

EVONIK CHEMICALS LIMITED

Strategic Report

for the year ended

31 December 2019

Registered number: 92092

Evonik Chemicals Limited

Strategic Report for the year ended 31 December 2019

The directors present their strategic report for the 12 months ended 31 December 2019.

Principal activities and future developments

The principal activity of the company is the manufacture and sale of speciality chemicals. The company acts as a toll manufacturer (a company that provides its raw materials or semi-finished goods to another company within its group) and service provider for Resource & Efficiency and Nutrition & Care segments, which are segments within the Evonik Industries AG group. The Directors do not foresee a change to the current activities in the near future.

Business review

The trading results for the period and the company's financial position at the end of the period are shown in the attached financial statements.

The revenue for the financial year was £74,329,000 (2018: £76,006,000) and the operating profit for the year was £13,469,000 (2018: £4,045,000). Net assets at the end of the year were £105,649,000 (2018: £93,894,000). The company continues to strive for operational and administrative excellence to meet the demands of the marketplace for quality, responsiveness and overall value.

The operating profit has improved through adjusted transfer prices and lower variable costs compared to 2018. In addition, a compensation payment of £4,815,000 (2018: £nil) was received for switching from a licence to contract manufacturing arrangement as of October 2019.

The site remained in full compliance with its Environment Agency operating permit and HSE COMAH registration throughout the 2019 calendar year. A total of 298kg of VOCs were released, significantly lower than the 2000kg limit stipulated in the operating permit. Monthly amine emissions were 56% or less than permit requirements. Trade effluent COD emissions averaged 39% of the allowable quantities. There were no lost time health or safety incidents in 2019. Last year the site was presented an Evonik safety award for having no lost time incidents in ten years.

Key performance indicators (KPIs)

Given the fact that the Company now acts solely as a toll manufacturer and service provider for Evonik Resource Efficiency GmbH (as from 1st July 2020, Evonik Operations GmbH), the Directors do not use KPIs to manage the business and do not consider them necessary for an understanding of the development, performance or position of the business.

Section 172 statement

Directors' duties

The Directors of Evonik Chemicals Limited have a clear framework for determining the matters within their remit. There are financial and strategic thresholds in place to identify matters requiring Board consideration and approval. The board of directors follow the CODE OF CONDUCT and best practices set for the wider Evonik group. When making decisions, each Director adheres to the Evonik four eyes principal by seeking a second approval and ensure that they act in the way they consider, in good faith, would most likely promote the Company's success for the benefit of its members as a whole and in doing so have regard to:

a) The likely consequences of any decision in the long term

The Directors understand the business and the evolving environment in which it operates, as well as the need to be dynamic in the chemicals industry. Evonik Chemicals Limited promotes the long-term strategy and goals of the wider Evonik group, which are focused on increasing growth and market share as well as increasing shareholder value. The board recognizes the important role of innovation and sustainability for the growth of Evonik.

b) The interests of the company's employees

The Directors recognise that Evonik employees are fundamental and core to the business and delivery of Evonik's strategic ambitions. The success of Evonik's business depends on attracting, retaining and motivating employees. From pay and benefits to health, safety and workplace environment, the Directors factor the implications of decisions on employees and the wider workforce.

Evonik Chemicals Limited

Strategic Report for the year ended 31 December 2019 (continued)

Section 172 statement (continued)

c) The need to foster the company's business relationships with suppliers, customers and others

Evonik recognises that delivering their strategy requires strong mutually beneficial relationships with suppliers, customers, and governments. Evonik seeks the promotion and application of certain general principles in such relationships. The ability to promote these principles effectively is an important factor in the decision to enter or remain in such relationships. The Evonik group has a set of business principles that must be adhered to whilst engaging with suppliers, customers and other external stakeholders. The board of directors continuously assess the priorities related to customers and those with whom Evonik does business and engages with the businesses on these topics.

d) The impact of the company's operations on the community and the environment

Evonik accepts responsibility for the community and environment and believes that responsible action and economic success belong inseparably together. The board have therefore included ecological and social criteria in their business decisions in order to pursue new, sustainable paths. Evonik's 2020 Sustainability Strategy was developed in constant dialogue with its stakeholders. Evonik's materiality analysis and the Sustainable Development Goals have been incorporated into this strategy.

e) The desirability of the company maintaining a reputation for high standards of business conduct

The Board periodically reviews and approves clear frameworks, such as The Evonik General Business Principles, Evonik's CODE OF CONDUCT, and specific Ethics & Compliance manuals, to ensure that its high standards are maintained both within Evonik businesses and the business relationships it maintains. This, complemented by the ways the Board is informed and monitors compliance with relevant governance standards help assure its decisions are taken and that Evonik companies act in ways that promote high standards of business conduct.

f) The need to act fairly as between members of the company

After weighing up all relevant factors, the Directors consider which course of action best enables delivery of their strategy through the long-term, taking into consideration the impact on stakeholders. In doing so, the Directors act fairly as between the Company's members.

Principal risks and uncertainties

Legislative compliance

Increasingly stringent Safety, Health and Environmental compliance legislation and the consequent impact on costs create heightened risk and uncertainty for the Company's manufacturing operations. Through regular audits, the Company monitors and minimises the impact of its activities by identifying Safety, Health and Environmental (SHE) areas that can be improved.

COVID19 – As a toll manufacturing operation, the company has limited face to face dealing with external parties and is therefore able to minimise localised spread of COVID19 by management of human contact. Off-site communications can be effected through use of video conferencing, with many employees able to work remotely using laptops. The site has in place a pandemic procedure, which is linked into the Corporate processes. This procedure will be implemented should it become necessary. Procedures are in place for hand sanitisation and stocks of face masks are securely held for distribution according to needs.

BREXIT – Evonik Chemicals Limited holds REACH registrations for the substances it manufactures and is supported, through a Power of Attorney, by Evonik Resource Efficiency GmbH (as from 1st July 2020, Evonik Operations GmbH) in maintenance of those registrations. Both companies are monitoring developments with respect to BREXIT and have systems in place should the UK determine to establish its own parallel REACH system for chemicals legislation. Supported by Corporate Purchasing, the Company maintains dialogue with its suppliers to ensure appropriate actions are in place to enable continued supply of those products it requires for operation post BREXIT. The Company utilises appropriate agents to support its import and export requirements.

REACH (Registration, evaluation and authorisation of chemicals)

The impact from REACH legislation is anticipated to involve further consolidation of the Company's activities in the medium term. Balancing economic and environmental considerations involves working closely with stakeholders in the operations: government agencies, customers, suppliers, contractors, employees and the community. The company's business is affected by fluctuations in the price of key raw materials, although purchasing policies, contracts and practices seek to mitigate, where practical such risks.

Evonik Chemicals Limited

Strategic Report for the year ended 31 December 2019 (continued)

The company is predominantly financed by group treasury arrangements.

Financial risk management

The Company is exposed to interest rate cash flow risk, credit risk and liquidity risk through its inter-company financing.

Interest rate cash flow risk

The Company has an interest bearing asset consisting of a loan to its German parent, Evonik Industries AG. The interest rate is calculated on an arm's length basis and is variable in nature based on one month Euribor.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its inter-company loan balances. These are all due from its German parent company. As at 31 December 2019, there are no provisions recognised as management assess that the loans are recoverable in full (2018: €nil).

Liquidity risk

Liquidity risk is the risk that the Company either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Company's approach to managing liquidity risk is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and headroom on its working capital facilities.

Environmental matters

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities. Initiatives aimed at minimising the company's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

Approved by the Board on 5 August 2020 and signed on its behalf by:



Howard Lynn
Director