Sustainability analysis of Evonik's business

1. Goal

The sustainability analysis is an extensive evaluation of sustainability signals and takes into account different market signals in the various end markets of our business. As a core element of our sustainability strategy, the results of the sustainability analysis are integrated in the strategic management process. We aim to increase the share of our chemicals portfolio with a positive sustainability profile (Next Generation Solutions) by focusing our capital expenditures to grow businesses with positive sustainability profile and proactively addressing negative sustainability signals.

2. Methodology

Our sustainability analysis is closely based on the principles and content of the WBCSD Portfolio Sustainability Assessments (PSA). Along with other international companies, Evonik has been actively involved in developing these principles since 2017. A Framework for PSA for cross-sector use[1] was published at the end of 2017, and in spring 2018 a sector-specific Chemical Industry Methodology for PSA[2] was published.

The framework for the sustainability analysis comprises the five process steps illustrated in Fig. 1.

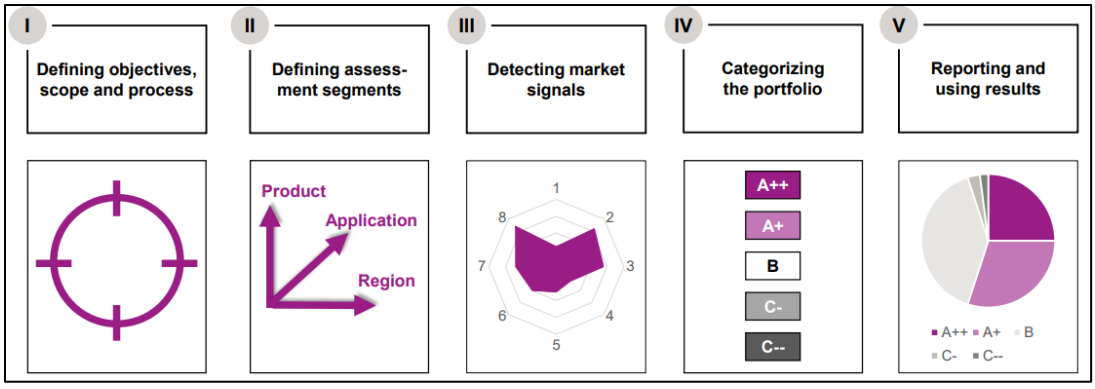

FIGURE 1: PORTFOLIO SUSTAINABILITY ASSESSMENT (PSA)-FRAMEWORK

[1] https://www.wbcsd.org/Projects/Chemicals/Resources/Framework-for-portfolio-sustainability-assessments

[2] https://www.wbcsd.org/Programs/Circular-Economy/Resources/Chemical-Industry-Methodology-for-Portfolio-Sustainability-Assessments

The unit of assessment is defined as so-called Product-Application-Region-Combination (PARC). PARCs group combinations of products, applications and regions for which sustainability performance - in terms of both favorable and unfavorable sustainability signals - is similar[3]. Sustainability signals relate to material ecological or social aspects along the value chain, from the supply chain through production and subsequent use to end of life.

The PSA methodology describes the signal categories of specific relevance for the chemical industry:

1. Chemical hazard and exposure across the life cycle
2. Global regulatory trends
3. Sustainability ambitions in the value chain
4. Authoritative ecolabels
5. Sustainability performance compared to alternative solutions
6. Economic value creation vs. the use of natural capital
7. Contribution the Sustainable Development Goals
8. Company internal guidelines & objectives

The signal categories 1 to 5 are mandatory parts of the PSA methodology, whereas analysis of signal categories 6 to 8 is optional. Evonik follows this approach and evaluates the signal categories 1 to 5 to determine the sustainability performance of our portfolio. The signal categories 6 to 8 are evaluated separately in further analyses as needed.

The findings are used in a structured overall evaluation of the sustainability performance of the PARC, resulting in an allocation to the performance category A++ (Leader), A+ (Driver), B (Performer), C- (Transitioner) or C-- (Challenged). Equal weight is given to all material signals, negative signals are not compensated by positive signals (see Fig. 2).

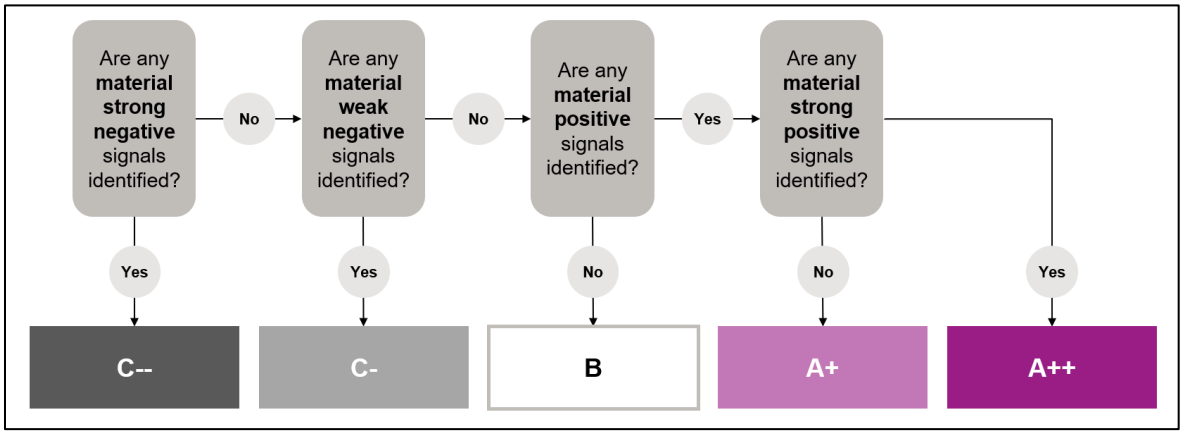

FIGURE 2: DECISION TREE FOR PORTFOLIO CATEGORIZATION

[3] https://www.wbcsd.org/Programs/Circular-Economy/Resources/Chemical-Industry-Methodology-for-Portfolio-Sustainability-Assessments

A++ (Leader):

A++ indicates PARCs that take the lead in meeting the standards for sustainable business defined by Evonik's benchmark. PARCs in the A++ category fully meet the requirements. They do not show any material negative signals. Moreover, material strong positive signals have been identified in one or more signal categories.

A+ (Driver):

A+ indicates PARCs that are at an advanced stage in meeting the standards for sustainable business set by Evonik's benchmark. PARCs in the A+ category meet almost all the requirements. They do not show any material negative signals. Unlike those in the A++ category, however, only material weak positive signals were identified for one or more signal categories.

B (Performer):

B indicates PARCs with a neutral position regarding meeting the standards for sustainable business defined by Evonik's benchmark. For PARCs in this category, neither material negative nor material positive signals have been identified.

C- (Transitioner):

C- indicates PARCs that have room for improvement in meeting the standards for sustainable business defined by Evonik's benchmark. They do not yet meet these requirements. Material weak negative but not material strong negative signals were identified for one or more signal categories.

C-- (Challenged):

C-- indicates PARCs that do not satisfactorily apply the standards for sustainable business set by Evonik's benchmark. PARCs in the C-- category do not meet these requirements. At the same time, they have material strong negative signals in one or more signal categories.

Together, the categories Leader and Driver make up the Next Generation Solutions. Our goal is to substantially increase the proportion of sales generated by our Next generation Solutions.

3. Scope

The sustainability analysis covers all external sales of our chemicals manufacturing divisions. This includes external sales of tolling and custom manufacturing business, but excludes internal sales. The chemicals divisions are supported by the Technology & Infrastructure division, whose sales are mostly internal and make up only a small share of Evonik’s external sales. Since the sustainability

analysis is used for the portfolio steering of our chemicals manufacturing business, the Technology & Infrastructure division is not part of the scope.

4. Processes

There is extensive internal process documentation of the methodology used for our sustainability analysis. In addition to the criteria used in the analysis of our businesses, the documentation defines responsibilities within the organization, the time intervals between analyses, controls, and quality assurance steps. The methodology is based on the following quality principles: relevance, completeness, consistency, transparency, accuracy, feasibility, and topicality. Control procedures include analytical controls, four-eyes principle and documented expert interviews.

Evonik operates in a dynamic competitive environment where markets, technologies, and regulatory conditions are subject to change. Consequently, sustainability requirements are not static. Our sustainability analysis takes into account these rising aspirations and reevaluates sustainability signals for every reporting period.

The analysis uses a variety of Group-wide reporting and analysis tools, e.g., CRM systems, controlling, ESHQ, procurement. In addition, we use business-specific information, e.g., from Sales, Marketing, and Product Development.

We set high standards for the sustainability analysis of our businesses and have therefore arranged for external validation of the methodology through a limited assurance review. We will continue to develop our methodology in keeping with the objectives of our sustainability analysis.