HALF YEAR
FINANCIAL REPORT

2ND QUARTER 2016 | 1ST HALF YEAR 2016

EVONIK INDUSTRIES

EVONIK SPECIFIES ITS OUTLOOK FOR 2016 FOLLOWING A GOOD SECOND QUARTER

2nd quarter:

- Pleasing volume growth (4 percent), driven by all three chemical segments
- Perceptible improvement in adjusted EBITDA compared with first quarter; 11 percent below the exceptionally strong prior-year period

1st half:

- Sales declined 8 percent to €6.4 billion as a result of lower selling prices while volumes were slightly higher
- Adjusted EBITDA down 12 percent year-on-year at €1.15 billion
- Adjusted EBITDA margin at a very good level of 18.1 percent
- Outlook for 2016 specified

CONTENTS

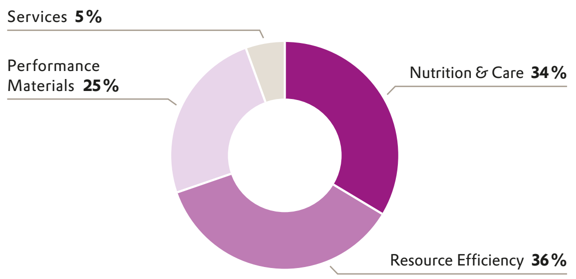
Key data for the Evonik Group

in € million	2nd quarter 2016	2nd quarter 2015	1st half 2016	1st half 2015
Sales	3,258	3,519	6,363	6,944
Adjusted EBITDA [a]	585	661	1,150	1,311
Adjusted EBITDA margin in %	18.0	18.8	18.1	18.9
Adjusted EBIT [b]	406	486	795	971
Income before financial result and income taxes, continuing operations (EBIT)	359	608	736	1,056
Net income	165	418	405	674
Adjusted net income	246	307	501	627
Earnings per share in €	0.35	0.90	0.87	1.45
Adjusted earnings per share in €	0.53	0.66	1.07	1.35
Cash flow from operating activities, continuing operations	251	167	598	612
Capital expenditures	211	189	371	379
Net financial assets as on the balance sheet as of June 30	–	–	598	459
No. of employees as of June 30	–	–	33,742	33,187

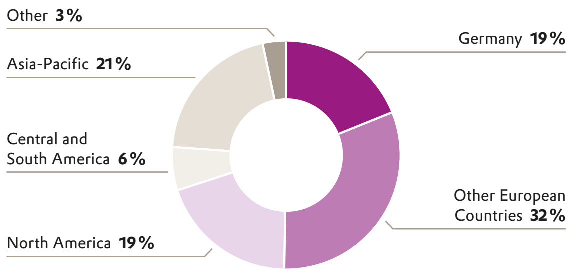
[a] Earnings before financial result, taxes, depreciation and amortization, after adjustments.
[b] Earnings before financial result and taxes, after adjustments.

Due to rounding, some figures in this report may not add up exactly to the totals stated.

Sales by segment 1st Half Year 2016



Sales by region[a] 1st Half Year 2016



[a] By location of customer.

HALF YEAR FINANCIAL REPORT 2016

Interim management report as of June 30, 2016

1. Business conditions and performance

1.1 Economic background

As expected, **global economic growth** was weak in the first six months of 2016. The economic slowdown continued in the emerging markets. This was attributable to perceptibly lower growth in China, softer demand from the industrialized countries, low raw material prices, declining global trade and capital outflows from the emerging markets.

Economic momentum was also low in the advanced economies in the first six months of 2016. Following a weak start to the year, the US economy picked up in the second quarter as a result of higher consumer spending and the recovery of the real estate market.

In Europe, the moderate growth continued, supported by consumer spending, sustained favorable financing conditions, and a slight rise in state spending. In Germany, the economy was driven principally by private consumption and public spending and by the rise in construction spending, but was held back by weaker foreign trade.

Evonik's **end-customer industries** posted solid growth overall in the first half of this year. Demand for consumer and care products developed positively in Asia and North America but lost momentum in Europe. At the same time, there was a year-on-year rise in automotive production in Asia and in some cases in Europe. Growth in demand for food and animal feed weakened slightly compared with the prior-year period, but recently showed signs of picking up. In both Europe and North America, the general industrial trend remained weak, with only a slight rise in output.

1.2 Business performance

Significant events

On May 6, 2016, Evonik signed a purchase agreement for the specialty and coating additives business (Performance Materials Division) of the US company **Air Products and Chemicals, Inc.**, Allentown (Pennsylvania, USA) for US$3.8 billion (approximately €3.5 billion). This will strengthen Evonik's leading position on the attractive growth market for specialty additives. The business to be acquired will be integrated into our Nutrition & Care and Resource Efficiency growth segments. The proposed acquisition is contingent on the approval of the relevant antitrust authorities. In the second quarter of 2016 the planned acquisition resulted in project expenses and financing and currency hedging costs totaling €49 million.

Business performance in Q2 2016

In persistently challenging business conditions, we registered a global upturn in demand for our products in the second quarter of 2016. All three chemical segments reported pleasing volume growth. Selling prices continued to decline, partly because lower raw material prices were passed on to customers. Both sales and adjusted EBITDA were higher than in the first quarter of 2016 but fell short of the high prior-period level. The adjusted EBITDA margin remains very good at 18.0 percent.

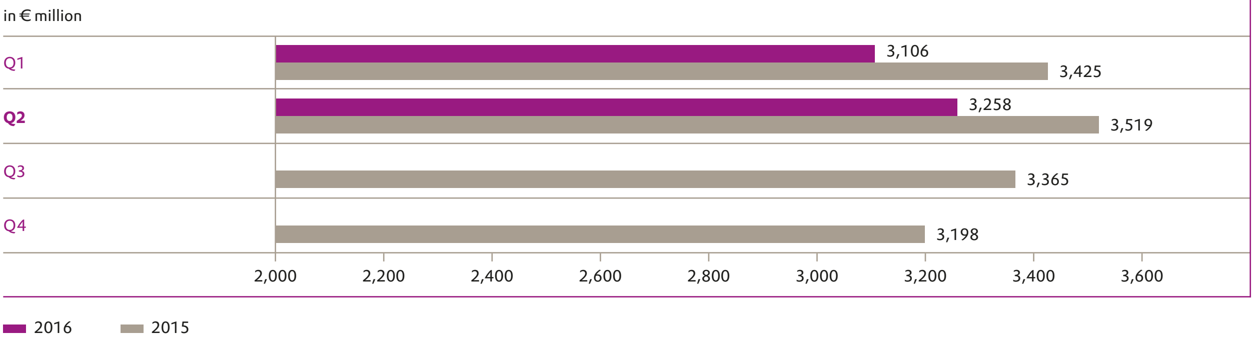
Group **sales** fell 7 percent to €3,258 million. While volumes increased (by 4 percentage points), the decline in sales was principally attributable to the fact that selling prices were lower than in the prior-year period (–10 percentage points).

Adjusted EBITDA was €585 million, 11 percent lower than in the exceptionally strong prior-year quarter. The adjusted EBITDA margin was very good at 18.0 percent (Q2 2015: 18.8 percent). Adjusted EBIT fell 16 percent to €406 million.

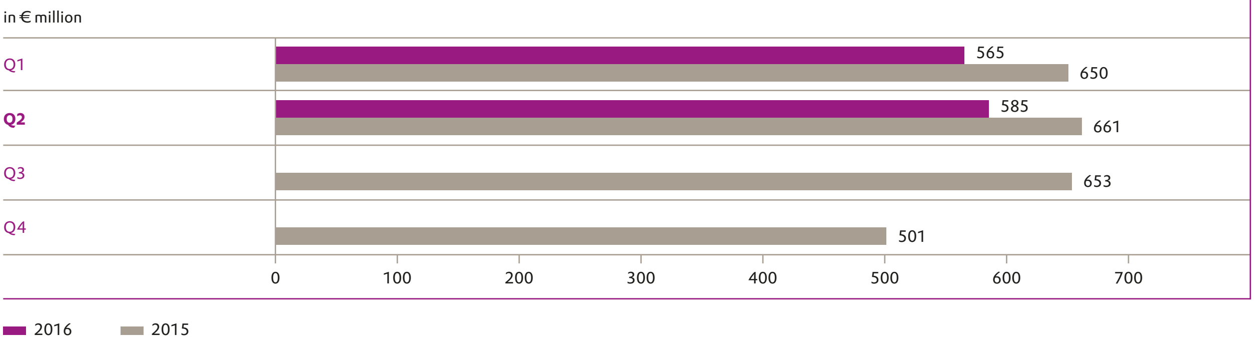
Year-on-year change in sales

in %	1st quarter 2016	2nd quarter 2016	1st half 2016
Volumes	–	4	2
Prices	–7	–10	–9
Organic sales growth	**–7**	**–6**	**–7**
Exchange rates	–1	–	–
Other effects	–1	–1	–1
Total	**–9**	**–7**	**–8**

Sales by quarters



Adjusted EBITDA by quarters



The **adjustments** of –€47 million include restructuring expenses of €18 million, principally for optimization of the portfolio structure of the Performance Materials segment. The impairment losses/reversals of impairment losses amounting to –€17 million related to an equity investment in the Nutrition & Care segment. Acquisition/divestment of shareholdings includes project expenses of €11 million in connection with the planned acquisition of Air Products' specialty and coating additives business. The adjustments of €122 million reported for the prior-year period were dominated by the divestment of the stake in Vivawest.

Statement of income

in € million	2nd quarter 2016	2nd quarter 2015	Change in %	1st half 2016	1st half 2015	Change in %
Sales	**3,258**	**3,519**	**–7**	**6,363**	**6,944**	**–8**
Adjusted EBITDA	**585**	**661**	**–11**	**1,150**	**1,311**	**–12**
Depreciation and amortization	–179	–175		–355	–340	
Adjusted EBIT	**406**	**486**	**–16**	**795**	**971**	**–18**
Adjustments	–47	122		–59	85	
thereof attributable to						
Restructuring	*–18*	*–14*		*–24*	*–21*	
Impairment losses/reversals of impairment losses	*–17*	*1*		*–17*	*–23*	
Acquisition/divestment of shareholdings	*–11*	*142*		*–11*	*142*	
Other	*–1*	*–7*		*–7*	*–13*	
Financial result	–93	–51		–128	–114	
Income before income taxes, continuing operations	**266**	**557**	**–52**	**608**	**942**	**–35**
Income taxes	–97	–133		–195	–249	
Income after taxes, continuing operations	**169**	**424**	**–60**	**413**	**693**	**–40**
Income after taxes, discontinued operations	–1	–5		–1	–15	
Income after taxes	**168**	**419**	**–60**	**412**	**678**	**–39**
thereof attributable to non-controlling interests	3	1		7	4	
Net income	**165**	**418**	**–61**	**405**	**674**	**–40**
Earnings per share in €	**0.35**	**0.90**	**–**	**0.87**	**1.45**	**–**

The **financial result** of –€93 million contains currency hedging expenses of €37 million for the planned acquisition. **Income before income taxes, continuing operations** dropped to €266 million (Q2 2015: €557 million). Income taxes decreased by 27 percent to €97 million. Overall, **net income** was €165 million, which was below the prior-period level of €418 million.

The calculation of adjusted net income (after adjustment for exceptional factors) improves comparability of the earnings power of the continuing operations, especially on a long-term view, and thus facilitates the forecasting of future development. Adjusted net income fell 20 percent to €246 million in the second quarter. **Adjusted earnings per share** decreased from €0.66 to €0.53.

Business performance in H1 2016

Sales declined 8 percent to €6,363 million. This was mainly due to lower selling prices (–9 percentage points), while the increase in volume sales (2 percentage points) cushioned the decline.

Adjusted EBITDA was €1,150 million, down 12 percent from the very high prior-year level. The adjusted EBITDA margin was a very good 18.1 percent, compared with 18.9 percent in the first half of 2015. Adjusted EBIT fell 18 percent to €795 million.

The **adjustments** of –€59 million include restructuring expenses of €24 million, principally for optimization of the portfolio structure of the Performance Materials segment. The impairment losses/reversals of impairment losses amounting to –€17 million related to an equity investment in the Nutrition & Care segment. The expenses of €11 million for equity investments arose from the planned acquisition of Air Products' specialty and coating additives business. The adjustments of €85 million reported for the prior-year period mainly contained income from the divestment of the stake in Vivawest.

Reconciliation to adjusted net income

in € million	2nd quarter 2016	2nd quarter 2015	Change in %	1st half 2016	1st half 2015	Change in %
Adjusted EBITDA	**585**	**661**	**–11**	**1,150**	**1,311**	**–12**
Depreciation and amortization	–179	–175		–355	–340	
Adjusted EBIT	**406**	**486**	**–16**	**795**	**971**	**–18**
Adjusted financial result	–55	–49		–88	–98	
Amortization and impairment losses on intangible assets	10	10		20	19	
Adjusted income before income taxes [a]	**361**	**447**	**–19**	**727**	**892**	**–18**
Adjusted income taxes	–112	–139		–219	–261	
Adjusted income after taxes [a]	**249**	**308**	**–19**	**508**	**631**	**–19**
thereof adjusted income attributable to non-controlling interests	3	1		7	4	
Adjusted net income [a]	**246**	**307**	**–20**	**501**	**627**	**–20**
Adjusted earnings per share [a] in €	**0.53**	**0.66**	**–**	**1.07**	**1.35**	**–**

Prior-year figures restated.

[a] Continuing operations.

The **financial result** of –€128 million contains currency hedging expenses of €37 million for the planned acquisition. In the prior-year period, the financial result contained one-off effects of –€16 million, mainly for an impairment loss on an equity investment. **Income before income taxes, continuing operations** was 35 percent lower at €608 million. The income tax rate was 32 percent, which was above the expected tax rate for the group, primarily because of non-tax-deductible expenses contained in adjustments.

Net income was down 40 percent year-on-year at €405 million.

Adjusted net income dropped 20 percent to €501 million, while **adjusted earnings per share** declined from €1.35 to €1.07.

1.3 Segment performance

Nutrition & Care segment

Key data for the Nutrition & Care segment

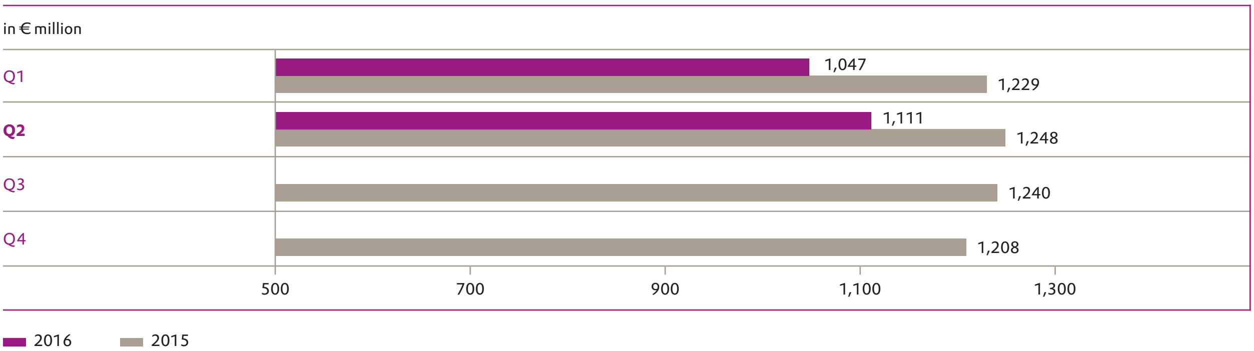
in € million	2nd quarter 2016	2nd quarter 2015	Change in %	1st half 2016	1st half 2015	Change in %
External sales	1,111	1,248	–11	2,157	2,476	–13
Adjusted EBITDA	264	381	–31	557	734	–24
Adjusted EBITDA margin in %	23.8	30.5	–	25.8	29.6	–
Adjusted EBIT	212	324	–35	452	626	–28
Capital expenditures	61	59	3	102	113	–10
No. of employees as of June 30	–	–	–	7,369	6,916	7

In the **second quarter of 2016**, the Nutrition & Care segment's sales fell 11 percent to €1,111 million. This was mainly attributable to lower selling prices as volume sales increased.

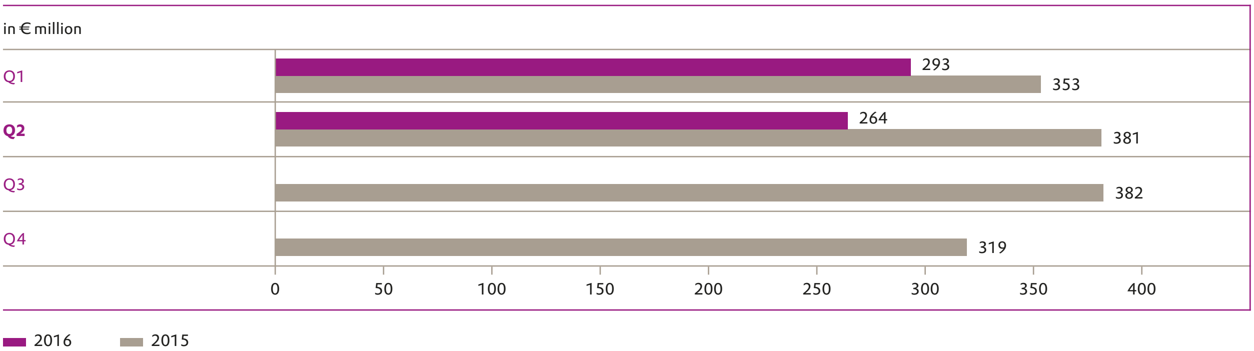
As expected, within essential amino acids for animal nutrition the price of methionine normalized compared with the record level of 2015. Selling prices of the other amino acids were also lower than in the prior-year period. Demand for methionine, in particular, picked up perceptibly following a weak start to the year. Overall, sales of amino acids were down year-on-year as a result of lower selling prices. There was a substantial reduction in sales in the baby care business, where business performance was hampered principally by overcapacity, in addition to the reduction in selling prices to pass on the drop in raw material costs. By contrast, business with personal and household care products and additives for polyurethane foam was very good, with particularly high demand in Europe and the USA. Business with health care products generated higher sales, with both pharmaceutical polymers for smart drug delivery systems and exclusive synthesis developing positively.

Adjusted EBITDA was €264 million, which was below the very high prior-year level of €381 million, mainly on price grounds. The adjusted EBITDA margin dropped to 23.8 percent.

Sales Nutrition & Care segment



Adjusted EBITDA Nutrition & Care segment



In the **first six months of 2016** this segment's sales dropped by 13 percent to €2,157 million. While volumes were almost unchanged, lower selling prices were the main reason for the decline. Adjusted EBITDA was 24 percent below the very strong prior-year level at €557 million. The adjusted EBITDA margin is still excellent at 25.8 percent.

To implement the Nutrition & Care segment's growth strategy, we have made selective acquisitions that complement our portfolio:

In March 2016, we acquired MedPalett AS, Sandnes (Norway). This company markets food ingredients containing anthocyanins, which are known for their natural antioxidant properties and expand the advanced food ingredients offering of our **health care** business.

To extend the portfolio of active ingredients for **personal care** products, in May 2016 we acquired the start-up Alkion Biopharma SAS, Evry (France). This company specializes in biotechnologically produced plant-based active ingredients for the cosmetics industry.

To further strengthen the **health care** business, at the end of June 2016 we signed a purchase agreement for the business of Transferra Nanosciences Inc., Burnaby (Canada), which specializes in developing liposomal drug delivery systems. Closure of this transaction is scheduled for the third quarter of 2016.

On July 4, 2016 we acquired the probiotics business of NOREL S.A., Madrid (Spain). The transaction comprises the existing probiotics product portfolio and the production site in León (Spain). This acquisition extends our portfolio of products for sustainable and healthy **animal nutrition** solutions. Probiotics play a key role as natural alternatives to antibiotics and antibiotic growth promoters.

Resource Efficiency segment

Key data for the Resource Efficiency segment

	2nd quarter			1st half		
in € million	**2016**	2015	Change in %	**2016**	2015	Change in %
External sales	1,156	1,110	4	2,276	2,233	2
Adjusted EBITDA	270	254	6	526	498	6
Adjusted EBITDA margin in %	23.4	22.9	–	23.1	22.3	–
Adjusted EBIT	214	200	7	414	392	6
Capital expenditures	63	52	21	112	98	14
No. of employees as of June 30	–	–	–	8,758	8,231	6

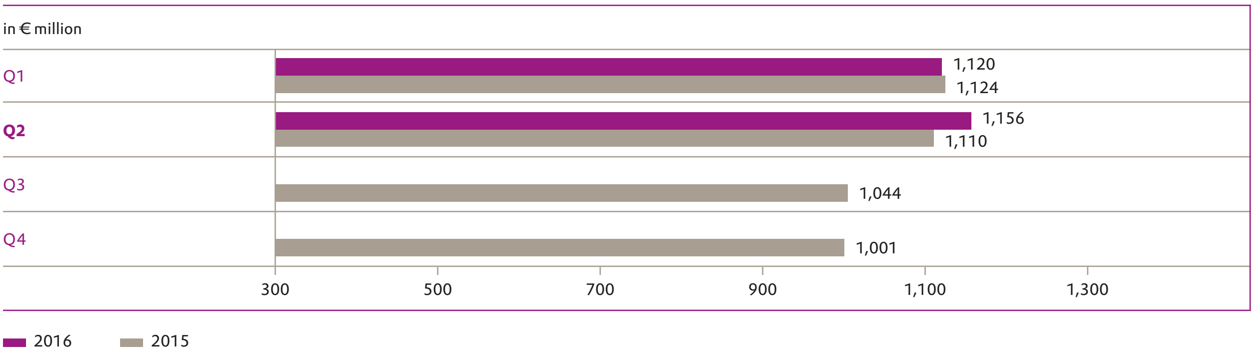
Business continued to develop pleasingly in the Resource Efficiency segment: Sales rose 4 percent to €1,156 million in the **second quarter of 2016**. The main drivers were higher global demand and the activities acquired in 2015. This was countered by a slight reduction in selling prices.

Demand for crosslinkers remained strong, especially in Europe, and this business once again posted considerably higher sales. Coating additives, which mainly comprise applied solutions for coating technologies, benefited from an appreciable rise in demand and grew sales considerably. Business with high-performance polymers was also pleasing, with volumes driving a rise in sales here too. In the active oxygen products business, conventional applications for hydrogen peroxide developed well, with the production facility in the Netherlands which we acquired in October 2015 making a contribution to this. The catalysts business was boosted by the first-time consolidation of the Indian catalyst producer Monarch Catalyst Pvt. Ltd, which was acquired in June 2015.

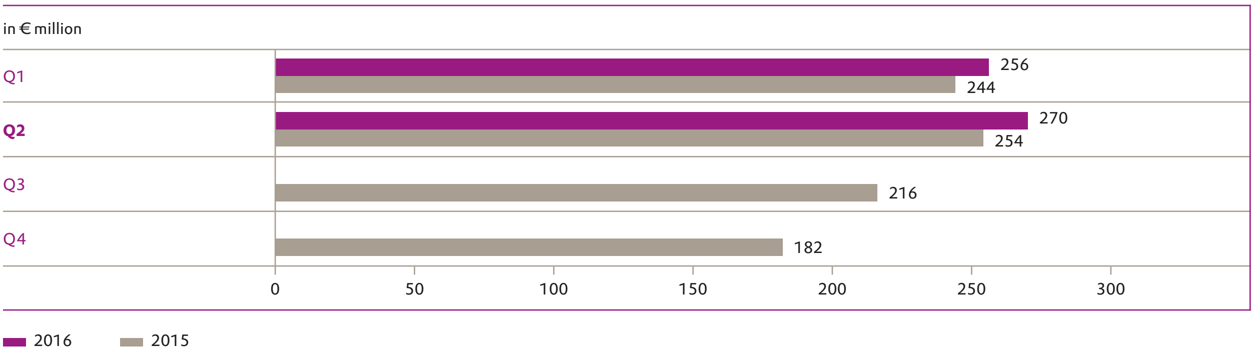
Adjusted EBITDA increased 6 percent to €270 million, mainly because of higher volumes, favorable raw material costs and positive currency effects. The adjusted EBITDA margin improved to a very good 23.4 percent.

In the **first six months** of the year, sales in the Resource Efficiency segment rose 2 percent to €2,276 million, driven principally by higher volumes. Lower selling prices had a counter-effect. Adjusted EBITDA increased 6 percent to €526 million. The adjusted EBITDA margin improved from 22.3 percent to 23.1 percent.

Sales Resource Efficiency segment



Adjusted EBITDA Resource Efficiency segment



Performance Materials segment

Key data for the Performance Materials segment

	2nd quarter			1st half		
in € million	**2016**	2015	Change in %	**2016**	2015	Change in %
External sales	829	938	−12	1,601	1,788	−10
Adjusted EBITDA	105	82	28	169	154	10
Adjusted EBITDA margin in %	12.7	8.7	–	10.6	8.6	–
Adjusted EBIT	70	51	37	100	93	8
Capital expenditures	41	43	−5	65	89	−27
No. of employees as of June 30	–	–	–	4,376	4,245	3

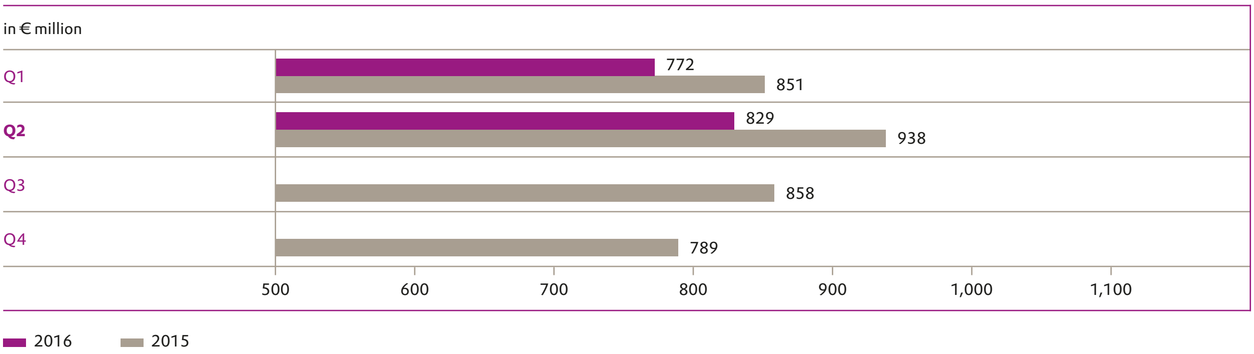
In the Performance Materials segment, sales dropped 12 percent to €829 million in the **second quarter of 2016**. This was mainly due to lower selling prices resulting from the reduction in raw material prices. By contrast, volumes rose considerably thanks to good demand.

In particular, volumes of performance intermediates benefited considerably from higher demand and the new production capacities in Marl (Germany) and Antwerp (Belgium). However, selling prices declined further as a result of the drop in the price of oil, leading to a perceptible reduction in sales. Methacrylates registered an upturn in demand, especially from the coatings and construction sectors, but sales declined, mainly on price grounds.

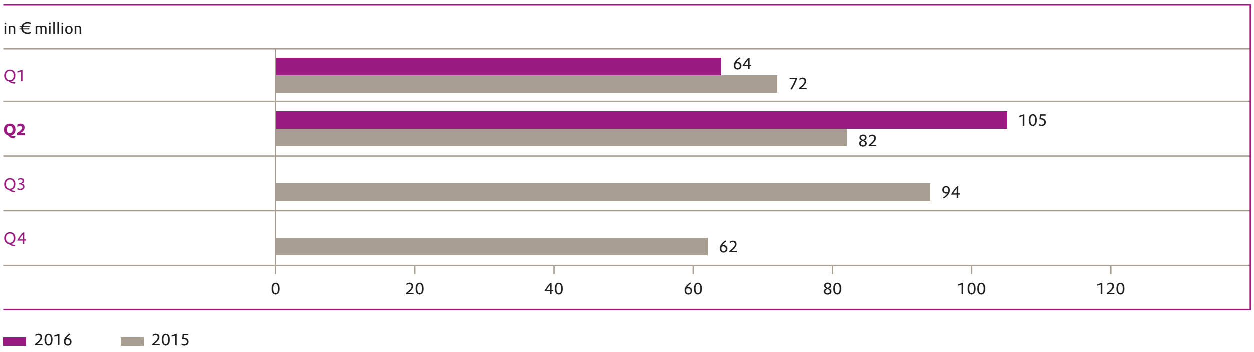
Adjusted EBITDA rose by 28 percent to €105 million. This was principally due to a rise in volumes, improved raw material efficiency and systematic cost management. The adjusted EBITDA margin was 12.7 percent, up from 8.7 percent in the second quarter of 2015.

In the **first six months** of the year, sales in the Performance Materials segment fell 10 percent to €1,601 million. With volumes up, the decline was caused by the oil-driven drop in selling prices. Adjusted EBITDA improved 10 percent to €169 million. The adjusted EBITDA margin improved to 10.6 percent.

Sales Performance Materials segment



Adjusted EBITDA Performance Materials segment



Services segment

Key data for the Services segment

in € million	2nd quarter 2016	2015	Change in %	1st half 2016	2015	Change in %
External sales	163	211	–23	330	419	–21
Adjusted EBITDA	33	28	18	68	74	–8
Adjusted EBITDA margin in %	20.2	13.3	–	20.6	17.7	–
Adjusted EBIT	4	2	100	11	22	–50
Capital expenditures	41	31	32	85	70	21
No. of employees as of June 30	–	–	–	12,737	12,907	–1

Prior-year figures restated.

Sales fell 23 percent to €163 million in the **second quarter**. The decline was due to an energy and raw material-driven drop in revenues from procurement and energy supply for external customers at our sites. Adjusted EBITDA rose 18 percent to €33 million.

Sales dropped 21 percent to €330 million in the **first six months**. As a result of lower earnings contributions from Utilities and Waste Management, adjusted EBITDA decreased by 8 percent to €68 million.

2. Earnings, financial and asset position

2.1 Earnings position

Sales declined 8 percent to €6,363 million in the first half of 2016. Given the slight rise in volumes, this was mainly due to lower selling prices. The cost of sales was down 10 percent year-on-year at €4,191 million, principally due to the reduction in raw material costs. The **gross profit on sales** therefore decreased by just 5 percent to €2,172 million. Selling expenses increased by 4 percent to €739 million, mainly due to the expansion of business resulting from new production facilities. Research and development expenses increased by 3 percent to €212 million, while general administrative costs declined by 4 percent to €329 million thanks to successful cost savings.

Other operating income was €160 million, €131 million below the high prior-year level, which contained the income from the divestment of the stake in Vivawest. The €39 million rise in other operating expenses to €298 million is principally due to expenses for the waiver of receivables and for acquisition projects. The result from investments recognized at equity was –€18 million and primarily comprised an impairment loss on one company. **Income before financial result and income taxes, continuing operations** dropped 30 percent to €736 million.

The **financial result** of –€128 million contains expenses of €37 million for currency hedging in connection with the planned acquisition. In the prior-year period, one-off factors comprised an impairment loss of €16 million on an equity investment. **Income before income taxes, continuing operations** was 35 percent lower at €608 million. The income tax rate was 32 percent, which was above the expected Group tax rate, mainly due to tax-deductible expenses. **Income after taxes, continuing operations** dropped 40 percent to €413 million.

The **income after taxes, discontinued operations** of –€15 million in the prior-year period mainly related to the remaining lithium-ion activities, which were divested in April 2015. The Evonik Group's **net income** declined by 40 percent to €405 million.

2.2 Financial and asset position

Financial debt was €1,581 million as of June 30, 2016, which was around the level reported at year-end 2015. In the same period, financial assets contracted by €474 million to €2,179 million. This was mainly due to investments and the dividend of €536 million for 2015, which was paid in May 2016. The cash flow from operating activities had a counter-effect. **Net financial assets** decreased by €500 million compared with December 31, 2015 to €598 million.

While the Standard & Poor's rating agency left the rating of Evonik Industries AG unchanged at BBB+, Moody's raised its **rating** one notch from Baa2 with a positive outlook to Baa1 with a stable outlook on May 10, 2016. This was Moody's response to the announcement of the planned acquisition of Air Products' specialty and coating additives business. Moody's expects Evonik's business profile to improve as a result of economies of scale and greater diversification.

Capital expenditures for property, plant and equipment were €371 million in the first six months of 2016, 2 percent less than in the prior-year period. A new production facility for ROHACELL® structural foam was completed in Shanghai (China). Applications for this product include aircraft and automotive engineering. A new facility for biotechnological production of Biolys® (L-lysine) for modern animal nutrition came into service in Castro (Brazil), and a facility for thin-film composites for membrane coating came on stream in Marl (Germany). In principle, there is a slight timing difference in outflows for property, plant and equipment due to payment terms. In the reporting period, cash outflows for property, plant and equipment totaled €390 million (H1 2015: €446 million).

Investments in financial assets amounting to €92 million mainly comprised the acquisition of the Norwegian company MedPalett and the French start-up Alkion.

In the first six months of 2016, Evonik's **cash flow from operating activities** was €598 million, which was €17 million less than in the comparable prior-year period. The decline in operating earnings was largely offset by a substantial contribution from the change in net working capital, which increased considerably in the first half of 2015 but decreased slightly in the first half of 2016.

Net financial assets

in € million	June 30, 2016	Dec. 31, 2015
Non-current financial liabilities[a]	–1,352	–1,361
Current financial liabilities[a]	–229	–194
Financial debt	**–1,581**	**–1,555**
Cash and cash equivalents	2,156	2,368
Current securities	10	262
Other financial investments	13	23
Financial assets	**2,179**	**2,653**
Net financial assets as stated on the balance sheet	**598**	**1,098**

[a] Excluding derivatives.

Cash flow statement (excerpt)

	1st half	
in € million	2016	2015
Cash flow from operating activities, continuing operations	598	612
Cash flow from operating activities, discontinued operations	–	3
Cash flow from operating activities	**598**	**615**
Cash flow from investing activities	**–244**	**–35**
Cash flow from financing activities	**–560**	**264**
Change in cash and cash equivalents	**–206**	**844**

Investing activities led to a total cash outflow of €244 million, mainly for property, plant and equipment and the acquisition of shareholdings, especially in the Norwegian company MedPalett. The redemption of current securities had a counter-effect. In the prior-year period, cash outflows for capital expenditures for property, plant and equipment were offset by the proceeds from the divestment of the stake in Vivawest, so the total outflow was only €35 million.

The cash outflow for financing activities totaling €560 million mainly comprised the dividend payment for fiscal 2015. In the prior-year period, there was an inflow of €264 million, principally from the issuance of the Evonik bond.

In the first half of 2016, the **free cash flow**[1] was €208 million, compared with €166 million in the prior-year period.

The discount rate for **pensions** in the euro-zone countries declined considerably to 1.50 percent as of June 30, 2016 (year-end 2015: 2.75 percent). This led to an increase of €1.7 billion in pension provisions to €5.1 billion without recognition in profit or loss. In line with this, deferred tax assets increased by €0.5 billion to €1.6 billion. The increase in pension provisions and the corresponding rise in deferred tax assets reduced equity by €1.2 billion but was not recognized in profit or loss.

Total assets were €17.1 billion as of June 30, 2016, €0.1 billion higher than at year-end 2015. Non-current assets increased by €0.6 billion to €10.9 billion as a consequence of higher deferred tax assets, while current assets decreased by €0.5 billion to €6.2 billion, mainly as a result of lower inventories and a reduction in cash and cash equivalents.

Equity decreased by €1.3 billion to €6.3 billion, principally as a result of the remeasurement of the net defined benefit liability for defined benefit pension plans. The equity ratio decreased from 44.6 percent to 36.9 percent.

3. Research & development

Research and development (R&D) expenses increased by 3 percent to €212 million in the first half of 2016. Research highlights include the innovative production of fiber composite components for automotive engineering (Resource Efficiency segment), the start of a project sponsored by the Federal Ministry of Economics and Energy on remote monitoring and operation of production plants, and the introduction of an interactive formulating program for skin-care products by the Personal Care Business Line (Nutrition & Care segment).

Together with Audi AG, Benteler SGL and LiteCon GmbH, Evonik received the JEC Innovation Award in May at the most important composites exhibition, the JEC in Paris. This prestigious award was presented for the joint development of a technology for cost-effective and efficient production of fiber composite components for the automotive sector. Serial production of ROHACELL® Triple F foamed cores by LiteCon started in late 2015. This technology will be used for the first time in the current Audi MSS (Modular Sportscar System) platform, which is used, for example, for the Audi R8 Spyder and Lamborghini.

A remote operation concept is being developed with the goal of operating production plants more safely, at lower cost or remotely without interruption. The project is part of the German government's Industry 4.0 initiative. It includes the development of sensors to monitor production plants as part of the government-sponsored SIDAP project (scalable integration concept for the aggregation, analysis and processing of large volumes of data in manufacturing industry).

The Personal Care Business Line has developed Sensory Kaleidescope, a new tool that enables customers in the cosmetics and personal care industry to formulate skin-care products with specific sensory properties. Skin feel is one of the main factors influencing purchase decisions and loyalty to skin-care products. The Sensory Kaleidescope enables Evonik's customers to cut development times, for example for a new sunscreen with cooling properties, and implement current sensory trends quickly and directly.

Last year, Evonik submitted 430 patent applications, raising its position in the list of the most prolific applicants at the European Patents Office from 62 in 2014 to 49. Evonik now ranks 7th among the leading German patent applicants (2014: 10th).

[1] Cash flow from operating activities, continuing operations, less outflows for capital expenditures for intangible assets, property, plant and equipment.

4. Employees

As of June 30, 2016, the Evonik Group had 33,742 employees. The increase of 166 compared with year-end 2015 was principally due to expansion of our business, including the start-up of new capacity.

Employees by segment

	June 30, 2016	Dec. 31, 2015
Nutrition & Care	7,369	7,165
Resource Efficiency	8,758	8,662
Performance Materials	4,376	4,380
Services	12,737	12,668
Other operations	502	701
Evonik	**33,742**	**33,576**

5. Opportunity and risk report

As an international Group with a diversified portfolio of specialty chemicals, Evonik is exposed to a wide range of **opportunities** and **risks**. The risk categories and principal individual opportunities and risks relating to our earnings, financial and asset position, and the structure of our risk management system were described in detail in the opportunity and risk report, which forms part of the Management Report for 2015.

In view of the continued volatility of the operating environment, we regularly and systematically monitor and analyze the markets, sectors and growth prospects of relevance for our segments. Based on current market trends in our Nutrition & Care, Resource Efficiency and Performance Materials segments, we see fewer opportunities and risks for this year than in our assessment at the end of 2015. There are still no risks that could jeopardize the continued existence of the Evonik Group or major individual companies.

6. Events after the reporting date

No material events have occurred since the reporting date.

7. Expected development

The outcome of the referendum in the UK on leaving the European Union has increased economic risks. We have slightly reduced our growth forecasts for the UK and Europe. Our expectations for **global economic conditions in 2016** have altered marginally: Overall we anticipate slightly lower momentum in the global economy, with a year-on-year growth rate of 2.4 percent in 2016. We expect the present weak growth in the emerging economies to continue. The economic upturn in some advanced economies will probably be dampened by the heightened uncertainty in the wake of the Brexit decision and the run-up to the elections in the USA.

Basis for our forecast:

- Global growth: 2.4 percent (previously: 2.5 percent)
- Euro/US dollar exchange rate around the same level as in 2015 at approx. US$1.10 (unchanged)
- Internal raw material cost index lower than in the prior year (unchanged)

Sales and earnings

We still expect to report slightly lower **sales** in 2016 (2015: €13.5 billion). Thanks to our strong market positions, balanced portfolio and concentration on high-growth businesses, we assume continued high demand for our products and appreciable volume growth despite the difficult macro-economic conditions. The new production capacities taken into service in recent years and further intensification of sales activities are also contributing to this. Selling prices are declining considerably, especially in the Nutrition & Care and Performance Materials segments, leading to the forecast slight reduction in overall sales.

We are specifying our outlook for **adjusted EBITDA** on the basis of the good earnings development in the first six months and expectations for the second half of the year: We are confident that we can realize adjusted EBITDA in the upper half of the anticipated range of €2.0 billion to €2.2 billion (2015: €2.47 billion).

For the majority of businesses in the Nutrition & Care segment we are expecting a stable or slightly positive business trend compared with the previous year. As expected, the price of essential amino acids for animal nutrition is normalizing from the very high prior-year level. Moreover, the baby care business is still suffering from persistently high competitive pressure.

We expect that the Resource Efficiency segment will be able to improve on the previous year's successful business development despite weaker global growth.

In the Performance Materials segment, the year-on-year decline in the oil price, in particular, has resulted in a further reduction in selling prices. Nevertheless, we are confident that this decline will largely be offset on the earnings side.

The continued systematic implementation of our On Track 2.0 and Administration Excellence efficiency enhancement programs will also contribute to earnings in 2016. The earnings impact of lower raw material prices on individual businesses will vary, but should largely balance out across the portfolio as a whole.

The return on capital employed (**ROCE**) should again be above the cost of capital in 2016, although it will be slightly lower than in 2015 (16.6 percent) due to the overall reduction in earnings.

Financing and investments

We anticipate that **capital expenditures** will be around the 2015 level (€0.9 billion) and thus slightly higher than depreciation and amortization. The **free cash flow** should therefore be clearly positive again, but will fall short of the high level reported for 2015 (€1.1 billion) owing to the weaker operating earnings trend.

Consolidated interim financial statements as of June 30, 2016

Income statement

Income statement for the Evonik Group

	2nd quarter		1st half	
in € million	**2016**	2015	**2016**	2015
Sales	3,258	3,519	6,363	6,944
Cost of sales	–2,144	–2,345	–4,191	–4,663
Gross profit on sales	**1,114**	**1,174**	**2,172**	**2,281**
Selling expenses	–383	–371	–739	–711
Research and development expenses	–109	–104	–212	–205
General administrative expenses	–174	–184	–329	–343
Other operating income	114	211	160	291
Other operating expenses	–188	–119	–298	–259
Result from investments recognized at equity	–15	1	–18	2
Income before financial result and income taxes, continuing operations	**359**	**608**	**736**	**1,056**
Interest income	6	10	29	14
Interest expense	–56	–50	–111	–110
Other financial income/expense	–43	–11	–46	–18
Financial result	**–93**	**–51**	**–128**	**–114**
Income before income taxes, continuing operations	**266**	**557**	**608**	**942**
Income taxes	–97	–133	–195	–249
Income after taxes, continuing operations	**169**	**424**	**413**	**693**
Income after taxes, discontinued operations	–1	–5	–1	–15
Income after taxes	**168**	**419**	**412**	**678**
thereof attributable to				
Non-controlling interests	3	1	7	4
Shareholders of Evonik Industries AG (net income)	165	418	405	674
Earnings per share in € (basic and diluted)	**0.35**	**0.90**	**0.87**	**1.45**

Statement of comprehensive income

Statement of comprehensive income for the Evonik Group

	2nd quarter		1st half	
in € million	**2016**	2015	**2016**	2015
Income after taxes	**168**	**419**	**412**	**678**
Gains/losses on available-for-sale securities	–	1	1	11
Gains/losses on hedging instruments	–1	89	101	–20
Currency translation adjustment	130	–124	11	232
Attributable to the equity method (after income taxes)	1	–1	1	2
Deferred taxes	2	–26	–25	2
Comprehensive income that will be reclassified subsequently to profit or loss	**132**	**–61**	**89**	**227**
Remeasurement of the net defined benefit liability for defined benefit pension plans	–1,541	1,364	–1,745	463
Attributable to the equity method (after income taxes)	–	–4	–	–4
Deferred taxes	461	–410	526	–139
Comprehensive income that will not be reclassified subsequently to profit or loss	**–1,080**	**950**	**–1,219**	**320**
Other comprehensive income after taxes	**–948**	**889**	**–1,130**	**547**
Total comprehensive income	**–780**	**1,308**	**–718**	**1,225**
thereof attributable to				
Non-controlling interests	6	–4	9	10
Shareholders of Evonik Industries AG	–786	1,312	–727	1,215
Total comprehensive income attributable to shareholders of Evonik Industries AG	**–786**	**1,312**	**–727**	**1,215**
thereof attributable to				
Continuing operations	–785	1,317	–726	1,230
Discontinued operations	–1	–5	–1	–15

Balance sheet

Balance sheet for the Evonik Group

in € million	June 30, 2016	Dec. 31, 2015
Intangible assets	3,219	3,168
Property, plant and equipment	5,836	5,808
Investments recognized at equity	47	53
Financial assets	139	116
Deferred taxes	1,611	1,110
Other income tax assets	11	11
Other receivables	53	54
Non-current assets	**10,916**	**10,320**
Inventories	1,654	1,763
Other income tax assets	104	111
Trade accounts receivable	1,755	1,813
Other receivables	328	265
Financial assets	192	365
Cash and cash equivalents	2,156	2,368
Current assets	**6,189**	**6,685**
Total assets	**17,105**	**17,005**

in € million	June 30, 2016	Dec. 31, 2015
Issued capital	466	466
Capital reserve	1,166	1,166
Accumulated income	4,473	5,821
Accumulated other comprehensive income	126	40
Equity attributable to shareholders of Evonik Industries AG	**6,231**	**7,493**
Equity attributable to non-controlling interests	88	83
Equity	**6,319**	**7,576**
Provisions for pensions and other post-employment benefits	5,054	3,349
Other provisions	865	854
Deferred taxes	477	479
Other income tax liabilities	127	150
Financial liabilities	1,416	1,415
Other liabilities	59	106
Non-current liabilities	**7,998**	**6,353**
Other provisions	924	1,177
Other income tax liabilities	173	209
Financial liabilities	301	291
Trade accounts payable	917	1,090
Other liabilities	473	309
Current liabilities	**2,788**	**3,076**
Total equity and liabilities	**17,105**	**17,005**

Statement of changes in equity

Statement of changes in equity for the Evonik Group

in € million	Issued capital	Capital reserve	Accumulated income	Treasury shares	Accumulated other comprehensive income	Attributable to shareholders of Evonik Industries AG	Attributable to non-controlling interests	Total equity
As of January 1, 2015	**466**	**1,165**	**5,040**	**–**	**–244**	**6,427**	**95**	**6,522**
Capital increases/decreases	–	–	–	–	–	–	–	–
Dividend distribution	–	–	–466	–	–	–466	–10	–476
Purchase of treasury shares	–	–	–	–14	–	–14	–	–14
Share-based payment	–	3	–	–	–	3	–	3
Sale of treasury shares	–	–2	–	14	–	12	–	12
Income after taxes	–	–	674	–	–	674	4	678
Other comprehensive income after taxes	–	–	320	–	221	541	6	547
Total comprehensive income	–	–	994	–	221	1,215	10	1,225
Other changes	–	–	1	–	–	1	–	1
As of June 30, 2015	**466**	**1,166**	**5,569**	**–**	**–23**	**7,178**	**95**	**7,273**
As of January 1, 2016	**466**	**1,166**	**5,821**	**–**	**40**	**7,493**	**83**	**7,576**
Capital increases/decreases	–	–	–	–	–	–	4	4
Dividend distribution	–	–	–536	–	–	–536	–8	–544
Purchase of treasury shares	–	–	–	–15	–	–15	–	–15
Share-based payment	–	3	–	–	–	3	–	3
Sale of treasury shares	–	–3	–	15	–	12	–	12
Income after taxes	–	–	405	–	–	405	7	412
Other comprehensive income after taxes	–	–	–1,219	–	87	–1,132	2	–1,130
Total comprehensive income	–	–	–814	–	87	–727	9	–718
Other changes	–	–	2	–	–1	1	–	1
As of June 30, 2016	**466**	**1,166**	**4,473**	**–**	**126**	**6,231**	**88**	**6,319**

Cash flow statement

Cash flow statement for the Evonik Group

	2nd quarter		1st half	
in € million	**2016**	2015	**2016**	2015
Income before financial result and income taxes, continuing operations	359	608	736	1,056
Depreciation, amortization, impairment losses/reversal of impairment losses on non-current assets	183	177	359	368
Result from investments recognized at equity	15	–1	18	–2
Gains/losses on the disposal of non-current assets	–	–148	–	–147
Change in inventories	120	3	115	58
Change in trade accounts receivable	85	–54	60	–298
Change in trade accounts payable and current advance payments received from customers	–	–21	–154	–74
Change in provisions for pensions and other post-employment benefits	–30	–24	–67	–60
Change in other provisions	–300	–179	–250	–128
Change in miscellaneous assets/liabilities	24	–41	58	45
Cash outflows for interest	–42	–31	–60	–43
Cash inflows from interest	11	4	28	6
Cash inflows from dividends	3	16	4	18
Cash inflows/outflows for income taxes	–177	–142	–249	–187
Cash flow from operating activities, continuing operations	**251**	**167**	**598**	**612**
Cash flow from operating activities, discontinued operations	–	2	–	3
Cash flow from operating activities	**251**	**169**	**598**	**615**
Cash outflows for investments in intangible assets, property, plant and equipment	–204	–180	–390	–446
Cash outflows for investments in shareholdings	–29	–37	–87	–40
Cash inflows from divestments of intangible assets, property, plant and equipment	1	5	4	8
Cash inflows/outflows from divestment of shareholdings	–	420	–	423
Cash inflows/outflows relating to securities, deposits and loans	238	272	243	30
Transfers to the pension trust fund (CTA)	–14	–10	–14	–10
Cash flow from investing activities	**–8**	**470**	**–244**	**–35**
Cash inflows/outflows relating to capital contributions	2	–	4	–
Cash outflows for dividends to shareholders of Evonik Industries AG	–536	–466	–536	–466
Cash outflows for dividends to non-controlling interests	–	–3	–8	–10
Cash outflows for the purchase of treasury shares	–8	–7	–15	–14
Cash inflows from the sale of treasury shares	15	15	15	15
Cash inflows from the addition of financial liabilities	60	30	89	825
Cash outflows for repayment of financial liabilities	–45	–38	–67	–86
Cash outflows in connection with financial transactions	–42	–	–42	–
Cash flow from financing activities	**–554**	**–469**	**–560**	**264**
Change in cash and cash equivalents	**–311**	**170**	**–206**	**844**
Cash and cash equivalents as of April 1/January 1	**2,466**	**1,614**	**2,368**	**921**
Change in cash and cash equivalents	–311	170	–206	844
Changes in exchange rates and other changes in cash and cash equivalents	1	–6	–6	13
Cash and cash equivalents as of June 30	**2,156**	**1,778**	**2,156**	**1,778**
Cash and cash equivalents included in assets held for sale	–	–1	–	–1
Cash and cash equivalents as on the balance sheet as of June 30	**2,156**	**1,777**	**2,156**	**1,777**

Notes

1. Segment report

Segment report by operating segments—2nd quarter

	Nutrition & Care		Resource Efficiency		Performance Materials	
in € million	2016	2015	2016	2015	2016	2015
External sales	1,111	1,248	1,156	1,110	829	938
Internal sales	8	9	12	15	24	31
Total sales	1,119	1,257	1,168	1,125	853	969
Adjusted EBITDA	264	381	270	254	105	82
Adjusted EBITDA margin in %	23.8	30.5	23.4	22.9	12.7	8.7
Adjusted EBIT	212	324	214	200	70	51
Capital expenditures	61	59	63	52	41	43
Financial investments	14	–	1	32	4	11

Prior-year figures restated.

Segment report by regions—2nd quarter

	Germany		Other European countries		North America	
in € million	2016	2015	2016	2015	2016	2015
External sales	604	665	1,013	1,080	628	681
Capital expenditures	92	90	21	25	61	42

Prior-year figures restated.

	Services		Other operations		Corporate, consolidation		Total Group (continuing operations)	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	163	211	–	14	−1	−2	3,258	3,519
	505	465	9	24	−558	−544	–	–
	668	676	9	38	−559	−546	3,258	3,519
	33	28	−31	−22	−56	−62	585	661
	20.2	13.3	–	–	–	–	18.0	18.8
	4	2	−34	−26	−60	−65	406	486
	41	31	5	4	–	–	211	189
	1	2	–	–	–	–	20	45

	Central and South America		Asia-Pacific		Middle East, Africa		Total Group (continuing operations)	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	195	235	716	742	102	116	3,258	3,519
	6	21	31	10	–	1	211	189

Segment report by operating segments—1st half

	Nutrition & Care		Resource Efficiency		Performance Materials	
in € million	**2016**	2015	**2016**	2015	**2016**	2015
External sales	2,157	2,476	2,276	2,233	1,601	1,788
Internal sales	16	16	21	30	51	66
Total sales	2,173	2,492	2,297	2,263	1,652	1,854
Adjusted EBITDA	557	734	526	498	169	154
Adjusted EBITDA margin in %	25.8	29.6	23.1	22.3	10.6	8.6
Adjusted EBIT	452	626	414	392	100	93
Capital expenditures	102	113	112	98	65	89
Financial investments	67	–	14	32	9	11
No. of employees as of June 30	7,369	6,916	8,758	8,231	4,376	4,245

Prior-year figures restated.

Segment report by regions—1st half

	Germany		Other European countries		North America	
in € million	**2016**	2015	**2016**	2015	**2016**	2015
External sales	1,193	1,332	1,993	2,122	1,232	1,323
Goodwill as of June 30[a]	1,542	1,542	578	547	363	360
Other intangible assets, property, plant and equipment as of June 30[a]	2,837	2,775	567	546	1,091	955
Capital expenditures	169	181	34	48	108	74
No. of employees as of June 30	21,396	21,173	2,701	2,681	3,849	3,712

Prior-year figures restated.

[a] Non-current assets according to IFRS 8.33 b.

Services		Other operations		Corporate, consolidation		**Total Group (continuing operations)**	
2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
330	419	–	38	−1	−10	6,363	6,944
966	916	19	46	−1,073	−1,074	–	–
1,296	1,335	19	84	−1,074	−1,084	6,363	6,944
68	74	−59	−45	−111	−104	1,150	1,311
20.6	17.7	–	–	–	–	18.1	18.9
11	22	−65	−53	−117	−109	795	971
85	70	7	8	–	1	371	379
1	4	1	2	–	–	92	49
12,737	12,907	184	573	318	315	33,742	33,187

Central and South America		Asia-Pacific		Middle East, Africa		**Total Group (continuing operations)**	
2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
386	469	1,354	1,475	205	223	6,363	6,944
32	32	284	288	–	–	2,799	2,769
214	196	1,539	1,636	8	10	6,256	6,118
12	40	48	36	–	–	371	379
708	619	4,911	4,850	177	152	33,742	33,187

2. General information

Evonik Industries AG is an international specialty chemicals company headquartered in Germany.

The present condensed and consolidated interim financial statements (consolidated interim financial statements) of Evonik Industries AG and its subsidiaries (referred to jointly as Evonik or the Evonik Group) as of June 30, 2016, have been prepared in accordance with the provisions of IAS 34 Interim Financial Reporting, and in application of Section 315a Paragraph 1 of the German Commercial Code (HGB) using 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.

The consolidated interim financial statements as of June 30, 2016 are presented in euros. The reporting period is January 1 to June 30, 2016. All amounts are stated in millions of euros (€ million) except where otherwise indicated. The basis for the consolidated interim financial statements comprises the consolidated financial statements for the Evonik Group as of December 31, 2015, which should be referred to for further information.

3. Accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as of December 31, 2015.

4. Changes in the Group

4.1 Scope of consolidation

The scope of consolidation changed as follows in the reporting period:

Changes in the scope of consolidation

No. of companies	Germany	Other countries	Total
Evonik Industries AG and consolidated subsidiaries			
As of December 31, 2015	**39**	**99**	**138**
Acquisitions	–	1	1
Other companies consolidated for the first time	–	1	1
Intragroup mergers	–1	–	–1
Other companies deconsolidated	–1	–	–1
As of June 30, 2016	**37**	**101**	**138**
Joint operations			
As of December 31, 2015	**3**	**2**	**5**
As of June 30, 2016	**3**	**2**	**5**
Investments recognized at equity			
As of December 31, 2015	**3**	**8**	**11**
Acquisitions	–	1	1
Other companies included at equity for the first time	1	–	1
As of June 30, 2016	**4**	**9**	**13**
	44	**112**	**156**

4.2 Acquisitions and divestments

This section provides a more detailed overview of the principal changes in the scope of consolidation in the reporting period, divided into acquisitions and divestments.

Acquisitions

On March 3, 2016 Evonik acquired all shares in MedPalett AS (MedPalett), Sandnes (Norway), from Biolink Group AS, Sandnes (Norway). This company specializes in food ingredients containing anthocyanins, which are known for their natural antioxidant properties. Numerous international studies indicate broad health-promoting properties, including the prevention of cardiovascular disease. The aim of this acquisition is to expand the portfolio of the Health Care Business Line in the area of advanced food ingredients. This business has been integrated into the Nutrition & Care segment.

The impact of MedPalett on the balance sheet as of the date of initial consolidation was as follows:

Impact of the acquisition of MedPalett AS on the balance sheet

in € million	Fair value recognized
Non-current assets	20
Current assets	7
thereof receivables	1
thereof cash and cash equivalents	1
Non-current liabilities	–5
Current liabilities	–4
Net assets	**18**
Goodwill	35
Cost of acquisition (purchase price)	**53**

Transaction costs of less than €1 million relating to this acquisition are included in other operating expenses. The goodwill is not tax-deductible and mainly comprises the expected future benefits of assets that were not individually identifiable or for which recognition is not permitted, for example, anticipated synergies.

The contributions made by MedPalett to sales and earnings were not material relative to the Nutrition & Care segment as a whole, either since the date of acquisition or on a pro forma basis in the period since January 1, 2016.

Divestments

There were no material divestments in the reporting period.

5. Notes to the income statement

5.1 Other operating income

Other operating income

	2nd quarter		1st half	
in € million	**2016**	2015	**2016**	2015
Income from the reversal of provisions	41	12	46	22
Income from restructuring measures	10	–	10	3
Income from the disposal of assets	–	147	1	151
Net income from operational currency hedging	–	12	–	–
Net income from currency translation of operating monetary assets and liabilities	7	–	–	40
Other income	56	40	103	75
	114	**211**	**160**	**291**
thereof adjustments	54	144	60	154

The currency translation and operational currency hedging results are recognized in other operating income or other operating expenses as appropriate. Currency management and the presentation of the earnings effects derived from this are outlined in Note 8.1.

The income from the reversal of provisions amounting to €46 million (H1 2015: €22 million) was mainly attributable to renegotiation of an agreement for the supply of raw materials, as a result of which the original risk provisioning is no longer necessary. Further reversals of provisions totaling €10 million (H1 2015: €3 million) are recognized in income from restructuring measures.

The other income of €103 million (H1 2015: €75 million) comprises, among other things, income from non-core operations, income from insurance premiums and refunds, and rental income from leases.

5.2 Other operating expenses

Other operating expenses

	2nd quarter		1st half	
in € million	**2016**	2015	**2016**	2015
Expenses for restructuring measures	28	14	34	24
Net expenses for currency translation of operating monetary assets and liabilities	–	23	14	–
Net expenses for operational currency hedging	14	–	6	54
Impairment losses	3	4	6	29
Losses on the disposal of assets	1	–1	2	4
Other expense	142	79	236	148
	188	**119**	**298**	**259**
thereof adjustments	84	22	102	69

The expenses for restructuring measures amounting to €34 million (H1 2015: €24 million) mainly comprise expenses for optimization of the portfolio structure in the Performance Materials segment and expenses in connection with optimization of administrative structures. This item also includes expenses that would by nature otherwise be included in other operating expenses.

The other expense of €236 million (H1 2015: €148 million) principally comprises the waiver of receivables and expenses for outsourcing, projects for the acquisition of companies and business operations, environmental protection, non-core businesses, and legal and consultancy fees.

5.3 Result from investments recognized at equity

The result from investments recognized at equity was –€18 million (H1 2015: €2 million) and mainly comprises an impairment loss on an equity investment in the Nutrition & Care segment, which is recognized in adjustments.

5.4 Financial result

Interest income includes €22 million in connection with tax refunds in the first half of the year. €1 million of the interest expense relates to financing of the planned acquisition of Air Products' specialty and coating additives business.

The other financial income/expense comprises the following items:

Other financial income/expense

	2nd quarter		1st half	
in € million	**2016**	2015	**2016**	2015
Result from currency translation of financing-related monetary assets and liabilities	1	104	37	84
Result from financing-related currency hedging	–44	–113	–83	–86
Miscellaneous financial expense	–	–2	–	–16
	–43	**–11**	**–46**	**–18**

Expenses of €37 million were incurred in the second quarter in connection with hedging of the purchase price of the planned acquisition. These expenses are recognized in net income from financing-related currency hedging. These expenses were factored out when calculating the adjusted financial result.

6. Notes to the balance sheet

6.1 Equity and employee share program

In 2015, the Executive Board of Evonik Industries AG decided to purchase shares in the company, utilizing the resolution adopted by the Annual Shareholders' Meeting on March 11, 2013 authorizing it to buy back shares in the company. The Supervisory Board has approved this share buy-back program, which relates to the share-based employee participation program (employee share program) Share.2016 launched by Evonik Industries AG in March 2016. The period during which eligible employees could acquire shares ended on March 25, 2016. The lock-up period for Evonik shares purchased or granted through the Share.2016 program ends on December 31, 2018. Overall, Evonik Industries AG purchased 574,115 ordinary shares on the capital market at an average price of €25.90 per share. In April 2016, 511,868 of these ordinary shares (including 130,327 bonus shares) were transferred to participating employees on the basis of the share price and the exchange rate for the US dollar prevailing on April 13, 2016. The remaining 62,247 ordinary shares were sold to third parties by April 19, 2016.

As of June 30, 2016, Evonik therefore no longer held any treasury shares.

6.2 Provisions for pensions and other post-employment benefits

Compared with December 31, 2015, provisions for pensions and other post-employment benefits had increased by a total of €1,705 million to €5,054 million as of June 30, 2016. This figure includes €1,745 million recognized in equity with no impact on income after taxes. This increase had no impact on income and was mainly due to a discount rate of 1.50 percent for the euro-zone countries, compared with a rate of 2.75 percent as of December 31, 2015. By contrast, the development of the market value of the plan assets was better than expected as of June 30, 2016. The €1,745 million change in provisions for pensions and other post-employment benefits, which had no impact on income, and the change of €526 million in the related deferred tax assets are reflected in a reduction of €1,219 million in other comprehensive income from the remeasurement of the net defined benefit liability for defined benefit pension plans, which is recognized in equity under accumulated income.

7. Notes to the segment report

The following table shows a reconciliation from adjusted EBITDA for the reporting segments to income before income taxes for the Group's continuing operations.

Reconciliation from adjusted EBITDA of the reporting segments to income before income taxes, continuing operations

	2nd quarter		1st half	
in € million	**2016**	2015	**2016**	2015
Adjusted EBITDA, reporting segments	**672**	**745**	**1,320**	**1,460**
Adjusted EBITDA, other operations	–31	–22	–59	–45
Adjusted EBITDA, Corporate	–55	–62	–110	–111
Consolidation	–1	–1	–1	–1
Less discontinued operations	–	1	–	8
Adjusted EBITDA	**585**	**661**	**1,150**	**1,311**
Depreciation	–176	–173	–350	–340
Impairment losses/reversals of impairment losses	–25	–2	–28	–25
Depreciation, amortization, impairment losses/reversal of impairment losses included in adjustments	22	–	23	25
Depreciation and amortization	**–179**	**–175**	**–355**	**–340**
Adjusted EBIT	**406**	**486**	**795**	**971**
Adjustments	–47	122	–59	85
Financial result	–93	–51	–128	–114
Income before income taxes, continuing operations	**266**	**557**	**608**	**942**

Prior-year figures restated.

For reasons of simplification, in the segment report by regions in the past the results from hedging of planned sales was allocated to sales in the country where the counterparty of the hedging transaction was based. Since financial management is largely centralized, this was mainly Germany. From January 1, 2016, by contrast, hedging results are allocated to the country to which the associated hedged sales are allocated. The prior-year figures have been restated where applicable.

8. Other disclosures

8.1 Financial instruments

The following overview shows the carrying amounts and fair values of all financial assets and liabilities. That part of derivative financial instruments for which hedge accounting is applied is not allocated to any of the categories.

Carrying amounts and fair values of financial assets as of June 30, 2016

	Carrying amounts by valuation category				June 30, 2016	
in € million	Available-for-sale assets	Loans and receivables	Assets held for trading	Not allocated to any category	Carrying amount	Fair value
Financial assets	**96**	**67**	**8**	**160**	**331**	**303**
Other investments[a]	83	–	–	–	83	55
Loans	–	45	–	–	45	45
Securities and similar claims	13	–	–	–	13	13
Receivables from derivatives	–	–	8	160	168	168
Other financial assets	–	22	–	–	22	22
Trade accounts receivable	**–**	**1,755**	**–**	**–**	**1,755**	**1,755**
Cash and cash equivalents	**–**	**2,156**	**–**	**–**	**2,156**	**2,156**
	96	**3,978**	**8**	**160**	**4,242**	**4,214**

[a] The difference between the carrying amount and fair value results from equity investments recognized at cost of acquisition as the fair value cannot be determined reliably (€28 million).

Carrying amounts and fair values of financial assets as of December 31, 2015

	Carrying amounts by valuation category				Dec. 31, 2015	
in € million	Available-for-sale assets	Loans and receivables	Assets held for trading	Not allocated to any category	Carrying amount	Fair value
Financial assets	**339**	**58**	**24**	**60**	**481**	**462**
Other investments[a]	74	–	–	–	74	55
Loans	–	29	–	–	29	29
Securities and similar claims	265	–	–	–	265	265
Receivables from derivatives	–	–	24	60	84	84
Other financial assets	–	29	–	–	29	29
Trade accounts receivable	**–**	**1,813**	**–**	**–**	**1,813**	**1,813**
Cash and cash equivalents	**–**	**2,368**	**–**	**–**	**2,368**	**2,368**
	339	**4,239**	**24**	**60**	**4,662**	**4,643**

[a] The difference between the carrying amount and fair value results from equity investments recognized at cost of acquisition as the fair value cannot be determined reliably (€19 million).

Carrying amounts and fair values of financial liabilities as of June 30, 2016

	Carrying amounts by valuation category			June 30, 2016	
in € million	Liabilities held for trading	Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
Financial liabilities	**10**	**1,581**	**126**	**1,717**	**1,783**
Bonds	–	1,241	–	1,241	1,305
Liabilities to banks	–	318	–	318	320
Liabilities from derivatives	10	–	126	136	136
Other financial liabilities	–	22	–	22	22
Trade accounts payable	**–**	**917**	**–**	**917**	**917**
	10	**2,498**	**126**	**2,634**	**2,700**

Carrying amounts and fair values of financial liabilities as of December 31, 2015

	Carrying amounts by valuation category			Dec. 31, 2015	
in € million	Liabilities held for trading	Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
Financial liabilities	**19**	**1,554**	**133**	**1,706**	**1,719**
Bonds	–	1,241	–	1,241	1,258
Liabilities to banks	–	282	–	282	278
Liabilities from derivatives	19	–	132	151	151
Other financial liabilities	–	31	1	32	32
Trade accounts payable	**–**	**1,090**	**–**	**1,090**	**1,090**
	19	**2,644**	**133**	**2,796**	**2,809**

The fair value determination is based on the three-level hierarchy stipulated by IFRS 13 Fair Value Measurement:

- Level 1: Quoted price for the financial instrument 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 following table shows the financial instruments that are **measured at fair value** on a recurring basis after initial recognition on the balance sheet:

Financial instruments recognized at fair value as of June 30, 2016

in € million	Fair value based on Level 1	Level 2	Level 3	June 30, 2016
Other investments	55	–	–	55
Securities and similar claims	13	–	–	13
Receivables from derivatives	–	168	–	168
Liabilities from derivatives	–	−136	–	−136

Financial instruments recognized at fair value as of December 31, 2015

in € million	Fair value based on Level 1	Level 2	Level 3	Dec. 31, 2015
Other investments	55	–	–	55
Securities and similar claims	265	–	–	265
Receivables from derivatives	–	84	–	84
Liabilities from derivatives	–	−151	–	−151

The financial instruments allocated to Level 1 are recognized at their present stock market price. They comprise all securities and one equity investment. As of the present reporting date, all derivatives are allocated to Level 2. They comprise currency, interest rate and commodity derivatives whose fair value was determined with the aid of a discounted cash flow method on the basis of the exchange rates at the European Central Bank, observed interest rate structure curves, observed commodity prices, and observed credit default premiums. There were no transfers between the levels of the fair value hierarchy in the reporting period.

The fair value of financial instruments **recognized at amortized cost** is calculated as follows:

The fair value of bonds is their directly observable stock market price on the reporting date. For loans, other financial assets, liabilities to banks, and other financial liabilities, the fair value is determined as the present value of the expected future cash inflows or outflows and is therefore allocated to Level 2. Discounting is based on the interest rate for the respective maturity on the reporting date, taking the creditworthiness of the counterparties into account. Since the majority of other financial receivables and liabilities and trade accounts receivable and payable are current, their fair values—like the fair value of cash and cash equivalents—correspond to their carrying amounts.

The other investments that are recognized on the balance sheet at amortized cost comprise investments in equity instruments for which there is no quoted price in an active market and whose fair values cannot be determined reliably in accordance with one of the three levels of the fair value hierarchy. There is no intention of selling these investments.

Management of currency risk

In the currency hedging of on-balance-sheet risk items, Evonik generally uses the portfolio approach: The risk positions resulting from foreign currency receivables and liabilities are generally netted and bundled via intragroup hedging; the resulting net positions are then hedged via market derivatives. Currency management is carried out separately for operational risk positions (mainly trade accounts receivable and payable in foreign currencies) and risk positions arising from financing activities. Currency translation and hedging results are disclosed in the income statement in line with this distinction. The net presentation of the respective results reflects both their economic substance and the management of the risk positions at Evonik.

Net currency result

	2nd quarter		1st half	
in € million	**2016**	2015	**2016**	2015
From operating currency exposure and associated hedging instruments				
Gross income from currency translation	33	39	76	119
Gross expenses for currency translation	–26	–62	–90	–79
Net result from currency translation of operating monetary assets and liabilities	**7**	**–23**	**–14**	**40**
Gross income from currency hedging	21	148	24	145
Gross expenses for currency hedging	–35	–136	–30	–199
Net result from operational currency hedging	**–14**	**12**	**–6**	**–54**
From financing-related currency exposure and associated hedging instruments				
Gross income from currency translation	41	134	129	221
Gross expenses for currency translation	–40	–30	–92	–137
Net result from currency translation of financing-related monetary assets and liabilities	**1**	**104**	**37**	**84**
Gross income from currency hedging	30	38	68	141
Gross expenses for currency hedging	–74	–151	–151	–227
Net result from financing-related currency hedging	**–44**	**–113**	**–83**	**–86**
Net currency result (operational and financing-related)	**–50**	**–20**	**–66**	**–16**

The net currency result is determined principally by the swap rate and option premiums at the start of hedging and changes in the hedged foreign currency items recognized on the balance sheet during the hedging period. Since hedge accounting is applied for micro-hedging of foreign currency balance sheet exposure (for example, financing-related currency hedging of non-current loans through cross-currency interest rate swaps) and for hedging of planned or firmly agreed cash flows in foreign currencies (for example, hedging of planned sales revenues), their hedge results are only reflected in the net currency result with the corresponding ineffective portion or any forward components that are excluded from the hedge accounting relationship. By contrast, the effective results of these hedges are recognized in accumulated other comprehensive income until the hedged transaction is realized. Upon realization of the hedged transaction they are transferred to the income statement to offset the counter-effect of the hedged transaction.

8.2 Related parties

There has not been any material change in related party transactions since December 31, 2015.

The dividend for fiscal 2015 was paid in the second quarter of 2016, following the adoption of the resolution by the Annual Shareholders' Meeting on May 18, 2016.

RAG-Stiftung, Essen (Germany), received €364 million and The Gabriel Finance Limited Partnership, St. Helier (Jersey), received €23 million.

8.3 Contingent receivables and liabilities

There has not been any material change in contingent assets and liabilities since the consolidated financial statements as of December 31, 2015.

8.4 Events after the reporting date

No material events have occurred since the reporting date.

8.5 Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report for the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Essen, July 29, 2016

Evonik Industries AG
The Executive Board

Dr. Engel Kullmann Dr. Kaufmann

Wessel Wolf

Review report

To Evonik Industries AG, Essen

We have reviewed the condensed consolidated interim financial statements—comprising the condensed income statement, condensed statement of comprehensive income, condensed balance sheet, condensed statement of changes in equity, condensed cash flow statement and selected explanatory notes—and the interim Group management report for Evonik Industries AG, Essen, for the period from January 1, 2016 to June 30, 2016, which are part of the half year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim Group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the company's Executive Board. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim Group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim Group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information performed by the Independent Auditor of the Entity" (ISRE 2410). These standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Düsseldorf, August 1, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Lutz Granderath	Antje Schlotter
German Public Auditor	German Public Auditor

Financial calendar

Financial calendar 2016/2017

Event	Date
Interim Report Q3 2016	November 4, 2016
Report on Q4 2016 and FY 2016	March 2, 2017
Interim report Q1 2017	May 5, 2017
Annual Shareholders' Meeting 2017	May 23, 2017
Interim report Q2 2017	August 3, 2017
Interim report Q3 2017	November 3, 2017

Credits

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