

NON-FINANCIAL REPORT 2017

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Separate combined non-financial report 2017

This non-financial report is a combined report for the Evonik Group and Evonik Industries AG in compliance with the CSR Directive Implementation Act.

Editorial deadline: February 19, 2018

1 Introduction

Sustainability is a central element in our claim "Power to Create." Evonik focuses on finding innovative solutions that help make life healthier, more sustainable, and more comfortable.

As a specialty chemicals company with a presence throughout the world, we see corporate responsibility and long-term business success as two sides of the same coin. That is reflected in the rising demand from our customers for products and services that demonstrate a good balance of economic, ecological, and social factors. Sustainability has been a growth driver at Evonik for many years.

We give our customers, employees, owners, and the general public an insight into how we run our business and live our values: Our Sustainability Report supplements the ecological and societal aspects included in our financial report.

Building on the commitment of its predecessor companies, Evonik has a long tradition of non-financial reporting. In April 2017, we published our ninth full Sustainability Report, with information on Evonik's activities in 2016. In this report, we once again applied the GRI¹ G4 guidelines in accordance with the "core" option. The content of this non-financial report comes mainly from the Sustainability Report 2016 and in some cases from the Sustainability Report 2017², which applies the GRI standards. Therefore, the aspects of this non-financial report are based on the GRI.

We also provide transparent information on our sustainability performance in our extensive exchange with sustainability rating agencies, our participation in the Carbon Disclosure Project (CDP), and the extensive information on our "Responsibility" site on the internet.

In this report, we have chosen to present a gross view of the risks relating to the non-financial aspects we are exposed to from outside the company. Using the concepts outlined below to track and manage the corresponding key performance indicators, no serious risks to Evonik have been identified in connection with these aspects. In addition, Evonik identifies and monitors risks in its risk management system³ using a net view.

We regard sustainability as a Group-wide issue. Therefore, the concepts and measures described in this report apply for the entire Evonik Group, including Evonik Industries AG. The relevant data are collected and managed globally at Group level; only a few indicators make sense for the Evonik Industries AG⁴, as it has no operating business.

The key data for the Evonik Group for 2017 include the specialty additives business acquired from Air Products and Chemicals, Inc., Allentown (Pennsylvania, USA) at the start of January 2017 and the silica business acquired from J. M. Huber Corporation, Atlanta (Georgia, USA) in September 2017. However, the silica business will only be included in the environmental indicators from January 1, 2018 due to the greater complexity of these performance indicators.

2 Description of the business model

Evonik is one of the world's leading specialty chemicals companies. Our strengths include the balanced spectrum of our business activities, end-markets, and regions. Around 80 percent of sales come from market-leading positions⁵, which we are systematically expanding. Our strong competitive position is based on close collaboration with customers, high innovative capability, and integrated technology platforms.⁶

¹ The Global Reporting Initiative (GRI) develops guidelines for the preparation of sustainability reports.

² The Sustainability Report 2017 will be published at the end of April 2018. Since some sustainability data will not be available until after the editorial deadline for the present report, some of the key data in this report does not contain up-to-date figures for 2017. The latest data can be found in the Sustainability Report 2017.

³ The risks identified are audited as part of the opportunity and risk report in the combined management report.

⁴ See section 5.

⁵ We define these as ranking 1st, 2nd or 3rd in the relevant markets.

⁶ See section on business model in the combined management report in the Financial Report 2017.

The following overview shows the use of resources and the impact of our business activities in 2016:⁷

Evonik's resources and value contributed in 2016



^a Scope 1 and 2 (market-based).
^b Reference base 2012.
^c In accordance with WBCSD Avoided Emissions Guidance 2013. Figure refers to 2015.
^d Products that are proven to make a contribution to resource efficiency during application.

⁷ The overview for 2017 can be found in the Sustainability Report 2017.

3 Relevance of the aspects

The selection of the thematic aspects and content of this report and the order in which they are presented are based on our materiality analysis and on the impact of our business activities on the aspects addressed here.

In our materiality analysis in October 2015⁸, we identified and prioritized the key sustainability issues for Evonik. We survey around 500 representatives of stakeholder groups of relevance for Evonik⁹. In a second step, we included selected sustainability experts within the Evonik Group, representatives of relevant corporate functions, and representatives of the workforce. The results of the materiality analysis were presented to the decision-making bodies and the Executive Board. The analysis is reviewed regularly. New sustainability issues are added where necessary because they have become more significant and the ranking of sustainability of issues is adjusted to reflect those whose significance has increased or decreased.

In this non-financial report, Evonik addresses the five aspects defined by law: employee matters, environmental matters, respect for human rights, prevention of bribery and corruption, and social matters. Additionally, it includes the supply chain aspect.

Occupational and plant safety have priority over sales and profits at Evonik. This is underscored by our materiality analysis. Therefore, we place **employee matters** at the start of this non-financial report. In keeping with our materiality analysis, this aspect covers health protection and promotion, vocational training and continuing professional development, our appeal as an employer, and diversity. Although the materiality analysis gives a lower ranking to the relevance of diversity, Evonik's management considers it to be highly significant.

As a specialty chemicals company, **environmental matters** have always been important to us and this is reflected in our materiality analysis. Maintaining the natural basis of life for future generations is part of our corporate responsibility. That includes steadily reducing emissions, continuous improvements in the efficient use of materials and resources, and developing products that help us forge a link between economic success and ecological progress. Similarly, in the chemical industry product stewardship is a vital precondition for doing business. It is our "license to operate." That is equally true for Evonik, as confirmed by the results of our materiality analysis.

Respecting **human rights** is becoming increasingly important in global corporations. We are convinced that this development will continue. That is also one of the outcomes of the stakeholder dialogue we held in June 2017 with selected representatives of science, the churches, companies, industrial unions, politicians, and government and non-governmental agencies.

According to our materiality analysis, good and responsible corporate governance is highly relevant for Evonik. That includes full compliance with the applicable laws, internal regulations, and binding voluntary commitments. For some years now, our compliance management system has paid special attention to **preventing bribery and corruption**. Evonik is committed to fair competition in the interests of its customers, shareholders, and other stakeholders.

Evonik has a significant influence on society and the environment through its procurement volume. That is also shown by our materiality analysis. In light of the rising demands made by our stakeholders, especially our customers, we also expect sustainability in the **supply chain** to become increasingly relevant. We have therefore included the supply chain as an additional aspect in this non-financial report.

We want to be a good neighbor and reliable partner for local inhabitants, communities, and regions around our worldwide sites. Under the **social matters** aspect, we discuss our dialogue with these stakeholders and Evonik's commitment to society.

⁸ The materiality analysis 2017 can be found in our Sustainability Report 2017.

⁹ See Sustainability Report 2017.

4 Description of the aspects

4.1 Employee matters

The excellent level of our employees' skills and their high motivation are essential for Evonik's business success in demanding markets. We have therefore developed a wide range of activities to recruit and develop employees and retain them in our company.

Safety at Evonik

Protecting the health and employability of our employees, preventing accidents and incidents¹⁰ at work, in the operation of our production facilities, during transportation, and on the way to and from work are of central importance to Evonik.

Accidents and incidents in production facilities can injure employees or release substances that impair the health of our employees and local inhabitants. To counter these risks we have a fundamental management approach to all topics relating to plant safety and traffic safety.

Safety is lived at all levels in the company and covers employees, the working situation, products, and the operational environment. Our guiding principles for safety are binding for all managers and employees. The Safety at Evonik initiative is firmly established through the Group. Binding principles of action define appropriate behaviors and provide clear and measurable guidance for the personal conduct and leadership of all groups of employees, from local personnel to our management. All employees worldwide receive training in this.

In the Evonik Group, this is ensured by globally valid policies and operating procedures that are firmly anchored in an integrated management system. Observance of these rules is monitored via a central audit system. At operational level, business-specific implementation is defined by the segments. Steering bodies at Group level ensure that mission-critical processes are implemented across the segments.

Accident frequency and the severity of accidents are also included in the variable remuneration of the Executive Board and many executives.

Our crisis and incident management ensures that in the event of accidents and incidents everything is done to prevent and limit damage. We analyze incidents carefully so we can learn from them.

Our long-term goal is to avoid all accidents and incidents. Every year, we set upper limits for our significant performance indicators, accident frequency¹¹ (occupational safety) and incident frequency¹² (plant safety). Based on our corporate targets, all organizational units at Evonik have an occupational safety target and all manufacturing units also have a plant safety target.

Our corporate targets for 2018 are unchanged:

- Accident frequency should not exceed 1.30.
- Incident frequency should not exceed 1.10.

In 2017, we were well within the upper limit set for accident frequency but slightly above the maximum set for incident frequency.

Key data on safety

| | 2015 | 2016 | 2017 | Target for 2017 |
|--------------------|------|------|------|-----------------|
| Accident frequency | 0.95 | 1.18 | 1.16 | ≤1.30 |
| Incident frequency | 1.29 | 0.95 | 1.11 | ≤1.10 |

¹⁰ All incidents in production facilities involving the release of substances, fire, or explosions.

¹¹ Number of accidents involving Evonik employees and contractors' employees under Evonik's direct supervision per 1 million working hours.

¹² Number of incidents per 1 million working hours.

In the reporting period, there was one fatal accident involving an Evonik employee. There were no fatal traffic accidents involving contractors' employees, nor any fatal accidents involving employees on the way to or from work or on business trips.

Working conditions

Our aim is to offer all our employees a working environment that respects their individuality and encourages their initiative and creativity. We create the basis for good collaboration, where performance and rights are recognized. All employees should have the opportunity to fulfill their potential.

Trustful collaboration between representatives of the management and employees is vital for Evonik's success. This collaboration takes account of operating conditions and the laws applicable in the various countries.

In Germany, the fundamental rights of our employees and their representatives to be consulted are anchored in statutory regulations such as the Codetermination Act and the legislation on executive staff councils. There are comparable rules in many other regions where Evonik has employees.

Evonik does not restrict employees' rights to freedom of assembly or the right to collective bargaining. These rights are also ensured in countries where freedom of association is not protected by the state. This is shown by the fact that worldwide there are employee representatives for about 80 percent of our employees.

We work with staffing agencies in Germany to cover short-term or temporary bottlenecks. All agencies must provide evidence of a valid operating permit. If agency staff have been used for a job for more than six months, we examine whether it is a permanent job for which a permanent employee can be hired. Alongside appropriate remuneration, we make sure that agency staff are covered by the high social and safety standards applicable for our own staff. Since the chemical industry requires a large number of highly qualified employees, fewer agency staff are used than in other sectors of manufacturing industry. Evonik had around 675 agency staff as of December 31, 2017. That was around 3 percent of our total workforce in Germany.

Employees by contractual status

| | 2015 | 2016 | 2017 |
|--|--------|--------|--------|
| Employees | 33,576 | 34,351 | 36,523 |
| of which employees on permanent contracts | 29,371 | 30,281 | 32,754 |
| of which employees on limited-term contracts | 2,389 | 2,388 | 2,191 |
| of which apprentices/trainees ^a | 1,816 | 1,682 | 1,578 |

^a Including a proportion of apprentices abroad and apprentices with an Evonik contract who are being trained for third parties.

To counter the risks of violating labor and social standards and statutory regulations, Evonik has given an undertaking that it will observe recognized international standards of conduct. These include, for example, the Guidelines for Multinational Enterprises issued by the Organisation for Economic Cooperation and Development (OECD), and the International Labour Standards of the International Labour Organization (ILO).

Health prevention and protection at Evonik

Our global activities to protect and promote health are based on a long-term, holistic approach, covering employees, the working situation, products, and the general working environment. This approach includes high-quality medical care where necessary, applying ergonomic and health-related measures to structure working conditions, and a functioning emergency management system at plant level. In addition, Evonik offers a selective range of health promotion measures, which are bundled in the Group-wide well@work initiative. In this way, we help our employees adopt a healthy lifestyle. All these measures counter the risks of sickness-related absences and the incidence of occupational illness.

The basis for our actions is an extensive, integrated management system that is aligned to our corporate structure. At Evonik, protecting and promoting health is assigned to the Corporate Environment, Safety, Health and Quality (ESHQ) Division. Implementation of the applicable requirements is regularly monitored via an extensive occupational health reporting system. Action is taken if there are indications that there is scope for improvement or deviations from the applicable guidelines.

Achieving our health protection goals is measured by our Occupational Health Performance Index, which comprises parameters from the areas of occupational medicine, health promotion, and emergency medical management. In 2016, we set a long-term target of $\geq 5.0^{13}$, which we achieved in 2016 with a score of 5.5.

As part of its preventive health promotion activities, Evonik uses suitable measures to prevent occupational illnesses and work-related health impairments. In this context, Evonik regularly reports on occupational illnesses.

Qualification, training, continuing professional development

Our strong commitment to training and continuing professional development is part of our corporate responsibility in the areas of social and human resources policy. Our personnel development is geared to the early identification and development of talented employees and those with potential.

A wide range of training and continuing professional development programs are offered at segment, regional, and site level to ensure that our employees are well-prepared for their work and can build on their skills. As an indicator, we use the financial expense for training per employee. In 2017 alone, we invested around €500 per employee in continuing professional development.

We offer young people future perspectives when they successfully complete their training. We also counter the effects of demographic change.

Risks to Evonik may arise from rapid technical progress and the rapid pace of change in our markets. We counter these by skills enhancement, vocational training, and continuing professional development of our employees. We prepare our employees specifically for changes and therefore play a part in maintaining employability for as long as possible.

Appeal as an employer

Evonik offers its employees an attractive working environment that encourages ideas, rewards hard work, and maintains their physical and mental capabilities. We focus on the individual needs of our employees. In this way, we lay the foundations for our policy of filling key positions from within the company.

Fair, market- and performance-oriented remuneration is anchored in our remuneration policies and human resources tools worldwide. Remuneration is set on the basis of objective criteria such as responsibility, competencies, and success. Collective agreements on remuneration cover 100 percent of our employees in Germany and around 75 percent of our employees worldwide. Around 97 percent of our sites and regions have performance- or profit-oriented incentive systems. These systems cover around 99 percent of our employees. They also apply for part-time employees, provided in some regions that they meet the prescribed minimum working hours.

One important tool is the global employee survey, which is held regularly every three years. The Commitment Index shows employee satisfaction and motivation and the intensity of employee loyalty.

Further evidence of our good employee retention and employee satisfaction comes from the low fluctuation of employees hired in the past three years, compared with other companies.

Losing high performers and bottlenecks in gaining qualified staff are potential risk factors which we address using the measures outlined above.

13 Maximum that can be achieved: 6.0.

Key data on employee retention

| | 2015 | 2016 | 2017 |
|--|------|------|------|
| Commitment index ^a (surveyed every three years) | 151 | - | - |
| Fluctuation rate in % | 4.7 | 4.7 | 5.8 |
| Average length of service in years | 15.0 | 14.9 | 14.6 |

^a Maximum that can be achieved: 200 points.

Diversity

For us, diversity goes beyond focusing on background and gender. The diversity of disciplines pursued during training, experience of several organizational units or functional areas, and mixed-age teams are equally important to us. As a reflection of the varied requirements, attitudes and perspectives found in society and our markets, diversity is an important driver of Evonik's competitiveness and innovative capability.

Our diversity strategy contains clear diversity targets for executives and tools such as gender networks.

Through our Diversity Council, diversity is firmly anchored in the organization of Evonik's top management. The Diversity Council is a high-caliber body comprising members of the Executive Board and executives from various organizational units. It coordinates the ongoing development of our diversity strategy and the implementation of effective measures for the entire Group.

Our diversity strategy and extensive measures in our human resources work and employer branding address the risk of a lack of equality among employees and inadequate recognition of differences in views at Evonik.

Key data on diversity

| | 2015 | 2016 | 2017 |
|---|------|------|------|
| Women as a proportion of the total workforce in % | 24.0 | 24.7 | 24.9 |
| Female managers (%) | 20.8 | 22.0 | 23.2 |
| Nationalities | 96 | 105 | 110 |

4.2 Environmental matters

Protecting our environment and the climate are major global challenges of our age. Maintaining the natural basis of life for future generations is part of our corporate responsibility.

The basis for our actions is an extensive, integrated management system that is aligned to our corporate structure. The Corporate ESHQ Division pools all Group-wide strategic management and coordination tasks relating to the environment. The head of the Corporate ESHQ Division reports directly to the relevant member of the Executive Board (Chief Human Resources Officer).

The structure of the management system is based on legal requirements and internal regulations such as policies and standard operating procedures. This supports a process of continuous improvement in environmental performance and environmental compliance.

Corporate ESHQ uses a central audit system to regularly monitor implementation of the binding Group-wide strategy and the management system. Based on the findings and analysis of our internal and external audits, site inspections, and reviews, talks are held on possible improvements and how to implement them. The Executive Board is informed annually of the outcome of the audits.

Our management parameters are monitored regularly via a central sustainability reporting system (SuRe), which contains a wide range of data on various environmental topics. The data capture and processing methods are explained regularly at training sessions and are subject to internal and external audits.

Our management system for the environment, safety, health, and quality applies to the entire Evonik Group. In addition, we require our manufacturing sites to be validated as conforming to the internationally recognized standard ISO 14001. As a result of the necessary start-up and preparatory phase for new units, the proportion of output covered by ISO 14001 validation varies. However, it is always between 95 and 100 percent. Audits are conducted to monitor implementation by the segments, regions, and sites.

Risks to people and the environment, for example, high greenhouse gas emissions, water shortages, the release of dangerous substances, and violation of regulatory requirements are systematically managed at all levels of the Group. In addition, these risks are mitigated by constantly optimizing our business processes.

We have set demanding environmental targets for the period 2013 – 2020 (reference base: 2012). These provide valuable guidance for a continuous improvement in our performance in protecting the climate and our environment. Their development is monitored and reported in detail.

Our central quantitative targets are reducing specific greenhouse gas emissions¹⁴ by 12 percent and reducing specific water intake by 10 percent. Both of these targets are per metric ton of output within this period. In addition, we want to achieve a further reduction in production waste by setting a qualitative target for this. The specific values, which are used for internal management, are presented and commented on in our Sustainability Report 2017. The goal set for specific greenhouse gas emissions for 2020 was reached in 2016 and we are making good progress with specific water intake.

In 2017, our production output increased from 10.6 million metric tons to 11.0 million metric tons. About half of this increase was due to the initial consolidation of the production facilities for the Air Products specialty additives business. CO₂ emissions increased from 9.4 million metric tons in 2016 to 9.8 million metric tons in 2017. Alongside higher volumes, this was attributable to operational shutdowns at gas power plants, which resulted in higher use of the coal-fired power plant in Marl (Germany).

Key data on the environment

| | 2015 | 2016 | 2017 | Target for 2020 |
|---|------|------|------|-----------------|
| Specific greenhouse gas emissions ^{a b} | 89 | 83 | - | 88 |
| Specific water intake ^{a b} | 107 | 94 | - | 90 |
| CO ₂ emissions in million metric tons ^c | 9.7 | 9.4 | 9.8 | - |
| Output in million metric tons | 10.4 | 10.6 | 11.0 | - |

^a Percentages versus the reference year 2012 (= 100).

^b Figures for 2017 will only be available after the editorial deadline. They will be published in the Sustainability Report 2017.

^c Direct and indirect CO₂ emissions. Gross emissions measured using the market-based method.

Product stewardship

Through our products and solutions we aim to make a measurable contribution to avoiding environmental impact and enhancing people's quality of life. That includes timely identification and evaluation of the potential health and environmental risks in our portfolio. We examine the entire value chain of each of our products—from procurement of the raw materials to delivery to our industrial customers, who receive all relevant information on the handling and disposal of our products. That includes, for example, safety data sheets and technical information sheets. As well as complying with all statutory requirements such as the European Chemicals Regulation (REACH) and the Globally Harmonized System of Classification and Labelling of Chemicals (GHS), product stewardship at Evonik includes voluntary commitments that go beyond these regulations.

¹⁴ Scope 1 greenhouse gas emissions (direct emissions from energy generation and production) and Scope 2 (indirect emissions from purchased energy calculated using the market-based approach) per metric ton output.

We have been committed for many years to the international Responsible Care® initiative and the Responsible Care® Global Charter of the International Council of Chemical Associations (ICCA), which includes the Global Product Strategy (GPS). The key elements of our product stewardship have been defined in a Product Policy. We evaluate all substances placed on the market (> 1 metric ton p.a.). Particularly dangerous substances are included from lower tonnages. That allows a soundly based assessment of the risks. Where necessary, restrictions are placed on certain usage patterns or, in extreme cases, a complete ban is issued on use in certain products.

We use the Chemicals Management System developed by Evonik to evaluate our substances. This system supports us in global product evaluation, analogously to a life cycle analysis. As an extension of this, our Chemicals Management System^{PLUS} is used for products containing substances of very high concern. These are subject to a more detailed examination to bring about a further reduction in the negative impact on people and the environment.

4.3 Respecting human rights

Respecting human rights is an integral part of our corporate responsibility. We also expect our business partners to respect human rights. Evonik examines this aspect along the entire value chain—from suppliers¹⁵ through its own processes to customers.

Overall responsibility for ensuring respect for human rights at Evonik is assigned to our Chief Human Resources Officer.

We counter the risk of human rights violations through our Code of Conduct, our Global Social Policy, and our Policy Statement on Human Rights.

External stakeholders (e.g., local inhabitants, suppliers, customers) and our employees can report human rights issues via our whistleblower system. Since fall 2017, this has been operated by an independent third party on behalf of Evonik.

In 2017, we took a closer look at human rights. In June 2017, we organized an exchange of experience with churches, industrial unions, companies, authorities, and non-governmental organizations on Industrial Responsibility and Human Rights. The participants stressed the increasing significance of human rights, especially in the supply chain, and expressed the desire that Evonik would use its weight worldwide as a role model in the area of respect for human rights. Since October 2017, Evonik has been represented on the Steering Committee of the Global Compact Network Germany. In addition, we are currently working on a human rights map for Evonik as the basis for further measures.

4.4 Preventing bribery and corruption

Evonik is committed to fair competition for the benefit of customers, shareholders, and other stakeholders. All Evonik employees are required to act lawfully in a business environment. We respect the independence of officials. All forms of corruption, including “facilitation payments,” are banned at Evonik. We deliberately set stricter standards than the law in some countries.

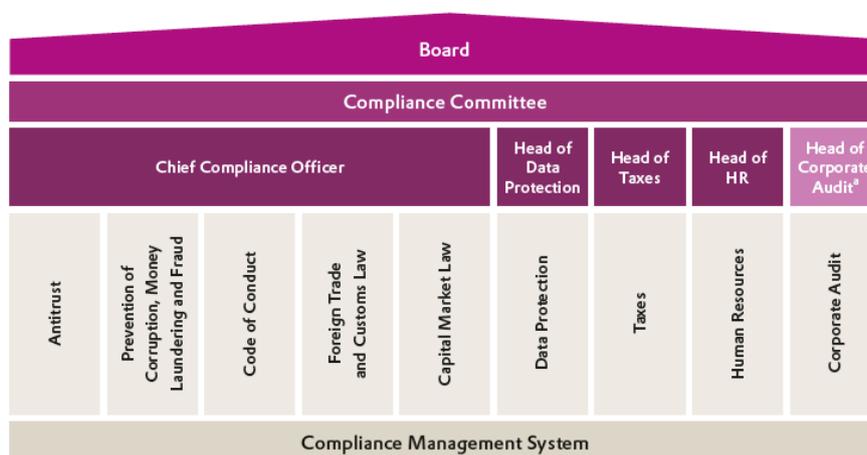
Our rules on preventing corruption are set out in our Code of Conduct, the Master Gifts and Hospitality Policy, and the Policy for the Use of External Third Parties for Distribution and Dealing with Authorities (Policy on External Intermediaries).

Our Code of Conduct applies to all Evonik employees, including the Executive Board, and the governance bodies of all Evonik companies worldwide. They are all required to comply with the rules set forth in the Code of Conduct, to ensure they are familiar with its content, and to take part in the relevant training. All managers and supervisors are required to set an example. The Code of Conduct is available electronically in 27 languages. Every employee can call up a checklist in the intranet. This contains the key information on compliant conduct in respect of third parties.

¹⁵ See the supply chain aspect.

The compliance areas of specific relevance to Evonik are bundled in a House of Compliance. In recent years, special attention has been paid to preventing corruption, our Code of Conduct, and antitrust law. The scope and intensity of our compliance measures, which counter the risk of failure to comply with obligations, are derived from risk analyses of relevant issues in our operational units. Activities many comprise training, process instructions, conduct rules, advice, and systematic investigation compliance allegations.¹⁶

House of Compliance



^a Advisory function.

Training concepts have been developed for all aspects bundled in the House of Compliance. They also define the type, frequency, and content and the target groups. Training frequency is defined on the basis of risk and is every two or three years.

Key data on training

| | 2015 | 2016 | 2017 ^a |
|---|-------|--------|-------------------|
| Employees trained in antitrust law ^b | 493 | 937 | 840 |
| Employees trained in fighting corruption ^b | 1,600 | 828 | 1,638 |
| Employees trained in the Code of Conduct ^b | 2,823 | 12,025 | 2,370 |

^a The low figures in some cases result from the fact that the e-learning programs were unavailable for several months for technical reasons.

^b The figures relate to face-to-face and e-learning training sessions.

4.5 Supply chain

We expect our suppliers to share our principles and to act correctly in all respects, which means accepting the responsibility towards their employees, business partners, society, and the environment.

We have therefore issued a special code of conduct for suppliers, setting out binding requirements for these business partners. This is based on our corporate values, the principles of the UN Global Compact, the ILO’s International Labour Standards, and the topics addressed by the Responsible Care® initiative. Intermediaries, above all sales intermediaries, are subject to a compliance check before the establishment of the business relationship and every five years thereafter. Intermediaries also have to sign a compliance declaration.

By selecting suppliers carefully, we also enhance the quality of the entire value chain. On the one hand, we focus on validation and evaluation of suppliers, and on the other we specifically monitor certain raw materials. These include renewable raw materials and raw materials where there is a potential supply risk or reputational risk, for example, conflict minerals¹⁷.

¹⁶ Further information on compliance at Evonik can be found in the corporate governance report in the Financial Report 2017 and in the Sustainability Report 2017.

¹⁷ Mineral raw materials from the Democratic Republic of Congo and its neighboring countries.

In the validation and evaluation of our suppliers, we work systematically both to extend strategic relationships with suppliers and to validate new suppliers. This covers economic and quality-related requirements as well as environmental, social, corporate governance, and human rights aspects.

Procurement is organized globally at Evonik and comprises direct procurement (raw materials, logistics, and packaging) and indirect procurement (general and technical goods and services). Both are subdivided into strategic and operational procurement activities. Alongside economic requirements, our procurement strategy takes account of sustainability aspects such as health, quality, safety, social factors, and environmental protection.

Evonik also drives forward sustainability and transparency in the supply chain through the sector initiative Together for Sustainability (TfS), where we are one of the six founding members. The aim of TfS is the joint development and implementation of a global assessment and audit program for responsible procurement of goods and services. As a member of the initiative, Evonik is also subject to TfS assessments. In 2017, we were awarded a gold rating for the fourth time in succession.

Evonik addresses risks in the value chain such as infringing environmental and employee requirements and failing to comply with human rights through the measures outlined above, both within the Evonik Group and through TfS.

We have set ourselves the following global goals for our strategic supplier management:

- Conduct at least 20 supplier sustainability audits under the shared audit principle of the TfS initiative
- Continue the analysis of suppliers of critical raw materials¹⁸ through TfS self-assessments
- By 2020: Evaluate the sustainability performance of 90 percent of suppliers of critical raw materials

In 2017, we conducted 28 sustainability audits and therefore met our target. In addition, the percentage of suppliers of critical raw materials was over 70 percent, so we are on track to meet the goal for 2020.

As a responsible company, Evonik meets its duty of care with regard to conflict minerals in the supply chain and checks the origin of such substances. In our evaluations up to year-end 2016, we did not find evidence of any use of conflict minerals in Evonik products.

Key data on the supply chain

| | 2015 | 2016 | 2017 |
|--|-------|-------|-------|
| No. of sustainability audits Evonik | 35 | 29 | 28 |
| No. of sustainability assessments Evonik | 118 | 145 | 149 |
| No. of sustainability audits TfS | 179 | 241 | 441 |
| No. of sustainability assessments TfS | 2,580 | 1,773 | 1,794 |

4.6 Social matters

We produce where our markets and customers are. Consequently, we have production facilities in 28 countries on five continents. Local residents around our sites play an especially important part in our dialogue with stakeholders. At all our sites they have an elementary interest in experiencing Evonik as a reliable partner and want timely information on the latest developments at Evonik.

We maintain contact with them, for example, through invitations to visit our sites, personal discussions, and written communication. The most important issues for local residents include the safety of our production sites, questions on current business development and operational changes, our appeal as an employer, and our local activities.

¹⁸ We define these as raw materials that essential for our production operations.

Through its production facilities, Evonik wants to contribute to positive regional social development. Within our binding strategic guidance, our operating units support projects aligned to their sites and regions. Our active responsibility and the personal commitment of our employees provide positive social impetus for communities around our sites.

Social commitment has always had a firm place in Evonik's corporate culture and our understanding of values. Essentially, we make a distinction between donations and sponsorship. We concentrate on the areas of education and science, social welfare, the arts, and sport.

Our sponsorship is aligned to Evonik's four core competencies—creativity, specialization, self-renewal, and reliability. We normally only sponsor projects and initiatives that fit our core brand.

The work of the Evonik Foundation is an important element in the perception of our social responsibility. In keeping with its mission, this foundation focuses its activities on four principal themes: young people, science, Germany, and integration. The work of the Evonik Foundation is focused on supporting the development of our constantly changing society and offering people a promising future.

5 Evonik Industries AG

Evonik Industries AG is the parent company of the Evonik Group. As a management holding company, it defines concepts and rules that have to be observed worldwide and monitors compliance with them. All aspects described here apply for both Evonik Industries AG and the Evonik Group. Global data are compiled for management and monitoring purposes. Consequently, the focus is on key data for the Group. Few of the key indicators are meaningful for Evonik Industries AG as it does not operate only production sites itself.

Key data on Evonik Industries AG

| | 2015 | 2016 | 2017 |
|---|-------|-------|-------|
| Employees | 2,518 | 2,741 | 2,685 |
| Women as a proportion of the total workforce in % | 41.7 | 43.4 | 44.8 |
| Female managers (%) | 24.6 | 26.1 | 27.5 |
| Fluctuation rate in % | 2.1 | 5.0 | 7.0 |
| Average length of service in years | 17.7 | 16.4 | 15.8 |

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