group Management Report

We have audited the accompanying management report for the Evonik Group, which is combined with the management report of the company, Evonik Industries AG, Essen, for the business year from January 1 to December 31, 2012. The Executive Board of Evonik Industries AG, Essen, is responsible for the preparation of the combined management report in accordance with the requirements of German commercial law applicable pursuant to § 315a Abs. 1 HGB. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 Abs. 3 Satz 1 HGB we state, that our audit of the combined management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and combined management report, the combined management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 21, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Andreas Menke
(German Public Auditor)

Lutz Granderath
(German Public Auditor)

Dr. Werner Müller, Chairman of the Supervisory Board

Report of the Supervisory Board

Ladies and gentlemen:

During the past fiscal year, the Supervisory Board of Evonik Industries AG (Evonik) duly performed the obligations imposed on it by law and the Articles of Incorporation. We monitored the work of the Executive Board regularly and attentively, and advised it on the management and strategic development of the company.

The Executive Board provided us with full and timely information on the main issues relating to the company. In particular, it explained aspects of business policy, corporate planning and strategic development, business performance and the situation of the Group.

We addressed all issues of significance for the company at four meetings, on March 13, May 24, September 26 and December 18, 2012 and in two cases—in July 2012 and December 2012—through a written circulation procedure. Further, the Supervisory Board held a special meeting on September 25, 2012 to discuss the company's strategy in detail.

In addition, outside of these meetings the Executive Board provided us with written reports on business developments and processes of particular importance for Evonik. The Chairman of the Supervisory Board was kept constantly informed of all major business developments.

The work of the Supervisory Board was prepared and supported by its committees. The Executive Committee held four meetings, the Finance and Investment Committee five, the Audit Committee four and the Nomination Committee met three times.

Despite the challenges resulting from the sovereign debt crisis and the associated deterioration in the economic situation, especially in the second half of the year, the Evonik Group was once again able to build on the previous year's record operating performance. The good business figures for 2012 confirm the company's strategic focus: The systematic alignment to specialty chemicals and focusing the portfolio on the health, nutrition, resource efficiency and globalization megatrends are having a visible effect.

To sharpen Evonik's competitiveness still further, in spring 2012 the Group initiated "Evonik 2016", an efficiency and growth program. The objective is to speed up the pace of development at Evonik even further using the triad of efficiency, values and growth. Extensive investment in the future will be supported by a substantial improvement in efficiency. The Group has therefore embarked on "On Track 2.0" which aims to generate annual savings of €500 million across the Group by 2016. This essentially continues the proven excellence initiatives. The focus is not simply on cutting costs, but on improving structures and workflows within the Group. Following the success of the first On Track program between 2009 and 2011, the company is now continuing along this successful path.

In June 2012 Evonik's shareholders decided to postpone the planned IPO because of the substantial deterioration in the overall economic situation and sentiment on the international financial markets. At that time, it would not have been possible to obtain an appropriate capital market valuation. The preparations and plans for the IPO, which was eventually canceled, dominated the Supervisory Board's meetings in the first half of the year.

Alongside this, the Supervisory Board kept a close eye on Evonik's growth course. At our meetings we discussed the sales, earnings and employment trend at Evonik Industries AG, the financial and earnings position and the main investment and divestment projects:

- the establishment of two oleochemical plants (China, Brazil)
- the erection of a hydrogen peroxide plant (China)
- the construction of a new production facility for isophorone and isophorone diamine (China)
- the construction of a backwardly integrated methionine facility (Singapore)
- expansion of the production lines for C4 products (Germany and Belgium)
- construction of a new large-scale facility for functionalized polybutadiene (Germany)
- expansion of lysine capacity (USA, Brazil, Russia)
- expansion of capacity for silicone specialties (Germany)
- divestment of the Colorants business.

Other significant issues discussed were:

- the crisis in the photovoltaic industry and its implications for the sites in Italy and Japan
- start-up of serial production of lithium-ion battery cells for the E-Smart in Kamenz near Dresden (Germany)
- the planned deconsolidation of the real estate activities
- the strategic development of the Site Services unit.

Occupational and plant safety have top priority at Evonik. Despite this, there were several fatal accidents in 2012. The explosion at the Marl site on March 31, 2012, in which two employees died, was particularly tragic. The Supervisory Board honored those who died and requested a full report on the causes of the accident and the circumstances in which it occurred.

The Supervisory Board and Executive Board accept the principles of good corporate governance. In this, they take as their guide the German Corporate Governance Code, including the updated version of May 15, 2012. This does not exclude the possibility of deviation from its recommendations and suggestions in legitimate cases.

Since it is not listed on the stock exchange, Evonik is not subject to the obligation contained in Section 161 of the German Stock Corporation Act (AktG) to submit a declaration of the extent to which it has complied or will comply with the German Corporate Governance Code and which recommendations have not been and will not be met, together with the reasons for this (Declaration of Conformity). Nevertheless, Evonik complies with many areas of the Corporate Governance Code, insofar as they are applicable for unlisted companies. At the end of fiscal 2012, Evonik's corporate governance status was largely equivalent to that of listed companies.

In 2011 the Supervisory Board set objectives for its composition. Analogously to the latest version of the Corporate Governance Code dated May 15, 2012, a further objective has been added: At least five members of the Supervisory Board should be independent within the meaning of Section 5.4.2. of the Corporate Governance Code. The Supervisory Board intends to take these objectives as a guide at the elections in 2013. The Supervisory Board and its Nomination Committee also monitor observance of these targets through an efficiency review. The outcome of the efficiency review of the Supervisory Board and its committees was positive.

From 2013 the members of the Supervisory Board will receive fixed remuneration only, in conformance with the new version of the Corporate Governance Code.

In fiscal 2012 there were no conflicts of interest relating to members of the Supervisory Board of Evonik Industries AG. Moreover, there were no consultancy, service or similar contracts with any members of the company's Supervisory Board. Any transactions between the company or a company in the Evonik Group on the one hand and Supervisory Board members and related parties on the other complied with the customary standards in the sector.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf (Germany) has audited the financial statements of Evonik Industries AG as of December 31, 2012 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 discretionary request from the Supervisory Board.

The auditors outlined the main findings of their audit at the meeting of the Audit Committee on March 4, 2013 and the full meeting of the Supervisory Board on March 11, 2013. 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 financial statements for Evonik Industries AG and the Evonik Group, the combined management report and the proposal for the distribution of the profit, 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 2012 are thus ratified.

The Executive Board 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 factual disclosures made in this report are correct
2. the company's expenditures in connection with the legal transactions contained in the report were not unreasonably high and compensation was received for any disadvantages."

The auditors outlined the main findings of their audit at the meeting of the Audit Committee on March 4, 2013 and the full meeting of the Supervisory Board on March 11, 2013.

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. 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 on relations with affiliated companies and gave the Supervisory Board a detailed overview of the outcome of its meeting. The Supervisory Board has no objection 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.

There were no changes to the members of the Executive Board in 2012.

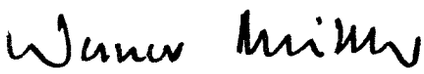
The Chairman of the Supervisory Board, Mr. Wilhelm Bonse-Geuking, stepped down from this office on November 30, 2012 and left the Supervisory Board. At an Extraordinary Shareholders' Meeting on December 1, 2012, Dr. Werner Müller was elected to succeed him as a member of the Supervisory Board. He was then elected Chairman of the Supervisory Board with effect from December 1, 2012 using a written circulation procedure.

Mr. Rainer Kumlehn stepped down from the Supervisory Board as of August 30, 2012. Mr. Michael Vassiliadis was appointed as his successor with effect from August 31, 2012. Mr. Werner Bischoff stood down as Deputy Chairman of the Supervisory Board at the end of the Supervisory Board meeting on September 26, 2012. Mr. Michael Vassiliadis was elected as Deputy Chairman of the Supervisory Board with effect from the end of the meeting on September 26, 2012. Mr. Werner Bischoff stepped down from the Supervisory Board as of October 31, 2012. Ms. Karin Erhard was appointed as his successor effective November 14, 2012. On May 24, 2012 the Supervisory Board nominated Dr. Siegfried Luther as a financial expert pursuant to Section 100 Paragraph 5 of the German Stock Corporation Act (AktG). The Supervisory Board extends its thanks to all members who have left the Supervisory Board for their many years of service for the good of the company and its employees.

The Supervisory Board would also like to thank the Executive Board, Works Councils and Senior Staff Committees representing the workforce, and all employees of Evonik Industries AG and its affiliated companies for their performance over the past year.

Essen, March 2013

On behalf of the Supervisory Board



Dr. Werner Müller, Chairman

Joint report of the Executive Board and Supervisory Board of Evonik Industries AG on Corporate Governance

(Corporate Governance Report)

(1) Principles of corporate governance and corporate structure

Corporate governance comprises all principles for the management and supervision of a company. As an expression of good and responsible corporate management, it is therefore a key element in Evonik's management philosophy. The principles of corporate governance relate mainly to collaboration within the Executive Board and Supervisory Board and between these two boards and the shareholders, especially at Shareholders' Meetings. They also relate to the company's relationship with other people and organizations with which it has business dealings.

Evonik is committed to the German Corporate Governance Code

Evonik Industries is a stock corporation established under German law.

Alongside compliance with the provisions of the relevant legislation, the basis for ensuring responsible management and supervision of Evonik with a view to a sustained increase in corporate value is our commitment to the German Corporate Governance Code, both in the version dated May 26, 2010, and in the revised version of May 15, 2012. This code, which was adopted by the Government Commission on the German Corporate Governance Code, contains both key statutory provisions on the management and supervision of publicly listed German companies and recommendations and suggestions based on nationally and internationally recognized standards of responsible corporate governance. Companies that are not listed on the stock exchange are also recommended to respect these principles.

The Executive Board and Supervisory Board of Evonik Industries AG are explicitly committed to responsible corporate governance and identify with the goals of the German Corporate Governance Code. According to the foreword, in the interest of good and proactive corporate governance, a company may deviate from the principles set out in the German Corporate Governance Code if this is necessary to reflect enterprise-specific requirements.

(2) Information on corporate management

(2.1) The German Corporate Governance Code

Aligned to the principles of the German Corporate Governance Code

Since it is not listed on the stock exchange, with respect to 2012 Evonik Industries AG is not subject to the obligation contained in Section 161 of the German Stock Corporation Act (AktG) to submit a declaration of the extent to which it has complied or will comply with the German Corporate Governance Code, and which recommendations have not been and will not be met, together with the reasons for this (Declaration of Conformity).

Nevertheless, Evonik aligns itself to the principles set out in the German Corporate Governance Code. With regard to those requirements that assume a stock market listing or only make sense in such cases, specific organizational measures have been taken, for example, through corresponding provisions in the Articles of Incorporation or Rules of Procedure (for example, provisions on the exercise of shareholders' rights at a general public meeting or the transmission of such rights by electronic media).

Evonik complies with the recommendations and suggestions set forth in the German Corporate Governance Code insofar as they are applicable for companies that are not publicly listed. At year-end 2012, its corporate governance status was therefore broadly comparable with that of publicly listed companies.

Transparency

Evonik regards timely and equal public disclosure of information as a key basis of good corporate governance. The Investor Relations section of the company's website provides extensive information in German and English. This information offering was extended further in 2012.

Evonik publishes a financial calendar providing an at-a-glance overview of the dates of the next financial press conference and the publication dates of upcoming interim reports. Key facts and figures, especially financial and segment data and information on the company's structure and organization are also available. This is supplemented by information on the terms of bond issues and an overview of Evonik's credit ratings. Finally, the information offering includes corporate governance and all annual reports and corporate responsibility reports published since 2007.

(2.2) Relevant information on corporate management practices

Compliance

Evonik understands compliance as all activities to ensure that the conduct of the company, members of its governance bodies and its employees respects all applicable mandatory standards such as legal provisions, statutory provisions and prohibitions, in-house directives and voluntary undertakings. The basis for this understanding and for compliance with these binding standards is set out in Evonik's Code of Conduct.

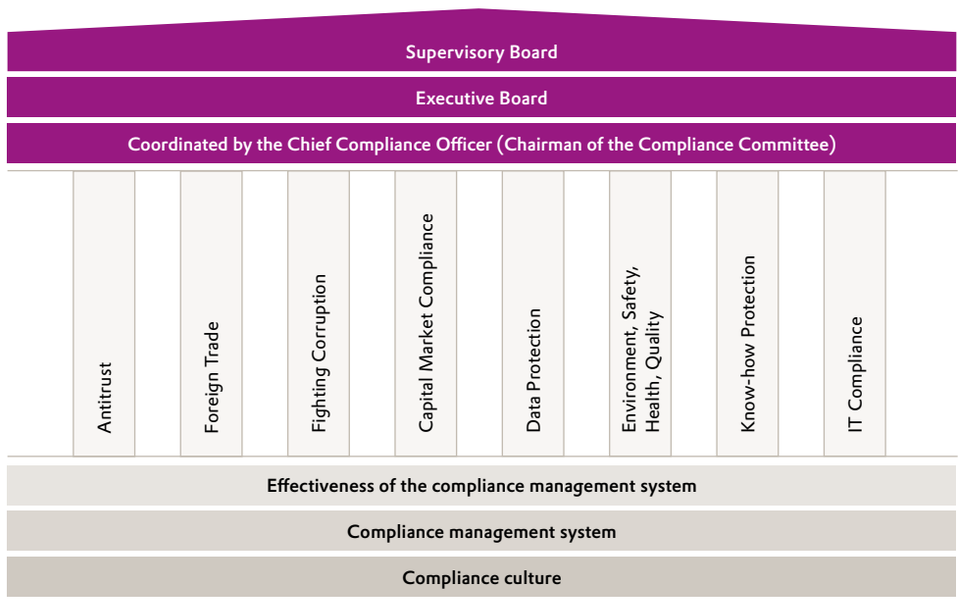
Code of Conduct

Evonik's binding Group-wide Code of Conduct contains the most important corporate values and principles and governs the conduct of Evonik, its legal representatives and its employees both internally, in the treatment of one another, and externally in the treatment of the company's shareholders and business partners, representatives of authorities and government bodies, and the general public. It requires all employees to comply with the applicable laws, regulations and other obligations. They are also required to observe ethical standards. All employees receive training in the Code of Conduct and systematic action is taken to deal with any breach of its rules. The Code of Conduct fosters a culture that ensures clear responsibility, mutual trust and respect, dependability and lawfulness. The compliance culture created by the Code of Conduct, in particular, forms the basis for Evonik's "House of Compliance."

House of Compliance

The compliance issues identified as being of specific relevance to our company are bundled in a House of Compliance. Alongside traditional compliance issues such as antitrust law, foreign trade law, fighting corruption and data protection, as a technology-driven specialty chemicals company, issues of relevance to us include the environment, safety, health, quality, know-how protection, and IT compliance. These are the pillars of compliance management, which is based on uniform minimum requirements for all these issues.

House of Compliance



The Chief Compliance Officer coordinates the structure and ongoing development of the House of Compliance. He operates autonomously. He is supported in all major issues by a Compliance Committee. This is an internal advisory committee composed of the heads of the various specialist departments and Corporate Audit. Specially appointed staff officers in the business units, regions and other organizational units (for example, Compliance Officers for Fighting Corruption) ensure close networking of Compliance and our business operations.

Corporate Responsibility

Companies that strive for lasting success on the market need social acceptance as well as reliable and responsible corporate governance. Together with Evonik's Code of Conduct, the Global Social Policy (GSP) and our Environment, Safety and Health (ESH) values contribute to responsible corporate management.

In its Global Social Policy, Evonik outlines its principles of social responsibility for its employees and requires them to comply with recognized international standards of conduct such as the International Labor Standards of the International Labour Organisation (ILO) and the Guidelines for Multinational Enterprises issued by the Organisation for Economic Cooperation and Development (OECD). Evonik does not tolerate any conduct that violates the OECD Guidelines for Multinational Enterprises. The governments of the OECD member states and other countries have signed these as a guide to multinational enterprises on how to meet their obligation to ensure responsible corporate conduct. The Global Social Policy states that the company's success and reputation are based fundamentally on the professionalism and commitment of all employees.

By joining the United Nations' Global Compact (UN Global Compact), Evonik also gave an undertaking that, within its sphere of influence, it would respect labor rights and human rights, avoid discrimination, protect people and the environment and fight against corruption.

As a signatory to the chemical industry's Responsible Care Global Charter, we have also given an undertaking that we will continuously strive to improve our performance in health protection, safety, environmental protection and product stewardship. Evonik has signed the Code of Responsible Conduct for Business, which sets measurable standards that have to be firmly anchored in participating companies. These include fair competition, social partnership, the merit principle and sustainability.

Further, as a responsible company we have given a commitment to report regularly on our climate performance as part of the Carbon Disclosure Project (CDP), the world's largest climate initiative. This covers internal organizational processes and accountability, as well as transparent and challenging targets.

Evonik's sustainability management fully complies with the provisions of the German Sustainability Code.

The main documents containing the guidelines on conduct in the Evonik Group can be found on the company's homepage:

Code of Conduct www.evonik.com/coc

ESH Values www.evonik.com/esh

Global Social Policy www.evonik.com/gsp

Code of Responsible Conduct for Business
http://www.wcge.org/download/120206_leitbild-eng_Unterschriften_0.pdf

(2.3) Work of the Executive Board and Supervisory Board

The German Stock Corporation Act (AktG) forms the legal basis for the incorporation of Evonik Industries AG. Further details are set out in the company's Articles of Incorporation. The Executive Board and Supervisory Board also take the provisions of the German Corporate Governance Code as a guide.

Executive Board
The Executive Board of Evonik Industries AG is responsible for running the company in the company's interests with a view to a sustained increase in corporate value, taking into account the interests of the shareholders, employees and other stakeholders. It works together trustfully with the other corporate bodies for the good of the company.

The Executive Board defines and updates the company's business objectives, its basic strategic focus, business policy and corporate structure. It is responsible for complying with statutory provisions and internal directives, and exerts its influence to ensure that they are observed by Group companies (compliance). Its tasks also include ensuring appropriate risk management and risk controlling within the company.

When making appointments to management functions in the company, the Executive Board applies the principles of diversity. In this it strives, in particular, to ensure adequate representation of women.

The Executive Board has six members. One member is appointed to chair the Executive Board. With the approval of the Supervisory Board, the Executive Board has adopted Rules of Procedure and a plan allocating areas of responsibility. The Chairman coordinates the work of the Executive Board, provides information for the Supervisory Board and maintains regular contact with the Chairman of the Supervisory Board. The members of the Executive Board are jointly responsible for the overall management of the company. They work together constructively and keep each other informed of the main activities and developments in their areas of responsibility.

Ensuring that the Supervisory Board receives sufficient information is the joint responsibility of the Executive Board and Supervisory Board. The Executive Board provides the Supervisory Board with the reports to be prepared in accordance with Section 90 of the German Stock Corporation Act (AktG) and the Rules of Procedure of the Supervisory Board. It gives the Supervisory Board timely, regular and full information on all matters relating to strategy, planning, business development, risks, risk management and compliance. It outlines deviations between the planned and actual business performance and targets and the reasons therefor.

Further, the Executive Board submits timely reports to the Supervisory Board on business matters and actions for which it is required by the Articles of Incorporation or Rules of Procedure to obtain the approval for the Supervisory Board, such as the annual finance and investment planning for the Group.

Members of the Executive Board are required to act in the interests of the company. They may not pursue personal interests in their decisions, nor may they utilize business opportunities available to the company for themselves.

The members of the Executive Board are subject to a comprehensive non-compete obligation during their term of office. They may only assume additional posts, especially seats on the supervisory boards of companies that are not affiliated companies of Evonik Industries AG, with the consent of the Supervisory Board. Where such posts are assumed with the consent of the Supervisory Board, the Executive Board member shall accept the post as a personal office and shall ensure strict confidentiality and strict separation from his activities as a member of the company's Executive Board. Every member of the Executive Board is required to disclose any conflict of interests to the Chairman of the Supervisory Board without delay and to inform the other members of the Executive Board.

In fiscal 2012 there were no conflicts of interest relating to members of the Executive Board of Evonik Industries AG.

All transactions between the company or companies in the Evonik Group on the one hand and Executive Board members and related parties on the other must take place on terms that are customary in the sector. No such transactions took place in the reporting period.

The composition of the Executive Board and membership of supervisory boards and similar governance bodies are outlined on page 243.

Supervisory Board

The Supervisory Board advises and supervises the Executive Board. It appoints the members of the Executive Board and names one member as the Chairman of the Executive Board. It also decides on the remuneration of the members of the Executive Board. The Executive Board is required to obtain the approval of the Supervisory Board on decisions of fundamental importance, which are defined in a separate list. These include:

- fundamental changes to the structure of the company and the Group
- the annual financial and investment plan for the Group
- individual investments and capital expenditures exceeding €25 million
- the assumption of loans and the issuance of bonds exceeding €300 million.

The Supervisory Board examines the company's annual financial statements and the proposal for appropriation of the profit, the consolidated financial statements for the Group and the combined management report. The Supervisory Report submits a written report on the outcome of the audit to the Shareholders' Meeting.

The Supervisory Board is subject to the German Codetermination Act 1976 (MitbestG). In accordance with these statutory provisions, the Supervisory Board comprises twenty members, ten representatives of the shareholders and ten representatives of the workforce. The representatives of the shareholders are elected by the Shareholders' Meeting on the basis of nominations put forward by the Supervisory Board as prepared by the Nomination Committee. The representatives of the employees are elected by the workforce and comprise seven employee representatives and three representatives of the industrial union.

The composition of Supervisory Board should ensure that overall its members have the knowledge, ability and professional experience required to perform their duties. The members of the Supervisory Board may not undertake any duties as officers or advisors to the company's major competitors.

The Supervisory Board should not include more than two former members of the Executive Board. A former member of the Executive Board was elected to the Supervisory Board in December 2012. His term of office on the Executive Board had ended more than two years previously. All members of the Supervisory Board shall ensure that they have sufficient time to perform their tasks as a member of the Supervisory Board. Members of the Supervisory Board who are also members of the Executive Board of a publicly listed stock corporation should not hold more than three seats on the Supervisory Boards of listed companies outside their group of companies or Supervisory Boards of companies where comparable demands are made on them.

Members of the Supervisory Board must act in the interests of the company and not pursue personal interests in their decisions, nor may they utilize business opportunities available to the company for themselves. Members must disclose conflicts of interest to the Supervisory Board. Any member of the Supervisory Board who discloses a conflict of interest is excluded from resolutions at the meetings of the Supervisory Board dealing with matters relating to the conflict of interest. In its report to the Shareholders' Meeting the Supervisory Board discloses any conflicts of interest that have arisen and how they have been dealt with. Material conflicts of interest relating to a member of the Supervisory Board that are not by nature temporary should lead to termination of his/her term of office.

Consultancy, service and similar contracts between a member of the Supervisory Board and the company must be approved by the Supervisory Board. There were no contracts of this type in 2012, nor were there any conflicts of interest.

The Supervisory Board has adopted Rules of Procedure, which also govern the formation and tasks of the committees. Two regular meetings of the Supervisory Board are held in each calendar half-year. In addition, meetings may be convened as required and the Supervisory Board may adopt resolutions outside meetings. If an equal number of votes is cast when taking a decision, and a second vote does not alter this situation, the Chairman of the Supervisory Board has the casting vote.

In line with the amendment of the German Corporate Governance Code in 2012, the criteria for the Supervisory Board have been extended to include independence. Accordingly, in 2012 the Supervisory Board supplemented the objectives for its composition that it had adopted the previous year. These will be taken into account as follows when nominating candidates to the Shareholders' Meeting for the next regular election of the Supervisory Board members in March 2013.

- At least two members should have sound knowledge and experience of regions which are of material importance for the Evonik Group's business, either through their background or through professional experience gained in an international context.
- At least two members should have special knowledge and experience of business administration and of finance/accounting or auditing.
- At least two members of the Supervisory Board should have specialist knowledge and experience of the area of specialty chemicals.
- At least two members should have experience of managing or supervising a major company.
- There should be at least two female members of the Supervisory Board.
- The members of the Supervisory Board should not hold consulting or governance positions with customers, suppliers, creditors or other business partners that could lead to a conflict of interests. Deviations from this rule are permitted in legitimate individual cases.
- Members of the Supervisory Board should not normally be over 70 when they are elected.
- At least five members of the Supervisory Board should be independent within the meaning of Section 5.4.2 of the German Corporate Governance Code.

The Supervisory Board and its Nomination Committee will monitor observance of these targets.

The Supervisory Board has the following committees:

The **Executive Committee** comprises the Chairman of the Supervisory Board, his deputy and four further members. It undertakes the regular business of the Supervisory Board and advises the Executive Board on fundamental issues relating to the ongoing strategic development of the company. Insofar as is permitted by law, it takes decisions in place of the full Supervisory Board on matters which cannot be deferred until the necessary resolution is passed by the full Supervisory Board without detrimental effects for the company. It also takes decisions on the use of authorized capital. It prepares meetings of the Supervisory Board and, in particular, personnel decisions and resolutions on the remuneration of the Executive Board, including the main contractual elements and the overall remuneration of individual members of the Executive Board. It is also responsible for concluding, amending and terminating employment contracts with the members of the Executive Board, where this does not involve altering or setting remuneration, and represents the company in other transactions of a legal nature with present and former members of the Executive Board and certain related parties. Further, it examines issues relating to corporate governance and reports to the Supervisory Board at least once a year on the status, effectiveness and scope to implement any improvements to corporate governance.

The **Audit Committee** has six members. The members of the Audit Committee should have specialist knowledge and experience in the application of accounting standards and internal control systems. The Supervisory Board has appointed the Chairman of the Audit Committee as an independent financial expert in accordance with Section 100 Paragraph 5 of the German Stock Corporation Act (AktG). He also meets the more extensive requirements of the German Corporate Governance Code. The Audit Committee's tasks comprise, in particular, supervising the accounting process and the efficacy of the internal control system, the risk management system, the internal audit system and compliance, the auditing of the financial statements, especially the independence of the auditor, any additional services provided by the auditor, issuing the audit assignment to the auditor, setting focal points for the audit and agreeing audit fees with the auditor. It prepares the Supervisory Board's proposal to the Shareholders' Meeting on the choice of auditor, decides on the appointment of the auditor and authorizes the Chairman of the Supervisory Board to issue the contract to the auditor.

The Audit Committee prepares the decision of the Supervisory Board on approval of the annual financial statements of Evonik Industries AG and the consolidated financial statements for the Group. For this purpose, it is required to conduct a preliminary examination of the annual financial statements of Evonik Industries AG, the consolidated financial statements for the Group, the combined management report and the proposal for the appropriation of the profit. The auditor of the financial statements must attend these meetings of the Audit Committee.

The Audit Committee reviews the quarterly financial statements and half-yearly statements (interim reports), insofar as such statements are prepared, discusses the audit review report with the auditor and decides whether to raise any objections.

The **Finance and Investment Committee** has six members. Its work covers aspects of corporate finance and investment planning. For example, it takes decisions on behalf of the Supervisory Board involving approval for the establishment, acquisition and divestment of businesses, capital measures at other Group companies and real estate transactions with a value of more than €25 million and up to €50 million. If the value of such measures or transactions exceeds the above limit, it prepares for a resolution by the Supervisory Board. The Finance and Investment Committee also takes decisions on the assumption of guarantees and sureties for credits exceeding €50 million and on investments in companies of more than €100 million.

The **Nomination Committee** comprises three Supervisory Board members elected as representatives of the shareholders. The task of the Nomination Committee is to prepare a proposal for the Supervisory Board on the candidates to be nominated to the Shareholders' Meeting for election to the Supervisory Board.

Finally, there is a **Mediation Committee** established in accordance with Section 27 Paragraph 3 of the German Codetermination Act 1976 (MitbestG). This mandatory committee is composed of the Chairman and Deputy Chairman of the Supervisory Board, one shareholder representative and one employee representative. This committee puts forward proposals to the Supervisory Board on the appointment of members of the Executive Board if the necessary two-thirds majority of the Supervisory Board members is not achieved in the first vote. It is only convened when necessary.

All other committees meet regularly and may also hold additional meetings on specific issues in line with their responsibilities as set out in the Rules of Procedure for the Supervisory Board.

Further details of the work of the Supervisory Board and its committees in the past fiscal year can be found in the report of the Supervisory Board on page 223. For details of the composition of the Supervisory Board and membership of other supervisory and governance bodies see pages 240 to 242.

Directors' Dealings

On the reporting date, members of the Executive Board and Supervisory Board and related parties did not have an obligation pursuant to Section 15 a of the German Securities Trading Act (WpHG) to disclose the purchase and sale of shares in Evonik Industries AG and related financial instruments.

Total holdings of shares in Evonik Industries AG and related financial instruments by members of the Executive Board and Supervisory Board on the reporting date amounted to less than 1 percent of the issued shares.

(3) Shareholders and the Shareholders' Meeting

The shareholders exercise their rights at the Shareholders' Meeting. The Shareholders' Meeting elects the auditor and the shareholder representatives on the Supervisory Board and resolves on the ratification of the actions of members of the Executive Board and Supervisory Board, the appropriation of the profit, capital transactions and amendments to the Articles of Incorporation. The shares are registered shares. Shareholders who are entered in the register of shareholders are eligible to attend the Shareholders' Meeting and exercise their voting rights, providing they register in good time to attend the meeting. The shareholders may exercise their voting rights at the Shareholders' Meeting in person, through a proxy of their choice or through a proxy appointed by the company. Each share entitles the holder to one vote.

(4) Information on accounting and auditing of the financial statements

Evonik Industries AG prepares its annual financial statements in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The consolidated financial statements are prepared on the basis of the International Financial Reporting Standards (IFRS), as adopted for use in the EU. In addition, the applicable statutory provisions Section 315 a of the German Commercial Code are taken into account.

The Shareholders' Meeting appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) as auditor for the annual financial statements of Evonik Industries AG and the consolidated financial statements of the Evonik Group for 2012. The Supervisory Board previously ascertained the independence of the auditor. PwC has audited the annual financial statements and consolidated annual financial statements of Evonik Industries AG and the combined management report for fiscal 2012. The audit covered the risk management system as well as the accounts. In addition, PwC conducted a review of the interim financial statements in 2012.

(5) Risk management and internal control system (ICS)

Risk management in the Evonik Group, including the ICS relating to the accounting process, is described in the risk report, which forms part of the management report. Details can be found on page 113.

(6) Remuneration

Remuneration report

The remuneration report outlines the principles of the remuneration system for the members of the Executive Board and the structure and level of the Executive Board's remuneration. It also contains information on the remuneration of the Supervisory Board. The report on the remuneration of the Executive Board contains the data required to comply with German commercial law.

Remuneration of the Executive Board

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

The appropriateness of the remuneration is checked regularly by remuneration reviews. These examine the structure and level of remuneration of the Executive Board in comparison with the external market and in relation to remuneration elsewhere in the company. If this reveals a need to adjust the remuneration system or level of remuneration, the Executive Committee submits a corresponding proposal to the Supervisory Board for a decision.

Components of remuneration

The remuneration paid to the members of the Executive Board comprises a fixed monthly base salary, a performance-related annual bonus and long-term variable remuneration.

The structure is as follows:

- Base salary: approx. 35 percent
- Annual bonus (based on 100 percent attainment of targets): approx. 45 percent
- Long-term remuneration (based on the value of rights granted): approx. 20 percent

All remuneration received for offices held in the interests of the company, apart from allowance for the attendance of meetings, is deducted from the annual bonus payment or paid over to the company.

In addition to the remuneration components outlined above, the total remuneration package includes pension and other entitlements and fringe benefits.

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

The performance-related **annual bonus** is dependent on the attainment of business targets measured by performance indicators (bonus factor) and the attainment of individual objectives (performance factor). The bonus factor and performance factor are multiplied. The level of the bonus factor depends on the achievement of the business targets derived from the corporate planning and may be between 0 and 200 percent. The parameters are set individually on the basis of the individual member's area of responsibility. They comprise economic value added (EVA®), net income, free cash flow and a target dividend. The accident situation in the fiscal year also has an impact.

The performance factor rewards the attainment of personal targets and can vary between 0.8 and 1.2. If the personal and business objectives are achieved 100 percent, the contractually agreed target bonus is paid. If the company's income falls short of the planned level, the bonus factor may—irrespective of performance—be zero, regardless of personal attainment. In other words, it is conceivable that a bonus might not be paid for a specific year. The bonus is capped at 200 percent of the target bonus.

The business and personal targets set for Executive Board members for the bonus and performance factors are agreed annually in writing between the Supervisory Board and each member of the Executive Board. Together with the corporate planning approved by the Supervisory Board, individual objectives form the basis for calculation of the annual bonus.

At the end of the fiscal year, the bonus factor and personal performance factor for each member of the Executive Board are calculated on the basis of the Group's net income. The final decision is taken by the Supervisory Board.

The **long-term remuneration** is based on a sustained increase in the value of the company. This remuneration component is designed as a reward for achieving or exceeding the operating earnings targets set in the mid-term planning and their impact on the value of the company. Each plan runs for five years and new tranches are normally issued each year. At the end of each period, the increase in value and payout are determined by comparison with the mid-term planning. There is an upper limit on these payments, which may be between 0 and 300 percent.

Contractually agreed fringe benefits

As contractually agreed fringe benefits members of the Executive Board are entitled to a company car with a driver for business and personal use, telecommunications media for business and private use, appropriate accident insurance, legal expenses insurance for traffic and criminal defense cases and an annual medical check-up. Executive Board members may receive a rent subsidy if performance of their duties requires them to rent a second apartment. Further, a third-party financial loss insurance policy is provided for the members of the Executive Board. In the event of a claim, this provides for a deductible of ten percent of the damage, up to one-and-a-half times the individual member's fixed annual remuneration.

Pension entitlements

The members of the Executive Board are entitled to receive pension payments after they leave the company in the following cases: If they leave the Executive Board on or after the date on which they reach the standard retirement age of 60, if they retire due to permanent unfitness for work or—based on historical agreements—if their contract is terminated early or not renewed by the company without due cause.

For some members of the Executive Board, company pension entitlements are calculated as a percentage of their base salary and depend on their years of service with the company. The pension commitments provide for lifelong retirement and surviving dependents' benefits. A new defined-contribution pension plan applies for the members appointed to the Executive Board in 2011. This is a capital-based system funded by provisions. The company credits a fixed annual amount to their pension account. This comprises 15 percent of their target remuneration, i.e. base salary and 100 percent of the target bonus payment. The guaranteed annual return is 5 percent. The pension benefit comprises the amount that has accrued on the account, i.e. contributions credited to the account plus accumulated interest. In the event of death or disability, the amount that would be available on the account on the member's 55th birthday, including projected contributions and interest, is calculated. Payment options comprise either a lifelong pension or a combination of installment payments and a lump-sum payment. Pension entitlements previously accrued are integrated into the system. If the contract with the Executive Board member is terminated prematurely, no further contributions are paid into the account, but interest is accrued until benefits are drawn.

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

For all members of the Executive Board there is a cap on termination benefits. If a member's term of office is prematurely terminated without due cause, payments, including fringe benefits, may not exceed two years' remuneration and periods beyond the remaining term of the contract are not considered. The cap is calculated from total remuneration (base salary including variable components).

Change-of-control clause

Change-of-control clauses are only agreed with members of the Executive Board in connection with long-term remuneration. A change of control is defined as cases when another company obtains control of Evonik Industries AG as defined in the German Securities Acquisition and Takeover Act (WpÜG) or there is a material change in the company's shareholders as a result of a merger or comparable reorganization or business combination. In such cases, the long-term remuneration due to the eligible Executive Board members is calculated immediately and paid into their salary account with their next regular salary payment.

Remuneration of the Executive Board in fiscal 2012

Components of remuneration

in € thousand	**2012**	2011
Short-term remuneration[1)]	9,623	11,141
Current service cost for pension and other post-employment benefits[2)]	1,961	1,192
Termination benefits	0	2,181
Long-term performance-related remuneration (LTI Plans)[3)]	612	0

[1)] These comprise performance-unrelated and short-term performance-related salary components, including remuneration for the performance of specific governance duties and provisions.
[2)] The present value of the defined benefit obligations for the Executive Board is €22,360 thousand (2011: €16,245 thousand).
[3)] As a result of expiry of the performance period, a provision was recognized for plans that had ended as of December 31, 2012. The final amount will be calculated and disbursed in 2013.

Short-term remuneration paid to the members of the Executive Board for their work in 2012 excluding remuneration for the performance of specific governance duties amounted to €9,471 thousand (2011: €10,523 thousand). In 2012 provisions for bonus payments for Executive Board members for the previous year amounting to €537 thousand were utilized. Total remuneration for former members of the Executive Board and their surviving dependents was €1,081 thousand in 2012 (2011: €946 thousand). As of the reporting date €23,192 thousand (2011: €23,276 thousand) was allocated to provisions for pension obligations to former members of the Executive Board.

Remuneration of the Supervisory Board

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

The remuneration system takes account of the responsibilities and scope of activities of the members of the Supervisory Board. In the past, it also reflected the company's financial position and performance. In addition to reimbursement of their expenses and value-added tax payable on their remuneration and expenses, the members of the Supervisory Board receive a fixed annual payment. In 2012, for the last time, a performance-oriented component was also paid. This was dependent on attainment of an earnings target set by the Shareholders' Meeting.

The Chairman, Deputy Chairman and other members of the Supervisory Board receive different levels of fixed annual remuneration. This is also increased to reflect membership of the Executive Committee, Audit Committee, Finance and Investment Committee, Mediation Committee and the Nomination Committee, and for the chairperson of each committee.

Further, members of the Supervisory Board receive an allowance for each meeting of the Supervisory Board and its committees that they attend.

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

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

The remuneration for members of the Supervisory Board and its committees is paid in arrears, after ratification of the annual financial statements for the relevant fiscal year. The total remuneration for the Supervisory Board of Evonik Industries AG, including allowances for attending meetings, will be €3,311 thousand for 2012 (2011: €2,199 thousand).

Further information on corporate officers

Supervisory Board of Evonik Industries AG

Dr. Werner Müller, Mülheim an der Ruhr
from December 1, 2012
Chairman (from December 1, 2012)
Chairman of the Executive Board of RAG-Stiftung
a) RAG Aktiengesellschaft (Chair)
RAG Deutsche Steinkohle AG (Chair)
b) Contilia GmbH
Stadler Rail AG

Michael Vassiliadis, Hanover
from August 31, 2012
Deputy Chairman (from September 26, 2012)
Chairman of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) K + S AG
STEAG GmbH
b) BASF SE
Henkel AG & Co. KGaA
RAG-Stifung

Günter Adam, Freigericht
Chairman of the Works Council for the Hanau facilities
Deputy Chairman of the Central Works Council of Evonik Industries AG

Dr. Peter Bettermann, Weinheim
Former spokesman for the management of Freudenberg & Co. KG
a) BATIG Gesellschaft für Beteiligungen GmbH (Chair)
British American Tobacco (Germany) GmbH (Chair)
British American Tobacco (Industries) GmbH (Chair)
b) Wilh. Werhahn KG

Karin Erhard, Hanover
from November 14, 2012
Head of the Department for Collective Bargaining Law and Pay-Scale Planning of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) INEOS Deutschland GmbH
INEOS Köln GmbH

Dr. Hans Michael Gaul, Düsseldorf
a) BDO AG
HSBC Trinkaus & Burkhardt AG
Siemens AG

Stephan Gemkow, Overath
Chairman of the Management Board of Franz Haniel & Cie. GmbH
a) Celesio AG (Chair)
TAKKT AG (Chair)
b) Amadeus IT Group S. A., Madrid (Spain)
Amadeus IT Holding S. A., Madrid (Spain)
JetBlue Airways Corporation, New York (USA)

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 Central Works Council of Evonik Industries AG
b) RAG-Stiftung

Prof. Wolfgang A. Herrmann, Freising
President of Munich Technical University
b) Bayerische Forschungsallianz GmbH

Dieter Kleren, Wesseling
Chairman of the Works Council for the Wesseling facilities

Steve Koltes, St. Moritz (Switzerland)
Managing Director of CVC Capital Partners SICAV-FIS S.A.
b) Flint Group Holdings S.à r.l.
Flint Group Investments S.à r.l.
Flint Group S.à r.l.

Dr. Siegfried Luther, Gütersloh
Former CFO of Bertelsmann AG
a) Schaeffler AG
Sparkasse Gütersloh

Jürgen Nöding, Duisburg
Chairman of the Central Works Council of Evonik Services GmbH
a) Evonik Services GmbH

Norbert Pohlmann, Essen
Chairman of the Works Council for the Goldschmidtstraße facilities
b) BKK Novitas

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

Dr. Wilfried Robers, Gescher
Chairman of the General Senior Staff Committee of Evonik Industries AG
b) Pensionskasse Degussa VVaG

Christian Strenger, Frankfurt am Main
Former spokesperson for the management of DWS Investment GmbH
a) DWS Investment GmbH
Fraport AG
TUI AG
b) The Germany Funds, New York (USA) (Chair)

Ulrich Terbrack, Reinheim
Deputy Chairman of the Central Works Council of Evonik Industries AG

Dr. Volker Trautz, Munich
Former Chairman of the Management Board of LyondellBasell Holdings B.V.
a) Citigroup Global Markets Deutschland AG
Solar Tower Technologies AG
b) CERONA Companhia de Energia Renovável, São Paulo (Brazil)
La Seda de Barcelona, Barcelona (Spain)
OSF Merchant Banking, São Paulo (Brazil)

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

The following gentlemen left the Supervisory Board in 2012:

Wilhelm Bonse-Geuking, Südlohn
until November 30, 2012

Werner Bischoff, Monheim
until October 31, 2012

Rainer Kumlehn, Hochheim
until August 30, 2012

Executive Board of Evonik Industries AG

Dr. Klaus Engel, Mülheim an der Ruhr
Chairman
a) NATIONAL-BANK AG
STEAG GmbH
Vivawest Wohnen GmbH
b) Vivawest GmbH

Dr. Wolfgang Colberg, Ratingen
a) Evonik Services GmbH (Chair)
STEAG GmbH
Vivawest Wohnen GmbH
b) Deutsche Bank AG (Regional Advisory Board)
Pernod Ricard SA
THS GmbH
Vivawest GmbH

Dr. Thomas Haeberle, Einhausen
a) Evonik Services GmbH

Thomas Wessel, Herten
a) Evonik Services GmbH
Industriepark Wolfgang GmbH (Chair)
Infracor GmbH (Chair)
Vivawest Wohnen GmbH (Chair)
b) Gesellschaft zur Sicherung von Bergmannswohnungen mbH
Pensionskasse Degussa VVaG
THS GmbH
Vivawest GmbH (Chair)

Patrik Wohlhauser, Kelkeim
b) Evonik Degussa Brasil Ltda.

Dr. Dahai Yu, Mülheim an der Ruhr
b) Evonik Degussa Japan Co., Ltd.
Evonik Korea Ltd.
Evonik (SEA) Pte. Ltd.

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

Market positions

Product	Application	Global ranking[1]	Capacity in metric tons p. a.
Consumer Specialties			
Fat chemistry, quaternary derivatives	Fabric softeners	1	[5]
Amphoteric surfactants	Shampoos, shower gels	1	[5]
Ceramides, phytosphingosines	Cosmetics	1	[5]
Skin cremes	Professional skin protection	2–3	[5]
Organically modified silicones	Additives for polyurethane foams, cosmetics, radiation-cured separation coatings	1–2	80,000
Superabsorbents	Diapers, feminine hygiene products, incontinence products, technical applications	1–2	470,000
Health & Nutrition			
Exclusive synthesis	Intermediates and active substances for pharmaceuticals and specialty applications	2	[5]
Pharmaceutical polymers	Drug-delivery systems, e. g. tablet coatings	2	[5]
Amino acids and amino acid derivatives	Pharmaceutical intermediates and infusion solutions	3	[5]
DL-methionine	Animal nutrition	1	430,000
Threonine	Animal nutrition	3	35,000
Tryptophan	Animal nutrition	3	[5]
Inorganic Materials			
Organosilanes, chlorosilanes	Rubber, silicone rubber, paints and coatings, adhesives and sealants, building protection materials, pharmaceuticals, cosmetics, optical fibers	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 paints and coatings industry	2[3]	500,000
Precious metal powder catalysts	Life sciences and fine chemicals, industrial chemicals	1	[5]
Activated nickel catalysts	Life sciences and fine chemicals, industrial chemicals	2	[5]
Coatings & Additives			
Organically modified silicones	Additives for paints and printing inks	2	[5]
Polyester resins	Can- and coil coating, reactive hot melt adhesives	1	[5]
Amorphous polyolefins	Thermoplastic hot melt adhesives	1	[5]
Isophorone chemistry	Environment-friendly coating systems, high-performance composites (crosslinkers)	1	[5]
Oil additives	Viscosity index improvers	1	[5]
Thermoplastic and reactive methacrylate resins	Binders for paints and coatings	1–2	[5]

Product	Application	Global ranking[1]	Capacity in metric tons p. a.
Performance Polymers			
Polyamide 12	High-performance specialty polymer applications (e.g. automotive, medical, sport, gas and offshore pipelines)	1	[5]
Methacrylate monomers	Dispersions, coatings, plastics, additives, adhesives, optical lenses	1–2	[5]
Methacrylate polymers (PMMA molding compounds and PMMA semi-finished products)	Construction materials for the automotive and electrical/electronics industries, specialty medical technology, architecture, design and communications applications	1–2	400,000
PEEK	Special applications in the oil and gas, automotive and aviation industries, electronics/semiconductors, specialty medical technology (e. g. implants)	2	500
Advanced Intermediates			
Alcoholates	Catalysts for biodiesel, pharmaceuticals, agrochemicals and other applications	1	>200,000
Cyanuric chloride	Industrial applications and specialties (e.g. crosslinkers and optical brighteners), crop protection (especially in China)	1	90,000
Hydrogen peroxide	Bleaching of pulp and textiles, oxidation agent for the chemical industry, starting product for polyurethane	2	>600,000
Butene-1	Co-monomer for polyolefins	1[4]	235,000
Isononanol	Starting product for high-molecular plasticizers	2	340,000
DINP	High-molecular plasticizers for use in flexible PVC	2	220,000

[1] Evonik's assessment based on various individual market reports/information and in-house market research.
[2] Chlorosilanes: freely traded volumes. Overall assessment—market position differs depending on application.
[3] Ranked second by volume and first by sales.
[4] Freely traded volumes.
[5] No data available.

Glossary

Technical terms

Amino acids
Amino acids (e.g. methionine, lysine) are essential building blocks for proteins. They are used in animal nutrition and medical treatment (e.g. in infusion solutions and as starting products for medicines). Evonik is the only company in the world that offers all four major essential amino acids for animal nutrition, i.e. methionine (brand name: MetAMINO®), threonine (ThreAMINO®), L-tryptophan (TrypAMINO®) and L-lysine (Biolys®). These substances enhance the sustainability of food production and improve the environmental profile of agricultural production.

Biodiesel
These days, biodiesel is mainly produced from renewable raw materials. In many countries, it is already mandatory to add a proportion of biodiesel to mineral diesel fuel. Higher percentages are expected to improve climate protection and reduce dependence on imports. Evonik produces alcoholates which are used as catalysts for efficient high-yield production of biodiesel. Using Evonik's catalysts, biodiesel can be manufactured in a process that does not require water. That prevents contamination of the products, thus facilitating separation and processing.

Cyclododecatriene (CDT)
CDT is a precursor for high-quality plastics, especially polyamide 12, which is used in many applications including fuel line systems for vehicles, large-volume pipes for oil extraction, cable insulation, catheters in medical technology and precision injection molding parts such as pump wheels and valve housings for machinery and equipment.

Fermentation
From the Latin: fermentare. The conversion of substances with the aid of microorganisms is referred to as fermentation. Fermentation has traditionally been used to produce dairy products, wine, beer and bread. Fermentation processes allow cost-effective production of vitamins, enzymes and amino acids.

Hydrogen peroxide
Hydrogen peroxide is mainly used as a bleaching agent in the textile and pulp industries. Using the hydrogen peroxide to propylene oxide (HPPO) process, this environment-friendly oxidation agent can now also be used for direct chemical synthesis of propylene oxide, which is an important starting product for polyurethanes.

Integrated technology platforms
Integrated technology platforms allow efficient use of product streams and thus high added value by utilizing by-products from one production process as starting products for others. That saves resources, reduces CO_2 emissions and leverages cost-efficiency. Examples of integrated technology platforms in the Evonik Group are isophorone and silicon.

Isophorone/isophorone diamine
Isophorone is used as a solvent in the coatings and colorants industry. It is also used to produce isophorone diamine, which is mainly used as a curing agent for epoxy resin systems for industrial floor coatings and composites.

Monomers
Monomers are low-molecular-weight molecules of similar structure that can react with each other to form polymers.

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

PMMA
Abbreviation for polymethylmethacrylate. This is a colorless polymer (acrylic glass) that can be colored in a range of shades. Properties: high light transmittance, good moldability, exceptionally high weather resistance. Applications: automotive and aviation engineering, architecture, lighting, design, electronics and communications technology. Best-known brand: PLEXIGLAS®. Form supplied: thermoplastic molding compounds, cast or extruded semi-finished goods (sheet, film, tubes, rods).

Polyimides
Polyimide insulating foam is used in lightweight construction, for example, in aviation and aerospace applications. Uses of polyimide fibers range from filter media to remove dust from hot flue gases in coal-fired power plants, waste incinerators and cement plants to flame-proof clothing, sealants and thermal insulating materials. Polyimide hollow fiber membranes allow energy-efficient separation of CO_2, for example, in the upgrading of raw biogas to biomethane.

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

Polyurethane (PUR)
Polymers with excellent thermal and sound insulating properties for 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 refrigerators.

Silanes
The term silanes refers to a group of chemical compounds comprising silicon and hydrogen. Silanes are used to produce ultrapure silicon for integrated circuits and solar panels. Fumed silicas can be produced from chlorosilanes and chloroalkylsilanes. Special silanes known as functional organosilanes are used to functionalize surfaces, for example, to protect surfaces in the construction sector.

Silicas
Evonik produces both precipitated silicas using a wet route and fumed silicas, produced by combustion. ULTRASIL® precipitated silica is used, for example, in the latest generation of tires with low rolling resistance. Applications for AEROSIL® fumed silica include cosmetics and the electronics industry.

Superabsorbents
Crosslinked polymers that are insoluble in water and can absorb and store large quantities of aqueous liquid through a mechanism that causes them to swell and form hydro gels. The liquid is not released even under pressure. Consequently, these polymers are mainly used in diapers. Special forms of superabsorbent are used in agriculture to regulate the moisture in soil. As well as absorbing large quantities of water, they can release them to the plants during dry periods.

World-scale facility
A large-scale production facility. World-scale facilities are often more economical because fixed costs per metric ton decline as output increases.

Financial and economic terms

Adjusted EBIT
Earnings before interest, taxes and adjustments. This is an earnings parameter showing Evonik's operating performance irrespective of the structure of its assets.

Adjusted EBITDA
Earnings before interest, taxes, depreciation, amortization, impairment losses and adjustments. This is an earnings parameter showing Evonik's operating earnings performance irrespective of the structure of its assets and its investment profile. EBITDA is a cash flow-related parameter. The adjusted EBITDA margin, which shows the relationship between adjusted EBITDA and sales, is used as a basis for comparison with competitors.

Adjustments
Evonik adjusts its operating earnings to take account of non-operating income and expense items that are one-off or by nature rare. Consequently, these items do not form part of adjusted EBIT and adjusted EBITDA. The adjustments mainly comprise income and expenses relating to the acquisition and divestment of business operations, impairment losses/reversals of impairment losses and restructuring expenses.

Compliance
Compliance refers to activities to ensure that the conduct of the company, its governance bodies and its employees respects all applicable mandatory standards, legal provisions, in-house directives and voluntary commitments entered into by Evonik.

Corporate governance
Corporate governance comprises all principles for the management and supervision of a company. As an expression of good and responsible corporate management, it is therefore a central element in Evonik's management philosophy. The principles of corporate governance relate mainly to collaboration within the Executive Board and Supervisory Board and between the boards and the company's shareholders, especially at the Shareholders' Meeting. It also refers to the relationship between our company and other people and organizations with which we have a business relationship.

CTA
Abbreviation for contractual trust arrangement. This is a model used by Evonik to transfer some of its pension obligations to a trust established especially for this purpose: Evonik Pensionstreuhand e. V., Essen (Germany). The assets transferred to this trust secure employees' pensions.

EVA®
Abbreviation for economic value added. This is the main indicator used for value-oriented management of the Evonik Group. EVA® is calculated from the difference between adjusted EBIT and the cost of capital employed. If EVA® is positive, value is created.

GPS
GPS stands for Global Product Strategy, an initiative of the International Council of Chemical Associations (ICCA). The objective of GPS is to improve and harmonize standards of product responsibility in the global chemical industry. A central focus is providing transparent information on safe handling and use of chemical substances.

Hedge accounting
This refers to accounting for hedging transactions and the associated hedged items as a single valuation unit. The purpose of hedge accounting is to synchronize the otherwise different periods in which the hedged item and hedge impact on earnings.

Hedging
Hedging is the strategy used to offset the exposure of business transactions to risks such as changes in exchange rates, interest rates and raw material prices. The company enters into an additional transaction whose profile is exactly opposite to the profile of the hedged transaction. Derivative financial instruments such as forward contracts, swaps and options are used as hedging tools.

ICCA
International Council of Chemical Associations.

IFRS
International Financial Reporting Standards. Since 2005 companies listed on stock exchanges in the European Union have been required to prepare consolidated financial statements in accordance with IFRS.

OECD
Organisation for Economic Co-operation and Development.

Rating
In the financial community, a rating is an assessment of the creditworthiness of a debtor. Ratings are generally awarded by specialized rating agenices. The probability of default is calculated on the basis of specific criteria and debtors are assigned to rating classes that are indicated by rating codes. Ratings are also awarded for corporate and government bonds. A rating indirectly affects the debtor's business activity. Normally a better rating enables a debtor to obtain favorable terms for borrowing.

ROCE
The return on capital employed is a measure of the profitability of capital employed. It is calculated by dividing adjusted EBIT by the average capital employed in the reporting period.

Stakeholders
In a corporate context, the term stakeholders refers to all natural or legal persons with an interest in the development of an enterprise. Stakeholders range from owners and employees through customers and suppliers to the state and general public.

Swaps, currency swaps and interest swaps
Derivative financial instruments used to hedge currency or interest rate risks by swapping cash flows. Currency swaps entail swapping payments in different currencies, while interest swaps comprise swapping fixed interest rates against variable rates.

Volatility
Volatility is a measure of the fluctuation in the price of traded goods, e.g. shares, currencies, interest rates, in a given period. It expresses the standard deviation of relative changes in prices over a given period (e.g. a year). The term is often used to denote the fluctuation in prices or interest rates on entire markets.

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