FINANCIAL REPORT 2020

Leading Beyond Chemistry

Key figures for the Evonik Group

T01

in € million	2016	2017	2018[a]	2019[a]	2020
Sales	12,732	14,383	13,267	13,108	12,199
Research and development expenses	438	476	437	428	433
Adjusted EBITDA[b]	2,165	2,357	2,150	2,153	1,906
Adjusted EBITDA margin in %	17.0	16.4	16.2	16.4	15.6
Adjusted EBIT[c]	1,448	1,486	1,361	1,201	890
Income before financial result and income taxes (EBIT)	1,298	1,225	1,049	1,086	819
ROCE[d] in %	14.0	11.2	10.2	8.6	6.1
Net income	844	713	932	2,106	465
Adjusted net income	930	1,007	1,014	902	640
Earnings per share in €	1.81	1.53	2.00	4.52	1.00
Adjusted earnings per share in €	1.99	2.16	2.18	1.94	1.37
Total assets as of December 31	19,645	19,940	20,282	22,023	20,897
Equity ratio as of December 31 in %	39.5	37.7	38.6	41.1	38.8
Cash flow from operating activities	1,769	1,551	1,760	1,321	1,727
Cash flow from operating activities, continuing operations	1,769	1,551	1,474	1,352	1,736
Cash outflows for investments in intangible assets, property, plant and equipment[e]	948	1,040	948	880	956
Free cash flow[f] (after tax payments relating to the carve-out of the methacrylates business)	821	511	526	472	780
Free cash flow before tax payments relating to the carve-out of the methacrylates business	821	511	526	717	780
Net financial assets/debt as of December 31	1,111	−3,023	−2,907	−2,141	−2,886
Accident frequency[g]	1.24	1.16	0.87	1.18	0.80
Incident frequency[h]	0.95	1.11	1.08	1.10	1.45
No. of employees as of December 31	34,351	36,523	32,623	32,423	33,106

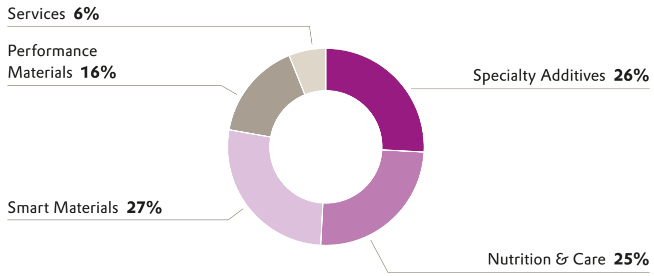
Prior-year figures restated.

[a] The methacrylates business was presented as a discontinued operation until its divestment on July 31, 2019.
[b] Earnings before financial result, taxes, depreciation, and amortization, after adjustments, continuing operations.
[c] Earnings before financial result and taxes, after adjustments, continuing operations.
[d] Return on capital employed.
[e] Investments in intangible assets, property, plant and equipment, continuing operations.
[f] Cash flow from operating activities, continuing operations, less cash outflows for capital expenditures on intangible assets, property, plant and equipment.
[g] Number of work-related accidents involving Evonik employees and contractors under Evonik's direct supervision, per 1 million working hours.
[h] Number of incidents in production plants involving the release of substances or energy, fire or explosion per 1 million working hours.

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

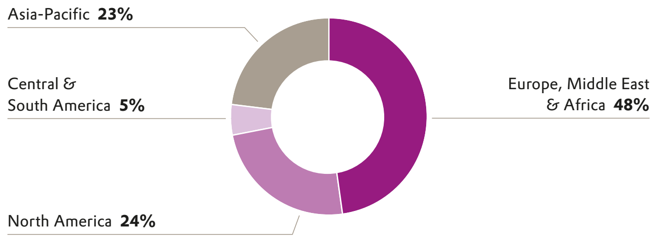
Sales by segment

C01



Sales by region[a]

C02



[a] By location of customer.

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Our brand identity

PERFORMANCE PLEDGE

What performance does the Evonik brand promise to deliver?

LEADING BEYOND CHEMISTRY

CAPABILITIES

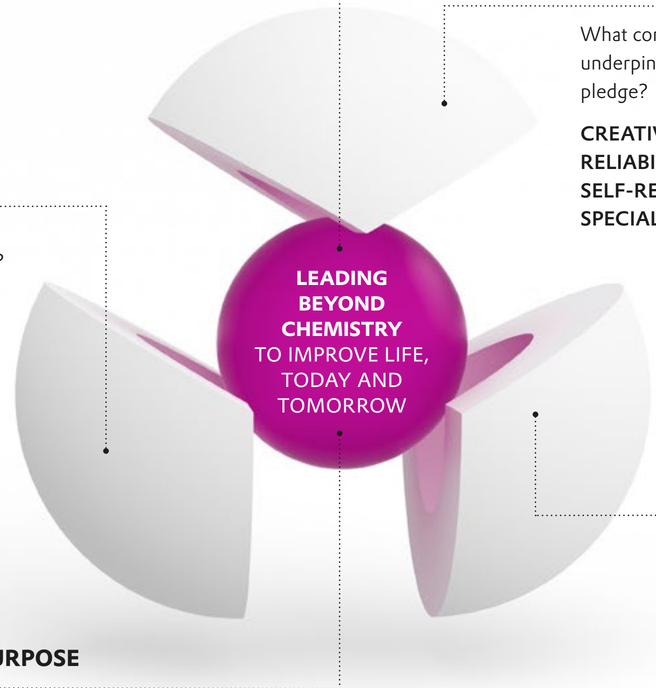
What core competencies underpin our performance pledge?

CREATIVITY
RELIABILITY
SELF-RENEWAL
SPECIALIZATION

PERSONALITY

What approach makes our performance pledge credible?

BOLD
POWERFUL
SELF-ASSURED
STRAIGHTFORWARD



VALUES

How must we work together to deliver on our performance pledge?

OPENNESS
PERFORMANCE
SPEED
TRUST

PURPOSE

Why does Evonik exist?

LEADING BEYOND CHEMISTRY TO IMPROVE LIFE, TODAY AND TOMORROW

Here at Evonik, we stand for diversity, agility, sustainability.

ABOVE ALL, WE MAKE THINGS BETTER. Whether it's in Marl, Mobile or Shanghai, over 32,000 employees around the world are united by a shared ambition: No product is so perfect that it can't be made even better. That's why we go beyond chemistry, transcend the boundaries of disciplines and units, connect knowledge and people. To make us the number one in specialty chemicals—and to make people's lives better. Day after day. Today and tomorrow.

THE AIM IS AMBITIOUS—OF COURSE. CAN WE ACHIEVE IT? ABSOLUTELY! Because we are Evonik—where people come together to shape the future collaboratively, with curiosity, courage, and passion. We set off together toward destinations we don't even know of today. We're very close to our customers in the most promising markets, from animal feed to mobility, energy generation to 3D printing.

TO REACH OUR GOALS WE GET DOWN TO WORK. We systematically focus on our operational business. And we've ensured that today we can say, "We are ONE Evonik, brought together under one roof, with a shared strategy and a shared culture. Our corporate culture, based on our values—performance, trust, openness, and speed—is helping us get where we want to go: to the top."

Sustainability is a key element in our corporate strategy

We create sustainable solutions that add value for our customers

Sustainability is the heart of our market proposition and our corporate purpose: Leading beyond chemistry to improve life, today and tomorrow.

We focus on foresighted resource management

As part of our sustainability and climate strategy, we have set ambitious goals, which we systematically implement.

We are aligning our portfolio to sustainability

The transparency resulting from the sustainability analysis of our business helps to improve the quality of our portfolio.

We are future-proofing Evonik

Sustainability is an important criterion in our investments, innovations, and acquisitions.

For further information, see the sustainability section on p. 45 ff. and the current sustainability report www.evonik.com/sustainability-report

The new chemicals divisions

GROWTH

EFFICIENCY

SPECIALTY ADDITIVES

The Specialty Additives division combines the business of high-performance additives and versatile crosslinkers. Small input—major effect: This is how our specialties make the difference, for end products becoming more valuable, more durable, more energy-efficient and in many ways simply better.

NUTRITION & CARE

In the new Nutrition & Care division, everything revolves around human well-being—around health and the quality of life. All products are used directly on, or in humans or animals. They are functional actives, not simply materials.

SMART MATERIALS

The Smart Materials division supplies high-performance materials for environment-friendly and energy-efficient systems to the automotive, paints, coatings, adhesives, and construction industries, and many other sectors.

PERFORMANCE MATERIALS

The forever young classics of the Performance Materials division stand for products and technologies that we continuously improve. They are the basis for many modern applications, for example, in the areas of mobility, nutrition, pharmaceuticals, and plastics.

	Specialty Additives	Nutrition & Care	Smart Materials	Performance Materials
SALES	€3,225 million	€2,992 million	€3,235 million	€1,983 million
ADJUSTED EBITDA	€857 million	€560 million	€529 million	€88 million

Evonik held up well in a challenging environment and is focused on growth in 2021

- Business development in the **growth divisions** largely stable despite the coronavirus pandemic
- **Forecast for 2020 achieved;** free cash flow **above** the forecast level
- **Adjusted EBITDA** decreased only by 11 percent thanks to the good performance by the growth divisions and successful cost savings
- **Net income** below the prior-year figure, which was dominated by the divestment of the methacrylates business
- **Free cash flow** improved significantly; very good cash conversion rate of 41 percent
- **Outlook for 2021:** higher adjusted EBITDA of between €2.0 billion and €2.3 billion and another very good cash conversion rate expected

KEY FIGURES

Sales

€ **12.2** billion
(–7% year-on-year)

Adjusted EBITDA

€ **1,906** million
(2019: €2,153 million)

Net income

€ **465** million
(2019: €2,106 million)

Free cash flow

€ **780** million
(2019: €472 million)

Letter from the chairman of the executive board

Ladies and Gentlemen,

It is said that true character is revealed in a crisis. Our employees have shown real character over the past year. They have demonstrated impressively what we stand for: reliability, trust, quality, and progress. We have stood up to this global crisis—and we are continuing to do so. We have rolled up our sleeves and stayed on course, despite the uncertainty and instability of the global economic environment. That makes me proud.

We were one of the few companies that had the courage to issue earnings guidance in May, shortly after the outbreak of the crisis—and we actually achieved that forecast during the year. We deliver on our promises. Even in challenging times. Reliably, year after year.

Adjusted earnings before financial result, taxes, depreciation, and amortization came in at €1.9 billion, exactly in the middle of the range we forecast in May. Sales were €12.2 billion, around 7 percent lower than in the previous year. However, that was a very respectable result in the context of the most serious economic crisis since the second world war. Our free cash flow was really good: At €780 million, it was well above the prior-year level.

We do not intend to reduce our dividend. At the annual shareholders' meeting, the executive board and supervisory board will once again propose a stable and attractive dividend of €1.15 per share for 2020.

Overall, our specialty chemicals portfolio proved robust in this exceptionally difficult year. By activating existing pandemic plans and rapidly introducing extensive precautionary measures, we were able to protect the health of our employees, which has top priority at all times, and ensure the reliable functioning of our digital infrastructure.

Our new divisions, which are even more clearly focused on our markets, have proven their worth. They are more balanced in terms of the size and profitability of their business and can be managed more easily thanks to a clearer alignment to technology platforms. That is borne out by their good performance and stability in 2020.

Logistics and supply chains were exposed to special challenges during the year. Thanks to our global network of reliable partners, we coped well with the challenges and were able to maintain production throughout the world.

That was not easy, especially considering what the pandemic means for all of us personally. Many of our employees surpassed themselves and literally kept Evonik up and running. The experience we have been through together increases our solidarity.

We are making rapid progress with the integration of our most recent investments: the acquisition of the US company PeroxyChem, which was successfully closed in 2020, and the acquisition of catalysts specialist Porocel, which we successfully completed at the end of the year. Both have been integrated into the Smart Materials division.

Transformation also includes moving out of cyclical businesses, provided that the conditions are right. Consequently, we are preparing to carve out the Baby Care business line to facilitate the refocusing of the superabsorbents business with a partner or a new owner.

To strengthen our market position, we also had to make a strategic decision about the amino acids business. We are optimizing our asset strategy to ensure profitable growth in the future. Specifically, that means Evonik will be concentrating its methionine production at three state-of-the-art sites in Asia, Europe, and the USA. These three world-scale facilities use the latest technologies and offer further scope for expansion. That will bring economies of scale and cost savings and strengthen our global cost leadership.

I am convinced that companies that operate responsibly and create value for society will be successful in the long term. And that is precisely what we do. In this context, we achieved a new milestone with the sustainability analysis of our business, which covered our entire chemicals portfolio for the first time. Based on this, we are now integrating sustainability into our strategic management processes. I would specifically like to draw attention to our Next Generation Solutions, which already make up 35 percent of our portfolio. They have very attractive growth rates and offer our customers sustainability benefits that are superior to those offered by our competitors.

Steadily increasing the proportion of such products in our portfolio is an ambitious goal, which we are pursuing, among other things, through research and development. Our innovative capability is evident in important future-oriented areas such as biotechnology and the circular economy, as well as in our collaboration with the pharmaceutical industry on the development of vaccines.

I also regard our purpose—leading beyond chemistry—as the starting point for our aspiration of leading in innovation. With that in mind, we are pooling our competencies and bringing our scientific expertise and proximity to our markets and customers even closer to speed up the development of new solutions and applications.

Our performance over the past year and our trust in our strengths mean that we can look ahead confidently. We have made a good start to 2021. We are back on our growth track and highly motivated. And our sights are firmly set on our goal: Leading beyond chemistry to improve life, today and tomorrow.

CHRISTIAN KULLMANN
Chairman of the Executive Board

The executive board

THOMAS WESSEL
Chief Human Resources Officer

DR. HARALD SCHWAGER
Deputy Chairman of the Executive Board

CHRISTIAN KULLMANN
Chairman of the Executive Board

UTE WOLF
Chief Financial Officer

Evonik on the capital markets

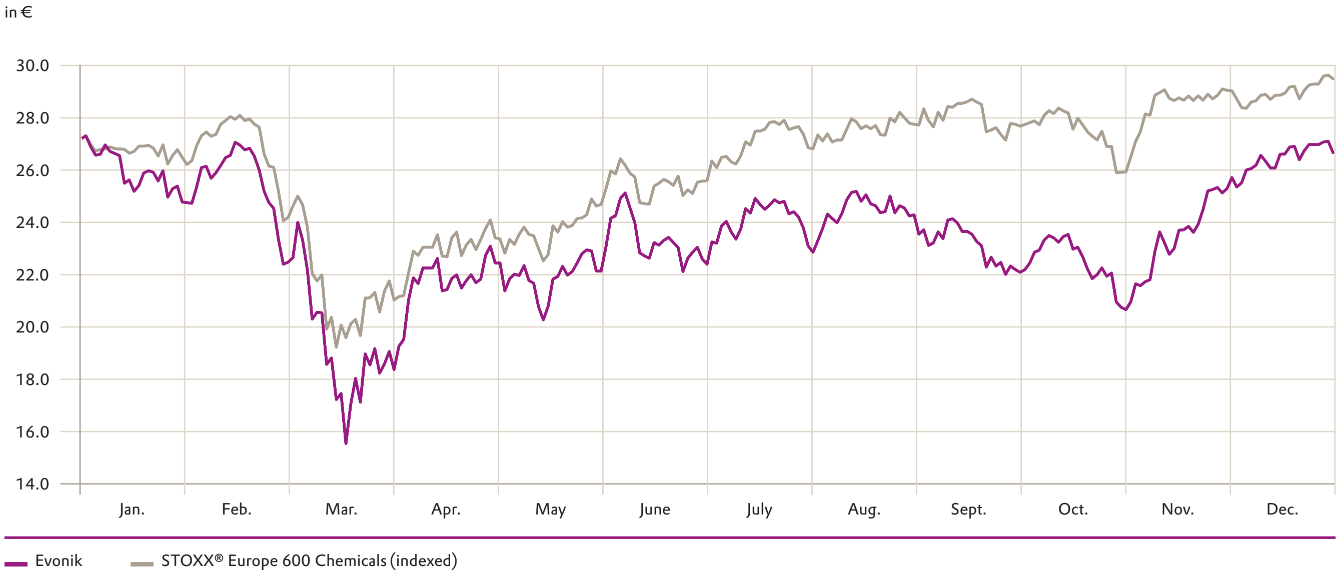
Performance of Evonik shares

For both Evonik shares and the market as a whole, 2020 was dominated to a large extent by the impact of the coronavirus pandemic. Evonik shares started 2020 at around €27 and reached their highest point very early in the year at €27.33 on January 2. From February, the uncertainty caused by the spread of the coronavirus was clearly reflected on the capital markets and also affected Evonik shares. As a result of the coronavirus-driven market downturn, Evonik's share price dropped to a low for the year of €15.55 on March 18.

In the following months, the market was dominated by the development of the pandemic and speculation about a macroeconomic recovery. The re-opening of businesses after the first lockdown and the announcement of the European Green Deal in June ushered in a positive trend. When the Q2 report was published in early August, market sentiment initially remained upbeat. Evonik shares benefited from the confirmation of our EBITDA outlook and the increased free cash flow guidance.

Market conditions subsequently deteriorated again due to mounting uncertainty and the prospect of a second lockdown. Towards the end of the year, positive news about progress with a vaccine against the coronavirus, the US election, and the expectation of a cyclical recovery in 2021 provided a considerable boost to both the overall market and Evonik shares. Evonik shares ended 2020 at €26.68, only a slight loss of around 2 percent over the year. The more broadly based STOXX® Europe 600 Chemicals rose by a good 8 percent in the same period, while the MDAX index gained around 7 percent.

Price performance of Evonik shares January 1 – December 31, 2020 C03



Dividend distribution

Evonik has a long-term dividend policy aligned to continuity and reliability. The executive board and supervisory board originally intended to convene the annual shareholders' meeting on May 27, 2020. Due to the coronavirus pandemic, the annual shareholders' meeting was postponed to August 31, 2020 and held remotely. In view of this, with the consent of the supervisory board, the executive board utilized the scope to make an advance payment of €0.57 (out of the proposed €1.15) in June. The remaining €0.58 was paid at the start of September, following the annual shareholders' meeting.

At the annual shareholders' meeting on June 2, 2021, the executive board and supervisory board will propose the payment of another attractive dividend of €1.15 per share for fiscal 2020.

The total dividend payment would be €536 million, giving a payout ratio of 84 percent based on adjusted net income. The dividend yield of around 4.3 percent remains among the leaders in the chemical industry.

Key data T02

	2020
Highest share price [a] in €	27.33
Lowest share price [a] in €	15.55
Closing price on December 30, 2020 in €	26.68
Market capitalization [a] on December 30, 2020 in € billion	12.43

[a] Xetra trading.

Higher free float

In mid-January 2020, Evonik's majority shareholder, RAG-Stiftung, sold around 5 percent of its shares in Evonik. This contributed to further diversification of the shareholder structure. RAG-Stiftung remains Evonik's largest shareholder with a stake of nearly 59 percent of the capital stock. As of mid-January 2020, the free float was around 41 percent.

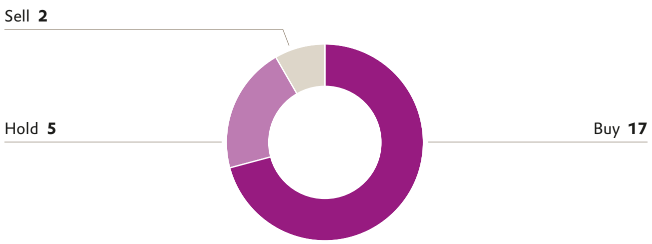
Dialogue with the capital markets

Evonik continued its intensive capital markets communication in 2020. The company gave shareholders and potential investors opportunities to gain impressions and engage in personal discussions at conferences and roadshows around the world, as well as at several private investor events. As a consequence of the coronavirus pandemic, digital formats were used for these events from March. In view of the current situation, the short-term implications of the pandemic for Evonik's business formed a central aspect of communication with the capital markets. In addition, discussions included long-term topics such as the ongoing strategic development of the Evonik Group and the review of its strategic financial targets.

Analysts' valuations of Evonik shares

At the end of 2020, Evonik was covered by 24 analysts. Seventeen of them rated the share as a buy, two as a sell, and five issued "neutral" recommendations. A broad majority of analysts forecast an above-average performance by Evonik shares. The price targets ranged from €20 to €41, giving a median of €28.

Analysts' ratings C04



INVESTOR RELATIONS

For further information on our investor relations activities, visit our website at www.evonik.com/investor-relations. The financial calendar on our website provides a convenient overview of important dates. The website also contains key facts and figures, especially financial and segment data, and details of the company's structure and organization. This is supplemented by information on Evonik shares, the terms of bond issues, and an overview of our credit ratings. Current presentations, analysts' estimates, and reports on our business performance are also available.

Contact: Phone +49 201 177-3146
investor-relations@evonik.com

Solid investment grade rating confirmed

Both Moody's and Standard & Poor's (S&P) confirmed their credit ratings for Evonik Industries AG in 2020. Evonik still has a rating of Baa1 from Moody's and BBB+ from S&P. Therefore, we have a solid investment grade rating. The outlook for the S&P rating is stable. In April 2020, Moody's reduced its outlook for the Baa1 rating from stable to negative.

Inclusion in important sustainability indices

Evonik has established itself among the leaders in the chemicals sector in renowned sustainability ratings such as the MSCI, Sustainalytics, ISS-oekom, CDP, and EcoVadis. It is also represented in a range of SRI funds and sustainability-oriented index families. This good positioning shows that the capital markets reward Evonik's commitment to sustainability.

Basic data on Evonik stock T03

WKN	EVNK01
ISIN	DE000EVNK013
Ticker symbol	EVK
Reuters (Xetra trading)	EVKn.DE
Bloomberg (Xetra trading)	EVK GY
Trading segments	Regulated market (Prime Standard), Frankfurt am Main
Indices	MDAX, MSCI World, STOXX® Europe 600 Chemicals, Dow Jones Sustainability Index Europe, FTSE4Good, STOXX® Global ESG Leaders, Euronext Vigeo Eiris Indices Europe 120 and Eurozone 120

COMBINED MANAGEMENT REPORT

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Combined management report for 2020

This management report is a combined management report for the Evonik Group and Evonik Industries AG.

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

The remuneration report and the takeover-relevant information are printed in the corporate governance chapter **p. 73 ff.** and form part of the audited combined management report. The declaration on corporate governance is also included in the corporate governance chapter **p. 73 ff.** and is available on our website at **www.evonik.com/declaration-on-corporate-governance**. It is an unaudited component of the combined management report. The separate combined non-financial report can be found in the financial report in the supplementary information section **p. 198** and is also available on our website at **www.evonik.com/nonfinancial-report.** It is a non-audited component of the combined management report.

1. Basic information on the Evonik Group

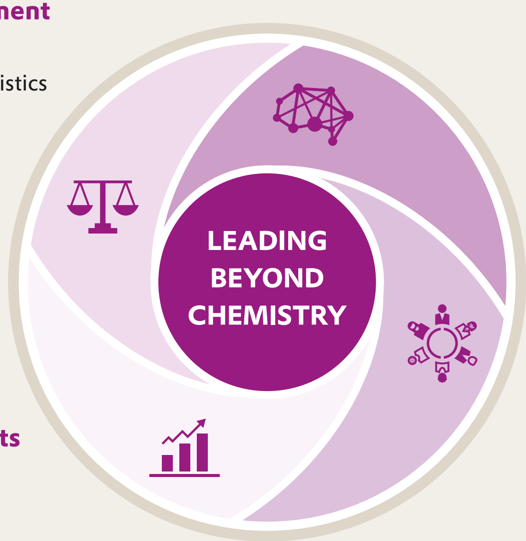
Our strategy

Active portfolio management

- Focus on business with clear specialty chemicals characteristics

Growth driven by innovation and sustainability

- €1 billion additional sales from the innovation growth fields by 2025
- Sustainability integrated into strategic management processes



Ambitious financial targets

- Adjusted EBITDA margin: 18%–20%
- Cash conversion rate: >40%
- ROCE: 11%

Performance-oriented culture

- Fostering performance
- Digital learning formats
- Diversity targets

No end-market accounts for more than **20%** of sales

Around **80%** of sales generated from leading market positions

Production facilities in **27** countries

1.1 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 positions**[1], which we are systematically expanding. Our strong competitive position is based on close collaboration with customers, high innovative capability, and integrated technology platforms.

Our specialty chemicals products make an indispensable contribution to the benefits of our customers' products, which generate their success in global competition. Close cooperation with our customers enables us to build up a **deep knowledge** of their business, so we can offer products tailored to their specifications and extensive technical service. Our technology centers and customer competence centers play an important role in this around the world.

Market-oriented research and development is an important driver of profitable growth. This is based on our strong **innovation culture,** which is rooted in our innovation management and management development. Good ideas are rapidly recognized, driven forward, and implemented with our customers.

Highly trained **employees** are a key success factor. They drive forward Evonik on a daily basis through their hard work and identification with the company. We have therefore developed a wide range of activities to gain and develop talented and qualified employees and to position Evonik as a preferred employer in order to retain them.

Corporate structure effective July 1, 2020 C05

Evonik				
Specialty Additives	**Nutrition & Care**	**Smart Materials**	**Performance Materials**	**Services**
A broad spectrum of additives and crosslinkers and formulating expertise that make the key difference for customers in growth markets such as coatings, mobility, infrastructure, and consumer goods.	Sustainable solutions for basic human needs for resilient end-markets such as pharmaceuticals, personal care, and animal nutrition.	Innovative materials that enable resource-efficient solutions and replace conventional materials. They are the smart answer to the major challenges of our time: the environment, urbanization, energy efficiency, mobility, and health.	Efficient technology platforms for the production of high-volume intermediates for mobility and the plastics and rubber industries as well as superabsorbents for consumer applications.	Site services and group-wide administrative, operational, and technical services.

As preconditions for Evonik's future viability, **sustainable business activities and responsible conduct** are cornerstones of our business model. Foresighted resource management is a key element in our Sustainability Strategy 2020+, which includes ambitious environmental targets and integrating sustainability into our strategic management process. The basis for this is the sustainability analysis of our business, which covered our entire portfolio of chemical products for the first time in 2020. In addition, we will continue to systematically analyze the positive and negative impacts of our business operations along the value chain. Early identification of opportunities and risks increases the resilience of our business model and sharpens understanding of the long-term contribution that our business activities make to society.

New corporate structure

Effective July 1, 2020, we introduced a new **corporate structure.** Our specialty chemicals operations are divided into four chemical manufacturing divisions, which operate close to their markets and customers. The new chemicals divisions—Specialty Additives, Nutrition & Care, Smart Materials, and Performance Materials—are more balanced in terms of size and profitability. Moreover, clearer alignment to the technology platforms allows more selective management. They are supported by our services operations.

The Specialty Additives, Nutrition & Care, and Smart Materials divisions operate principally in attractive markets with above-average growth rates. These three divisions offer customers customized, innovation-driven solutions, and the aim is for them to achieve above-average, profitable growth through innovations, investments, and acquisitions.

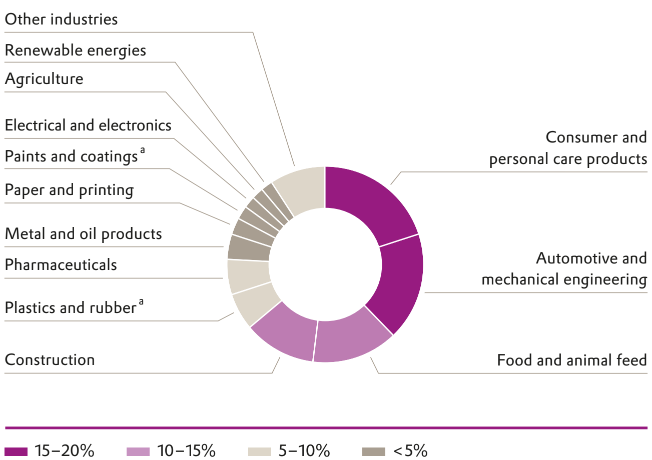
[1] We define these as ranking 1st, 2nd, or 3rd in the relevant markets. Source: Internal evaluations based on 2019.

The Performance Materials division is characterized by processes that make intensive use of energy and raw materials. It therefore concentrates on integrated, cost-optimized technology platforms, efficient workflows, and economies of scale. Our strategic goal for this division is to contribute earnings to finance the growth of the Evonik Group. Investments and, where appropriate, alliances concentrate on securing our good market positions.

Broadly diversified end-markets

Most of our customers are industrial companies that use our products for further processing. The range of markets in which they operate is diverse and balanced. None of these end-markets accounts for more than 20 percent of our sales.

Evonik's end-markets C06



[a] Where not directly assigned to other end-customer industries.

Global production

Evonik has a presence in more than 100 countries, and 83 percent of sales are generated outside Germany. We have production facilities in 27 countries on six continents and are therefore close to our markets and our customers. Our largest production sites, for example, Marl, Wesseling, and Rheinfelden (Germany), Antwerp (Belgium), Mobile (Alabama, USA), Shanghai (China), and Singapore, have integrated technology platforms used by various units.

Integrated technology platforms are a competitive advantage

Our products are manufactured using highly developed technologies that we are constantly refining. Evonik has many integrated production complexes where key precursors are produced in neighboring production facilities. In this way, we offer our customers maximum reliability of supply. At the same time, integrated world-scale production facilities combined with technologically demanding production processes act as high entry barriers.

Digitalization contributes to profitable growth

Evonik started to address the digitalization of production and business processes in the chemical industry and its practical implementation at an early stage. We are actively driving forward the digitalization of our production sites: Antwerp is currently being established as a digital lighthouse location as a model for the digital transformation of other sites.

Our guiding principles for digitalization set out how we intend to embrace people-centric digitalization. We regard digitalization as a group-wide structural task and are networking decentralized initiatives and bundling competencies and methodological knowledge. The role of Evonik Digital GmbH is to identify "uncharted territory" on the Evonik Group's digitalization map. In addition, it promotes the use of digital technologies and data-based innovation processes. Examples include powerful e-commerce solutions and the use of artificial intelligence in research, development, and applications technology. As an overarching topic, digitalization is grouped in four clusters: smart operations, digital business, cognitive solutions, and human work. The aims are to raise efficiency, both at Evonik and along the supply chain, and improve the customer and user experience.

Evonik's IT unit develops, implements, and operates innovative technical solutions to drive forward our digitalization goals. IT and other organizational units work together in interdisciplinary teams that use modern methods to develop digital solutions.

Digital innovations can also pave the way for new business models that help us establish a circular economy, increase product life cycles, and support our endeavors to reduce the consumption of resources at all stages in the value chain. In this way, digitalization is providing new momentum for circular strategies. Topics that the Evonik Group is currently working on include precision livestock farming and chemical leasing.

1.2 Principles and objectives

Building a best-in-class specialty chemicals company

We want to make Evonik a best-in-class specialty chemicals company. This global aspiration is closely linked to our goal of profitable growth. To increase the value of our company, our strategy has three focal areas:

- A more balanced and more specialty portfolio
- Leading in innovation
- An open and performance-oriented culture

Our goal is to step up our focus on businesses with clear specialty chemicals characteristics. To ensure an even better balance within our **portfolio** and to grow where Evonik is already strong but there are especially promising prospects, our strategy concentrates on our three growth divisions: Specialty Additives, Nutrition & Care, and Smart Materials. The focus is on high-quality products and solutions, many of which also offer specific sustainability benefits. An important contribution to managing and driving forward our business comes from the sustainability analysis of our business, which integrates measurable sustainability impacts into the strategic management process.

We allocate our resources carefully to drive forward the development of new and existing products and solutions and for investments and acquisitions, predominantly in our growth divisions. The divisions focus on different markets, but they have one thing in common: They are aligned consistently to delivering innovative solutions for issues and developments of relevance to industry and end-customers in the coming decades.

Innovation is an important driver of profitable growth as it leverages the development of new products and applications. Our focus here is on working intensively with customers and partners along the value chain. Evonik has defined six innovation growth fields[1] that target highly attractive new markets where we can effectively deploy our core competencies.

The third element is a performance-oriented **culture** based on our corporate values: performance, trust, openness, and speed. We initiate change, keep our promises, reward performance and readiness to take risks, and are open to new ideas. We are agile, decisive, and quick to react. We regard ourselves as an international company and see diversity as an opportunity.

Ambitious targets

In keeping with our strategic development and to reflect future growth expectations, we have updated our **mid-term financial targets.** The new targets have a greater focus on growth, returns, and cash generation and therefore play a part in increasing the value of the company. We now expect the average volume growth in the three growth divisions to be more than 3 percent a year. The target return on capital employed (ROCE) is 11 percent, which is well above the cost of capital. Moreover, Evonik aims to achieve a high cash conversion rate[2] of over 40 percent. In addition to these new targets, our existing targets remain valid. They are an adjusted EBITDA margin of between 18 percent and 20 percent, a consistent dividend payment, and a solid investment grade rating.

Financial targets for the Evonik Group T04

Volume growth in the growth divisions	> 3%
Adjusted EBITDA margin	Between 18% and 20%
Free cash flow: cash conversion rate	> 40%
ROCE	11%
Rating	A solid investment grade rating
Dividend	Attractive and reliable

As a responsible specialty chemicals company, we are also continuing to pursue our ambitious **non-financial targets.** We want to remain below our ambitious upper limits for accident frequency and incident frequency.[3] Our target for absolute greenhouse gas emissions[4] is a 50 percent reduction in absolute scope 1 and 2[5] emissions by 2025. The reference base is 2008—the first full year after the establishment of Evonik. This affirms our commitment to the Paris Agreement on Climate Change. We set a new energy target in 2020. The aim is to reduce both absolute and specific[6] energy consumption by 5 percent by 2025. This supports the European goal of reducing energy consumption by 32.5 percent by 2030.

Non-financial targets for the Evonik Group T05

Accident frequency[a] in 2021	Maximum 0.26
Incident frequency[b] in 2021	Maximum 0.40
Absolute scope 1 and 2 CO_2 emissions in 2025	Reduction of 50%[c]
Absolute and specific energy consumption by 2025	Reduction of 5%[d]

[a] Number of work-related accidents (excluding traffic accidents) resulting in absences of at least one full shift per 200,000 working hours.
[b] Number of incidents per 200,000 working hours.
[c] Reference base 2008.
[d] Reference base 2020.

[1] See section 4. Research and development p. 41 ff.
[2] Ratio of free cash flow to adjusted EBITDA.
[3] New definition. See section 5.3 Safety p. 52 f.
[4] See section 5.4 The environment p. 54 ff.
[5] Scope 1 comprises direct energy and process emissions, and scope 2 comprises emissions from purchased electricity and heat. Scope 3 contains indirect emissions such as emissions from the production of purchased raw materials.
[6] Energy consumption by product unit.

1.3 Business management systems

Most important financial key performance indicators

Financial management of Evonik is based on a consistent system of value-oriented indicators. These are used to assess the business performance of the operational units and the Evonik Group. Through systematic alignment to these indicators, Evonik endeavors to create value by raising profitability and ensuring profitable growth.

We use **adjusted EBITDA** (i.e., EBITDA after factoring out special items) as a financial performance indicator. Adjusted EBITDA and the corresponding relative indicator, the adjusted EBITDA margin[1], show operating performance irrespective of the structure of the assets and the investment profile. We use this, in particular, for internal and external comparisons of the cost structure and profitability of our businesses.

The return on capital employed **(ROCE)** is used as a further indicator of value-driven management of the company. It is calculated from adjusted EBIT in relation to average capital employed. Comparison with the cost of capital, which shows the risk-adjusted return expectations of our investors, indicates relative value creation. This is calculated using a weighted average cost of capital, which reflects the return expectations of both shareholders, derived from the capital asset pricing model, and providers of debt capital.

The special items that are factored out when calculating adjusted EBITDA and adjusted EBIT include restructuring, impairment losses/reversals of impairment losses, income and expenses in connection with the purchase/disposal of investments in companies, and other income and expense items that, due to their nature or amount, do not reflect the typical operating business. We consider that the adjusted earnings figures are more suitable than unadjusted data for comparing the performance of operating units over several periods.

We also use **free cash flow** as an operational performance indicator. This is calculated from the cash flow from operating activities, continuing operations, less outflows for capital expenditures on intangible assets, property, plant and equipment. The free cash flow shows the remaining scope for financing. It therefore shows the company's internal financing capacity. In view of the heightened uncertainty about future economic development prevailing at the start of 2020, we introduced the cash conversion rate[2] to enhance management of our business. This shows the proportion of adjusted EBITDA that is converted into free cash flow.

Most important non-financial key performance indicators

Evonik also uses a wide variety of non-financial performance indicators. Traditionally, we accord special significance to safety, which is regarded as a holistic management task that has to be lived at all management levels. Our guiding principles for safety are binding for staff at all levels. In accordance with corporate policy, all operating units at Evonik have an occupational safety target. In addition, all production units have a plant safety target. The relevant indicators are **accident frequency** and **incident frequency.**[3]

[1] Ratio of adjusted EBITDA to sales.
[2] Defined as the ratio of free cash flow to adjusted EBITDA.
[3] See section 5.3 Safety p. 52 f.

2. Business review

Evonik held up well in a challenging environment

STRATEGIC FOCUS

- New corporate structure introduced
- Investments to strengthen our market position
- Acquisitions to strengthen the growth divisions
- Efficiency enhancement and cost-cutting programs

CORPORATE OBJECTIVE: PROFITABLE GROWTH

OPERATIONAL FOCUS

- Perceptible drop in demand due to recession
- Revised forecast achieved
- Adjusted EBITDA down slightly year-on-year
- Higher free cash flow
- Very good financial profile
- Adjusted EBITDA margin and ROCE still below target

€1,906 million
adjusted EBITDA

15.6%
adjusted EBITDA margin

€780 million
free cash flow

2.1 Overall assessment of the economic situation

We successfully drove forward the **strategic** development of Evonik in 2020, despite the coronavirus pandemic. In the new corporate structure introduced on July 1, 2020, the chemicals divisions—Specialty Additives, Nutrition & Care, Smart Materials, and Performance Materials— are easier to manage thanks to a clearer alignment to technology platforms. Moreover, their size and profitability are more balanced. At the same time, we streamlined our legal entity structures and optimized our administrative structures.

Major **investments** at our site in Marl (Germany)—for example, the construction of a large production complex for the specialty polymer polyamide 12 and construction of two modern gas and steam turbine power plants—proceeded on schedule. We strengthened the Smart Materials growth division by acquiring the US companies PeroxyChem and Porocel. The acquisition of Wilshire Technologies and the LACTEL® business supports the growth businesses in the Nutrition & Care division.[1]

Since global economic conditions will remain challenging in the future, we are steadily working to enhance efficiency and make our structures leaner. We are making very good progress with the **SG&A 2020**[2] program introduced at the end of 2017 to optimize processes globally and achieve a lasting reduction of €200 million in selling and administrative expenses by 2021. In addition, we are working hard on other programs to raise efficiency. We expect additional impetus to come from the cultural change towards a more open, performance-oriented **corporate culture.**

Our **operating** performance was held back by the impact of the coronavirus pandemic. As a result of the recession, we registered a perceptible weakening of demand throughout the world, especially in some customer industries such as the automotive and fuel industries. In view of the economic uncertainty, we reduced our forecast after the first quarter. Since our performance in the third quarter was better than expected, we gave more specific guidance on adjusted EBITDA and raised our forecast for free cash flow. Our free cash flow was well above the revised forecast, while the other indicators achieved the forecast levels. Group sales declined by 7 percent to €12,199 million due to slightly lower volumes and selling prices, and negative currency effects.

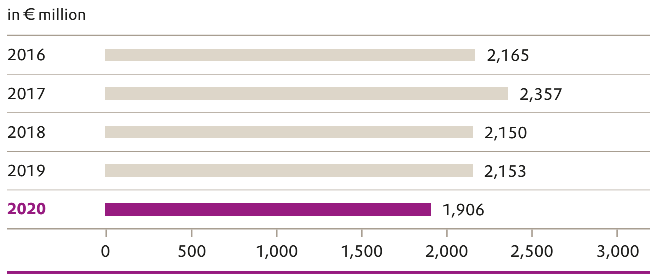
Adjusted EBITDA contracted by 11 percent to €1,906 million. Positive effects came from the cost-saving measures and the initial consolidation of PeroxyChem. The **adjusted EBITDA margin** dropped to 15.6 percent (2019: 16.4 percent) and was therefore below the target mid-term range of between 18 percent and 20 percent. **ROCE** declined, principally as a consequence of lower adjusted EBIT, accompanied by an increase in capital employed to 6.1 percent. ROCE was therefore below the cost of capital and our mid-term target.

Net income was €465 million. That was considerably below the high prior-year figure, which contained the income from the divestment of the methacrylates business. After adjustment for special items, net income, continuing operations, was 29 percent lower at €640 million. At the annual shareholders' meeting, the executive board and supervisory board will again propose a dividend of €1.15 per share.

We generated a high **free cash flow** of €780 million. The very good cash conversion rate of 41 percent shows the proportion of adjusted EBITDA that can be converted into cash.

Our **financial profile** is still very good: Evonik has a solid investment grade rating. Net financial debt increased as a consequence of the acquisitions but is still at a solid level. In addition to sufficient liquidity, we have adequate unutilized credit facilities.

Development of adjusted EBITDA in the Evonik Group C07



The figures for 2016 and 2017 contain the methacrylates business, which was divested in July 2019.

[1] For information on the acquisitions, see note 4.2 to the consolidated financial statements p. 116 ff.
[2] See section 2.4 Business conditions and performance p. 21 ff.

2.2 Economic background

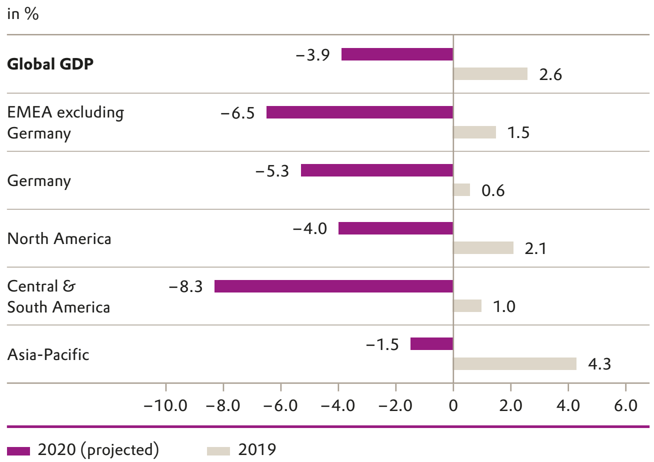
Global economy hit by the coronavirus pandemic

The development of **global economic conditions** was considerably poorer than we had anticipated at the start of the year. We estimate that the global economy shrank by around 3.9 percent in 2020. Following growth of 2.6 percent in 2019, at the start of 2020, we assumed growth of 2.5 percent over the year

The global economy was dominated by the coronavirus pandemic. In particular, the measures to check its worldwide spread had a significant impact on demand and supply patterns, above all in the service sector. This led to a historic drop in economic output, especially in March and April, followed by a strong global economic recovery, especially in the third quarter. Nevertheless, it was still below the pre-crisis level at year-end. Registration of several coronavirus vaccines at the end of the year brought an improvement in business sentiment. Overall, the dynamic development of the pandemic led to enormous economic uncertainty. In the reporting period, the global economy was also affected by the ongoing trade conflicts and further uncertainty caused by the threat of a hard Brexit at the end of the year. The economic effects of the pandemic were mitigated by accommodative monetary and fiscal policies.

The coronavirus pandemic left its mark on economic development in all **regions,** although the impact varied. Europe was very badly affected by the pandemic in both the spring and the fall, with many countries adopting far-reaching measures to contain the virus. This had a massive impact on economic performance, particularly in countries with a strong focus on the service sector, especially travel and hospitality. By contrast, countries where industry makes up a higher proportion of the economy registered

Development of GDP 2019/2020 C08



lower declines. In some cases, they were able to benefit from stable export demand, especially in the second half of the year. In response to the pandemic, the European Central Bank increased its bond purchases and set up a reconstruction fund. In this way, it was able to alleviate the short-term economic effects.

North America, and especially the USA, was also badly affected by the pandemic in 2020 but did not impose such strict measures to contain it as, for example, Europe. Moreover, the Fed supported the economy by purchasing bonds and cutting the key interest rate to 0.25 percent. Additional fiscal policy measures stimulated the economy and, above all, consumer spending.

The pandemic also had a massive effect in Central & South America. Countries in this region took less extensive action to support the economy than the developed economies, so economic output declined sharply. In addition, falling raw material prices at the start of the pandemic reduced the income of export-oriented raw material suppliers. Following the interest rate cuts in the USA, many central banks in Central & South America were able to cut rates to mitigate the economic effects of the crisis.

The impact of the pandemic on the Asia-Pacific region was comparatively low, so the reduction in economic output was lowest in this region. Some countries such as China and Vietnam were even able to report economic growth. In addition to the pandemic, the Chinese economy was negatively affected by the trade conflict with the USA.

Weaker development of end-customer industries

Worldwide, the development and sector of Evonik's **end-customer industries** differed by region and sector in 2020. Global industrial output declined year-on-year.

Demand for hygiene and personal care products was stable and actually rose in some cases during the pandemic. The food and feed industries registered slight growth in the Asia-Pacific region, while demand stagnated in the other regions. By contrast, automotive and mechanical engineering output declined considerably in all regions. Demand was robust in the construction sector. Raw material prices dropped sharply in 2020, especially in the early phase of the pandemic in March and April. In particular, prices for fossil-based feedstocks declined in line with the oil price. Prices picked up slowly between May and year-end. In 2020 as a whole, the Evonik raw material price index was lower than in the previous year.

The average annual exchange rate for the euro against Evonik's most important currency—the US dollar—increased to US$1.15, compared with an average exchange rate of US$1.12 in the previous year.

2.3 Major events

The coronavirus pandemic spread during 2020. Evonik took the necessary precautions to protect its employees at an early stage in order to prevent the virus from spreading within the company while continuing to operate as best possible. We are continuing to analyze the present situation on a daily basis so that we can take timely action.

Our business performance in 2020 was hampered considerably by the effects of the coronavirus pandemic. We registered a significant drop in demand worldwide as a result of the recession, especially in some customer industries such as the automotive and fuel industries. We monitor the current development of our business activities with the aid of a dashboard, which focuses on how our liquidity is affected. Our supply chains have remained intact, and we have sufficient liquidity, as well as firmly committed credit facilities that have not yet been utilized.

Effective July 1, 2020, we introduced a new corporate structure. The prior-year data have been restated accordingly. The new chemicals divisions—Specialty Additives, Nutrition & Care, Smart Materials, and Performance Materials—are more balanced in terms of size and profitability. Moreover, clearer alignment to the technology platforms allows more selective management. At the same time, we streamlined our legal entity structures and optimized our administrative functions.

To strengthen the catalysts business in the Smart Materials division, Evonik acquired the Porocel Group, Wilmington (Delaware, USA) in November 2020. Porocel offers a technology for highly efficient rejuvenation of desulfurization catalysts, which are in increasing demand in the growing market for low-sulfur fuel. The Porocel technology offers customers a considerable CO_2 reduction compared with newly produced catalysts with comparable efficacy, as well as clear cost benefits.[1]

In November 2018, Evonik signed an agreement to acquire PeroxyChem, Philadelphia (Pennsylvania, USA) from One Equity Partners, Chicago (Illinois, USA). PeroxyChem is a manufacturer of hydrogen peroxide and peracetic acid. The acquisition was initially delayed because the Federal Trade Commission (FTC) in the USA filed a lawsuit to block the transaction. The lawsuit was dismissed in January 2020, and the acquisition was then closed on February 3, 2020.

2.4 Business conditions and performance

Sales lower than in the prior year

The Evonik Group's sales slipped 7 percent to €12,199 million, principally as a result of the impact of the coronavirus pandemic. The decline resulted from lower volumes and selling prices as well as negative currency effects. By contrast, the initial consolidation of PeroxyChem, which we acquired in February 2020, had a positive effect.

Change in sales 2020 versus 2019 T06

in %	
Volumes	–3
Prices	–3
Organic sales growth	**–6**
Exchange rates	–2
Portfolio/other effects	1
Total	**–7**

Lower adjusted EBITDA

Adjusted EBITDA was also adversely affected by the coronavirus pandemic, resulting in a drop of 11 percent to €1,906 million. This was mainly due to a reduction in volumes and lower selling prices. Positive effects came from cost-cutting measures and the initial consolidation of PeroxyChem. The adjusted EBITDA margin was 15.6 percent, down from 16.4 percent in the previous year.

Adjusted EBITDA by segment T07

in € million	2019	2020	Change in %
Specialty Additives	886	857	–3
Nutrition & Care	462	560	21
Smart Materials	651	529	–19
Performance Materials	248	88	–65
Services	122	92	–25
Corporate, other operations, including consolidation	–216	–220	–2
Evonik	**2,153**	**1,906**	**–11**

Prior-year figures restated.

The performance of the segments differed. The Nutrition & Care division lifted earnings thanks to high demand, and the Specialty Additives division held earnings at the previous year's good level. By contrast, the Smart Materials and Performance Materials divisions posted considerably lower earnings due, respectively, to volume effects and a combination of price and volume effects. The contribution made by the Services segment was also down year-on-year. The adjusted EBITDA reported by corporate, other operations, including consolidation, contains, among other things, expenses for the corporate center and strategic research.

[1] See note 4.2 to the consolidated financial statements p. 116 ff.

The **adjustments** totaled –€71 million, compared with –€115 million in 2019. The restructuring expenses related mainly to the shutdown of a production facility in the Nutrition & Care division and the SG&A 2020 program to reduce selling and administrative expenses. The expenses for the acquisition/divestment of shareholdings related principally to the acquisition and integration of PeroxyChem and Porocel.[1] The prior-year adjustments principally comprised an impairment loss on the coal-fired power plant in Marl (Germany), which is to be replaced by a new natural gas-fired plant in 2022, and project expenses in connection with the divestment of the methacrylates business and the acquisition of PeroxyChem.

The **financial result** of –€135 million contained special items of €11 million, principally for interest in connection with the end of a legal dispute relating to the sale of a plot of land in a previous period. The prior-year figure contained special items of €53 million from the reversal of provisions. The adjusted financial result improved from €185 million to €146 million as a result of lower interest expense. **Income before income taxes, continuing operations,** declined by 28 percent to €684 million. The income tax rate on the continuing operations was 26 percent, and the adjusted income tax rate was 27 percent. In the prior-year period, they were only 19 percent and 20 percent, respectively, as a result of one-time effects from the remeasurement of deferred taxes. Income after taxes, discontinued operations, amounted to –€24 million and comprised post-divestment expenses, mainly for the methacrylates business, which was sold in July 2019. The prior-year figure of €1,353 million contained the operating income and, above all, the proceeds from the divestment of the methacrylates business. **Net income** was €465 million, significantly below the prior-year level, which was dominated by the divestment gains.

Sales and reconciliation from adjusted EBITDA to net income T08

in € million	2019	2020	Change in %
Sales	**13,108**	**12,199**	**–7**
Adjusted EBITDA	**2,153**	**1,906**	**–11**
Adjusted depreciation, amortization, and impairment losses	–952	–1,016	
Adjusted EBIT	**1,201**	**890**	**–26**
Adjustments	–115	–71	
thereof restructuring	–18	–14	
thereof impairment losses/reversals of impairment losses	–47	4	
thereof acquisition/divestment of shareholdings	–30	–37	
thereof other	–20	–24	
Income before financial result and income taxes, continuing operations (EBIT)	**1,086**	**819**	**–25**
Financial result	–132	–135	
Income before income taxes, continuing operations	**954**	**684**	**–28**
Income taxes	–180	–181	
Income after taxes, continuing operations	**774**	**503**	**–35**
Income after taxes, discontinued operations	1,353	–24	
Income after taxes	**2,127**	**479**	**–77**
thereof income attributable to non-controlling interests	21	14	
Net income	**2,106**	**465**	**–78**
Earnings per share	**4.52**	**1.00**	

[1] See note 4.2 to the consolidated financial statements p. 116 ff.

We use **adjusted net income** to assess the earnings power of the continuing operations, especially on a long-term view, and to forecast future development. The calculation starts from EBITDA after adjustment for special items[1]. The financial result is then adjusted for income and expenses in connection with the purchase/disposal of equity investments and other income and expense items that, by nature or amount, do not form part of typical current financing activities. Further, we deduct amortization of intangible assets, which mainly results from acquisitions, and adjust income tax for taxes on special items.

Adjusted net income dropped by 29 percent to €640 million in 2020, while adjusted earnings per share declined from €1.94 to €1.37.

Reconciliation to adjusted net income T09

in € million	2019	2020	Change in %
Adjusted EBITDA	**2,153**	**1,906**	**–11**
Adjusted depreciation, amortization, and impairment losses	–952	–1,016	
Adjusted EBIT	**1,201**	**890**	**–26**
Adjusted financial result	–185	–146	
Amortization and impairment losses on intangible assets	136	149	
Adjusted income before income taxes[a]	**1,152**	**893**	**–22**
Adjusted income taxes	–229	–239	
Adjusted income after taxes[a]	**923**	**654**	**–29**
thereof adjusted income attributable to non-controlling interests	21	14	
Adjusted net income[a]	**902**	**640**	**–29**
Adjusted earnings per share in €[a]	**1.94**	**1.37**	

[a] Continuing operations.

Cost-saving programs exceeded targets again in 2020

To support our financial targets, especially the improvement in the adjusted EBITDA margin, we introduced the **SG&A 2020** program in November 2017. The aim is to achieve a lasting reduction of €200 million in selling and administrative expenses by 2021. The target of €50 million set for 2020 was exceeded by almost €10 million. Measures have been identified for all savings still required to meet the overall target of €200 million and their earnings impact in 2021 is certain.

The measures implemented as part of the program of continuous improvements to enhance process efficiency, especially in production, exceeded the target savings of €120 million in 2020. In addition, travel expenses fell by about €60 million due to the pandemic-related restrictions on travel and events.

Efficient and effective procurement

Procurement is organized globally at Evonik and comprises direct procurement (raw materials, logistics, and packaging) and indirect procurement (goods and services) for strategic activities. This is supplemented by operational sourcing, which is also subdivided into direct and indirect procurement. Reliable supply, gaining access to new procurement markets, and ongoing optimization of material costs are key tasks for our procurement function.

The production shortfalls and logistics restrictions resulting from the coronavirus pandemic adversely affected the availability of raw materials in 2020. Nevertheless, the contraction of global economic activity and the related reduction in demand for raw materials resulted in lower average annual raw material prices compared with 2019. However, raw material prices picked up at year-end 2020 as demand rose, while the availability of materials remained limited. In addition to the higher demand, raw material shortages in the chemical value chain were caused by a number of technical problems on the supply side and massive optimization of inventories throughout the industry. In addition, the sharp reduction in the availability of freight space resulted in a noticeable shortage of raw materials in the supply chain. To ensure that the procurement function is even better prepared for disruptive events in the future, the department responsible for sourcing raw material and the chemicals units conducted a project on the resilience of the value chain. There are plans to extend this procedure to Evonik's key products. Another priority was the development of initial measures to reduce the CO_2 emissions of raw materials.

[1] See section 1.3 Business management systems p. 17.

Procurement activities for the new polyamide 12 facility in Marl (Germany) were a focal area of indirect procurement in 2020. In addition, harmonization and standardization initiatives were driven forward, for example, in the area of personal protective equipment. Other activities concentrated on using new digital solutions to step up automation of operational tasks and increase the value contributed to strategic operations. Examples are optical character recognition (OCR) and a workflow system to automate the receipt and processing of order confirmations.

As well as participating in procurement alliances with other companies and validating new suppliers, we are continuing our intensive efforts to extend strategic supplier relationships with a focus on risk mitigation, cost improvements, cooperation, and innovation.

In 2020, Evonik spent around €8.0 billion on raw materials and supplies, technical goods, services, energy, and other operating supplies. Raw materials make up around 50 percent of procurement volume. Spending on fossil-based raw materials is around €2.5 billion and accounts for 60 percent of our raw material base. Using renewable resources remains very important to Evonik. In 2020, renewables accounted for around 8.5 percent of raw materials. The main applications for these raw materials are amino acids and starting products for the cosmetics industry.

Return on capital employed lower than in previous year

Within our value-oriented management approach, our success is measured principally by **ROCE,** which was 6.1 percent in 2020 and therefore below our cost of capital, which was 9.0 percent before taxes.[1]

Capital employed, ROCE, and economic value added (EVA®) T10

in € million	2019	2020
Intangible assets	5,883	5,989
+ Property, plant and equipment	6,333	6,534
+ Right-of-use assets	489	662
+ Investments	40	65
+ Inventories	2,032	1,944
+ Trade accounts receivable	1,626	1,524
+ Other interest-free assets	421	460
– Interest-free provisions	–845	–718
– Trade accounts payable	–1,326	–1,239
– Other interest-free liabilities	–618	–621
= Capital employed[a]	**14,035**	**14,600**
Adjusted EBIT	**1,201**	**890**
ROCE (adjusted EBIT/capital employed) in %	**8.6**	**6.1**
Cost of capital (capital employed x WACC)	1,263	1,314
EVA® (adjusted EBIT – cost of capital)	**–62**	**–424**

Prior-year figures restated.
[a] Annual averages in each case.

The average **capital employed** increased by €0.6 billion to €14.6 billion. The main factors here were the acquisition of PeroxyChem and Porocel and capital expenditures for our operating business. The Evonik Group's ROCE declined in 2020 as a result of the lower adjusted EBIT and higher average capital employed. While ROCE improved in the Nutrition & Care division and was around the prior-year level in the Specialty Additives division, it declined significantly in the other two divisions. As in the previous year, ROCE in the Specialty Additives division was above-average and well above the cost of capital.

ROCE by segment T11

in %	2019	2020
Specialty Additives	16.3	16.1
Nutrition & Care	5.8	7.7
Smart Materials	11.9	6.4
Performance Materials	9.0	–3.5
Services	–5.0	–7.4
Evonik (including corporate, other operations)	**8.6**	**6.1**

Prior-year figures restated.

EVA® lower than in the previous year

Economic value added **(EVA®)** is the difference between adjusted EBIT and the cost of capital, which is calculated by multiplying average capital employed by the average cost of capital (WACC). EVA® was –€424 million in 2020. The year-on-year decline of €362 million was mainly due to the lower operating result.

[1] To enhance comparability, this rate has also been applied to the cost of capital in 2019.

2.5 Comparison of forecast and actual performance

The forecast we issued at the start of the year was revised downward for almost all financial indicators in early May 2020 because of the faster than expected spread of the coronavirus and the resulting impact on the global economy. Since our business performance in the third quarter was better than expected, at the start of November, we gave more specific guidance for adjusted EBITDA and raised our forecast for free cash flow.

We achieved our revised forecast for adjusted EBITDA in 2020. Adjusted EBITDA declined by 11 percent to €1,906 million, which was exactly within the projected range. The cash conversion rate, which we now use to manage the free cash flow, improved to 41 percent, which was above the increased forecast. The free cash flow rose to €780 million, which was above both the increased forecast and the prior-year figure. Sales were down 7 percent year-on-year at €12.2 billion and therefore in line with the adjusted forecast. ROCE declined to 6.1 percent in 2020, mainly because earnings were lower. It was therefore well below the cost of capital and the prior-year figure, as had been expected since May. Cash outflows for investments in intangible assets, property, plant and equipment were €956 million, which was above the forecast level, partly due to higher costs as a consequence of the coronavirus pandemic.

Turning to our non-financial indicators, accident frequency was well below the upper limit. We did not meet our target for incident frequency in 2020, partly due to the inclusion of newly acquired sites. The definition of both indicators has been modified as from 2021. Therefore, the target for 2021 has been adjusted.[1]

Comparison of forecast and actual performance T12

Forecast performance indicators	2019	Forecast for 2020[a]	Forecast for 2020[b]	Forecast for 2020[c]	2020	Forecast for 2021
Group sales	€13.1 billion	Stable	Between €11.5 billion and €13.0 billion	Between €11.5 billion and €13.0 billion	€12.2 billion	Between €12.0 billion and €14.0 billion
Adjusted EBITDA	€2.15 billion	Between €2.0 billion and €2.3 billion	Between €1.7 billion and €2.1 billion	Between €1.8 billion and €2.0 billion	€1.9 billion	Between €2.0 billion and €2.3 billion
ROCE	8.6%	At the prior-year level	Below the prior-year level	Below the prior-year level	6.1%	Slightly above the prior-year level
Cash outflows for investments in intangible assets, property, plant and equipment[d]	€880 billion	At the prior-year level	At the prior-year level	At the prior-year level	€956 million	Around €900 million
Free cash flow: cash conversion rate	33%	Slightly higher	At least at the prior-year level	Above the prior-year level	41%	Around 40%
Accident frequency	1.18	Maximum 1.30			0.80	Maximum 0.26[e]
Incident frequency	1.10	Maximum 1.10			1.45	Maximum 0.40[e]

[a] As in the financial report 2019.
[b] In the financial statement on Q1 2020.
[c] In the financial statement on Q3 2020.
[d] In the financial report 2019, a forecast was given for capital expenditures (for intangible assets, property, plant and equipment). After the first quarter of 2020, we shifted our focus to cash outflows for investment in intangible assets, property, plant and equipment and revised the forecast accordingly.
[e] Based on the new definition, see section 5.3 Safety. p. 52 f.

[1] See section 5.3 Safety p. 52 f.

2.6 Segment performance

2.6.1 Specialty Additives

Key figures T13

in € million	2019	2020	Change in %
External sales	3,381	3,225	–5
Adjusted EBITDA	886	857	–3
Adjusted EBITDA margin in %	26.2	26.6	–
Adjusted EBIT	716	681	–5
Capital expenditures[a]	108	93	–14
Depreciation and amortization	157	173	10
Capital employed (annual average)	4,396	4,218	–4
ROCE in %	16.3	16.1	–
No. of employees as of December 31	3,651	3,666	–

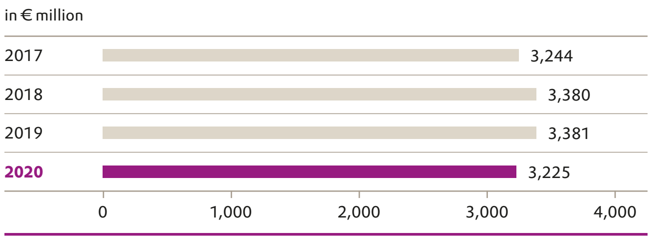
Prior-year figures restated. [a] Capital expenditures for intangible assets, property, plant and equipment.

Volume-driven year-on-year drop in sales

Thanks to its attractive business model focusing on customized and mission-critical solutions, the Special Additives division performed very well, despite the deterioration in economic conditions. While prices were stable, lower volumes and negative currency effects resulted in a 5 percent drop in sales to €3,225 million.

There was initially a considerable reduction in demand for additives for the automotive and coatings industry due to the challenging business situation, but this was followed by a clear recovery at the end of the year. By contrast, demand for our additives for products for the construction industry and renewable energy remained robust throughout the year, supported by state investment programs. Demand for consumer durables also recovered from the dip in the early part of the year. This benefited our additives for polyurethane foams, for example, for mattresses and refrigerators.

Sales Specialty Additives C09

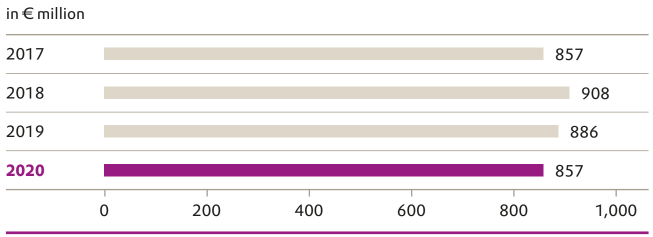


Prior-year figures restated.

Adjusted EBITDA only slightly below the prior-year level

Adjusted EBITDA was only 3 percent below the prior-year figure at €857 million in the Specialty Additives division, supported, among other things, by stable selling prices and successful cost savings. The adjusted EBITDA margin improved from 26.2 percent in the prior-year period to a very good level of 26.6 percent.

Adjusted EBITDA Specialty Additives C10



Prior-year figures restated.

Capital expenditures below the high prior-year level

Capital expenditures in the Specialty Additives Division were down perceptibly year-on-year at €93 million and were also considerably lower than depreciation and amortization, which amounted to €173 million. The average capital employed decreased by 4 percent to €4,218 million. ROCE was slightly lower at 16.1 percent.

Capital expenditures to strengthen market positions

Investments by the Specialty Additives division in major projects at the sites in Shanghai (China), Essen, and Geesthacht (both in Germany) were in the double-digit million euro range. These investments will increase production capacity for specialty silicones and siloxanes. In addition, the production and logistics facilities for silica-based matting agents in Bonn (Germany) were modernized in 2020 in order to strengthen these operations in the long term. Other important investment projects undertaken by the Specialty Additives division, for example, at the sites in Marl and Herne (Germany) and Wichita (Kansas, USA) principally related to the upkeep of facilities, capacity increases, and process optimization at our sites to secure and strengthen mid-term growth.

2.6.2 Nutrition & Care

Key figures T14

in € million	2019	2020	Change in %
External sales	2,922	2,992	2
Adjusted EBITDA	462	560	21
Adjusted EBITDA margin in %	15.8	18.7	–
Adjusted EBIT	231	301	30
Capital expenditures[a]	214	139	–35
Depreciation and amortization	223	255	14
Capital employed (annual average)	3,974	3,905	–2
ROCE in %	5.8	7.7	–
No. of employees as of December 31	5,322	5,295	–1

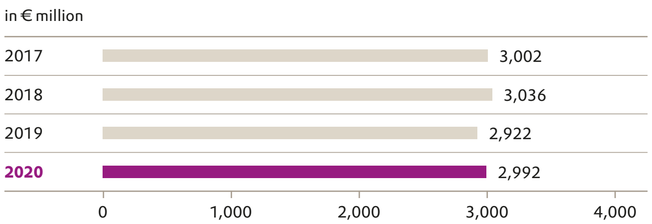
Prior-year figures restated. [a] Capital expenditures for intangible assets, property, plant and equipment.

Higher sales

The Nutrition & Care division reported a pleasing business performance thanks to its focus on high-growth and resilient end-markets. Sales were 2 percent higher at €2,992 million. This slight increase was attributable to slightly higher volumes and higher selling prices but was held back by negative currency effects.

In the animal nutrition business, essential amino acids generated higher sales than in the previous year. We increased volume sales of methionine as global demand increased. Selling prices were stable overall—despite negative currency effects in the second half of the year. The health & care business posted pleasing demand for care solutions and healthcare products. In particular, there was a positive development in active ingredients for cosmetic applications and pharmaceutical polymers.

Sales Nutrition & Care C11

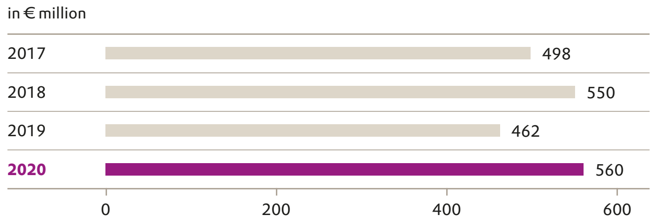


Prior-year figures restated.

Significant rise in earnings

Adjusted EBITDA rose by 21 percent to €560 million in the Nutrition & Care division, driven principally by improved selling prices and successful cost management. The adjusted EBITDA margin improved to a good level of 18.7 percent, up from 15.8 percent in the previous year.

Adjusted EBITDA Nutrition & Care C12



Prior-year figures restated.

Capital expenditures back at a normal level

Capital expenditures in the Nutrition & Care division returned to a normal level following high investment for global expansion of methionine capacity in the previous years. Capital expenditures were €139 million, significantly below the high prior-year level, which was still dominated by the construction of the world-scale production complex in Singapore, which came on stream in summer 2019. Furthermore, capital expenditures were below depreciation and amortization, which increased to €255 million as a result of this major investment. Average capital employed was €3,905 million, which was around the prior-year level. Thanks to the increase in earnings, ROCE improved to 7.7 percent.

Investment to increase innovative capability

In addition to capital expenditures to maintain its existing facilities, in 2020, Nutrition & Care acquired business operations to strengthen the Healthcare Solutions, Advanced Food Ingredients, and Cosmetic Solutions innovation growth fields.

At the end of December 2020, we acquired the LACTEL® business, which is based in Birmingham (UK), from DURECT Corporation, Cupertino (California, USA). This business strengthens Evonik's position as a leading global contract development and manufacturing organization (CDMO) for drug delivery solutions. The LACTEL® business will benefit from fast-growing markets such as modern drug delivery systems, biomaterial for tissue engineering, and 3D printing of medical implantable medical devices.

Wilshire Technologies Inc., Princeton (New Jersey, USA) was acquired in January 2020. Its business model centers on the development of products based on renewable, animal-free sources. The use of sustainable, renewable resources for cosmetic ingredients has become a very important criterion for personal care products and is currently an objective for many companies in this market. We also benefit from an enhanced portfolio for naturally derived excipients and intermediates for pharmaceutical and food applications.

2.6.3 Smart Materials

Key figures T15

in € million	2019	2020	Change in %
External sales	3,371	3,235	–4
Adjusted EBITDA	651	529	–19
Adjusted EBITDA margin in %	19.3	16.4	–
Adjusted EBIT	433	270	–38
Capital expenditures[a]	303	466	54
Depreciation and amortization	218	259	19
Capital employed (annual average)	3,651	4,223	16
ROCE in %	11.9	6.4	–
No. of employees as of December 31	7,065	7,874	11

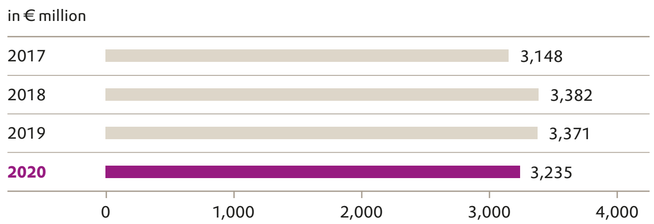
Prior-year figures restated. [a] Capital expenditures for intangible assets, property, plant and equipment.

Sales lower than in the prior year

Business in the Smart Materials division was clearly affected by the coronavirus pandemic. Sales declined by 4 percent to €3,235 million. This was attributable to a perceptible decline in volumes, slightly lower selling prices, and negative currency effects, while the initial consolidation of PeroxyChem had a positive effect.

In the second and third quarters, in particular, our business was impacted by the global economic downturn, but it recovered somewhat towards the end of the year. Overall, however, this led to a perceptible drop in volumes. The polymers business, which supplies high-performance polymers to the automotive sector, was badly affected, along with silica, which the inorganics business supplies to the tire industry. Demand for products for hygiene and personal care products and environmental applications was considerably more robust. The decline in sales was cushioned to a considerable extent by the initial consolidation of PeroxyChem.

Sales Smart Materials C13

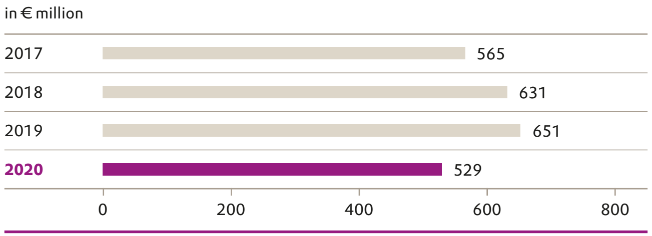


Prior-year figures restated.

Adjusted EBITDA margin below the good prior-year level

The 19 percent drop in adjusted EBITDA to €529 million was mainly volume-driven and was reduced by the initial consolidation of PeroxyChem and successful cost savings. The adjusted EBITDA margin decreased to 16.4 percent (2019: 19.3 percent).

Adjusted EBITDA Smart Materials C14



Prior-year figures restated.

High capital expenditures

Capital expenditures in the Smart Materials division increased by 54 percent to €466 million as a consequence of projects to increase our market position and were therefore well above depreciation and amortization, which amounted to €259 million. The average capital employed increased by 16 percent to €4,223 million, mainly due to the consolidation of PeroxyChem and the capital expenditures. ROCE declined substantially to 6.4 percent as a result of the lower earnings and higher capital employed.

Investment projects to strengthen our market position

Construction of the new production complex for the specialty polymer polyamide 12 (PA 12) in Marl (Germany) is making good progress. We are investing more than €400 million in this complex, which will increase our total PA 12 capacity by more than 50 percent. Alongside the present PA 12 production line, we are building additional plants for the polymer and its precursors. The first plant was completed on schedule in October 2020. Further plants will be completed by the first quarter of 2021, and the entire complex is scheduled for completion in summer 2021. PA 12 is a high-performance polymer which is used worldwide in strategic growth markets such as 3D printing. This lightweight, durable polymer makes a key contribution to saving resources in automotive engineering as well. Thanks to its outstanding properties—high stability combined with flexibility, as well as high temperature resistance and low weight—this high-performance polymer is used as a substitute for steel in many demanding applications.

In response to rising demand for lightweight structural materials for specialty applications, the extended production line for the ROHACELL® brand of high-performance rigid foams came on stream at our site in Mobile (Alabama, USA). ROHACELL® is a rigid structural foam made of polymethacrylimide, which is used in construction and in the manufacture of sandwich elements for aircraft, automobiles, ships, sports equipment, electronics, and medical technology. This extremely light foam is resistant to elevated temperatures and high pressure, making it ideal as a core component in composites.

Evonik Wynca (Zhenjiang) Silicon Material Co., Ltd., a joint venture with the Chinese company Wynca, commenced construction of a new production facility for AEROSIL® in Zhenjiang (Jiangsu Province, China). This is scheduled to come into service in 2021 and will further extend our global production network for fumed silica, ensuring more stable supply to our customers in China. At the same time, production capacity for fumed specialty silicas has been extended in Rheinfelden (Germany). Typical applications for fumed silica, which Evonik markets as AEROSIL®, are paints, coatings, modern adhesive systems, transparent silicones, and non-combustible high-performance insulating materials.

We increased production capacity for precipitated silica in Adapazari (Turkey). This type of silica is mainly used in high-quality tires with low rolling resistance. Other areas of application are the food, feed, and agriculture industries.

2.6.4 Performance Materials

Key figures T16

in € million	2019	2020	Change in %
External sales	2,634	1,983	–25
Adjusted EBITDA	248	88	–65
Adjusted EBITDA margin in %	9.4	4.4	–
Adjusted EBIT	117	–45	–
Capital expenditures[a]	55	49	–11
Depreciation and amortization	139	126	–9
Capital employed (annual average)	1,296	1,290	–
ROCE in %	9.0	–3.5	–
No. of employees as of December 31	1,645	1,639	–

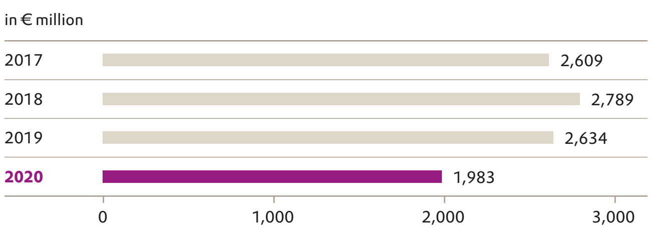
Prior-year figures restated. [a] Capital expenditures for intangible assets, property, plant and equipment.

Substantial reduction in sales

Sales fell 25 percent to €1,983 million in the Performance Materials division as a result of perceptibly lower volumes and a significant drop in prices.

Sales of C_4 products declined as a result of lower demand, especially from the automotive and fuel industries. Business with superabsorbents was affected by the fact that capacity utilization in the industry remained below-average despite an upward trend.

Sales Performance Materials C15

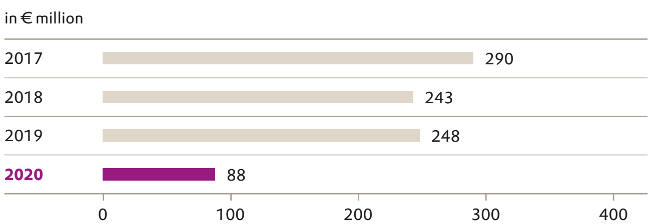


Prior-year figures restated.

Significantly lower adjusted EBITDA

Adjusted EBITDA fell 65 percent to €88 million in the Performance Materials division, mainly on price grounds. The adjusted EBITDA margin dropped to 4.4 percent (2019: 9.4 percent).

Adjusted EBITDA Performance Materials C16



Prior-year figures restated.

ROCE down year-on-year

Investment in the Performance Materials division aims to secure its leading market positions, raise efficiency, and broaden the technology base. Capital expenditures decreased slightly to €49 million, which was well below depreciation and amortization. The average capital employed was around the prior-year level at €1,290 million. ROCE declined from 9.0 percent to –3.5 percent as a result of lower earnings.

Investment in specialties

Performance Materials is investing around €15 million in future-oriented C_4 specialties. Selected debottlenecking in Marl (Germany) will raise production capacity for isobutene derivatives by more than 50 percent by December 2021. Moreover, logistics are being extended to allow more flexible delivery to customers. Evonik has considerable expertise in the production of isobutene derivatives with high product and isomeric purity. These investments support the high growth momentum in the field of high-performance synthetic lubricants. In addition, we are gaining access to new applications for our petrochemical specialties, which make a key contribution to achieving our target of using 100 percent substances in raw material streams in keeping with sustainability strategy.

2.6.5 Services

Key figures T17

in € million	2019	2020	Change in %
External sales	763	734	–4
Adjusted EBITDA	122	92	–25
Adjusted EBITDA margin in %	16.0	12.5	–
Adjusted EBIT	–42	–72	–71
Capital expenditures[a]	150	245	63
Depreciation and amortization	160	160	–
Capital employed (annual average)	834	977	17
ROCE in %	–5.0	–7.4	–
No. of employees as of December 31	14,428	14,310	–1

Prior-year figures restated. [a] Capital expenditures for intangible assets, property, plant and equipment.

The Services segment generates sales both internally, with the chemicals divisions segments and the corporate center (2020: €1,739 million), and with external customers. External sales decreased by 4 percent to €734 million. The main reason for this was a drop in revenue from process technology and engineering. Adjusted EBITDA dropped 25 percent to €92 million.

Capital expenditures in the Services segment increased by 63 percent to €245 million and therefore exceeded depreciation and amortization, which amounted to €160 million.

New natural gas power plant to avoid CO_2 emissions

A highly efficient state-of-the-art gas and steam turbine power plant will be built at Marl Chemical Park in Germany by 2022. This will end Evonik's generation of electricity and steam from hard coal at this site and cut CO_2 emissions by up to 1 million metric tons a year. Annual direct greenhouse gas emissions from our facilities worldwide will be reduced by almost one-fifth, making a major contribution to achieving Evonik's central climate target of halving absolute greenhouse gas emissions by 2025.

This highly efficient and flexible co-generation plant for electricity and steam will have efficiency of over 90 percent. Investment is in the triple-digit million euro range. In the summer, construction work started on a further gas and steam turbine power plant in Marl, which is also scheduled for completion in 2022. The two new plants safeguard cost-effective and future-oriented energy supply at Evonik's largest production site, Marl Chemical Park. In addition to power generation, the generation of steam is particularly important for production at the chemical park. Flexible load management means the plants will also play a part in compensating for fluctuations in the amount of energy from renewable resources fed into the power network. That is a key building block in Germany's energy transition.

2.7 Regional development

New structure

We adjusted our regional structure in 2020. The former Western Europe, Eastern Europe, and Middle East & Africa regions have been combined to form the Europe, Middle East & Africa region. Asia-Pacific North and Asia-Pacific South have been combined as the Asia-Pacific region. The prior-year figures have been restated.

A global presence

We generated 83 percent of sales outside Germany in 2020.

Sales in **Europe, Middle East & Africa** (EMEA) dropped by 12 percent to €5,868 million. In Germany, sales amounted to €2,074 million, a drop of 9 percent year-on-year. In the EMEA region, lower sales were reported by the Specialty Additives, Smart Materials, and Performance Materials divisions. This region accounted for 48 percent of Group sales. EMEA was also the focus of our capital expenditures, which increased from €563 million in 2019 to €738 million in 2020. We are building a new production complex for the specialty polymer polyamide 12 in Marl (Germany). This will come on stream at the start of 2021. In addition, we are building two new gas-fired power plants at this site. These are scheduled to come into service in 2022.

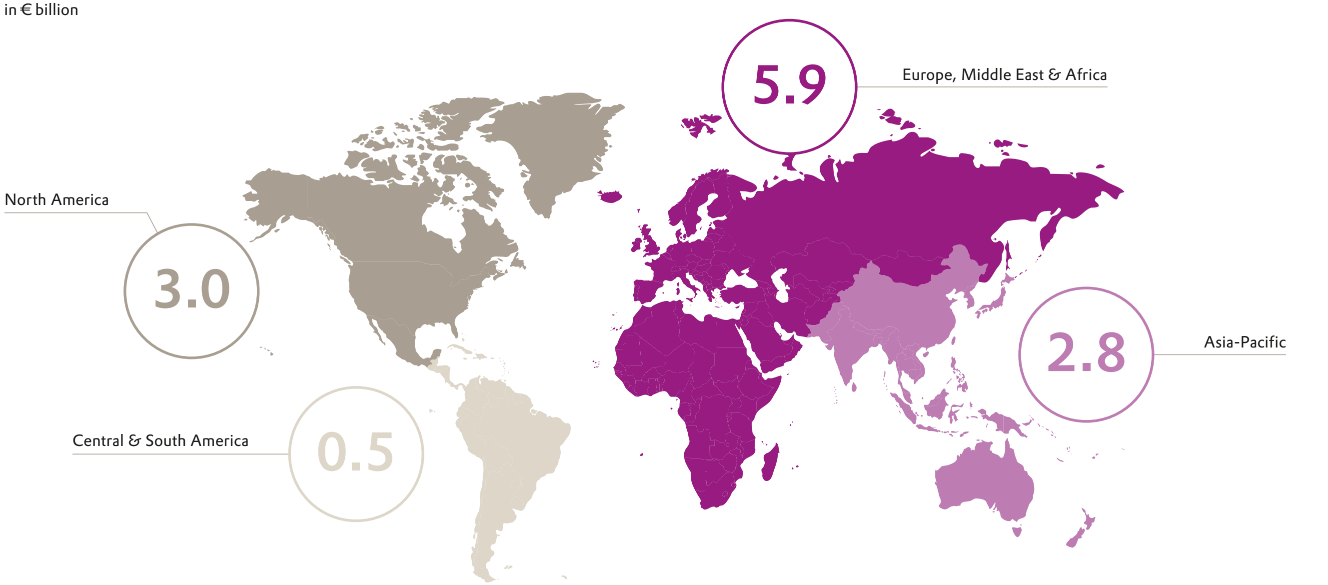
In **North America,** sales were on a par with the previous year at €2,953 million. Lower sales from the Specialty Additives and Performance Materials divisions were offset by higher sales from the Nutrition & Care and Smart Materials divisions. This region accounted for 24 percent of Group sales. Capital expenditures increased 15 percent to €158 million. A production facility for ROHACELL® was completed.

Sales fell 9 percent to €537 million in **Central & South America.** This region accounted for 4 percent of Group sales.

In the **Asia-Pacific** region, sales declined by 1 percent to €2,841 million as the Smart Materials and Performance Materials divisions posted lower sales. However, the decline was cushioned by higher sales from the Nutrition & Care and Specialty Additives divisions. This region accounted for 23 percent of Group sales. Capital expenditures were €93 million. That was a significant reduction compared with the prior-year figure of €136 million, which included construction of the world-scale production complex for methionine, which came on stream in mid-2019.

Sales by region C17

in € billion



2.8 Earnings position

Year-on-year drop in income before income taxes, continuing operations

Group sales declined by 7 percent to €12.2 billion due to slightly lower volumes and selling prices and negative currency effects. The cost of sales decreased as a consequence of lower production volumes, a drop in raw material prices, and a reduction in travel expenses. The gross profit on sales fell 9 percent to €3.4 billion. The success of our SG&A 2020 cost-saving program, together with lower travel expenses, made a significant contribution to the reduction in selling and general administrative expenses. There was a slight increase in research and development expenses. The other operating income decreased slightly. Costs for the integration of acquired businesses increased other operating expense. Income before financial result and income taxes decreased by 25 percent to €819 million.

Lower net income

The financial result contains special items of €11 million, principally for interest in connection with the end of a legal dispute relating to the sale of a plot of land in a previous period. In the prior-year period, it contained special items of €53 million from the reversal of provisions. After adjustment for the special items, the financial result improved from –€185 million to –€146 million as interest expense was lower. Income before income taxes, continuing operations, was 28 percent lower at €684 million. Income taxes were around the same level as in the previous year. Income after taxes, discontinued operations, related to post-divestment expenses from divestments in previous periods; the prior-year figure contained the operating income and, above all, the proceeds from the divestment of the methacrylates business. Non-controlling interests in after-tax income comprised the pro rata profits of fully consolidated subsidiaries that are attributable to shareholders outside the Evonik Group.

Net income was €465 million, 78 percent below the high level reported for the previous year, which was dominated by the proceeds from the divestment of the methacrylates business.

Income statement for the Evonik Group T18

in € million	2019	2020	Change in %
Sales	13,108	12,199	–7
Cost of sales	–9,413	–8,833	–6
Gross profit on sales	**3,695**	**3,366**	**–9**
Selling expenses	–1,511	–1,498	–1
Research and development expenses	–428	–433	1
General administrative expenses	–568	–502	–12
Other operating income	359	345	–4
Other operating expense	–466	–474	2
Result from investments recognized at equity	5	15	200
Income before financial result and income taxes, continuing operations	**1,086**	**819**	**–25**
Financial result	–132	–135	–2
Income before income taxes, continuing operations	**954**	**684**	**–28**
Income taxes	–180	–181	1
Income after taxes, continuing operations	**774**	**503**	**–35**
Income after taxes, discontinued operations	1,353	–24	–
Income after taxes	**2,127**	**479**	**–77**
thereof income attributable to non-controlling interests	21	14	–33
Shareholders of Evonik Industries AG (net income)	**2,106**	**465**	**–78**

2.9 Financial condition

Central financial management

The principal objectives of financial management are safeguarding the financial independence of the Evonik Group and limiting financial risks. We therefore apply a central financing strategy. Borrowing and bond issuance are normally undertaken by Evonik Industries AG or its financing company, Evonik Finance B.V., Amsterdam (Netherlands). The liabilities of this company are fully guaranteed by Evonik Industries AG. To reduce external borrowing, surplus liquidity at Group companies is placed in a cash pool at Group level to cover financing requirements in other Group companies through intragroup loans. Currency derivatives are used at Group level to hedge intragroup loans. Evonik has a flexible range of corporate financing instruments to meet liquidity requirements for day-to-day business, investments, and the repayment of financial debt.

Solid investment grade rating

Evonik has a solid investment grade rating. It still has a rating of Baa1 from Moody's and BBB+ from Standard & Poor's. The outlook for the S&P rating is stable. In April 2020, Moody's reduced its outlook for the Baa1 rating from stable to negative. Maintaining a solid investment grade rating is a central element in our financing strategy. In this way, we gain access to a broad investor base on appropriate financing terms and thus maintain our financial flexibility. A solid investment grade rating gives banks, investors, customers, and suppliers a reliable basis for a long-term business relationship with Evonik.

High free cash flow

The **cash flow from operating activities, continuing operations,** increased by €384 million to €1,736 million. The reduction in operating income was more than offset by lower tax payments. This was partly due to one-time tax payments of €245 million in 2019 in connection with the carve-out of the methacrylates business, which was necessary to prepare for the divestment. Without this effect, the cash flow from operating activities would have increased by €139 million.

The **free cash flow** improved by €308 million to €780 million. The higher cash flow from operating activities contributed to this improvement, while higher cash outflows for investments in intangible assets, property, plant and equipment reduced it. After adjustment for one-time tax payments in the previous year, the free cash flow increased by €63 million. The cash conversion rate[1] improved from 33 percent[2] to 41 percent.

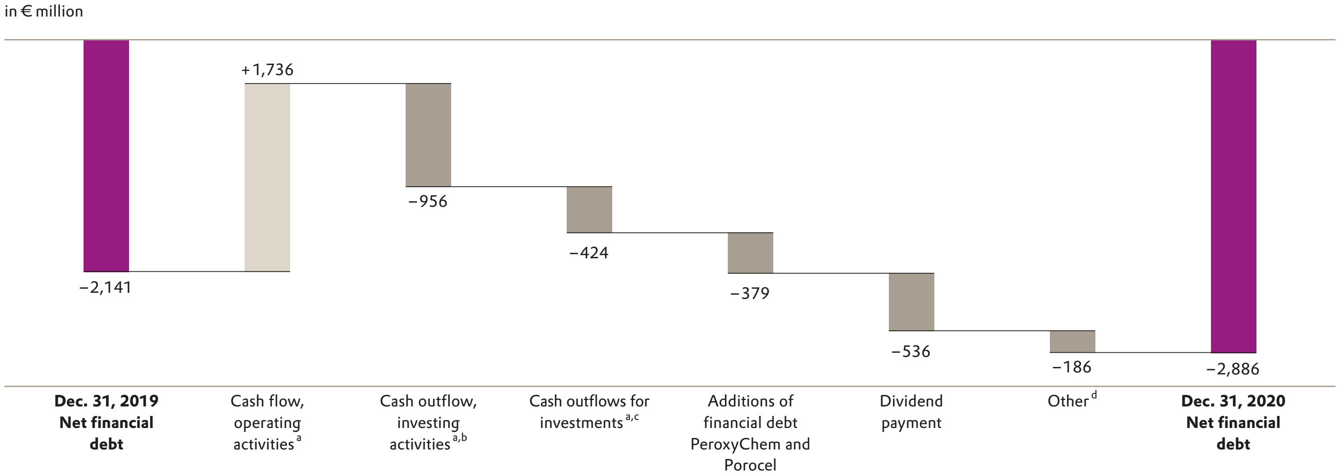
Cash flow statement (excerpt) T19

in € million	2019	2020
Cash flow from operating activities, continuing operations	1,352	1,736
Cash outflows for investments in intangible assets, property, plant and equipment	–880	–956
Free cash flow (after tax payments relating to the carve-out of the methacrylates business)	**472**	**780**
For information: free cash flow before tax payments relating to the carve-out of the methacrylates business	717	780
Cash flow from other investing activities, continuing operations	635	386
Cash flow from financing activities, continuing operations	–848	–1,734
Cash flow from discontinued operations	–86	–9
Change in cash and cash equivalents	**173**	**–577**

The cash flow from other investing activities resulted in a cash inflow of €386 million as cash outflows for acquisitions were more than offset by the sale of current securities. The cash outflow of €1,734 million for financing activities was principally due to the payment of the dividend of €536 million for 2019 and repayment of financial debt.

[1] Ratio of free cash flow to adjusted EBITDA.
[2] Free cash flow before tax payments relating to the carve-out of the methacrylates business.

Change in net financial status C18



[a] Continuing operations. [b] Cash outflows for capital expenditures for intangible assets, property, plant and equipment. [c] Business operations and other investments.
[d] Including cash flow, discontinued operations.

Net financial debt T20

in € million	Dec. 31, 2019	Dec. 31, 2020
Non-current financial liabilities[a]	−3,712	−3,564
Current financial liabilities[a]	−806	−368
Financial debt	**−4,518**	**−3,932**
Cash and cash equivalents	1,165	563
Current securities	1,203	466
Other financial investments	9	17
Financial assets	**2,377**	**1,046**
Net financial debt as stated on the balance sheet	**−2,141**	**−2,886**

[a] Excluding derivatives, excluding the refund liability for rebate and bonus agreements.

Net financial debt increased due to investments

Net financial debt was €2,886 million as of December 31, 2020, an increase of €745 million compared with December 31, 2019. The main reason for this was the acquisition of PeroxyChem and Porocel. Including acquired loans, the total impact of these acquisitions was €803 million. This was offset by the free cash flow of €780 million, which was significantly higher than the dividend payment for 2019 (€536 million).

Corporate bonds as a central financing instrument

At year-end 2020, the financial debt of €3,932 million comprised five bonds with a total carrying amount of €2,986 million, commercial paper totaling €45 million, lease liabilities totaling €653 million, bank loans totaling €142 million, and other financial liabilities of €106 million. On the reporting date, €2.5 billion of the debt issuance program of up to €5 billion had been used to issue bonds.

In April 2020, we redeemed the bond issued by Evonik Industries AG in 2013, which had a nominal value of €500 million. The repayment was made out of liquid funds. In May 2020, Evonik Industries AG issued a new bond with a nominal value of €500 million and an issue price of 99.599 percent. This bond has an annual coupon of 0.625 percent and a tenor of five years and four months. The proceeds from the issue were used with available liquid funds to repay a bond issued by Evonik Finance B.V. in 2016 with a nominal value of €650 million. This bond could be redeemed three months before the regular maturity date by exercising a right of early termination.

Bonds T21

	Nominal value in € million	Rating (S&P/Moody's)	Maturity	Coupon in %	Issue price in %
Evonik Industries AG					
Fixed-interest bond 2015/2023[a]	750	BBB+ / Baa1	Jan. 23, 2023	1.000	99.337
Fixed-interest bond 2020/2025[a]	500	BBB+ / Baa1	Sep. 18, 2025	0.625	99.599
Hybrid bond 2017/2077	500	BBB– / Baa3	Jul. 7, 2077	2.125	99.383
Evonik Finance B.V.					
Fixed-interest bond 2016/2024[a]	750	BBB+ / Baa1	Sep. 7, 2024	0.375	99.490
Fixed-interest bond 2016/2028[a]	500	BBB+ / Baa1	Sep. 7, 2028	0.750	98.830

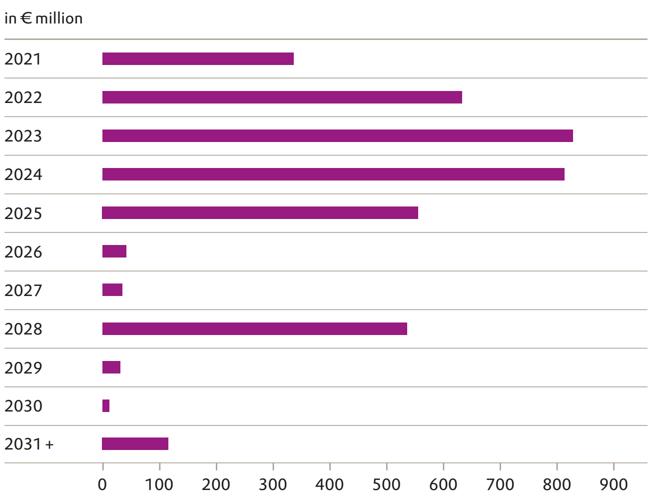
[a] Issued through the debt issuance program.

About 92 percent of the Evonik Group's non-derivative financial liabilities are denominated in euros (2019: 95 percent). Including currency derivatives concluded for financing purposes, around 69 percent of financial liabilities are denominated in euros, 15 percent in US dollars, 11 percent in Singapore dollars (SGD), and 5 percent in other currencies.

Liquidity position remains strong

As of December 31, 2020, Evonik had cash and cash equivalents amounting to €563 million and current securities totaling €466 million. In addition, Evonik has a €1.75 billion revolving credit facility as a central source of liquidity. This credit line was agreed in June 2017 and runs until June 2024. It was not utilized in 2020 and does not contain any covenants requiring Evonik to meet specific financial ratios. There are also diverse other credit lines. As of December 31, 2020, €614 million of the total amount of these had not been drawn.

Maturity profile of financial liabilities C19



As of December 31, 2020.
The hybrid bond is included in 2022 (when Evonik has its first right of redemption).

Solid funding of pension obligations

Pension provisions account for nearly two-thirds of our net debt (sum of net financial debt and pension provisions). They are non-current and depend on the discount rate. Compared with year-end 2019, pension provisions increased by €651 million to €4,618 million. The rise in the present value of pension obligations caused by the reduction in the discount rate was only partly offset by the robust performance of the plan assets. The funding of pension obligations[1] was 64 percent as of the reporting date, and thus still at a solid level in line with the industry norm.

Capital expenditures up slightly year-on-year

Investment projects are aimed at utilizing potential for sustained profitable growth and value creation, as well as maintaining the value and availability of the existing property, plant and equipment. Evonik is therefore expanding in specialty chemicals businesses and markets where it already has—or intends to build—a strong competitive position. Every project is required to undergo detailed economic and strategic analyses. Evonik expects all projects to meet a minimum return requirement, which is the cost of capital. We take a flexible and disciplined approach to extending our leading market positions. All projects are regularly reviewed for changes in the market situation.

[1] Ratio of plan assets to pension obligations.

The rise in **capital expenditures**[1] to €995 million in 2020 (2019: €842 million) was principally due to major projects and pandemic-related cost increases. There is a slight timing difference in outflows for property, plant and equipment as a result of payment terms. In the reporting period, outflows for capital expenditures totaled €956 million (2019: €880 million). The Smart Materials division accounted for the highest share of capital expenditures (47 percent). The Nutrition & Care division accounted for 14 percent, the Specialty Additives division for 9 percent, and the Performance Materials division for 5 percent. 25 percent went to Services. Regionally, capital expenditures were focused on the Europe, Middle East & Africa region (74 percent, with Germany accounting for 66 percent), followed by North America (16 percent), and Asia-Pacific (9 percent).

Major projects completed or virtually completed in 2020 T22

Project	Location
Specialty Additives	
Expansion of production capacity for polymers	Geesthacht (Germany)
Construction of a production facility for organically modified specialty silicones	Shanghai (China)
Smart Materials	
Expansion of production capacity for silica	Adapazari (Turkey)
Expansion of production capacity for fumed specialty silicas	Rheinfelden (Germany)

For further information on current capital expenditure projects, see section 2.6 Segment performance p. 26 ff.

Financial investments amounted to €510 million. They mainly comprised the acquisition of PeroxyChem, Porocel, and Wilshire.[2]

2.10 Asset structure

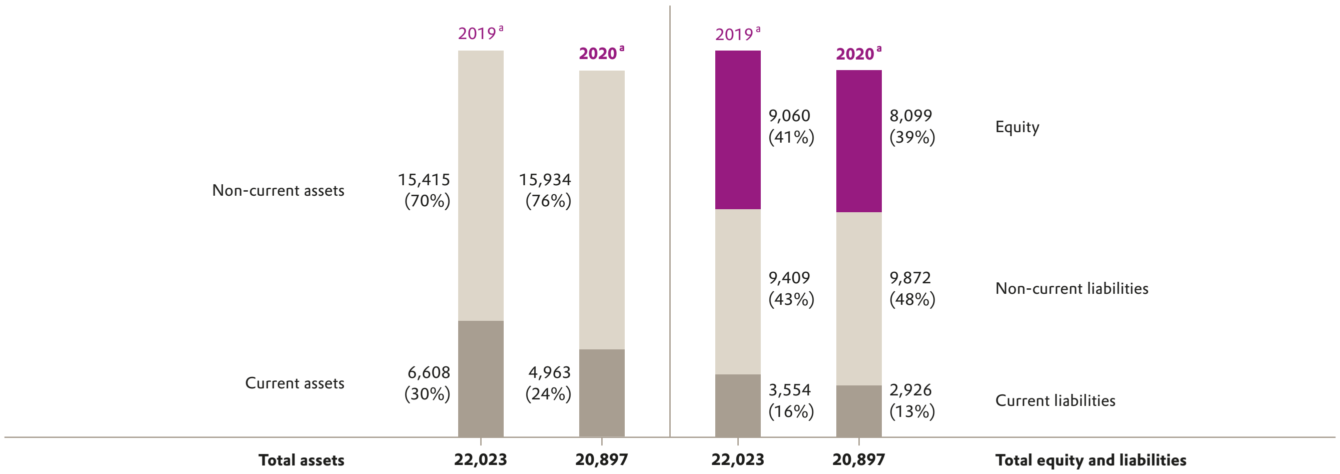
Reduction in total assets

As of December 31, 2020, total assets were €1.1 billion lower at €20.9 billion. Non-current assets increased by €0.5 billion to €15.9 billion, mainly due to the assets of PeroxyChem and Porocel. In all, non-current assets made up 76 percent of total assets (2019: 70 percent). They are financed by liabilities with the same maturity structure. Current assets decreased by €1.6 billion to €5.0 billion. The background to this was the drop in cash and cash equivalents and other financial assets, mainly in connection with the acquisitions and the early redemption of a corporate bond. Current assets therefore increased slightly to 24 percent of total assets (2019: 30 percent).

Equity[3] declined by €1.0 billion to €8.1 billion. This was attributable to negative currency translation effects and the remeasurement of defined benefit pension plans in connection with the reduction in the discount rate for pension provisions. The equity ratio decreased from 41 percent to 39 percent. Non-current liabilities increased by €0.5 billion to €9.9 billion. The main reason for this was the increase in provisions for pensions and other post-employment benefits. Non-current liabilities increased from 43 percent to 48 percent of total equity and liabilities.

Balance sheet structure of the Evonik Group C20

in € million

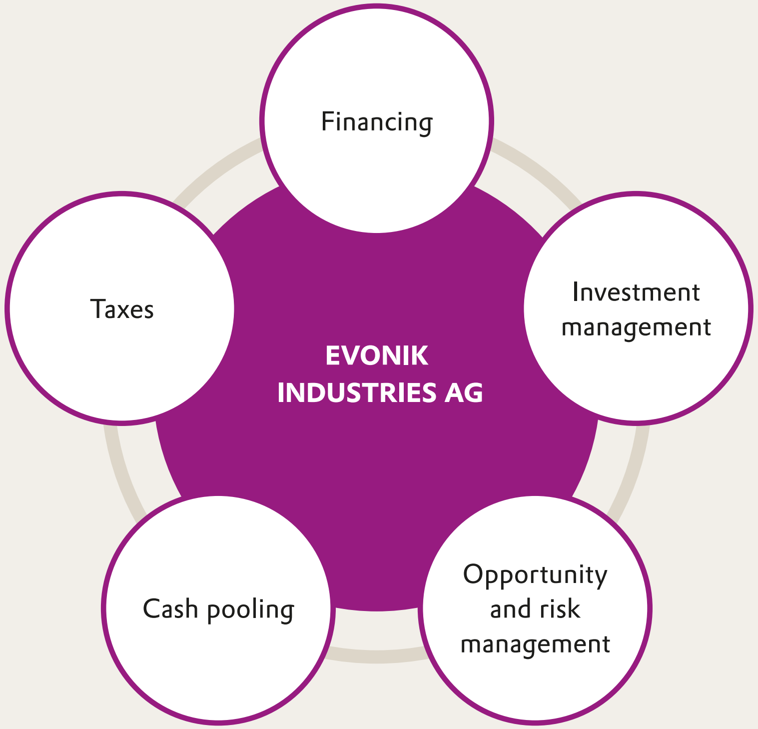


[a] As of December 31.

[1] Capital expenditures for intangible assets, property, plant and equipment.
[2] See note 4.2 to the consolidated financial statements p. 116 ff.
[3] See disclosures pursuant to section 160 paragraph 1 no. 2 German Stock Corporation Act (AktG), note 6.9 (d) p. 141 ff. to the consolidated financial statements.

3. Performance of Evonik Industries AG

Evonik Industries AG provides the principal holding functions for the companies in the Evonik Group



€1.15
dividend per share

4.3%
dividend yield

Evonik Industries AG, Essen (Germany), is the parent company of the Evonik Group. It holds direct and indirect stakes in all subsidiaries in the Evonik Group. The annual financial statements for Evonik Industries AG have been prepared in accordance with the accounting standards set out in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

The earnings performance of Evonik Industries AG is essentially dependent on income from its subsidiaries, income and expenses relating to corporate financing, and portfolio management activities. Financial management is therefore based on an earnings indicator that contains all these effects: net income.

Sales declined by €10 million to €457 million. The cost of materials dropped €15 million to €43 million, principally as a result of the drop in sales. Personnel expense was 3 percent lower than in the previous year at €348 million. Other operating income dropped to €472 million. The main reasons for this decline were a drop of €89 million in income from the reversal of provisions to €15 million and currency translation losses. In the gross presentation, currency translation gains of €403 million (2019: €454 million) are shown in other operating income, while the corresponding currency translation losses of €411 million (2019: €442 million) are shown separately in other operating expense. The net effect was a loss of €8 million (2019: gain of €12 million).

Income statement for Evonik Industries AG T23

in € million	2019	2020
Sales	467	457
Other own work capitalized	1	6
Other operating income	611	472
Cost of materials	–58	–43
Personnel expense	–359	–348
Depreciation and amortization of intangible assets, property, plant and equipment	–26	–24
Other operating expense	–866	–748
Operating result	**–230**	**–228**
Income from investments	1,474	349
Write-downs of financial assets and current securities	–6	–
Write-ups of financial assets and current securities	17	17
Net interest income/expense	–28	–101
Income before income taxes	**1,227**	**37**
Income taxes	–245	–77
Income after taxes	**982**	**–40**
Net income (+)/net loss (–)	**982**	**–40**
Profit carried forward from the previous year	–	414
Allocations to (–)/withdrawals from (+) retained earnings	–32	162
Distributable profit	**950**	**536**

Income from investments dropped 76 percent to €349 million due to the reduction in income from profit-and-loss transfer agreements. In 2019, this income mainly related to the divestment of the methacrylates business. There were no write-downs of financial assets and current securities in 2020. In 2019, other securities were written down by €6 million. Write-ups of financial assets and current securities totaling €17 million related to shares in affiliated companies and specialized funds.

The net interest position deteriorated considerably year-on-year from –€28 million to –€101 million. This was principally attributable to lower income in connection with the measurement of pension assets. Net interest also contains interest income and expense from the group-wide cash pool, which is concentrated at Evonik Industries AG.

Income before income taxes decreased to €37 million, principally as a result of lower income from profit-and-loss transfer agreements and lower interest income. Income tax expense was €77 million, compared with €245 million in 2019.

The net income of Evonik Industries AG, calculated on the basis of the German Commercial Code, fell €1,022 million year-on-year, resulting in a **net loss** of €40 million.

After withdrawing €161,528,893.45 from other retained earnings and taking into account the profit of €414,100,000.00 carried forward from the previous year, the distributable profit was €535,900,000.00. A proposal will be put to the annual shareholders' meeting that the entire distributable profit should be paid out, giving a **dividend** of €1.15 per share.

Balance sheet for Evonik Industries AG T24

in € million	Dec. 31, 2019	Dec. 31, 2020
Intangible assets, property, plant and equipment	54	63
Financial assets	8,454	8,418
Non-current assets	**8,508**	**8,481**
Receivables and other assets	3,477	2,707
Securities	1,197	467
Cash and cash equivalents	837	212
Current assets	**5,511**	**3,386**
Prepaid expenses and deferred charges	12	14
Total assets	**14,031**	**11,881**
Issued capital	466	466
Capital reserve	722	722
Retained earnings	4,278	4,116
Distributable profit	950	536
Equity	**6,416**	**5,840**
Provisions	742	882
Payables	6,873	5,157
Deferred income	–	2
Total equity and liabilities	**14,031**	**11,881**

The total assets of Evonik Industries AG decreased from €14.0 billion in the previous year to €11.9 billion. Financial assets mainly comprise shares in subsidiaries. The receivables mainly comprise financial receivables of €2.4 billion (2019: €3.1 billion), principally in connection with cash pooling activities and intragroup loans. Securities comprise units totaling €467 million in two specialized funds, which were purchased in 2019.

Equity was reduced by €0.6 billion to €5.8 billion due to payment of the dividend for fiscal 2019 and the net loss for the period. The equity ratio increased from 45.7 percent in 2019 to 49.2 percent. The receivables and liabilities reflect the group-wide financing activities of Evonik Industries AG in its role as the holding company for the Group. Payables include financial liabilities of €5.0 billion (2019: €6.8 billion). €3.2 billion (2019: €4.9 billion) of this amount comprises liabilities to affiliated companies, principally in connection with cash pooling activities. A further €1.8 billion (2019: €1.8 billion) relates to corporate bonds.

Opportunities and risks

The most significant operating subsidiaries in Germany have profit-and-loss transfer agreements with Evonik Industries AG. In line with the central financing strategy of the Evonik Group, most internal and external financing transactions are handled by Evonik Industries AG. Consequently, Evonik Industries AG is essentially exposed to the same risks and opportunities as the Evonik Group. Further information can be found in the section 6 Opportunity and risk report p. 59 ff.

Outlook[1] for 2021

We expect the earnings of Evonik Industries AG to improve significantly in 2021 compared with 2020 and therefore anticipate that net income will be positive. The increase will be driven mainly by income from investments. Further, we assume that income from the valuation of pension assets will be below the high level reported in 2020.

Report on relations with affiliated companies

A report on Evonik Industries AG's relations with affiliated companies has been prepared in accordance with section 312 of the German Stock Corporation Act (AktG). It concludes with the following declaration: "Our company received adequate remuneration or compensation for each of the transactions set out in this report on relations with affiliated companies under the circumstances known to us at the time when the transactions were undertaken. No actions were performed or omitted at the instigation of such companies."

[1] For details of the assumptions, see section 7. Report on expected developments p. 70 ff.

4. Research and development

Our vision: leading in innovation

INNOVATION GROWTH FIELDS

Advanced Food Ingredients	Additive Manufacturing	Sustainable Nutrition
Cosmetic Solutions	Membranes	Healthcare Solutions

We aim to generate additional sales[1] of €1 billion with these innovation growth fields by 2025.

[1] With products introduced in or after 2015.

€433 million
R&D expenses

3.5%
R&D ratio

Approx.
24,000
patents and pending patents

Our goal: leading in innovation

Evonik's vision is to be a best-in-class specialty chemicals company. Our research and development activities have been reorganized so that our innovations make an even stronger contribution to the profitable growth of the Evonik Group. Our new, groupwide Research, Development, and Innovation unit brings together all cross-business competencies and technologies. This enables us to share knowledge more easily, leverage synergies, and at the same time target attractive, new markets that are close to our customers. Our R&D activities are aligned to six innovation growth fields:

- **Sustainable Nutrition:** establishing additional products and services for sustainable nutrition of livestock and people
- **Healthcare Solutions:** developing new materials for implants, as components of cell culture media, and for custom-tailored, innovative drug formulations
- **Advanced Food Ingredients:** creating a portfolio of health-enhancing substances and nutritional supplements as a contribution to healthy nutrition
- **Membranes:** extending SEPURAN® technology for efficient gas separation to further applications
- **Cosmetic Solutions:** developing further products based on natural sources for cosmetics and sensorially optimized formulations for skincare products
- **Additive Manufacturing:** developing products and technologies for additive manufacturing

We aim to generate additional sales[1] of over €1 billion with these innovation growth fields by 2025.

The coronavirus pandemic has brought a breakthrough for mRNA-based vaccines. The technologies and services developed in the **Healthcare Solutions** innovation growth field in recent years have led to several customer orders since the start of the coronavirus pandemic. The liposome-based formulations developed by this innovation growth field are presently the most promising technology for selective release of active ingredients in the body.

In 2020, the **Advanced Food Ingredients** innovation growth field introduced the dietary supplement Medox®, the first Evonik product to be marketed directly to end-consumers through pharmacies in Germany. Plant pigments sourced from dark berries such as bilberries and blackcurrants bind free radicals. In this way, they contribute to healthier blood vessels. The strategic focus of the Advanced Food Ingredients growth field is on long-term, non-cyclical trends. These include the aging population, the growing middle class, and increasing global awareness of healthy and sustainable nutrition. We have also added AvailOm® high-load omega-3 fatty acids to our portfolio of dietary supplements. AvailOm® omega-3 powder is derived from algal oil and fish oil and is now available in different concentrations. Expansion of this product range enables nutraceutical companies to develop new formulations tailored to specific consumer groups and phases in life. Since AvailOm® is derived from micro-algae, it can be used to develop more sustainable products that are also suitable for vegans and vegetarians.

To support work in the **Sustainable Nutrition** innovation growth field, our venture capital unit has invested in the Chinese technology start-up SmartAHC, Chengdu, which facilitates more effective and more healthy pig farming. SmartAHC has developed monitoring devices and software that use artificial intelligence and the internet to enhance the efficiency of farms and improve animal welfare. For example, early detection of diseases enables farmers to isolate sick animals to prevent the disease spreading.

In the **Additive Manufacturing** innovation growth field, we have strengthened our position in the growing market for high-performance photopolymer resins by taking a stake in Union Technology, Shanghai (China), a leading producer of stereolithography-based 3D printers and printing materials. This additive manufacturing technology makes it possible to produce highly accurate and detailed polymer parts. Through the upcoming introduction of the new INFINAM® products and the current stake in Union Technology, we are expanding our activities as a reliable partner for industry in the development and manufacturing of high-performance materials for 3D printing and strengthening our business in the important field of photopolymer technology.

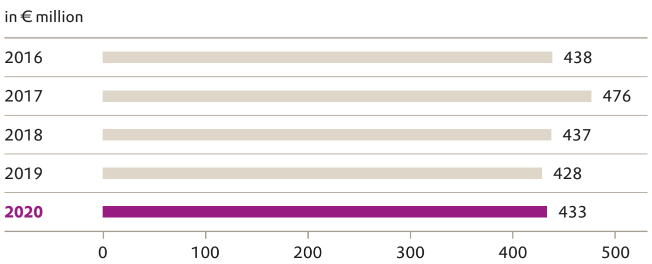
[1] With products introduced in or after 2015.

Successful innovation management

Evonik has an extensive **patent strategy** to protect new products and processes. The value and quality of our patent portfolio have increased steadily in recent years. We submitted 215 new patent applications in 2020, and R&D expenses totaled €433 million. Our R&D projects are managed using the multi-step Idea-to-Profit process developed by Evonik to support the systematic development of projects right up to profitable commercialization.

Our **innovation pipeline** comprises completely new business options as well as activities to secure and enhance the prospects of existing business operations. Alongside our product and process innovations, the focus includes innovative business models and system innovations. Our project portfolio is aligned to the differing strategies of the various business lines, and we focus on growth areas with high sustainability benefits.

R&D expenses C21

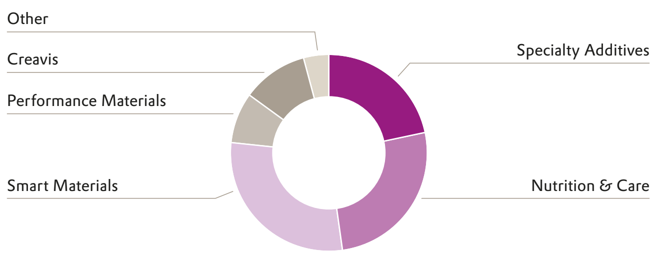


The figures for 2016 to 2017 contain the methacrylates business, which was divested in July 2019.

Targeted research and development

All four of our manufacturing **chemical divisions** account for around 85 percent of our R&D expenses. Their activities include, first and foremost, research geared specifically to their core technologies and markets and the development of new business. An above-average proportion of our R&D funding is allocated to our growth divisions, Specialty Additives, Nutrition & Care, and Smart Materials. The Performance Materials division focuses on optimizing products and processes.

Breakdown of R&D expenses C22



The strategic innovation unit **Creavis** has been reorganized and is now larger and more international. It has also extended its focus by integrating the units responsible for the development of new business which were previously allocated to the segments. Creavis still concentrates on innovation projects that support Evonik's growth and sustainability strategy and provide access to new business options. In addition, it identifies future-oriented topics and acts as an internal incubator for Evonik.

Work on innovation projects of a cross-organizational nature is organized in **project houses.** Experts from the organizational units involved in the project house's normally work together for three years on the project house's development topics. Tissue Engineering, our twelfth project house, which was established in Singapore in 2018, is working on new solutions to grow living cells. Its work supports the Healthcare Solutions innovation growth field. The aim is to produce materials for biological implants for medical applications. Research into optimized approaches to skin models with better predictive power and scalability and excellent reproducibility is currently being carried out for the Cosmetic Solutions innovation growth field. These approaches will be used in laboratory research and testing, for example, to test active ingredients for cosmetics, cleaning agents, and chemicals.

Evonik and Siemens Energy AG, Munich (Germany) took their Rheticus test facility into service. This facility, which receives funding from the Federal Ministry of Education and Research (BMBF), uses carbon dioxide and water to produce chemicals. The electricity required for this comes from renewable resources. The innovative technology for artificial photosynthesis being tested in this facility should contribute to the success of the energy transition. In the **Rheticus** I project, the two companies previously worked for two years to develop the technically feasible basis for this artificial photosynthesis process using a bioreactor and electrolyzer. Following successful completion of Rheticus II, Evonik and Siemens Energy will have a unique technology platform allowing the production of high-value, energy-rich substances such as specialty chemicals and artificial fuels from CO_2 in a flexible, modular process.

Evonik also obtains access to innovative technologies and new business options through its **corporate venture capital** activities. We invest specifically in specialized technology funds and start-ups of strategic relevance to Evonik. In this way, we gain insights into innovative developments at a very early stage. More than 30 investments have been made since 2012. In 2020, Evonik Venture Capital sold its investment in the Finish start-up Synoste Oy, Espoo, to Globus Medical, Audubon (Pennsylvania, USA). The four-and-a-half-year partnership was beneficial to both companies, supporting the development of Synoste's technology for orthopedics and giving Evonik further insights into the medical applications market for its high-performance polymers. The US company Global Medical acquired all the shares. The sale gave Evonik an attractive financial return on its initial investment. The collaboration gave Evonik a deeper understanding of the requirements for medical devices and the regulatory approval process.

A **culture of innovation** is a key factor in a company's innovative capability. Alongside commitment, passion, and stamina, that entails the strength to halt R&D projects if their prospects of success are too low, as well as a constructive attitude to mistakes. We therefore regard Evonik as an open, learning company.

R&D at Evonik T25

	2020
R&D expenses	€433 million
R&D ratio	3.5%
No. of new patent applications filed	215
Patents held and pending	approx. 24,000
Registered/pending trademarks	approx. 7,500
R&D employees	approx. 2,560
R&D locations	37

5. Sustainability

We are systematically implementing our sustainability strategy

1 CO_2

2008

Absolute scope 1 and 2 emissions

–50%

2025

2008–2020: –44%

Carbon pricing as an additional planning parameter for major investments

€ per metric ton CO_2

2 WATER

Global water management: development of site-specific action plans for sites potentially affected by water stress

3 PORTFOLIO

Strategic focus on growth businesses with a distinctive sustainability profile

Sustainability analysis of all chemicals businesses in our portfolio

0.80 accident frequency

1.45 incident frequency

Employees from **106** nations

5.1 Sustainability strategy [1]

Evonik aims to be a best-in-class specialty chemicals company. Our Sustainability Strategy 2020+ is an expression of this aspiration, including ambitious targets and an understanding of how to translate sustainability into profitable growth. More and more customers expect us to help them achieve their sustainability goals.

Extensive voluntary commitments and undertakings

Evonik is committed to observing internationally recognized standards, for example, the ten principles of the UN Global Compact, as well as its own more far-reaching guidelines and principles of conduct. We are also involved in many networks such as Chemie[3], the sustainability initiative of the German chemical industry, and the Word Business Council for Sustainable Development (WBCSD). Together with our code of conduct, our global social policy, our environment, safety, health, and quality (ESHQ) values and the executive board's policy statement on human rights provide a framework for responsible corporate management.

Intensive dialogue with stakeholders

Dialogue with our stakeholders is important to give us a better understanding of different perspectives and ensure timely identification of upcoming trends and market developments. The coronavirus pandemic prevented us from conducting our stakeholder dialogue in the normal manner in 2020. We endeavored to compensate for this by introducing a range of digital formats and sharing the insights gained within the company.

Systematic implementation of the Sustainability Strategy 2020+

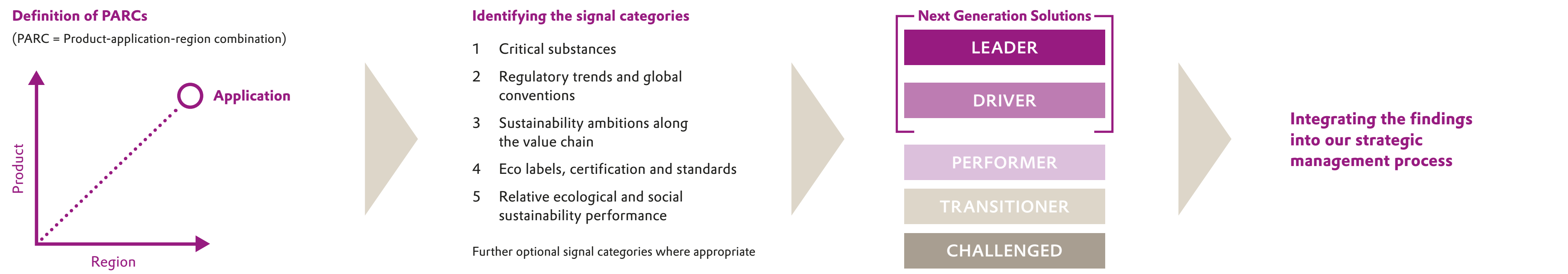
Foresighted resource management is a key element in our Sustainability Strategy 2020+. We have set ambitious targets for the reduction of CO_2 emissions (scope 1, 2, and 3 emissions) and the introduction of a water management system. Internal carbon pricing provides an additional planning parameter for major investments.

We made good progress in integrating sustainability into our corporate strategy in 2020. The basis for this is the sustainability analysis of our business, which covered our entire portfolio of chemical products for the first time. In this way, we can integrate measurable sustainability effects into our strategic management process. The divisions apply different measures—aligned to the requirements of their markets—to avoid greenhouse gas emissions, protect biodiversity, or drive forward the circular economy. The corresponding roadmaps are currently being drawn up.

Sustainability analysis of our business supports portfolio management

The market signals identified as being significant for Evonik form the heart of our sustainability analysis. These include, for example, anticipated regulatory trends, environmental and social performance compared to alternative solutions, and sustainability ambitions in our markets. All market signals are based on the World Business Council for Sustainable Development's framework for portfolio sustainability assessments (PSA), which Evonik was involved in developing from the outset. One special feature of this approach is the differentiated assessment of the relevant products in specific product-application-region combinations (PARCs). For each PARC, we identify the benefits of using the product and will gradually be quantifying these in greater detail.

Sustainability analysis and portfolio management C23

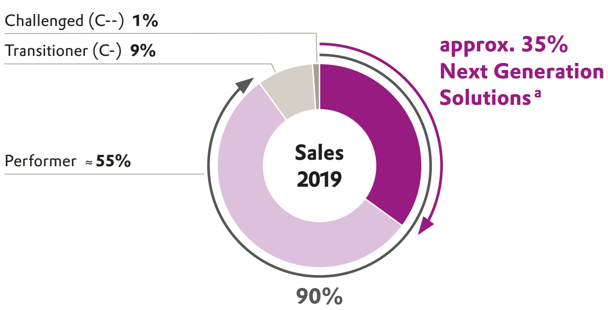


[1] This section was outside the scope of the audit.

The assessment of all the PARCs analyzed is used in a structured overall evaluation of the sustainability performance of our portfolio, resulting in allocation to the performance categories Leader (A++), Driver (A+), Performer (B), Transitioner (C-), or Challenged (C--).

The sustainability analysis of our business shows that Evonik generates about 90 percent[1] of sales with products and solutions whose sustainability performance is at least in line with the market reference (leader, driver, or performer category). Based on this internal analysis, about 35 percent of sales are generated with products and solutions with a clearly positive sustainability profile that is above or even well above the market reference level (leader and driver categories). We refer to them as Next Generation Solutions. Our goal for the coming years is that Next Generation Solutions should continue to account for at least 35 percent of our portfolio.

Portfolio overview C24



[a] Next Generation Solutions comprise products in the leader and driver categories.

Measurability and soundly based analytical methods are important

Transparency and soundly based analyses are our response to the growing interest shown by our stakeholders in corporate sustainability. We are working intensively to implement the EU Taxonomy Regulation and intend to include this in the sustainability analysis of our business. In addition, we will continue to systematically analyze the positive and negative impacts of our business operations along the value chain. We use an impact valuation to regularly measure and analyze the direct and indirect impacts from economic, ecological, and social perspectives. Early identification of opportunities and risks increases the resilience of our business model and sharpens understanding of the long-term value that our business activities create for society.

5.2 Employees

Employees are the foundations of our success

People are at the heart of the workplace at Evonik. Our employees are the basis of our success. Their professional qualifications and commitment are their key attributes and make Evonik strong. Becoming a best-in-class specialty chemicals company means paying special attention to all aspects of human resources management. That includes continuous development as an employer because we can only achieve our goal with first-class, skilled, motivated, and healthy employees.

Global management

With the aid of the HR strategy process, we ensure continuous development of our human resources activities in line with our materiality analysis and corporate strategy. The focus is on employer attractiveness, performance, and leadership—supported by operational excellence. We use a global system of HR performance indicators to measure our progress and attainment of our targets.

Our global HR organization comprises the HR Talent Management and HR Business Management functions. HR Talent Management bundles activities relating to attracting, developing, retaining, and leading employees. HR Business Management coordinates the regional employer function, all performance-related aspects, and the global HR Administration, Labor Relations, HR IT, and Workforce Analytics units. The heads of both the HR functions report directly to the chief human resources officer (CHRO). The HR Executive Committee is the highest decision-making body for HR. It adopts the global strategy for the functional structure of the units and makes decisions on the group-wide human resources strategy. The committee comprises the CHRO, selected representatives of the divisions, and the heads of HR Talent Management and HR Business Management.

The development of corporate executives is a separate function, which reports directly to the chairman of the executive board.

Systematic talent management

Attractive career paths, systematic job rotation, and high-quality development programs are essential to develop tomorrow's top executives. We regularly assess and evaluate potential, succession scenarios, and development requirements at HR meetings attended by the executive board.

[1] Source: Internal evaluations based on 2019.

Headcount hardly changed

The Evonik Group had 33,106 employees at year-end 2020. The number of employees increased by 683 compared with year-end 2019, principally because of the acquisition of PeroxyChem and Porocel.

Employees by segment T26

	Dec. 31, 2019	Dec. 31, 2020
Specialty Additives	3,651	3,666
Nutrition & Care	5,322	5,295
Smart Materials	7,065	7,874
Performance Materials	1,645	1,639
Services	14,428	14,310
Other operations	312	322
Evonik	**32,423**	**33,106**

Prior-year figures restated.

Personnel expense, including social security contributions and pension expense, was around the prior-year level at €3,168 million (2019: €3,156 million). Personnel expense was therefore 26.0 percent of sales (2019: 24.1 percent).

5.2.1 Appeal as an employer

We want to offer attractive working conditions in order to gain and develop the most talented staff for Evonik. As well as cultural and network initiatives and opportunities for learning and professional development, we offer our employees performance-oriented remuneration and additional benefits. We also place special emphasis on flexible working conditions, work-life balance, and health-related measures.

Successful employer branding

As our most important advocates, our employees are the heart of our global employer branding campaign #HumanChemistry. They give Evonik a distinctive identity through articles and personal insights into their working lives on our careers website. We assess the success of our employer brand by our position in external employer rankings and by internal employee surveys. Early employee turnover is another key indicator[1].

In our fifth group-wide employee survey in November 2018, around 35,000 employees worldwide were asked to give an anonymous assessment of their working environment. The next routine employee survey is scheduled for November 2021. In the interim period, ad-hoc surveys are conducted on a variety of topics. In the reporting period, we conducted 50 surveys of this type: from checking the sentiment on working from home during the coronavirus pandemic to prospective employees' experience of our recruiting process ("candidate experience"). Every single survey contributes to a lively feedback culture in our company.

The ONE Culture initiative strengthens the position of our purpose, values, and working principles as binding elements within the Evonik organization. Agile, future-oriented collaboration across functions is a key success factor. In addition, ONE Culture encourages the development of a distinctive performance culture and includes a wide range of elements to strengthen employee engagement and group-wide sharing of ideas. As part of the ONE Evonik initiative, we conducted workshops on cooperation, communication, and cultural development. In 2020, we also realized projects derived from a virtual brainstorming process with employees in 2019. Examples are eBuddies, where employees help one another on digital issues, and a cost ownership initiative that examines resource and cost efficiency in day-to-day working practices.

New performance management system

In 2019, we introduced a new global performance management system. This focuses on regular feedback dialogues between managers and employees in order to ensure transparency and foster performance. In 2020, this system was extended to include the field force.

Long-term jobs

Our aim is to offer our employees an attractive contractual status to provide security for their long-term planning. Therefore, about 96 percent of our employees worldwide have permanent contracts. We work with staffing agencies in Germany to cover short-term or temporary bottlenecks. All agencies must provide evidence of a valid operating permit. Since the chemical industry requires a large number of highly qualified employees, fewer agency staff are used than in other sectors of manufacturing industry. Agency staff only accounted for a low proportion of Evonik's total workforce as of December 31, 2020

Employees by contractual status T27

	2019	2020
Employees	32,423	33,106
of which employees on permanent contracts	29,568	30,528
of which employees on limited-term contracts	1,594	1,375
of which apprentices/trainees[a]	1,261	1,203

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

[1] Termination of employment by new hires in the first year of employment.

Awards in 2020

For the third time in succession, our company received the “Leading Employer” award in Germany and was ranked as the best employer in the chemical sector. In the cross-sector ranking, Evonik improved from eleventh place in 2019 to sixth place, positioning it among the top 10 of the most attractive companies in Germany. In China, Evonik was once again ranked among the most popular employers in 2020 (Top Employer Institute).

Low employee turnover rate

Low turnover of newly hired employees within the past three years compared with other companies indicates a good level of identification and high employee satisfaction.

Key data on employee retention T28

	2019	2020
Employee turnover in %	5.2	4.4
Early turnover rate in %	0.9	1.3
Average length of service in years	14.8	14.7

Global remuneration policies

Fair, market- and performance-oriented remuneration is anchored in our human resources tools worldwide. The principles used to structure remuneration, including fringe benefits, are set out in group-wide policies. Remuneration is set on the basis of objective criteria such as responsibility, competencies, and success. In addition, minimum standards defined by law and in collective agreements, e.g., local minimum wages, are applied. Personal attributes such as gender, age, etc., play no part in the process.

Collective agreements on remuneration cover almost 100 percent of our employees in Germany and around 71 percent of our employees worldwide. Almost all of our sites and companies have performance- or profit-oriented incentive systems. These systems cover nearly all of our permanent employees. Evonik offers voluntary social benefits to employees in all regions where it has a presence. Evonik does not restrict employees’ rights to freedom of association or the right to collective bargaining. These rights are also ensured in countries where freedom of association is not protected by the state.

In addition, in 2020, we once again offered employees in Germany, the USA, Belgium, and Singapore the opportunity to take part in the “Share” employee share program. The participation rate remained high at 39 percent in 2020.

Work-life balance

Evonik places value on an HR policy that is family-friendly and geared to different phases in people’s lives. More than 94 percent of our employees around the world have access to related initiatives. At the heart of this approach are flexible worktime models, support for people caring for close relatives, and assistance with childcare. The PAIRfect initiative offers a job-sharing platform to help employees structure their worktime more flexibly.

Evonik is perceived by the general public as a family-friendly employer. We have been audited annually since 2009 by the Hertie Foundation for the berufundfamilie certificate. In the reporting period, the women’s magazine BRIGITTE once again singled out Evonik as one of the best employers for women.

#SmartWork project

As part of the #SmartWork project, Evonik has carried out a pilot project to examine extended use of teleworking. 13 pilot projects were set up across a variety of jobs in all regions where Evonik operates. The aim of #SmartWork is to use the findings from the coronavirus pandemic and the present pilot projects to improve and institutionalize virtual, flexible collaboration at Evonik. Relevant aspects include leadership, communication, culture and values, performance, feedback, mental and physical health, and technological equipment. #SmartWork has the potential to strengthen our value proposition as an employer, employee engagement, and productivity. In addition, we expect it to bring cost savings by reducing the need for office space and business trips. These are two aspects that could play a part in further improving our ecological footprint in the future.

#ReThink initiative

During the coronavirus crisis, it was important for our employees to share their experience of the massive changes in their day-to-day work. We facilitated this through #ReThink, a digital forum on Connections where employees could post practical examples of new processes and ways of working and learn from one another.

5.2.2 Diversity and equal opportunity

As an international company, we see diversity as an opportunity. In our view, diversity is not simply a social or political obligation. We see it as a key to the success of our business.

Diversity enriches

Evonik does business in many markets worldwide. Diversity is therefore normal in our business activities. Employees with different backgrounds and personalities enrich our teams and our company. They enhance our creativity, innovative capability, and proximity to customers. Therefore, we raise employees’ awareness of the importance of diversity in our daily work through our corporate media and various campaigns.

Our diversity strategy is derived from our corporate strategy. Diversity is a firm element in our corporate values, our working principles, and, since 2020, in the Evonik competency model. The parameters we use to manage diversity often exceed the legal requirements. We inform all employees about the present situation in an annual diversity report and the executive board receives quarterly information on the development of key diversity indicators. Our diversity council ensures that diversity is a success factor that is deeply embedded in our organization and drives it forward through cross-business criteria. It comprises the members of the executive board, the heads of the divisions and regions, and representatives of various organizational units. In addition, we train our executives and talents to deal with both conscious and unconscious bias. Our open and respectful corporate culture is designed to create a working environment that fosters all aspects of diversity. To achieve this, we have set ambitious targets for diversity management.

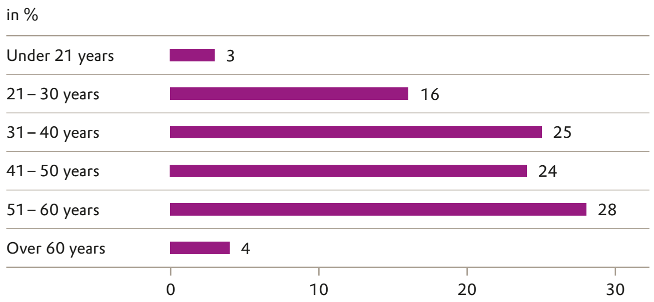
Our code of conduct and global social policy forbid discrimination on the basis of origin, race, religion, age, gender, sexual orientation, and disability. Employees who feel they have been discriminated against have a right to lodge a complaint. Contacts for this are available at all sites.

Age structure

We foster cross-generational collaboration in our teams and place special importance on maintaining mental and physical health. Examples are the Fit for Life program and support for employees who care for relatives. Other offerings include LILY (Learning and Individualized Library), an online learning platform for lifelong learning. Moreover, reverse monitoring offers different generations an opportunity to learn from one another and actively advance diversity at Evonik.

In 2020, the average age of Evonik employees was around 43 years. 45 percent of new hires were under 30, 47 percent were aged 30 to 50, and 8 percent were over 50.

Age structure in the Evonik Group C25



Higher percentage of women

Increasing the proportion of women in our company worldwide and at all levels is one of Evonik's declared objectives. Our aim is for women to account for 23 percent of executives at each of the top two management levels and 30 percent of other managers. We take equality of opportunity very seriously in the recruitment of new employees. As a guide, we use the proportion of women studying the disciplines that are relevant for us. Our objective is for women to make up around 40 percent of new management employees. At present, 26 percent of our employees are female. The proportion of female managers was 26 percent in 2020.

Key data on diversity T29

	2019	2020
Women as a proportion of the total workforce in %	26	26
Female managers in %	25	26
Female managers as a proportion of other management levels in %	26	27
Female managers as a proportion of middle management in %	13	14
Female managers as a proportion of top management in %	11	16
Nationalities	101	106

An extensive range of measures supports the attainment of these targets. They include offers to help employees combine working and family life, such as childcare, vacation programs for kids, and a regular get-together for parents. We also offer our employees networks such as GroW, an internal network for female employees, and our newly introduced job-sharing platform.

As a global company, it is particularly important to us to ensure that our workforce includes a broad spectrum of different nationalities. Evonik currently employs people of 106 different nationalities at 206 sites in more than 54 countries. The proportion of managerial employees who do not hold German citizenship is around 46 percent. Group-wide, the proportion in middle management is around 28 percent.

#TogetherAsOneEvonik stands for Evonik's commitment to fairness and diversity and the rejection of hatred and discrimination. Our business council in North America has set up a task force to develop short- and long-term measures. These range from support groups for members of social minorities in the workforce, through diversification of procurement, to workshops and webinars to prevent unconscious bias.

5.2.3 Training and continuing professional development

Well-trained employees are a key success factor in competition. Our learning strategy and personnel development programs focus on future business needs.

Learning strategy for continuing professional development

Our training and continuing professional development activities comprise further training of our employees as well as vocational training of young people. Evonik's learning strategy was developed in consultation with employees. The central elements are uniform and consistent global solutions for advanced training and personal development with digital self-learning content, simplification of the offering of digital learning platforms and increasing acceptance of self-directed digital learning and lifelong learning.

The learning and individualized library tool (LILY) gives our employees access to a wide range of learning journeys and digital content for self-directed learning. The global development portal provides a transparent overview of our continuing professional development offerings and our learning and development strategy. Both platforms are available to all employees worldwide, providing they have the necessary IT infrastructure and access to the intranet. Our FutureZone learning platform administers the participation of employees in mandatory training and e-learning sessions and notifies them of the need to complete them.

Training ratio remains high

In 2016, Evonik aligned its vocational training strategy to its needs. As a result, the number of apprentices being trained for Evonik decreased from around 1,600 in 2016 to around 1,200 in 2020. We consider that we are well-prepared for the challenges of demographic change and the associated reduction in the availability of qualified employees for production and related areas. To retain young people in the company, since summer 2019 all apprentices who are able and willing to take up employment have been offered jobs. The number of additional apprentices being trained in cooperation with other companies remained constant at around 400.

In 2020, Evonik trained more than 1,530 young people, including around 380 for other companies. Our offering covered more than 31 recognized vocational training courses and combined vocational training and study programs at 15 sites. Apprentices accounted for around 6.7 percent of our workforce in Germany, which is still well above the national average of around 5 percent. In all, we invested around €60 million in vocational training of employees. Our high commitment to vocational training is also reflected in the high pass rate in examinations.

Since we altered our vocational training strategy to focus on our needs, we also adjusted the “Start in den Beruf” pre-apprenticeship program in 2020. In the 2019/2020 project year, 50 young people who were not ready for vocational training were offered a place on this program, compared with 90 in previous years.

Due to the outbreak of the coronavirus pandemic, we had to switch training of our apprentices to home-based learning at short notice in spring 2020. The provision of tablet computers and the progressive digitalization of learning scenarios on a special multimedia learning platform for apprentices proved a sound basis for this. At the start of May, practical training was resumed to prepare our apprentices for the summer examinations. Before the start of the new training period, special training concepts were developed, for example, organizing training sessions for different courses at different times. The aim was to ensure compliance with the applicable hygiene rules and allow on-site instruction in the vocational training centers.

In 2020, Evonik invested around €259 per employee in training and continuing professional development. That was a total of around €9 million. However, it was 47 percent lower than in the previous year, mainly because face-to-face training sessions had to be canceled due to the coronavirus pandemic. Many of these sessions were replaced by virtual classrooms or digital learning formats. Access to LILY and other learning formats increased considerably in 2020.

5.2.4 Health protection and promotion

Global management of health protection and promotion at Evonik takes a long-term, holistic approach, covering employees, the working situation, and the general working environment.

Occupational health protection was confronted with special challenges in 2020 as a result of the coronavirus pandemic. In principle, Evonik was well-prepared for a pandemic. At the end of February 2020, when it became clear that SARS-CoV-2 was becoming a pandemic, our pandemic plan came into effect at all sites worldwide, and the relevant steering committees were activated at Group, regional, and site level. The Evonik steering committee issued binding global instructions for the Group. In addition, a works agreement on COVID-19 was concluded with representatives of the workforce in Germany. The agreed measures largely prevented infection chains and clusters at our sites. Communication between the various steering committees was ensured by a differentiated reporting system and regular conference calls, which also provided an overview of the global pandemic situation at Evonik. A hotline was set up for employees and extensive information was posted in the intranet. A #togetheragainstcorona campaign was launched to encourage employees to act responsibly during the pandemic and offer them valuable support.

Healthy employees are our goal

Our approach includes high-quality medical care as required, applying ergonomic and health-related measures to structure working conditions, and a functioning emergency management system at plant level. We therefore comply with all applicable occupational medicine and health protection requirements. In addition, we offer 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.

The main goals and aspects of our occupational health strategy are outlined in the Evonik Global Health Program. On this basis, we systematically refine our strategy and adapt it to the latest developments. Based on occupational health and safety requirements in Germany, we have set out policies for our global workforce. The occupational safety committees at our sites in Germany meet at least four times a year. There are also comparable bodies at sites outside Germany. Fulfillment of the relevant requirements is checked regularly by corporate audits and regional environment, safety, and health audits, and through an extensive occupational health and safety reporting system. Action is taken if there are indications that there is scope for improvement or deviations from the applicable guidelines. Where necessary, improvements are suggested or required.

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 defined a long-term target of ≥ 5.0[1]. According to the reports submitted by our organizational units, we achieved this.

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.

Corporate health promotion

Our well@work program focuses on three aspects: exercise, a healthy diet, and work-life balance. Corporate health promotion has a firm place in this: Evonik uses basic programs with a long-term focus to encourage employees to adopt a healthy lifestyle. These are supplemented by special topics, which change every year. At all of our German sites there are interdisciplinary health task forces to implement well@work.

5.3 Safety

Safety as a management task

Protecting the health and employability of our employees and preventing accidents and incidents 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. Our Safety at Evonik safety culture initiative has been developed into a group-wide management approach for all aspects of occupational and transportation safety. It defines binding principles of action that give our managers and employees and personnel from staffing agencies reliable guidance on safety-compliant conduct in their daily work. To meet its management responsibility in occupational and plant safety, Evonik has globally valid policies and operating procedures that are firmly anchored in an integrated management system. Observance of these rules is monitored by central audits, while business-specific implementation is assigned to the operational units. Steering bodies at Group level ensure that mission-critical processes are standardized across the divisions.

Group-wide targets based on key performance indicators are used to check implementation of the requirements and identify the need for further action. The frequency and severity of accidents are also reflected in the variable remuneration of members of the executive board.

Our crisis and incident management focus on preventing and limiting damage if accidents nevertheless happen. To build and share the necessary experience, we are actively involved in various national and international networks. We analyze incidents carefully so we can learn from them and further improve our safety performance. Our global newsletter “Learning from one another” provides information on incidents and topical safety issues.

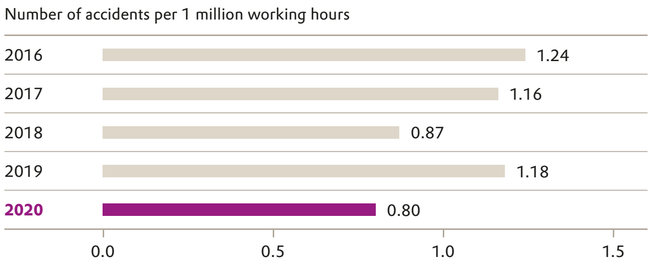
Considerable improvement in accident frequency; below the upper limit

We pay special attention to occupational safety. The safety of our employees covers safety on the way to and from work as well as safety at work. Contractors’ employees working at our sites are also included. **Accident frequency**[2] is the performance indicator for occupational safety at Evonik.

[1] Maximum that can be achieved: 6.0.
[2] Number of work-related accidents (excluding traffic accidents) resulting in absences of at least one full shift per 1 million working hours.

In 2020, the accident frequency rate for Evonik employees[1] was within our defined maximum limit of 1.30. The accident frequency rate was 0.80[2], which was well below the rate recorded in the previous year (1.18). One reason for this was an increase in the number of employees working from home as a result of the coronavirus pandemic. Consequently, there were fewer accidents in administrative areas.

Accident frequency indicator C26



The figures up to 2018 contain the methacrylates business, which was divested in July 2019.

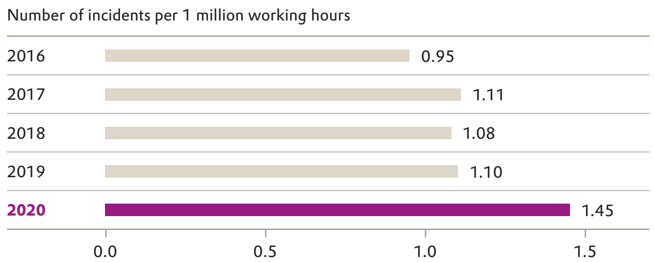
There were no fatal accidents at work involving our employees or contractors' employees at our sites in 2020, nor any fatal traffic accidents. The accident frequency rate[3] for contractors' employees[4] was 2.75, which was slightly below the previous year's rate (3.03).

Incident frequency above the upper limit

Safety is part of our DNA: It is the basic precondition for the operation and performance of our facilities. Plant safety is the basis for reliable, effective, and future-oriented production. We set demanding safety standards for the entire life cycle of our plants worldwide. We regard safety as an all-round task, which is established worldwide through our safety management systems and regularly reviewed. **Incident frequency**[5] is used to measure the safety performance of our plants. We monitor the number of incidents involving the release of substances, fire, or explosion (process safety performance indicator) in line with the indicator defined by the European Chemical Industry Council (Cefic).

There were 1.45 incidents per 1 million working hours in 2020. We therefore failed to meet our target, which set an upper limit of 1.10. The introduction of the digital platform ESTER and the related employee training increased awareness for plant safety incidents. The inclusion of the newly acquired sites in our reporting system also affected achievement of this target.

Incident frequency indicator C27



The figures up to 2018 contain the methacrylates business, which was divested in July 2019.

We are continuously improving our safety management system. In the reporting period, we realigned our expert circle on plant safety. This focused on the global structure of the expert circle and ensuring a holistic view of all aspects of plant safety. We are currently developing leading indicators, which we will use as a basis for defining more specific measures to improve our safety performance in the future.

Targets for 2021

Our overriding aim is to avoid all accidents and incidents. We set annual limits for occupational safety and plant safety indicators. Our goal is to constantly improve our safety performance. To enable us to evaluate our safety management activities more efficiently and more effectively, we have reduced the threshold for analyzing workplace accidents to 200,000 working hours in line with common international practice. Previously, the threshold was 1 million working hours.

Moreover, in plant safety we are introducing a new reference parameter for the calculation of the number of incidents, effective 2021. This is based on a Cefic definition, which reports product and energy leakages below the previous threshold[6]. From 2021, this new parameter will be used to measure the number of incidents in our production facilities per 200,000 working hours instead of per 1 million working hours as in the past. We expect more detailed data collection and evaluation to deepen our understanding of the potential for improvement. At the same time, this brings Evonik into line with the recommendations of the International Council of Chemical Associations (ICCA).

The maximum limits for 2021 using the new definition are:
- Accident frequency should not exceed 0.26.
- The incident frequency rate should not exceed 0.40.

[1] Evonik employees including employees from staffing agencies.
[2] In total, Evonik employees worked approximately 65 million hours in the reporting period.
[3] Number of reported work-related accidents (excluding traffic accidents) resulting in absences of at least one full shift per 1 million working hours.
[4] Calculation based on assumptions and estimates. The method of calculating working hours was altered in 2019.
[5] Number of incidents involving the release of substances, fire, or explosion (process safety performance indicator defined by the European Chemical Industry Council, Cefic) per 1 million working hours.
[6] The new volume thresholds are 1/10/100 kg depending on the hazard class, compared with the conventional reporting thresholds of 5/100/2,000 kg.

5.4 The environment

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. That includes continuously reducing emissions in keeping with our sustainability strategy. As a specialty chemicals company, we are aware that our production may possibly impact the environment. We take many steps to minimize this.

Worldwide management

Our actions are based on an extensive, integrated management system for the environment, safety, health, and quality. This applies to the whole of the Evonik Group and is based on legal requirements and on internal policies and standard operating procedures. In addition to meeting compliance requirements, we therefore support the continuous improvement of our environmental performance. Furthermore, we require our manufacturing sites to be validated as conforming to ISO 14001, the internationally recognized environmental management standard. The proportion of output covered by validation varies because of the addition of new units. However, it is always between 95 and 100 percent.

Implementation of our strategy and management system is monitored via a central audit system. Based on the findings and analyses of internal and external audits and site inspections, talks are held on possible improvements and ways of implementing them. The executive board is informed annually of the outcome of the audits. The processes used to collect and process environmental data are subject to internal and external audits. Our high quality standards are backed up by regular training. Our global ESHQ (environment, safety, health, and quality) strategy is defined by the HR Executive Committee.

5.4.1 Climate change

According to our materiality analysis, climate change is one of the most important sustainability issues. As well as producing products that are more sustainable and enhance efficiency for our customers, we are reducing our CO_2 emissions by modernizing and renewing our energy infrastructure. Carbon pricing is used as an additional criterion for major investments.

Responsibility at the highest level

Climate change is a matter of the utmost importance for the entire executive board. Direct responsibility for our group-wide sustainability and climate strategy, monitoring, and reporting is assigned to the member of the executive board responsible for human resources, sustainability, and ESHQ. The head of Corporate ESHQ reports regularly to the executive board on climate-related issues. These include environmental indicators, including climate-related performance indicators, as well as targets and target attainment. In addition, the responsible member of the executive board and the heads of Corporate ESHQ and Corporate Sustainability are members of the HR Executive Committee, which also takes decisions on climate-related issues. The other members of this committee are representatives of the divisions, and regions, and technical experts. The executive board discusses relevant issues relating to sustainability, the environment, safety, health, and quality, as well was the status and progress of the various programs with the heads of the divisions and corporate functions on a quarterly basis.

New environmental targets for climate protection

Our target is to **cut scope 1 and 2 greenhouse gas emissions**[1] by 50 percent in absolute terms by 2025. The reference base is 2008—the first full year after the establishment of Evonik. This affirms our commitment to the Paris Agreement on Climate Change. At present, we assume an average reduction in climate-relevant emissions of 3 percent a year. Furthermore, by 2025 we want to reduce **scope 3 emissions** from our upstream value chain—basically our “raw material backpack”—by 15 percent compared with 2020. We also aim to cut both **absolute** and **specific energy consumption** by 5 percent. Contributions will come, among other things, from innovative technologies, optimization of production, efficient utilization of non-renewable energy sources, and the use of renewable energy. Another keystone is extending integrated structures between chemical production and energy facilities, including increased integration of third-party production facilities and local authority customers.

Evonik constantly examines the use of renewable energy. For example, our site in Rheinfelden (Germany) sources almost half of its power supply from environmentally friendly hydroelectric facilities. In addition, we use hydroelectric power generation in Weißenstein (Austria) and solar power in Hanau (Germany), Mexico City, and Querétaro (both Mexico). We are also increasing the use of renewable energy sources indirectly by stepping up the purchase of green electricity certificates.

A new gas and steam turbine co-generation plant at Evonik’s site in Marl (Germany) will end more than 80 years of electricity and steam generation from hard coal at this location and reduce carbon emissions by up to 1 million metric tons a year. Group-wide, that will reduce direct annual scope 1 greenhouse gas emissions by almost a fifth. The highly efficient co-generation plant for

[1] Scope 1 comprises direct energy and process emissions, and scope 2 comprises emissions from purchased electricity and heat. Scope 3 contains indirect emissions such as emissions from the production of purchased raw materials.

electricity and steam is scheduled to come into service in 2022. The power plant will be highly flexible, so it can play a part in compensating for fluctuations in the amount of energy from renewable resources fed into the power network, which is a key building block in Germany's energy transition.

In summer 2020, construction work started on a further gas and steam turbine power plant in Marl to replace the present gas-fired reserve plant. This second power plant is the last step in the renewal of the energy infrastructure at this site, which is Evonik's largest site worldwide. The new plants will have total efficiency of over 90 percent and rated power of 270 Megawatts of electricity. That is equivalent to the electricity required by about 750,000 homes. The plants will be able to generate up to 660 metric tons of steam an hour. All power plants at Marl Chemical Park will be operated from a new control center.

Many of our energy management systems meet the high standards of ISO 50001. In the future, we aim to optimize energy consumption in the Evonik Group by using a digital energy management system. The higher transparency and improved control increase efficiency and therefore reduce greenhouse gas emissions. We plan to include further sites worldwide by 2026 to cover over 90 percent of our energy consumption and energy costs. The main aim is to use this new system to cut energy costs while meeting our energy target.

Lower net energy inputs

Absolute net energy inputs decreased by around 2 percent to 61.9 petajoules in 2020. At present, natural gas and coal are Evonik's main fuels. When the new gas and steam turbine power plants are taken into service in Marl (Germany) in 2022, Evonik will no longer have any coal-fired electricity generation anywhere in the world. The increase in electricity and steam sourced from third parties results from the inclusion of PeroxyChem for the first time. Specific net energy inputs increased by 1 percent to 6.9 petajoules per 1 million metric tons production output. 2020 is the reference base for our target of cutting both absolute and specific energy consumption by 5 percent by 2025.

Greenhouse gas emissions on track

The standard used to report our greenhouse gas emissions is the Greenhouse Gas (GHG) Protocol Standard. We distinguish between direct scope 1 emissions from energy generation and production, and indirect scope 2 emissions from the purchase of electricity and steam. The market-based method is used to calculate the carbon dioxide emissions from purchased power. This method is based on the individual emission factors of the power supplier.

Greenhouse gas emissions T30

in million metric tons CO_2 equivalents	2019	2020
Scope 1	4.93	4.80
Scope 2, net (market-based)[a]	0.56	0.56
Net GHG emissions	**5.49**	**5.36**
In % compared with the reference year (2008)	**–42**	**–44**

[a] Scope 2, net = purchased power and steam less steam and power sold to third parties.

The 2 percent drop in scope 1 GHG emissions in the reporting period to 4.8 million metric tons CO_2 equivalents was mainly due to lower capacity utilization in production facilities due to the coronavirus pandemic. Net scope 2 emissions were almost unchanged at 0.6 million metric tons CO_2 equivalents despite the first-time inclusion of PeroxyChem. The main reason for this—apart from lower volumes—was the purchase of larger amounts of green electricity.

In 2020, as in 2019, Evonik had 24 facilities that fall within the scope of the EU Emissions Trading System (EU ETS). One facility in La Zaida (Spain) was added as a result of the acquisition of PeroxyChem. One plant in Marl (Germany) is no longer included in the EU ETS reporting scope following a decision by the European Court of Justice.[1] In total, Evonik emitted 3.2 million metric tons CO_2 from these facilities in the reporting period (2019: 3.3 million metric tons CO_2).

Carbon pricing factored into investment calculations

Evonik uses internal carbon pricing for major investments as a basis for effective management of its CO_2 reduction target. This adds another relevant indicator to the existing planning parameters for investments. The aim is to be able to reflect the development of carbon-intensive investments in a reliable and harmonized manner in all investment applications worldwide. Including carbon pricing in investment calculations is based on the assumption that the present market prices, where available, are inadequate price indicators for the mid to long term. We assume that, in ten years at the latest, relevant market prices or regulatory pricing systems of at least €50 per metric ton CO_2 will be established in all regions of relevance to Evonik. In view of regional differences in the starting situation, we have developed scenarios for the development of carbon pricing—differentiated by countries and regions—showing the rise to the assumed final price. These take account of both direct CO_2 emissions (scope 1 emissions) from production and energy generation, and indirect CO_2 emissions from the purchase of secondary fuels (scope 2 emissions). To calculate the CO_2 sensitivity of an investment, at least one scenario with an unchanging CO_2 price of €50 per metric ton CO_2 over its life cycle is considered.

[1] ECJ decision C-577/18.

Information based on TCFD

We are following the objectives of the Task Force on Climate-related Financial Disclosures (TCFD) and the ongoing development of established reporting standards closely. In keeping with its participation in CDP Climate Change, in 2020, Evonik again published detailed strategies, data, and development paths on climate change.[1] A cross-unit working group is examining the TCFD requirements. In fall 2020, it embarked on a project to examine the extent to which our risk management system already meets the TCFD requirements and the scope for optimization. We present key climate-related information in a TCFD index[2] using the TCFD structure, divided into the categories governance, strategy, risk management, and metrics and targets.

5.4.2 Water management

We save water wherever possible and endeavor to achieve a further reduction in our emissions into water. A good water supply is crucial for smooth production.

Efficient use of water

The Evonik Group strives to use water as efficiently as possible. In the past, we regarded reducing specific water intake as one basis for our environmental targets. However, experience in recent years has shown that taking a global view of water consumption does not adequately reflect the present challenges. The availability of water as a resource depends enormously on regional and local conditions. Therefore, a global target for reducing water intake is no longer helpful. By using water stress analyses at production sites, we aim to pay greater attention, in particular, to the considerable local differences in the availability of water. For us, water stress[3] refers first and foremost to the availability of water for chemical production processes.

Taking into account projections for the climate and socio-economic developments, we have identified sites that are particularly likely to be affected by water stress in the next 20 years. We are therefore initially focusing our effort to achieve our present water target on our major integrated production sites and sites in regions exposed to water stress. Our definition of water stress is based on the AWARE[4] method recommended by the EU Commission. Our sustainable water management also takes into account quantitative, qualitative, and social aspects of water use. We want to identify potential for improvement at our sites and minimize the use of water, especially in water stress areas, in order to respect the needs of our neighbors.

We revised our water stress analysis in the reporting period because of the extensive portfolio adjustments between 2019 and 2020. Our analysis of production sites on four continents identified 20 sites where water may potentially be in short supply in the next 20 years. At five of the worst affected sites in China, India, the USA, and South Korea, we conducted detailed local interviews on water use and possible options to reduce it. We plan to conduct a systematic analysis of all 20 sites by 2023. This will be used to draw up action plans as a basis for effective preventive measures. We have introduced suitable management processes to monitor achievement of our global water target.

5.5 Value chain[5]

We drive forward our sustainability activities along the value chain. In addition to our own production and business processes, we always have an eye on the supply chain for our raw materials, goods, and services and on product benefits and applications for customers.

5.5.1 Preventing bribery and corruption

Evonik is committed to fair competition for the benefit of customers, shareholders, and other stakeholders. All employees are required to act lawfully in the 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, our master gifts and hospitality policy, and our policy for the use of external third parties for distribution and dealing with authorities (policy on external intermediaries). Our code of conduct is binding for all Evonik employees worldwide, including the executive board and the governance bodies of all Evonik companies. They are all required to comply with the rules set forth in the code of conduct, ensure they are familiar with its content, and take part in the relevant training.[6]

[1] This information is available on our website **www.evonik.com/responsibility.**
[2] See TCFD index (outside the scope of the audit by PwC) **p. 197.**
[3] Water stress is a condition that was originally used to describe the impact of water shortages on living organisms such as plants. It is increasingly being used with reference to the availabilty of water for industrial processes.
[4] AWARE stands for Available WAter REmaining.
[5] This section was outside the scope of the audit.
[6] See the declaration on corporate governance **p. 82 ff.**

5.5.2 Supply chain

Code of conduct for suppliers

We expect our suppliers to share our principles and to act correctly in all respects, which means accepting 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 International Labor Standards issued by the International Labour Organization (ILO), and the topics addressed by the Responsible Care® initiative.

By selecting suppliers carefully, we do not simply secure and increase their sustainability standards, 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. We have implemented strategic procurement concepts for these "critical raw materials," whose availability is vital for our production processes. These processes are integrated into a management system, where they are mapped. 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.

Supplier assessment

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. At the start of 2021, the rating agency EcoVadis awarded us platinum status for our sustainability performance for the first time, based on the assessment initiated in 2020. Evonik is therefore one of the highest-rated companies.

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

- 100 percent of all raw materials suppliers where annual procurement volume is >€100 thousand to be covered by TfS assessments by year-end 2025.
- Conduct at least 20 supplier sustainability audits p.a. under the shared audit principle of the TfS initiative

In 2020, we conducted 31 sustainability audits and therefore met our target. In addition, by year-end 2020, TfS assessments had been performed on around 73 percent of raw materials suppliers where annual procurement volume is >€100 thousand.

Key data on the supply chain T31

	2019	2020
No. of sustainability audits (Evonik)	26	31
No. of sustainability assessments (Evonik)	117	186
No. of sustainability audits (TfS)	309	258
No. of sustainability audits (TfS)	1,043	1,148

As a responsible company, Evonik meets its duty of care with regard to conflict minerals[1] in the supply chain and checks the origin of such substances delivered by its suppliers. Our screening in 2020 did not identify any use of conflict minerals.

5.5.3 Product stewardship

Product stewardship is a vital precondition for our business. It is our "license to operate." It includes timely identification, evaluation, and minimization 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[2] and the Globally Harmonized System of Classification and Labelling of Chemicals (GHS), product stewardship at Evonik includes voluntary commitments that go beyond these regulations.

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, which includes the Global Product Strategy. The key elements of our product stewardship have been defined in a product policy.

[1] These are mineral raw materials from the Democratic Republic of Congo and its neighboring countries that are often used to finance armed conflicts.
[2] REACH = Registration, Evaluation, Authorisation and Restriction of Chemicals.

We evaluate all substances placed on the market (> 1 metric ton p.a.). Particularly dangerous substances are included from lower amounts. 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.

5.5.4 Respecting human rights

Respecting human rights is a central element in corporate responsibility. We address the associated obligations throughout the company and along the value chain, within our sphere of influence.

Evonik has various tools, principles of conduct, and guidelines to ensure we observe our human rights obligations. The fundamental importance of human rights for Evonik is reflected in the executive board's policy statement on human rights, which is based on the Universal Bill of Human Rights, the International Labor Standards issued by the International Labour Organization (ILO), and the OECD's Guidelines for Multinational Enterprises. Human rights are part of our code of conduct and also form the basis for our global social policy. The human rights demands made on our suppliers are set out in a separate code of conduct. We regularly check compliance through our supplier validation and evaluation processes. We have drawn up a risk map showing potential human rights and labor law risks at country level. This tool is continuously updated. It provides an insight into the risks in our major supplier countries. In accordance with the policy statement on human rights, we use this to define and implement measures to raise awareness, for example, training in human rights.

Violations of human rights can be reported to Evonik via a whistleblower system run by a third party. This enables employees and external parties (e.g., suppliers, customers, and other business partners) to report suspected breaches of human rights. The anonymity of the whistleblower is protected. All allegations are investigated internally. No suspected breaches of human rights were reported in 2020.

In view of the increasing importance of human rights in global supply chains, we believe it is necessary to raise the awareness of employees and business partners and sharpen their compliance with human rights. We have therefore developed human rights training activities, which have been extended in recent years. They include face-to-face sessions, training via internal communication platforms, and e-learning modules for our employees worldwide.

The German government's national action plan on business and human rights (NAP) is an initiative to improve human rights throughout the value chain. The German government monitors implementation of core elements of the duty to respect human rights. Our operating units took part in this review. The government will use the findings to decide on possible legislation.

5.5.4 Social commitment

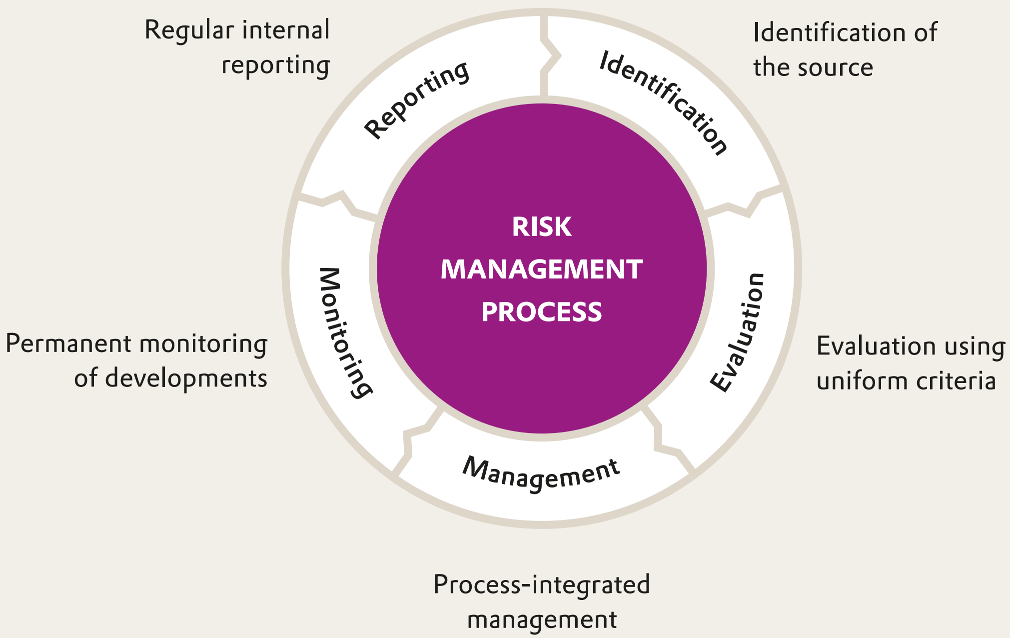
We produce where our markets and customers are. Consequently, we have production facilities in 27 countries on six continents. Local residents around our sites play an especially important part in stakeholder management at Evonik. At all our sites they have an elementary interest in experiencing Evonik as a reliable partner and want timely information on the latest developments in the Evonik Group. 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.

Our commitment comprises donations and sponsorship activities, with a special focus on Evonik's core competencies: creativity, specialization, self-renewal, and reliability. We only sponsor projects and initiatives that fit our core brand. In addition, our aim is to foster the positive development of society around our sites worldwide. Our operating units support their own projects tailored to their business and local communities—within our strategic guidelines, which are set out in our policies on donations and sponsorship. Overall, we concentrate our social commitment on the areas of education and science, social projects, culture and the arts, and sport.

The Evonik Foundation has a special place in Evonik's social commitment. Its motto is supporting people because it is people who shape the future. The Evonik Foundation pursues its goals through its own programs and projects and by making donations to support projects by other organizations. The foundation's mission defines young people, science, and integration as its key areas of focus. The Evonik Foundation's support centers primarily on Germany, which a special focus on the regions close to Evonik's sites.

6. Opportunity and risk report

Group-wide risk management aims to identify risks as early as possible, define measures to mitigate and minimize risks, and make optimal use of opportunities



Material risks
(Expected value >€100 million)

- Macoreconomic development
- Development of margins for C_4 chemicals
- Price trend for amino acids
- Changes in exchange rates
- Threat of cyberattacks

Material opportunity
(Expected value >€100 million)

- Changes in exchange rates

6.1 Opportunity and risk management

Risk strategy

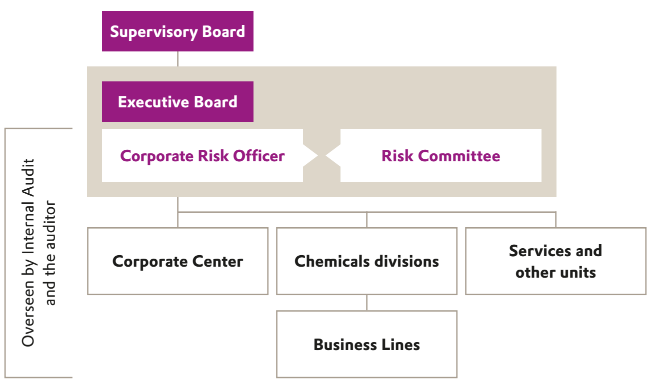
Evonik's group-wide internal opportunity and risk management (referred to generically as risk management in this section) forms a central element in the management of the company. Our risk management includes a risk detection system, which meets the requirements for publicly listed companies. The aims are to identify risks as early as possible and to define measures to counter and minimize them. To ensure optimal use is made of opportunities, these also need to be recognized and tracked from an early stage. We only enter into entrepreneurial risks if we are convinced that, in this way, we can generate a sustained rise in the value of the company and, at the same time, permanently limit possible negative implications.

Structure and organization of risk management

At Group level, risk management is assigned to the chief financial officer and is organized on a decentralized basis in line with Evonik's organizational structure. The chemicals divisions, corporate center, service units, and other organizational units bear prime responsibility for risk management. That comprises early identification of risks and estimating their implications. Furthermore, suitable preventive and control measures have to be introduced and internal communication of risks must be ensured. Risk coordinators in the organizational units are responsible for agreeing on the relevant risk management activities. At all levels in the Group, systematic and timely risk reporting is a key element in strategic and operational planning, the preparation of investment decisions, projections, and other management and decision-making processes.

A central corporate risk officer coordinates and oversees the processes and systems. The corporate risk officer is the contact for all risk coordinators and is responsible for information, documentation, and coordination at Group level. Further responsibilities include ongoing development of the methodology used by the risk management system. The risk committee is chaired by the chief financial officer and composed of representatives of the corporate center. It validates the group-wide risk situation and verifies that it is adequately reflected in financial reporting. The supervisory board, especially the audit committee, oversees the risk management system.

Structure of risk management C28



In 2020, risk management again included all consolidated companies in the Evonik Group. At companies where we do not exert a controlling influence, we implement our risk management requirements primarily through our presence in management and supervisory bodies. The internal audit function monitors risk management in our organizational units to make sure they comply with statutory and internal requirements and to ensure the continuous improvement of risk management. The risk detection system is included in the annual audit in compliance with the requirements for listed companies. This audit showed that Evonik's risk detection system is suitable for timely identification of risks that could pose a threat to the company's survival.

The risk management system is based on the internationally recognized COSO Enterprise Management standard. It is implemented through a binding group-wide policy. Individual risks are systematically identified and managed with the aid of special risk management software. Their probability of occurrence and the possible damage (potential impact) are evaluated and documented, together with their expected value (product of probability of occurrence and potential impact). Analogously to current planning, the evaluation is based on a period of three years (mid-term planning). Opportunities and risks are defined as positive and negative deviations from the plan. The relevant indicators include adjusted EBITDA. In addition, longer-term opportunities and risks, including those relating to sustainability, are included. The opportunities and risks are assigned to categories in a uniform risk catalog. Climate-related opportunities and risks are integrated into appropriate established categories.

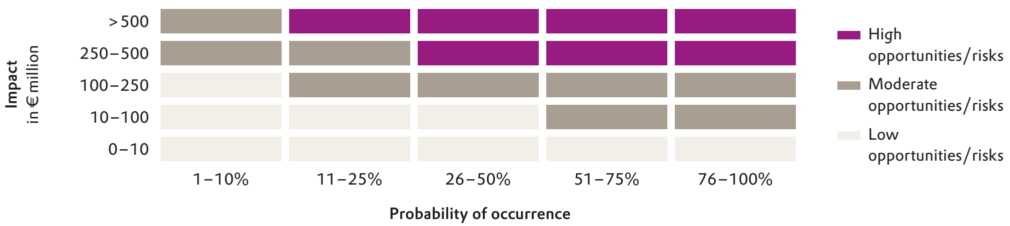
The organizational units conduct an extensive annual risk inventory in connection with the mid-term planning process. They are required to provide details of the measures to be taken with regard to the risks identified, introduce them immediately, and track their timely implementation. Internal management (for example, reporting by the risk committee) takes a mid-term view.

The opportunities and risks identified are classified as low, moderate, or high (see opportunity and risk matrix). The evaluation is always based on a net view, in other words, taking into account risk limitation measures. Risk limitation measures can reduce, transfer, or avoid gross risks. Common measures include economic mitigation measures, insurance, and the establishment of provisions on the balance sheet.

The risk inventory is supplemented by regular quarterly reviews of all opportunities and risks relating to the present year, both to spot changes in the opportunities and risks that have already been identified and to identify new risks and opportunities.

All high and moderate risks and opportunities with an expected value of over €100 million in the mid term are classified as material individual risks and opportunities. The expected value is used exclusively as a basis for prioritization and to focus reporting on key issues.

Opportunity/risk matrix C29



6.2 Overall assessment of opportunities and risks

Given the measures planned and implemented, as of the reporting date, no risks have been identified that—either individually or in conjunction with other risks—could jeopardize the continued existence of Evonik as a whole, including Evonik Industries AG in its role as the holding company for the Group.

For 2020, we expected more risks than opportunities. Since the situation was very volatile, not least due to the coronavirus pandemic, both opportunities and risks were more pronounced that in the previous year. Overall, more risks than opportunities materialized in all segments in 2020. Our reporting distinguishes between the categories markets and competition, legal and compliance, and process and organization. The main parameters influencing the risk categories in terms of both opportunities realized and risks that materialized resulted from the development of specific market and competitive situations. From the present standpoint, the risks for 2021 again outweigh the potential opportunities. Due to the ongoing uncertainty for the Evonik Group as a result of the coronavirus pandemic, both opportunities and risks have increased compared with 2020.

The material risks for the Evonik Group, alongside the economic development and the impact of the coronavirus pandemic, are the development of margins on C_4 chemicals, the price trend for amino acids, and the increasing threat of cyberattacks. There are material opportunities and risks relating to changes in the exchange rates of the main currencies of relevance for the Evonik Group. Measures to reduce the risks include general economic mitigation measures, strengthening our IT security, and, especially with regard to changes in exchange rates, the use of hedging instruments. Sections 6.3 p. 62 ff., 6.4 p. 67 f., and 6.5 p. 69 present the material risks and material opportunities, along with further opportunities and risks in each category. Except where otherwise indicated, they apply to all segments.

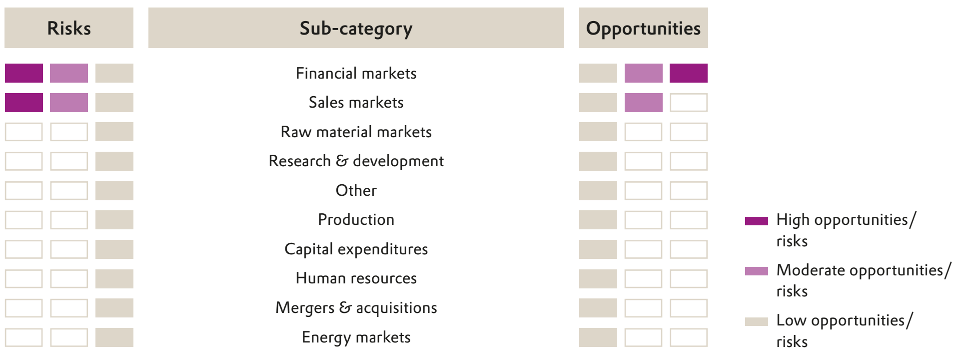
6.3 Market and competition opportunities and risks

In accordance with our internal management, opportunities and risks in the markets and competition category are allocated to risk quantification classes within sub-categories. The chart below shows the highest class to which an individual risk or opportunity is allocated in each sub-category. Individual opportunities and risks may also be allocated to the lower risk classes. Where two sub-categories have the same profile in the chart, they are ranked first on the basis of the opportunities, then listed in descending order, based on their expected impact.

1. Financial markets

As a rule, liquidity, credit default, currency, and interest rate risks, and the risks relating to pension obligations are managed centrally. All material financial risk positions are identified and evaluated in accordance with group-wide policies and principles. This forms the basis for selective hedging to limit risks. In the use of derivative and non-derivative financial instruments to minimize the risks, Evonik applies the principle of separation of front office, risk controlling, and back office functions and takes as its guide the banking-specific minimum requirements for risk management (MaRisk) and the requirements of the German legislation on corporate control and transparency (KonTraG). Financial derivatives[1] are only used in connection with corresponding hedged items.

Opportunity and risk classes within the market and competition category C30



Exchange rate volatility

Transaction-related exchange rate risks arise from the translation of operating monetary assets and liabilities on the balance sheet into the functional currency of the respective Group company. The resulting net risk is normally hedged in full using derivatives. Further, our transaction-related currency management takes account of forecast cash inflows and outflows, which are hedged on the basis of forecast transactions, with a target hedging rate of up to 75 percent. Material opportunities and risks may arise from the remaining unhedged items and from discrepancies between the actual future rates and the average rates used to hedge forecast transactions. Scenario analyses are performed to estimate and control such risks and opportunities. These focus on the main foreign currencies of relevance for the Evonik Group, the US dollar, the Chinese renminbi yuan, and the Singapore dollar. In view of the rising importance of regions outside the euro zone, risks and opportunities relating to transactions in foreign currencies will increase in the long term. In addition, there are currency-related risks from the translation of separate financial statements. Increasing volatility of exchange rates can be seen, in particular, in emerging markets, for instance, in Argentina, which is a hyperinflationary economy. Economic risks also arise because exchange rates influence our competitiveness in global markets.

Changes in interest rates

Potential changes in capital market rates result in opportunities and risks. These comprise, on the one hand, changes in the fair value of fixed-interest financial instruments and, on the other, changes in interest payments on variable-rate financial instruments. To control these risks, when setting interest rate terms Evonik pays special attention to the structure of the fixed-floating rate mix and uses interest rate swaps for further optimization where appropriate. Through the use of fixed-interest loans and interest rate hedging instruments, 98 percent of all financial liabilities were classified as fixed-interest as of the reporting date and therefore had no material exposure to changes in interest rates.

Liquidity risks

To manage the Group's solvency, Evonik uses central liquidity risk management[2]. At its heart is a group-wide cash pool. In addition, Evonik's financial independence is secured through a broadly diversified financing structure, a €1.75 billion revolving credit facility as a central source of liquidity, and our solid investment grade rating. Overall, we believe that adequate financing instruments are available to ensure sufficient liquidity at all times.

[1] Further details of the financial derivatives used and their recognition and measurement can be found in note 9.4 to the consolidated financial statements p. 164 ff.
[2] A detailed overview of liquidity risks and their management can be found in note 9.4 to the consolidated financial statements p. 164 ff. Details of the financing of the Evonik Group and action to protect liquidity can be found in the section 2.9 Financial condition p. 34 ff.

Default risks

Default risks involve the risk of a loss if our debtors are fully or partially unable to meet their payment commitments. The credit risk of our customers and financial counterparties is therefore systematically examined when the contracts are concluded and monitored continuously afterwards. Limits are set for each contractual partner on the basis of internal or rating-based creditworthiness analyses.

Financial opportunities and risks in connection with pension obligations

Both opportunities and risks may arise from potential changes in the parameters used to evaluate our pension obligations[1]. Changes, especially in interest rates but also in mortality rates and rates of salary increases, can alter the present value of pension obligations, which directly alters equity and can result in changes in the expenses for pension plans. Market opportunities and risks, and liquidity and default risks relating to financial instruments, also arise from the management of our pension plan assets. We counter these risks through an active risk management approach, combined with detailed risk controlling. Strategic management of the portfolios takes place via regular asset/liability studies. To minimize risk, we use derivative hedging strategies where appropriate. The broad diversification of asset classes, portfolio sizes, and asset managers avoids cluster risks, but there are unavoidable residual risks in the individual investments.

Impairment risk

The risk of asset impairment arises when the interest rate used in an impairment test rises, the forecast cash flows decline, or investment projects are halted. Specific risks may arise in connection with goodwill or individual assets.

2. Sales markets

The global macroeconomic development entails both opportunities and material risks for Evonik. These opportunities and risks will be driven by the development of the coronavirus pandemic. Other relevant parameters affecting the macroeconomic development are trade disputes, the impact of Brexit, and the general economic trend in the major economies. Developments in key sectors of the economy can affect demand in the market areas of relevance for Evonik. Global economic trends influence the development of Evonik's earnings and cash flows. We counter these economic risks by constantly monitoring the macroeconomic environment, optimizing cost structures and competitive positions in our established areas of business, setting up production facilities close to our markets, and extending businesses in our portfolio that have low cyclical exposure.

Alongside the general demand situation, intensive competition in the various market segments harbors both opportunities and risks. These may result from either demand in specific markets or the competitive situation in various industries. Changes in demand can have a considerable impact on our business volume and sales. There are associated opportunities and material risks, among other things, for our amino business and our C_4 chemicals business. In our market segments, climate change could also result in both opportunities and risks for Evonik. There could be a significant hike in the rising demand from our customers for products that save resources, resulting in a correspondingly positive impact on our business. Additional regulations or weather-related incidents could put pressure on production costs and, at the same time, lead to rising demand for our resource-efficient products. To reduce the risks, we monitor the specific developments very carefully and work closely with our customers on the development of sustainable solutions.

Competitors in emerging markets and developing countries can increase competitive pressure through new capacities and aggressive pricing policies that can impair our selling prices and volume trends. To counter this, we are broadening our foreign production base and gaining access to new markets in high-growth regions such as Asia and South America. To reduce these risks, the operating units affected also use various methods of increasing customer loyalty and gaining new customers, enter into strategic research alliances with customers, and extend the services offered along the value chain.

We are constantly developing attractive and competitive new products and technologies to mitigate the risk that chemical products could be replaced by new, improved, or less expensive materials or technologies. One potential risk factor for our amino acids business, for example in Asia, is the possible impact of sub-standard food quality and food safety. We utilize opportunities for profitable future growth by gaining access to new markets as part of our strategic development.

Customer concentration is basically low in our chemicals business. None of the end-markets that we supply accounts for more than 20 percent of sales. Nevertheless, some operational units, especially in the Smart Materials division and the Services segment have a certain dependence on key customers. In the operating business, this applies in particular to production facilities erected in the direct vicinity of major customers. The possible loss of a major customer could result in lower sales and in impairment losses.

[1] See note 6.10 to the consolidated financial statements. p. 144 ff.

3. Raw material markets

For our business operations, we require both high-volume raw materials and smaller amounts of strategically relevant raw materials that have to meet highly demanding specifications. In both cases, Evonik is confronted with opportunities and risks relating to the increasing volatility of the availability of raw materials and their prices.

The operating business is dependent on the price of strategic raw materials, especially petrochemical feedstocks obtained from crude oil. The price of renewable raw materials is also highly volatile and is driven, for example, by weather-dependent harvest yields. Changes in exchange rates are another significant aspect affecting price risks. These risks are hedged by optimizing the global focus of procurement activities, for example, by accessing new markets and concluding long-term agreements. To further reduce the price risks with regard to products that have intensive raw material requirements, our aim is to pass both the risks and the opportunities of fluctuations in raw material prices along to other stages in the value chain, where necessary through price escalation clauses.

The overriding aim of the procurement strategy is to secure the availability of raw materials on the best possible business terms. Short- and mid-term bottlenecks in the availability of precursors and intermediates are potential risks. As well as making preparations to use substitute suppliers in an emergency, we constantly monitor the business performance of suppliers of selected key raw materials to anticipate bottlenecks and avoid risks. This procedure has proven both effective and successful, even in the face of the additional supply risks caused by the coronavirus pandemic in the reporting period. The increasing volatility requires constant monitoring of the corresponding risks in the value chain.

The heightened market volatility is due to three principal factors: Firstly, political uncertainty, trade barriers, and secondly the pandemic-induced changes in end-markets, together with the related regional shifts. Thirdly, restricted availability on chemical raw material markets, resulting from a large number of technical difficulties and low inventories throughout the industry as demand picked up.

The price of petrochemical feedstocks is dependent, on the one hand, on price trends on the crude oil markets and, to an even greater extent, to the low availability of raw materials in the supply chain. This also applies to inorganics. In terms of availability and prices, all the chemicals divisions are currently exposed to higher risk.

Supply chain

Compliance with sustainability criteria in the supply chain is a central aspect of procurement. We expect our suppliers to share our principles of entrepreneurial responsibility. We therefore have our own code of conduct for suppliers, based on the principles of the UN Global Compact, the International Labour Standards issued by the International Labour Organization (ILO), and the Responsible Care® initiative. Globally, this approach to sustainability is also supported by the sector initiative Together for Sustainability, of which Evonik is a founding member, through the use of standardized assessments. Evonik's principal suppliers and the majority of critical suppliers have already taken part in these assessments, which are evaluated by an impartial sustainability rating company.

4. Research and development

Opportunities for Evonik also come from market-oriented research and development (R&D), which we regard as an important driver of profitable growth. We have a well-stocked R&D pipeline with a balanced mixture of short-, mid-, and long-term R&D projects. On the one hand, we constantly strive to improve our processes in order to strengthen our cost leadership, and on the other, our projects open the door to new markets and new fields of technology. Our project portfolio is consistently aligned with our growth divisions and the innovation growth fields, which have high sustainability benefits. Through our venture capital program, we take stakes in companies whose know-how can support us in joint developments. Aspects of digitalization are becoming more significant.

Opportunities and risks in R&D relate to the viability of planned product and process developments and the timing of their implementation. We mainly see additional potential arising from the introduction of new products that go beyond our present planning in our six innovation growth fields.

5. Other

While measures have already been defined for the entire SG&A 2020 cost-saving program, there could be further risks relating to the achievement of further cost-saving targets. The possible risks include delays in implementation, the loss of key personnel, ineffectiveness of measures, and higher costs for the realization of measures. Stringent project management, including involving relevant stakeholders, is used to counter these risks.

6. Production

As a specialty chemicals company, Evonik is exposed to the risk of business interruptions, quality problems, and unexpected technical and IT malfunctions. Business operations could also be disrupted by climate-related factors such as extreme weather events. Capacity constraints could hold back organic growth. We use complex production processes, some of them with interdependent production steps. Consequently, disruption and stoppages can adversely affect subsequent production steps and products. The outage of production facilities and interruptions in production workflows could have a significant negative influence on business and earnings performance and could also harm people and the environment. Group-wide policies on project and quality management, highly qualified employees, and regular maintenance of our plants effectively minimize these risks. Insofar as is economically viable, we take out insurance to cover damage to our plants and sites and production stoppages, so the financial consequences of potential production risks are largely insured. Nevertheless, there is a risk of unforeseeable individual incidents.

7. Investments

Generating growth through investment entails risks as regards the proposed scope and timing of projects. These risks are addressed through established, structured processes. For instance, we take an extremely disciplined approach to implementing our investment program. Both projects that have not yet started and those that are already underway are constantly reviewed for changes in the market situation and postponed if necessary.

At the same time, we regard building new production facilities in regions with high growth momentum as an opportunity to generate further profitable growth.

8. Human resources

As a global corporation, we respect the principles of the International Charter of Human Rights, the ten principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the International Labour Standards of the International Labour Organization (ILO). Compliance with all employment laws is especially important to us.

Qualified specialists and managers are the basis for the achievement of our strategic and operational targets and thus a key competitive factor. Both the loss of key personnel and difficulties in attracting and hiring skilled and talented staff could therefore constitute a risk in this context. To ensure that we can recruit and retain qualified staff to meet our future requirements, we offer varied employment opportunities worldwide, systematic personnel development, and competitive remuneration. As a responsible employer, Evonik helps the majority of employees build financial security to cover adverse risk factors such as the risk of accident or disability and provide for retirement, either directly or through pension contributions to external institutions. The arrangements are based on the economic, legal, and tax situation in the various countries. In addition to this, we foster the personal wellbeing of employees through programs such as well@work, a range of consulting offers for employees caring for close relatives, and support in childcare. In this way, we retain and foster high-performers and talented employees and position Evonik as an attractive employer for prospective staff. We maintain close links to universities and professional associations to help us recruit suitable youngsters. Both our employer branding and many internal activities are aligned to diversity. The aim is to make Evonik even more attractive to talented specialists and managers.[1]

Our strategic human resources planning identifies requirements for a five-year period, so timely steps can be taken to cover future personnel needs. We have thus largely limited potential human resources risks. Opportunities and risks for the development of personnel expenses could come, for example, from future collective agreements.

9. Mergers and acquisitions

Active portfolio management has high priority for Evonik as part of our value-based management approach. We have set out clear procedures for preparing, analyzing, and undertaking acquisitions and divestments. In particular, these include clear rules on accountability and approval processes. An intensive examination of potential acquisition targets (due diligence) is undertaken before they are purchased. This involves systematic identification of all material opportunities and risks and an appropriate valuation. Key aspects of this process are strategic focus, earnings power, and development potential on the one hand, and any legal, financial, and environmental risks on the other. New companies are rapidly integrated into the Evonik Group and thus into our risk management and controlling processes. Every transaction of this type entails a risk that integration of the business may not be successful or that integration costs may be unexpectedly high, thus jeopardizing realization of the planned quantitative and qualitative targets such as synergies.

[1] See section 5.2 Employees p. 47 ff.

Where businesses no longer fit our strategy or meet our profitability requirements despite optimization, we also examine external options. If a planned divestment is not achieved successfully, this could generate risks that impact the Evonik Group's earnings position.

10. Energy markets and emissions trading

Evonik requires considerable amounts of energy from a wide variety of sources for its chemical facilities and infrastructure. The main sources are natural gas, electricity, and at present, still coal. At several major sites, our power and steam requirements are fully or partially met by resource-efficient co-generation plants. We constantly monitor trends on the national and international energy markets, including the extended scope to use "green" energy, enabling us to respond in a risk- and cost-conscious manner, which is compliant with our strategy.

In countries where the sourcing of energy is not state-regulated, we procure and trade in energy and, where necessary, emission allowances (CO_2 allowances) within the framework of defined risk strategies. The aim is to balance the risks and opportunities of the volatile markets for energy and CO_2 allowances. Depending on how the general conditions develop, our divisions could be faced with additional costs.

For our facilities within the scope of the European emissions trading system, it is foreseeable that adverse effects will arise from the structure of the fourth trading period (2021 to 2030), especially a more stringent benchmark for the allocation of free CO_2 allowances. Moreover, we assume that the plans to raise the EU climate target to a 55 percent reduction in CO_2 by 2030 will result in a reduction in the allocation of free allowances and thus to further costs. From 2021, our German sites will be affected by the national Fuel Emissions Trading Act (BEHG) for the (non-ETS) traffic and heat sectors. The possible financial burden for Evonik cannot be finally quantified at present, especially as the measures announced by politicians to protect the competitiveness of industry (carbon leakage ordinance) have not yet become law.

Further climate protection legislation cannot be ruled out in other jurisdictions. In the broader regulatory context, the way in which the cost of renewables is allocated—possibly retroactively—among captive energy generators in Germany is of particular significance for Evonik. We assume that the captive generating facilities that we operate at various sites and the replacement of the coal-fired power plant in Marl (Germany) by a highly efficient gas and steam turbine plant, which is currently under construction, will play a part in safeguarding the competitiveness of our German sites in the future. Possible additional costs could arise from the increase in grid fees resulting from the shift in German energy policy, including further state-driven cost components and possible fundamental changes to the grid fee system. To sum up, we are exposed to fluctuations in the market price and cost of various energy sources and CO_2 allowances of various types as a result of the specific demand/supply situation and political events. These entail both opportunities and risks.

6.4 Legal/compliance opportunities and risks

The opportunities and risks in this category are far more difficult to quantify than market and competition risks, as they not only have financial implications but often also involve reputational risks for the company and/or criminal law consequences. Provisions are set up on our balance sheet to cover the financial impact. These are reflected in our system as reducing risk. In view of this complexity, legal/compliance opportunities and risks are not assigned to the opportunity/risk matrix illustrated above, nor are they allocated to the risk quantification classes.

1. Compliance, law, and the regulatory framework

Compliance means lawful business conduct. The principal compliance rules are set out in the Evonik Code of Conduct, which explicitly prohibits, for example, all forms of corruption, including "facilitation payments," and violation of antitrust regulations. Risks could result from failure to comply with the corresponding regulations. To minimize compliance risks, extensive training and sensitization of employees is undertaken at face-to-face training sessions and/or through e-learning programs. Our code of conduct is binding for all Evonik employees worldwide, including the executive board and the governance bodies of all Evonik companies. They are 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.[1]

Evonik monitors the observance of human rights along the value chain. To minimize the related risks, we require compliance with our code of conduct for suppliers, our global social policy, and the policy statement on human rights.

Evonik is exposed to legal risks resulting, for example, from legal disputes such as claims for compensation, and from administrative proceedings and fines. In its operating business, the Evonik Group is exposed to liability risks, especially in connection with product liability, patent law, tax law, competition law, antitrust law, and environmental law. Changes in public law could also give rise to legal risks or materially alter such risk positions. As a chemical company with its own power plants, risks of particular relevance here are a possible change in the charges levied under the German Renewable Energies Act (EEG) and amendments to the European emissions trading regulations. Further, Evonik may be liable for guarantee claims relating to divestments. Moreover, structured post-transaction management closely monitors any liability and guarantee risks resulting from divestments. We have developed a concept involving high quality and safety standards to ensure a controlled approach to such legal risks.

Insurance cover has been purchased for the financial consequences of any loss that may nevertheless occur as a result of damage to property, product liability claims, and other risks. Where necessary, Evonik sets up provisions for legal risks.

At present, the relevant legal risks are the issues outlined below. As a matter of principle, we refrain from evaluating the opportunities and risks of potential legal proceedings or proceedings that have commenced, in order not to influence our position.

In connection with the divestment of the former carbon black activities, the purchaser has now asserted its purported right to indemnification from environmental guarantees relating, among other things, to alleged infringement of the US Clean Air Act through arbitration proceedings filed on June 11, 2019. Based on a proposal for a settlement, it is now being considered whether to commence settlement negotiations.

Further, Evonik is engaged in a dispute with the purchaser of the methacrylates business, which was divested in 2019, on the finalization of the purchase price. Differences of opinion with regard to the recognition and measurement of certain liabilities on the balance sheet for the business divested could not be resolved by negotiation. In the fourth quarter of the year, the acquirer therefore initiated the contractually agreed arbitration proceedings.

With regard to employment law, there are risks relating, for example, to the recalculation of pension commitments entered into by Evonik and its legal predecessors.

Tax risks relate to differences in the valuation of business processes, capital expenditures, and restructuring by the financial authorities, tax reforms in some countries, and potential retroactive payments in the wake of tax audits.

2. Information security and the protection of intellectual property and know-how

Innovations play a significant part in Evonik's business success. Protecting know-how and intellectual property is therefore of central importance. With markets growing ever closer and the globalization of business, a competent approach to protecting our competitive edge is a key element in our investment activities.

[1] See declaration on corporate governance p. 82 ff.

The company is also exposed to a risk that intellectual property cannot be adequately protected, even through patents, especially when building new production facilities in certain countries. Similarly, the transfer of know-how in joint ventures and other forms of cooperation also entails a risk of an outflow of expertise from Evonik. For example, in the event of the possible separation from a joint venture or other cooperation partner, there is no guarantee that the business partner will not continue to use know-how or disclose it to third parties, thereby damaging Evonik's competitive position. Measures to minimize and avoid such risks are coordinated by the Corporate Security, Law, and Intellectual Property Management functions.

Cybersecurity risks

IT-assisted business processes are key elements in Evonik's success. Therefore, sustained protection of the availability, confidentiality, and integrity of IT-assisted business processes are especially important. If these systems are compromised, there is a significant risk that this could have a detrimental effect on our business and production processes. To protect them and the associated knowledge from cybercrime (including industrial espionage and manipulation through electronic attacks) from both within and outside the Evonik Group and to minimize such risks, we have developed a cybersecurity strategy and established organizational and technical measures. The secure use of information systems is described in binding group-wide policies and regulations and driven forward and monitored by an internal control system.

In view of the considerable and continuously rising threat, we regularly review our security measures, implement risk-based countermeasures as required, and adapt them wherever necessary. Training, including compulsory training in some cases, and constant information, for example, via the Evonik Group intranet and internal social networking platforms, keep employees aware of the need for cybersecurity. Evonik identifies those IT systems that are at particular risk and implements appropriate protective measures. At the same time, action is taken to raise managers' awareness of cybersecurity. The Evonik Cyber Defense Team (CDT) is networked externally at various levels (Germany: member of the German CERT network, Europe: member of TF-CSIRT*, globally: member of FIRST).

3. Environmental risks (environment, safety, health, quality)

Evonik is exposed to risks in the areas of occupational and plant safety. For example, workplace accidents and incidents in production facilities can cause injury to our employees or substance releases that impair the health of our employees and local residents. We counter these risks by living our understanding of safety as a holistic management task at all management levels. Our guiding principles for safety are binding for all managers and employees. In this way, Evonik makes it clear that safety is a central element in its corporate culture. We analyze accidents and incidents carefully so we can learn from them. Moreover, audits are conducted at the request of the executive board to check the controlled handling of such risks.

The aim of our product stewardship is timely identification and evaluation of possible 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.

In the event of a pandemic, Evonik could be exposed to unforeseeable staff shortages because employees are sick, in quarantine, have to care for relatives, or are required to undertake pandemic-related civic tasks (e.g., civil protection, assisting public health organizations). If the number of employees in production facilities falls below the minimum level as a result, a controlled safety shutdown of the production facilities would be necessary. That would halt production. Evonik has carefully prepared pandemic plans to counter the risk of a pandemic. These contain measures to maintain productivity and reduce the risk of infection for employees, visitors, and contractors.

The effects of climate change are already visible today, for example, in water stress[1] and acute weather-related events such as low water levels in the river Rhine and hurricanes. Alongside these direct negative effects of climate change, we are also exposed to risks resulting from stricter environmental regulations.

The group-wide environmental protection and quality management system, which is validated as conforming to international standards, undergoes constant development and improvement. As a responsible chemical company, Evonik ensures that such processes are operated in accordance with the principles of the global Responsible Care® initiative and the UN Global Compact.

Adequate provisions have been established to secure or remediate contaminated sites where necessary. Alongside the need to adjust environmental provisions identified through structured internal processes, for example, as a result of changes in the regulatory framework, further unplanned additions to such provisions may be necessary.

[1] Especially water shortages.

6.5 Process/organization risks

1. General

This risk category covers the interface between risk management and the internal control system (ICS). In this category, risks generally result from specific process shortcomings. Alongside general weaknesses, these include, in particular, risks within the ICS and the accounting-related ICS. Classification is therefore based on the list of processes drawn up by Corporate Audit. Starting from key corporate processes, the existence of relevant control objectives and standard controls for the main risks identified is checked. In view of the types of risk in this category, a purely qualitative assessment is normally used. The evaluation of specific risks resulting from weaknesses in processes within the organizational units showed very little scope to optimize existing processes because of the efficacy of the current controls. The corresponding scope for improvement has been identified. There are therefore no signs of systematic errors in the Evonik Group's ICS.

2. Internal control system for financial accounting

The main financial reporting risks are identified in the ICS through a quantitative and a qualitative analysis. Controls are defined for each risk area of the accounting process. Their efficacy is reviewed at regular intervals and improved where necessary. All elements of the control process are verified by the internal audit function on the basis of random samples. To ensure the quality of financial statements, we have a group-wide policy, which defines uniform accounting and valuation principles for all German and foreign companies included in the consolidated financial statements for the Evonik Group. The majority of companies have delegated the preparation of their financial statements to Global Financial Services. Through systematic process orientation, standardization, and the utilization of economies of scale, this leverages sustained cost benefits and also improves the quality of accounting. Global Financial Services has developed a standardized control matrix for the internal control system for financial accounting. This is implemented in the three global shared service centers: in Offenbach (Germany) for Germany, Austria, Finland, and Turkey; in Kuala Lumpur (Malaysia) for the Asia region and countries in the EMEA[1] region not served by the Offenbach center; and in San José (Costa Rica) for the Americas region. The aim is to ensure a uniform global standard for the internal control system for financial accounting. In principle, the annual financial statements of all fully consolidated companies and all joint operations are audited. In the few exceptions from this rule, an upfront risk assessment is performed with the auditor.

All data are consolidated by Corporate Accounting using the SAP SEM-BCS system. Group companies submit their financial statements via a web-based interface. A range of technical validations is performed at this stage. Computerized and manual process controls and checking by a second person are the key oversight functions performed in the financial reporting process. The preparation of the monthly consolidated income statement and three quarterly reports allows us to gain experience with new accounting issues and provide a sound basis for plausibilization of the year-end accounts. The executive board receives monthly reports, and quarterly reports are submitted to the audit committee of the supervisory board.

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

[1] Europe, Middle East & Africa.

7. Report on expected developments

Outlook 2021

	SALES	ADJUSTED EBITDA				
		Evonik Group	Specialty Additives	Nutrition & Care	Smart Materials	Performance Materials
2020	€12.2 billion	€1.906 billion	€857 million	€560 million	€529 million	€88 million
Forecast	€12.0 billion – €14.0 billion	€2.0 billion – €2.3 billion	At the very good prior-year level	Slightly above the prior-year level	Considerably higher	Significantly higher

Basis for our forecast:

- Global growth: 4.4% (2020: –3.9%)
- Euro/US dollar exchange rate: US$1.20 (2020: US$1.15)
- Internal raw material cost index higher than in the prior year

7.1 Economic background

Global economy expected to recover from the pandemic but uncertainty remains high

We anticipate that uncertainty will continue to dominate economic conditions in 2021. Progress with vaccinations to protect against coronavirus and expectations that the pandemic will subside should result in a clear global recovery in 2021. Moreover, further escalation of the trade dispute between the USA and China is unlikely under the new US administration, so world trade relations should stabilize. The accommodative global monetary and fiscal policies will likely be continued, providing further support for the economic recovery. Overall, we anticipate a strong rebound in global growth of around 4.4 percent[1] in 2021.

GDP forecast for 2021 C31

We assume that Europe will recover from last year's economic downturn but will probably not be back at the pre-crisis level by the end of 2021. Export-driven economies in this region should benefit most from the global recovery, especially as the trade policy risks should be lower under the new US administration. Agreement on the future relationship between the EU and the UK has significantly reduced uncertainty. Further support should come from the continued expansionary fiscal and monetary policy.

We also anticipate a recovery in North America during the year. Since coronavirus infections were still very high at the start of the year, a more dynamic upward trend is expected primarily from mid-year. In the USA, the new administration is expected to adopt an expansionary fiscal policy, which should support consumer demand, and monetary policy will probably remain accommodating.

An economic rebound from the coronavirus-induced downturn is also expected in Central & South America. However, the recovery is expected to be slower than in most other regions, partly due to less extensive fiscal and monetary policy measures. Rising raw material prices and low interest rates should be positive for export-based countries.

Asia-Pacific will probably continue to benefit from the more favorable course of the pandemic and high demand for consumer goods, with economic growth returning to a high level. The Japanese economy will probably be less dynamic than most other economies in this region. China should benefit from high global demand, with growth well above the mid-term trend. Nevertheless, it remains to be seen how the ongoing trade policy risks affect the Chinese economy.

The projection for the world economy is still hampered by great uncertainty. Despite progress with coronavirus vaccinations, we still see a risk of a renewed, rapid spread of the pandemic, not least due to virus mutations, with potentially negative implications for the global economy and the global financial system. We do not expect there to be any further escalation of the trade dispute between the USA and China under the new US administration. However, we see a risk that the present trade conflict could noticeably hold back global economic activity. The risk of trade conflicts spreading to other regions remains a threat to world trade and the global economy. Another risk factor for the global economy is the escalation of political conflicts, for example, between China and Taiwan and in the Middle East, with potentially negative consequences for the oil price. Domestic policy conflicts in the wake of the pandemic could also pose a threat to the global economy. Furthermore, the continued uncertainty about the future economic relationship between the European Union and the UK in the service sector could hold back growth momentum. Global economic growth could also deteriorate if central banks tighten monetary policy, although this is not expected at present, or if fiscal policy support is reduced. Moreover, global inflationary risks could prove detrimental, for example, for the financial markets. Nevertheless, we assume that in 2021 inflation will only be slightly higher than in 2020.

Despite the persistent global uncertainty, we anticipate that raw material prices will rise slightly. Overall, we expect that the prices of the specific raw materials used by Evonik will be higher than in 2020, but still below the pre-crisis levels of 2019.

In the light of the current fundamental data for the euro zone and the USA, we assume that in 2021 the average euro exchange rate will be well above the 2020 level.

[1] Based on data from IHS Markit as of January 15, 2021.

7.2 Outlook

Our forecast is based on the following assumptions:

- Global growth: 4.4 percent (2020: –3.9 percent)
- Euro/US dollar exchange rate: US$1.20 (2020: US$1.15)
- Internal raw material index higher than in the prior year

Sales and earnings

Our outlook for 2021 is based on the assumption of a sustained global economic recovery as outlined in the section headed "Economic background" p.71. Nevertheless, there is still considerable uncertainty regarding the projected economic development, including the risk that the measures introduced in many countries to contain the spread of coronavirus could be continued or tightened.

Evonik anticipates that **sales** will be between €12.0 billion and €14.0 billion in 2021 (2020: €12.2 billion). The growth divisions will benefit further from the resilience and quality they demonstrated in the coronavirus crisis and continue their long-term growth trend. The integration of PeroxyChem and Porocel will bring a further improvement in the structural earnings quality of our portfolio. Evonik's innovation growth fields should continue to contribute to growth in 2021. However, exchange rates are likely to have a slightly negative effect on earnings. Overall, we expect **adjusted EBITDA** to be between €2.0 billion and €2.3 billion (2020: €1,906 million).

In 2021, the Specialty Additives division will once again benefit from its attractive business model, which is focused on customized, mission-critical solutions for our customers. Despite the challenging conditions in 2020, this division maintained its business performance at the pre-crisis level. We expect broad-based growth this year too; only the crosslinker business in Asia might not achieve last year's high level. Overall, we expect earnings in this division to be at the very good prior-year level (2020: €857 million).

For the Nutrition & Care division, we assume that the structural growth trend in our resilient end-markets will continue. We expect business in the consumer goods, nutrition, and healthcare areas to develop positively without cyclical exposure. Overall, we anticipate that this division's earnings will be slightly above the prior-year level (2020: €560 million).

In the Smart Materials division, we anticipate an unchanged, positive development in hygiene, personal care, and environmental applications. Moreover, this division should benefit from the ongoing recovery in the automotive and coatings end-markets. The PeroxyChem and Porocel acquisitions will also have a positive effect on sales and earnings. Overall, we expect earnings to be significantly higher year-on-year (2020: €529 million).

The Performance Materials division should report higher volumes and a significant improvement in margins. Overall, we assume that earnings in this division will be substantially above the low prior-year level (2020: €88 million).

The expected increase in raw material prices could have a slightly negative impact on the growth divisions; however, it should have positive effects for Performance Materials. Therefore, it should be balanced out overall across our portfolio.

The return on capital employed **(ROCE)** is expected to increase slightly year-on-year in 2021 (2020: 6.1 percent).

Financing and investments

We expect **cash outflows for investments in intangible assets, property plant and equipment** to be around €900 million (2020: €956 million).

For the free cash flow, we expect the **cash conversion rate**[1] to reach the previous year's very good level of approximately 40 percent (2020: 41 percent; free cash flow: €780 million). This will be driven by the following positive factors: our high investment discipline, focused management of net working capital, and bonus and tax payments at an unchanged low level.

Occupational and plant safety

Our aim is to avoid all accidents and incidents. We assume that the **accident frequency rate**[2] will be around the prior-year level (2020: 0.16) and thus below the upper limit of 0.26 set for 2021. We anticipate that we can achieve a slight improvement in our **plant safety indicator**[3] (2020: 0.41), and that it will be below the upper limit of 0.40.

This report contains forward-looking statements based on the present expectations, assumptions, and forecasts made by the executive board and the information available to it. These forward-looking statements do not constitute a guarantee of future developments and earnings expectations. Future performance and developments depend on a wide variety of factors which contain a number of risks and unforeseeable factors and are based on assumptions that may prove incorrect.

1 Ratio of free cash flow to adjusted EBITDA.
2 New definition from 2021. 2020 rate calculated on a comparable basis.
3 Includes the Technology & Infrastructure division for the first time.

CORPORATE GOVERNANCE

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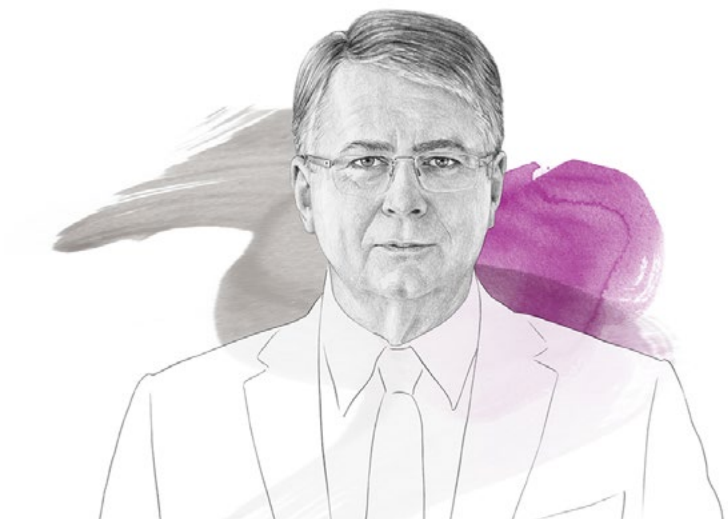
Report of the supervisory board



BERND TÖNJES
Chairman of the Supervisory Board

Ladies and Gentlemen,

In 2020, the supervisory board of Evonik Industries AG (Evonik) performed the obligations defined by law and the articles of incorporation correctly and with the utmost care and regularly and conscientiously supervised the work of the executive board. We supported the executive board by providing advice on the management and strategic development of the company.

Collaboration between the executive board and supervisory board

The executive board always gave us full and timely information on all material issues affecting Evonik and involved us in all fundamental decisions affecting the company. Key areas were business performance and the situation of the company, along with aspects of business policy, corporate planning, and Evonik's ongoing strategic development.

The supervisory board's oversight of the executive board centered in particular on ensuring the correct, orderly, expedient, and cost-effective management of group-wide business activities. The content and scope of reporting by the executive board complied with the law, the principles of good corporate governance, and the requirements set by the supervisory board.

Section 16 of the articles of incorporation of Evonik Industries AG and the rules of procedure of the supervisory board set out business activities and measures of fundamental importance on which the executive board is required to seek the approval of the supervisory board or, in some cases, individual committees. In the past fiscal year, the supervisory board took decisions on business activities and measures submitted by the executive board after examining them and discussing them with the executive board.

Meetings and work of the supervisory board

The reporting period was dominated by challenges and restrictions resulting from the coronavirus pandemic, which also had an impact on how the supervisory board conducted its work and held its meetings. While the supervisory board members attended the meeting on March 3, 2020 in person as usual, the meetings on June 16 and September 16 used a hybrid format comprising a mixture of attendance in person and remote participation. A purely virtual meeting was held on December 9, 2020. At these four meetings, we discussed issues of central importance for the Evonik Group. In addition, the supervisory board adopted one resolution using the written circulation procedure.

The work of the supervisory board was again supported and prepared by its committees in 2020. From mid-March 2020, the principle that meetings should be held either as a combination of attendance in person and remote participation or as purely virtual meetings also applied unrestrictedly to the work of the committees. The committees and their members in the year under review were as follows:

- **Executive Committee:** Bernd Tönjes (chairman), Karin Erhard (from September 1, 2020, deputy chairwoman), Edeltraud Glänzer (until August 31, 2020, deputy chairwoman), Martin Albers, Dr. Volker Trautz.
- **Audit Committee:** Dr. Siegfried Luther (chairman and financial expert within the meaning of section 100 paragraph 5 German Stock Corporation Act [AktG] and recommendation D.4 of the German Corporate Governance Code), Birgit Biermann (from September 1, 2020, deputy chairwoman), Karin Erhard (until August 31, 2020, deputy chairwoman), Jens Barnhusen, Prof. Barbara Grunewald, Dr. Thomas Sauer, Angela Titzrath.
- **Finance and Investment Committee:** Michael Rüdiger (chairman), Karin Erhard (from September 1, 2020, deputy chairwoman), Edeltraud Glänzer (until August 31, 2020, deputy chairwoman), Martin Albers, Prof. Aldo Belloni, Frank Löllgen, Anke Strüber-Hummelt, Bernd Tönjes, Ulrich Weber.
- **Innovation and Research Committee:** Prof. Barbara Albert (chairwoman), Frank Löllgen (deputy chairman), Prof. Aldo Belloni (from June 16, 2020, Karin Erhard (from June 16, 2020), Hussin El Moussaoui, Martina Reisch, Bernd Tönjes, Dr. Volker Trautz.
- **Nomination Committee:** Bernd Tönjes (chairman), Dr. Volker Trautz, Ulrich Weber.
- **Mediation Committee:** Bernd Tönjes (chairman), Karin Erhard (from September 1, 2020, deputy chairwoman), Edeltraud Glänzer (until August 31, 2020, deputy chairwoman), Martin Albers, Dr. Volker Trautz.

Subsection 2.3 of the corporate governance report contains a detailed description of the tasks allocated to these committees p. 85 ff.

The executive committee held six meetings in 2020. The audit committee and the finance and investment committee each held four meetings, and the innovation and research committee held two meetings. In addition, the finance and investment committee adopted one resolution using the written circulation procedure. The nomination committee met once in the reporting period. Once again, there was no need for the mediation committee to meet. The chairperson or deputy chairperson of each committee reported regularly at the meetings of the supervisory board on the issues discussed and the outcome of all committee meetings. The supervisory board therefore always received extensive information on all matters of significance in the Evonik Group.

At its meeting in March, the supervisory board focused on examining the annual financial statements, which had first been considered in detail by the audit committee, and on corporate strategy. Another topic comprised the preparations for the annual shareholders' meeting, which at this time was still scheduled to be held on May 27, 2020 with attendance in person. In addition, the agenda included the new corporate structure involving combining almost all of the operating business in Evonik Operations GmbH with effect from July 1, 2020 and termination of the internal plant management contracts. The supervisory board also discussed the allocation of duties among the executive board members. Further issues were the corporate governance report, the non-financial report, the declaration on corporate governance, the bonus payments to the executive board members for the preceding fiscal year, and the executive board's objectives for fiscal 2020. The supervisory board meeting originally scheduled for May 27, 2020 to provide supplementary information ahead of the annual shareholders' meeting was canceled as Evonik decided to postpone the annual shareholders' meetings in response to restrictions on meetings due to the coronavirus pandemic. In a written circulation procedure in May 2020, the supervisory board approved an advance payment of €0.57 per share entitled to the dividend out of the distributable profit for 2019 of €950,000,000. A total advance payment of €265,620,000 was therefore distributed to the shareholders on June 2, 2020. At its meeting in June, the supervisory board again discussed the agenda and proposed resolutions for the annual shareholders' meeting and agreed that it should be held as a virtual meeting on August 31, 2020. Moreover, as a consequence of postponing the annual shareholders' meeting to the second half of the year, it agreed to court appointment of the auditor for the half-year financial report as of June 30, 2020. Other items on the agenda at this meeting included the appointment of a new deputy chairperson and elections to the committees due to personnel changes on the supervisory board (for further details, see the section headed "Personnel issues relating to the executive board and supervisory board" p. 81). In September, the supervisory board adopted amendments to the rules of procedure of the executive board and discussed a personnel matter relating to the executive board (for further details, see the section headed “Personnel issues relating to the executive board and supervisory board” p. 81). At its meeting in December, the supervisory board discussed, among other things, the budget for 2021 and the mid-term planning for the period to 2023, including the main planning assumptions, framework, and scenarios. As agreed at its meeting in September, the decision on this was postponed to the meeting in March 2021 due to the enormous uncertainty caused by the pandemic. The supervisory board also consented to the annual shareholders’ meeting in 2021 being held as a virtual meeting, as the legal basis for this had recently been established. It also discussed the status of the measures adopted following the 2020 efficiency review and the declaration of conformity in compliance with section 161 of the German Stock Corporation Act (AktG).

The main issues addressed by the **executive committee** in the reporting period were: an examination of the business situation, current projects, and the price of Evonik shares; a benchmark analysis of executive board remuneration; the bonus payments to the executive board members for 2019 and their objectives for 2020; the approval of secondary appointments for members of the executive board; the new corporate structure introduced on July 1, 2020, including termination of the plant management model and dissolution of the segment companies; the planning for 2021 and the mid-term planning for the period 2021 through 2023.

The meeting of the **audit committee** in February focused on the annual financial statements of Evonik Industries AG and the consolidated financial statements of the Evonik Group. Among other things, the matters examined by the audit committee included opportunity and risk management, the compliance report for 2019, the proposal for the selection of the auditor for 2020, and the appointment of the auditor. As well as discussing the proposal to the supervisory board relating to the court appointment of the auditor for the half-year financial report as of June 30, 2020, at its meeting in May, the audit committee focused on the quarterly financial statement as of March 31, 2020. At its meeting in August, the audit committee looked in detail at, among other things, the business performance in the first six months of 2020, the half-year financial report as of June 30, 2020, and the upcoming amendments to the rules of procedure of the executive board. The main item discussed at the meeting in November was the business performance in the third quarter, together with the quarterly financial statement as of September 30, 2020. Another item was the follow-up to the 2020 efficiency review, including a discussion of the topics to be addressed in future efficiency reviews. In addition, the audit committee defined the focal areas for the audit of fiscal 2020. It also examined the annual report of the internal audit department, together with the audit schedule, and the annual reports of ESHQ (Environment, Safety, Health, and Quality) and Group Security.

In the reporting period, the **finance and investment committee** concentrated principally on growth projects and the integration of the acquisitions into the Evonik Group (see “Investments and acquisitions” p. 77). Further issues included the macroeconomic environment, the capital markets’ perception of Evonik, status reports on projects, currently relevant topics, and the new corporate structure effective July 1, 2020.

At its meeting in May, the **innovation and research committee** looked in detail at the VERAMARIS® project, a joint venture to develop sustainable omega-3 fatty acid sources for salmon farming. In addition, the committee discussed the expansion of capacity for Biolys® in Blair (Nebraska, USA) and key performance indicators for innovations. The innovation and research committee’s meeting in December centered on the Healthcare Solutions innovation growth field, especially biomaterials for medical applications and exclusive synthesis.

In the reporting period, the **nomination committee** addressed succession planning in connection with the decision by a representative of the shareholders to step down following the annual shareholders’ meeting in 2021.

In addition to the standard reporting required by law, the supervisory board and its committees also discussed and examined the following topics in detail:

Performance and situation of the Evonik Group

Evonik’s business performance in 2020 was hampered by the effects of the coronavirus pandemic. As a result of the recession, Evonik registered a perceptible weakening of demand throughout the world, especially in some customer industries such as the automotive and fuel industries. Group sales declined by 7 percent to €12,199 million. Adjusted EBITDA contracted by 11 percent to €1,906 million. This was mainly due to a reduction in volumes and lower selling prices. By contrast, the action taken to cut costs and the initial consolidation of PeroxyChem had a positive effect. Net income was €465 million, below the high level reported for the previous year, which was dominated by the high proceeds from the divestment of the methacrylates business.

The net income of Evonik Industries AG, calculated on the basis of the German Commercial Code, comprised a loss of €40 million. That was €1,022 million below the prior-year level, which contained the positive effect of the divestment of the methacrylates business. In view of the earnings position of the Evonik Group as a whole, the executive board and supervisory board consider it reasonable to maintain the dividend at the same level as in the previous year. The distributable profit of around €536 million earmarked for this comprises the profit carried forward from the previous year (€414 million) and a withdrawal from the other retained earnings of Evonik Industries AG. Distributions by foreign subsidiaries to Evonik Industries AG have been waived in most cases for tax and financing-related reasons.

Investments and acquisitions

Our discussions centered on major growth projects, including investment controlling of ongoing projects. The growth projects considered in particular detail by the supervisory board and the finance and investment committee included:

- Construction and leasing of a further gas and steam turbine power plant at the site in Marl (Germany)
- Revitalization of ROHACELL® production at the site in Darmstadt (Germany)
- Acquisition of the Porocel Group, Wilmington (Delaware, USA)
- Additional approvals for the construction of a new polyamide 12 production line in Marl (Germany)

The finance and investment committee received post-completion information or performed a post-completion audit for the following projects:

- Expansion of capacity at the integrated silica/silane production facility in Antwerp (Belgium)
- Construction and operation of a backwardly integrated methionine complex on Jurong Island (Singapore)
- Construction of a production facility for omega-3 fatty acids for aquaculture in Blair (Nebraska, USA)
- Construction of a membrane electrolysis facility as a joint venture with AkzoNobel in Ibbenbüren (Germany)
- Expansion of capacity for high-molecular polyester in Witten (Germany)
- Acquisition and integration of PeroxyChem, Philadelphia (Pennsylvania, USA)

Other issues addressed by the supervisory board and its committees

In addition to the issues and developments outlined above, the main topics addressed by the supervisory board and its committees in the reporting period were:

- Proposals for resolutions at the annual shareholders' meeting in August 2020
- Resolution on the declaration of conformity in compliance with section 161 of the German Stock Corporation Act (AktG) and the supervisory board's report to the annual shareholders' meeting
- Effects of the coronavirus crisis and the measures taken as a result
- Change in the auditor from PwC to KPMG from fiscal 2021
- Authorization for the executive board relating to the exercise of rights at subsidiaries in accordance with section 32 of the German Codetermination Act (MitBestG)
- Resolution on the employee share program for 2021

Individual disclosure of the attendance at meetings of the supervisory board and its committees

T32

	Supervisory Board		Executive Committee		Finance and Investment Committee		Audit Committee		Nomination Committee		Mediation Committee		Innovation and Research Committee	
Supervisory board member	Presence	in %	Presence	in %	Presence	in %	Presence	in %	Presence	in %	Presence	in %	Presence	in %
Bernd Tönjes (chairman)	4/4	100	6/6	100	4/4	100			1/1	100	0/0		2/2	100
Karin Erhard (from September 1, 2020; also deputy chairwoman)	3/4	75	1/3	33,3	1/2	50	3/3	100			0/0		0/1	0
Edeltraud Glänzer (until August 31, 2020; deputy chairwoman)	2/2	100	3/3	100	2/2	100					0/0			
Martin Albers	4/4	100	6/6	100	4/4	100					0/0			
Prof. Barbara Albert	4/4	100											2/2	100
Jens Barnhusen	3/4	75					1/4	25						
Prof. Aldo Belloni	4/4	100			4/4	100							1/1	100
Birgit Biermann (from September 1, 2020)	2/2	100					1/1	100						
Prof. Barbara Grunewald	4/4	100					4/4	100						
Martin Kubessa	4/4	100												
Frank Löllgen	2/4	50			2/4	50							1/2	50
Dr. Siegfried Luther	4/4	100					4/4	100						
Hussin El Moussaoui	4/4	100											2/2	100
Martina Reisch	4/4	100											2/2	100
Michael Rüdiger	4/4	100			4/4	100								
Dr. Thomas Sauer	4/4	100					4/4	100						
Peter Spuhler	3/4	75												
Anke Strüber-Hummelt	4/4	100			4/4	100								
Angela Titzrath	4/4	100					3/4	75						
Dr. Volker Trautz	4/4	100	6/6	100					1/1	100	0/0		2/2	100
Ulrich Weber	3/4	75			4/4	100			1/1	100				

Corporate governance

The supervisory board is committed to the principles of good corporate governance. This is based principally on recognizing the provisions of the German Corporate Governance Code in the current version of December 16, 2019, which took effect on March 20, 2020. This does not exclude the possibility of departing from the recommendations and suggestions in legitimate individual cases.

Since it is listed on the stock exchange, Evonik is subject to the obligation contained in section 161 of the German Stock Corporation Act (AktG) to submit a declaration of the extent to which it has complied with, or will comply with, the German Corporate Governance Code and which recommendations have not been and will not be met, together with the reasons for this (declaration of conformity). In December 2020, the executive board and supervisory board issued a declaration of conformity, which is published on the company's website **www.evonik.com/declaration-on-corporate-governance** and in the declaration on corporate governance **p. 82 ff.**

The supervisory board has set objectives for its composition, which the shareholders' meeting takes into consideration when electing members of the supervisory board. The present supervisory board satisfies all objectives for its composition, especially:

- The supervisory board comprises seven women and 13 men. In accordance with its own targets and in compliance with statutory requirements, it therefore meets the minimum of 30 percent women and 30 percent men.
- At least six supervisory board members representing the shareholders should be independent of the company and its executive board and independent of a controlling shareholder. The supervisory board classifies all current members as independent.

Further details of the independence of the supervisory board members and the diversity requirements are presented in the declaration on corporate governance **p. 82 ff.**

The company supports new members of the supervisory board in the performance of their duties and organizes annual training for the members of the supervisory board. The support for new members includes extensive information on Evonik and its governance structure, including the relevant rules and regulations, and an opportunity for individual site tours. In the reporting period, the supervisory board was given an insight into the Specialty Additives division and its technology platforms at an event lasting several hours. The event was offered on three dates, and 85 percent of the supervisory board members participated.

The members of the supervisory board will receive attendance fees and purely fixed remuneration for their work on the supervisory board in 2020 and any membership of committees (see subsection 2 of the remuneration report **p. 94 ff.**).

There were no consultancy, service, or similar contracts with any members of the company's supervisory board in 2020. Furthermore, there were no transactions between the company or a company in the Evonik Group, on the one hand, and supervisory board members and related parties, on the other.

Audit of the annual financial statements

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Frankfurt am Main (Germany) has audited the financial statements of Evonik Industries AG as of December 31, 2020 prepared in accordance with the German Commercial Code (HGB), the consolidated financial statements for the Evonik Group prepared using the International Financial Reporting Standards (IFRS), as permitted by section 315e paragraph 1 of the German Commercial Code (HGB), and the combined management report for Evonik Industries AG and the Evonik Group, and has endorsed them with an unqualified opinion pursuant to section 322 of the German Commercial Code (HGB). The supervisory board awarded the contract for the audit of the annual financial statements of Evonik Industries AG and the consolidated financial statements of the Evonik Group in line with the resolution taken by the shareholders' meeting on August 31, 2020. In accordance with section 317 paragraph 4 of the German Commercial Code (HGB), the annual audit includes an audit of the risk identification system. The audit established that the executive board has taken the steps required in compliance with section 91 paragraph 2 of the German Stock Corporation Act (AktG) to establish an appropriate risk identification system and ensure that this system is suitable for timely identification of developments that could represent a threat to the continued existence of the company.

The executive board submitted the above documents, together with the auditor's reports and the executive board's proposal for the distribution of the profit, to all members of the supervisory board to prepare for the meeting of the supervisory board on March 3, 2021. At its meeting on February 26, 2021, at which the auditor participated, the audit committee discussed the annual financial statements, the auditor's reports, and the proposal for the distribution of the profit to prepare for the subsequent examination and discussion of these documents by the full meeting of the supervisory board. Further, the audit committee requested the auditor to report on its collaboration with the internal audit department and other units involved in risk management, and on the effectiveness of the risk identification system with respect to accounting. In this connection, the auditor established that the executive board had taken the steps required in compliance with section 91 paragraph 2 of the German Stock Corporation Act (AktG) to establish an appropriate risk identification system and ensure that this system is suitable for timely identification of developments that could represent a threat to the continued existence of the company.

The supervisory board conducted a thorough examination of the annual financial statements of Evonik Industries AG, including the reasons for the negative net income presented in the income statement, the consolidated financial statements for the Evonik Group, the combined management report for fiscal 2020, and the executive board's proposal for the distribution of the profit and—on the basis of explanations of these documents by the executive board—discussed them at its meeting on March 3, 2021. The auditor also took part in this meeting and reported on the main findings of the audit. He also answered questions from the supervisory board about the type and extent of the audit and the audit findings. The discussion included the audit of the risk identification system. The supervisory board shares the audit committee's assessment of the effectiveness of this system.

In this way, the supervisory board ascertained that the audit had been conducted properly by the auditor and that both the audit and the audit reports comply with the statutory requirements. Following its thorough examination of the annual financial statements of Evonik Industries AG, the consolidated annual financial statements, and the combined management report (including the declaration on corporate governance), the supervisory board declares that, based on the outcome of its examination, it has no objections to raise to the annual financial statements of Evonik Industries AG, the consolidated annual financial statements, and the combined management report. In line with the recommendation made by the audit committee, the supervisory board has therefore accepted the audit findings. At its meeting on March 3, 2021, the supervisory board therefore endorsed the annual financial statements of Evonik Industries AG and the consolidated annual financial statements. The annual financial statements for 2020 are thus ratified. The supervisory board concurs with the executive board's assessment of the situation of the company and the Evonik Group as expressed in the combined management report. The supervisory board considered the executive board's proposal for the distribution of the profit, in particular with a view to the dividend policy, the impact on liquidity, including the policy of retaining earnings at subordinated companies, and its regard for shareholders' interests. This also included an explanation by the executive board and a discussion with the auditor. The supervisory board then voted in favor of the proposal put forward by the executive board for the distribution of the profit.

Review of the separate combined non-financial report

Evonik has issued a separate combined non-financial report for fiscal 2020 (sections 289b paragraph 3 and 315b paragraph 3 HGB). The principal components of the report are employee and environmental matters, respect for human rights, preventing bribery and corruption, social matters, and the supply chain. The supervisory board examined this report at its meeting on March 3, 2021 on the basis of a preliminary review by the audit committee and has no objection to the report.

Examination of the report by the executive board on relations with affiliated companies

The executive board has prepared a report on relations with affiliated companies in 2020. This was examined by the auditor, who issued the following unqualified opinion in accordance with section 313 of the German Stock Corporation Act (AktG):

"In accordance with our professional audit and judgment, we confirm that

1. the factual disclosures made in this report are correct, and
2. the company's expenditures in connection with the legal transactions contained in the report were not unreasonably high."

The executive board submitted the report on relations with affiliated companies and the associated auditor's report to all members of the supervisory board to enable them to prepare for the supervisory board meeting on March 3, 2021.

The audit committee conducted a thorough examination of these documents at its meeting on February 26, 2021 to prepare for the examination and resolution by the full supervisory board. The members of the executive board provided detailed explanations of the report on relations with affiliated companies and answered questions on it. The auditor, who took part in this meeting, reported on the main findings of the audit of the report on relations with affiliated companies and answered questions raised by members of the audit committee. The members of the audit committee acknowledged the audit report and the audit opinion. The audit committee was able to convince itself of the orderly nature of the audit and audit report and, in particular, came to the conclusion that both the audit report and the audit conducted by the auditor comply with the statutory requirements. The audit committee recommended that the supervisory board should approve the results of the audit and, since it was of the opinion that there were no objections to the executive board's declaration on the report on relations with affiliated companies, should adopt a corresponding resolution.

The supervisory board discussed the report on relations with affiliated companies at its meeting on March 3, 2021. At this meeting too, the members of the executive board provided detailed explanations of the report on relations with affiliated companies and answered questions on it. Moreover, the auditor took part in this meeting of the supervisory board and reported on the main findings of the audit of the report on relations with affiliated companies and answered questions from members of the supervisory board. On this basis, the supervisory board ascertained that, under the circumstances known at the time they were undertaken, the company's expenditures in connection with the transactions outlined in the report on relations with affiliated companies were not unreasonably high and compensation had been received for any disadvantages. In particular, it obtained an explanation of the principles used to determine the relevant activities and the remuneration therefor, especially in the case of transactions of material significance. The audit committee had discussed the report on relations with affiliated companies and gave the supervisory board a detailed overview of the outcome of its deliberations. The supervisory board was able to convince itself of the orderly nature of the audit and audit report and came to the conclusion, in particular, that both the audit report and the audit itself meet the statutory requirements.

In particular, it examined the completeness and correctness of the report on relations with affiliated companies. No grounds for objection were identified.

The supervisory board thus has no objection to raise to the final declaration made by the executive board in its report on relations with affiliated companies and concurs with the auditor's findings.

Personnel issues relating to the executive board and supervisory board

At its meeting on September 16, 2020, the supervisory board reappointed Thomas Wessel to the executive board for a period of five years starting on September 1, 2021 and confirmed his position as industrial relations director of Evonik Industries AG.

On the supervisory board, there was one change on the employee side in 2020.

Edeltraud Glänzer stepped down from the supervisory board on August 31, 2020. Birgit Biermann was appointed by Essen Local Court to replace Edeltraud Glänzer as a member of the supervisory board with effect from September 1, 2020. The supervisory board elected Karin Erhard to replace Edeltraud Glänzer as deputy chairwoman from September 1, 2020 for the remaining term of office of the supervisory board.

As a consequence of this personnel change on the supervisory board, there were also some changes in committee members.

As deputy chairwoman of the supervisory board, Karin Erhard is also a member and deputy chairwoman of the executive committee and the mediation committee. The supervisory board also appointed Karin Erhard as deputy chairwoman of the finance and investment committee from September 1, 2020, for the remaining term of office of the supervisory board. The supervisory board appointed Birgit Biermann as a member and deputy chairwoman of the audit committee from September 1, 2020, for the remaining term of office of the supervisory board. In addition, the supervisory board decided to extend the innovation and research committee by two members and appointed Karin Erhard and Prof. Aldo Belloni to this committee with effect from June 16, 2020, for the remaining term of office of the supervisory board.

The supervisory board would like to thank Edeltraud Glänzer for her committed work in the interests of the company and its employees.

Concluding remark

The supervisory board would also like to thank the executive board, works councils, executive staff councils, and all employees of Evonik Industries AG and its affiliated companies for their successful work in the difficult and challenging conditions of the coronavirus pandemic over the past year.

The supervisory board adopted this report at its meeting on March 3, 2021, in accordance with section 171 paragraph 2 of the German Stock Corporation Act (AktG).

Essen, March 3, 2021

Bernd Tönjes

On behalf of the supervisory board
Bernd Tönjes, Chairman

Declaration on corporate governance[1]

The following report on the principles of corporate management at Evonik (sections 289f and 315d of the German Commercial Code [HGB]) and corporate governance at the company in accordance with principle 22 of the German Corporate Governance Code is issued jointly by the executive board and supervisory board of Evonik Industries AG.

1. Principles of corporate governance and corporate structure

Corporate governance comprises all principles for the management and supervision of a company. As an expression of good and responsible corporate management, it is therefore a key element in Evonik's management philosophy. The principles of corporate governance relate mainly to collaboration within the executive board and supervisory board, between these two boards, and between the boards and the shareholders, especially at shareholders' meetings. They also relate to the company's relationship with other people and organizations with which it has business dealings.

Evonik is committed to the German Corporate Governance Code

Evonik Industries is a stock corporation established under German law. Its shares have been listed on the stock exchange since April 25, 2013. Alongside compliance with the provisions of the relevant legislation, the basis for ensuring responsible management and supervision of Evonik with a view to a sustained increase in corporate value is our commitment to the German Corporate Governance Code in the version dated December 16, 2019. This code, which was adopted by the Government Commission on the German Corporate Governance Code, contains both key statutory provisions on the management and supervision of publicly listed German companies and recommendations and suggestions based on nationally and internationally recognized standards of responsible corporate governance.

The executive board and supervisory board of Evonik Industries AG are explicitly committed to responsible corporate governance and identify with the goals of the German Corporate Governance Code. According to the foreword, in the interest of good and proactive corporate governance, a company may depart from the recommendations set out in the code if this is necessary to take account of company-specific characteristics.

2. Information on corporate management and corporate governance

2.1 Declaration of conformity with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG)

Under section 161 of the German Stock Corporation Act (AktG), the executive board and supervisory board of Evonik Industries AG are required to annually submit a declaration that the company has been, and is, in compliance with the recommendations of the Government Commission on the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger), and which recommendations have not been, or are not being, applied, together with the associated reasons. The declaration has to be made permanently available to the public on the company's website.

The executive board and supervisory board of Evonik Industries AG hereby submit the following declaration pursuant to section 161 of the German Stock Corporation Act:

[1] The declaration on corporate governance also forms an integral part of the combined management report for Evonik Industries AG (sections 289 ff. HGB) and the Evonik Group (sections 315 ff. HGB). In accordance with section 317 paragraph 2 sentence 6 of the German Commercial Code (HGB), the disclosures are not included in the audit.

Since submitting its last declaration of conformity in December 2019, the company has fully complied with all recommendations of the German Corporate Governance Code in the version dated February 7, 2017, as published in the Federal Gazette on April 24, 2017.

Further, the company has complied with the recommendations of the German Corporate Governance Code in the version dated December 16, 2019, as published in the Federal Gazette on March 20, 2020, with one exception, and will continue to do so.

According to recommendation C.5, members of the management board of a listed company should not hold more than two supervisory board mandates in non-group listed companies or similar functions. Ms. Angela Titzrath is the chief executive officer of the listed company Hamburger Hafen und Logistik Aktiengesellschaft, and Mr. Peter Spuhler is the chief executive officer of the listed company Stadler Rail AG (Switzerland). In addition to their mandates on the company's supervisory board, the two aforementioned supervisory board members each hold other mandates covered by the recommendation. The supervisory board has satisfied itself that both members have sufficient time to perform their respective mandates. In addition, their extensive experience in corporate management and their high level of economic and international expertise make valuable contributions to the fulfillment of the competence profile and the effective work of the supervisory board. Taking into account all relevant aspects, deviation from recommendation C.5 is therefore considered justifiable in these cases.

Essen, December 2020

The Executive Board The Supervisory Board

2.2 Relevant information on corporate management practices

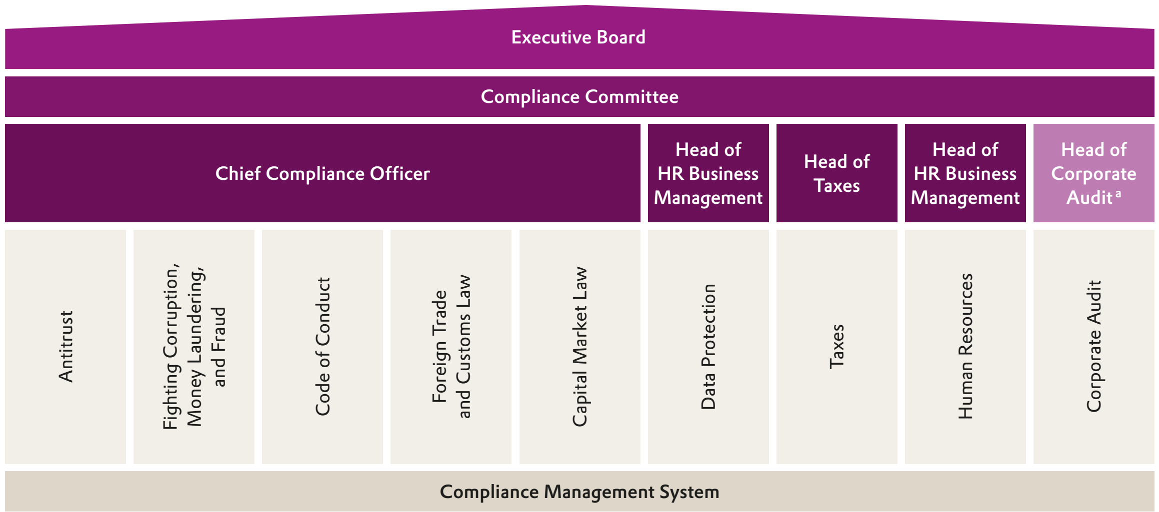
Corporate governance

The company is explicitly committed to good corporate governance and, with one exception, complies with the recommendations of the German Corporate Governance Code. For details, see subsection 2.1 p. 82 f.

Compliance

Evonik understands compliance as all activities to ensure that the conduct of the company, its governance bodies, and its employees respect all applicable mandatory standards such as legal provisions, statutory requirements and prohibitions, in-house directives, and voluntary undertakings. The most important external and internal principles and rules are set out in Evonik's group-wide code of conduct. This is binding for both the executive board and all Evonik employees, both internally in their treatment of one another and externally in contact with shareholders, business partners, representatives of authorities and government bodies, and the general public. It requires all employees to comply with the applicable laws, regulations, and other obligations. Evonik does not do business at any price. All employees worldwide receive regular training on the code of conduct and specific issues. Systematic action is taken to deal with any breach of the code of conduct.

House of Compliance C32



[a] Advisory role.

The compliance areas identified as being of specific relevance to our company are bundled in a House of Compliance. They include antitrust law, fighting corruption, money laundering, and fraud, as well as the code of conduct, foreign trade and customs law, capital market law, data protection, taxes, human resources, and corporate audit. Environment, safety, health, and quality, including compliance-related aspects, are managed and monitored by a separate function.

The role of the House of Compliance is to define minimum group-wide standards for the compliance management systems for these areas and ensure that they are implemented. The process of forming a consensus, sharing experience, and coordinating joint activities takes place in the compliance committee, which is composed of the heads of the respective units, who have independent responsibility for their areas, and the head of Corporate Audit. The compliance units are responsible for the appropriateness and efficacy of the compliance management system for the compliance topics allocated to them.

Further information on Evonik's compliance management system and the corresponding areas of focus, as well as the action taken in the year under review, can be found in the sustainability report. **www.evonik.com/sustainability-report**

Sustainability

The executive board and supervisory board examine sustainability topics, especially aspects of the environment, safety, and society, several times a year. The new sustainability and climate strategy was adopted by the executive board in 2019 and presented to the supervisory board. Further, the development of accident frequency and severity is reflected in the executive board's variable pay as a performance-related component. Extensive information on sustainability can be found in the sustainability section of the management report **p. 45 ff.** and the sustainability report. **www.evonik.com/sustainability-report**

Transparency

Evonik regards timely and equal public disclosure of information as a key basis of good corporate governance. Evonik provides extensive information in German and English on its website. This includes our financial calendar **www.evonik.com/investor-relations**, which provides a convenient overview of important dates. Evonik's business performance is outlined principally in our financial reports and investor relations presentations. These are supplemented by information on Evonik's shares, the terms of bond issues, and an overview of our credit ratings. Mandatory publications such as ad-hoc announcements, voting rights announcements, and information on directors' dealings are also published immediately on our investor relations site **www.evonik.com/investor-relations (News & Reports/Ad-hoc announcements, Share/Voting rights, and Corporate Governance/Directors' Dealings)**. The offering also includes information on corporate strategy and Evonik's corporate structure and organization. In addition, the investor relations site provides information on Evonik's approach to corporate responsibility and how the management and supervision of the company are aligned to responsible and sustained value creation **www.evonik.com/investor-relations (Sustainable Investment (SRI) and Corporate Governance)**.

Compliance Management System (CMS) C33

2.3 Work of the executive board and supervisory board

The German Stock Corporation Act (AktG) forms the legal basis for the incorporation of Evonik Industries AG. Further details are set forth in the company's articles of incorporation and the provisions of the German Corporate Governance Code. See subsection 2.1 p. 82 f.

Executive board

The executive board of Evonik Industries AG is responsible for running the company in the company's interests with a view to sustained value creation, taking into account the interests of the shareholders, employees, and other stakeholders. It works together trustfully with the other corporate governance bodies for the good of the company.

The executive board defines and updates the company's business objectives, its basic strategic focus, business policy, and corporate structure. It ensures compliance with statutory provisions and internal directives and exerts its influence to ensure that they are observed by Group companies (compliance). It is also responsible for ensuring appropriate measures aligned to the company's risk situation (compliance management system), and appropriate risk management and risk controlling in the company. A whistleblower system has been set up. This enables employees and third parties to report, in a protected manner, suspected breaches of the law within the company. When making appointments to management functions in the company, the executive board applies the principles of diversity. In this it strives, in particular, to ensure adequate representation of women.

The executive board has four members at present. One member is appointed to chair the executive board. With the approval of the supervisory board, the executive board has adopted rules of procedure and a plan allocating areas of responsibility. The chairman coordinates the work of the executive board, provides information for the supervisory board, and maintains regular contact with the chairman of the supervisory board. If the chairman is not available to perform these tasks, they are assumed by the deputy chairperson. The members of the executive board are jointly responsible for the overall management of the company. They work together constructively and keep each other informed of the main activities and developments in their areas of responsibility. The executive board endeavors to take decisions unanimously but may also adopt resolutions by majority vote. If an equal number of votes is cast, the chairman has the casting vote.

Ensuring that the supervisory board receives sufficient information is the joint responsibility of the executive board and supervisory board. The executive board provides the supervisory board with the reports to be prepared in accordance with section 90 of the German Stock Corporation Act (AktG) and the rules of procedure of the supervisory board. It gives the supervisory board timely, regular, and full information on all matters that are relevant to the company and Group relating to strategy, planning, business development, risks, risk management, and compliance. It outlines deviations between the planned and actual business performance and targets and the reasons therefor. Further, the executive board submits timely reports to the supervisory board on business matters and actions for which it is required by the articles of incorporation or the supervisory board's rules of procedure to obtain the approval of the supervisory board. In addition, the supervisory board can make further business activities and measures dependent on its consent on a case-by-case basis.

Members of the executive board are required to act in the interests of the company. They may not pursue personal interests in their decisions, nor may they utilize business opportunities available to the company for themselves. The members of the executive board are subject to a comprehensive non-compete obligation during their term of office. They may only assume additional posts, especially seats on the supervisory boards of companies that are not affiliated companies of Evonik Industries AG, with the consent of the supervisory board. In such cases, the executive board member shall accept the post as a personal office and shall ensure strict confidentiality and strict separation from his/her activities as a member of the executive board. Every member of the executive board is required to disclose any conflict of interest to the chairman of the supervisory board without delay and to inform the other members of the executive board. In fiscal 2020, there were no conflicts of interest relating to members of the executive board of Evonik Industries AG.

All transactions between the company or companies in the Evonik Group, on the one hand, and executive board members and related parties, on the other, must take place on terms that are customary in the sector. The report of the supervisory board contains details of the relevant transactions in the reporting period p. 74 ff.

The composition of the executive board and membership of supervisory boards and similar governance bodies are outlined in the further information on corporate officers p. 91 ff.

Supervisory board

The supervisory board advises and supervises the executive board. It appoints the members of the executive board and names one member as the chairperson of the executive board. It also decides on the remuneration of the members of the executive board. The executive board is required to obtain the approval of the supervisory board on decisions of fundamental importance, which are defined in a separate list. These include:

- Fundamental changes to the structure of the company and the Group
- Setting the annual budget for the Group
- Investments exceeding €100 million
- The assumption of loans and the issuance of bonds exceeding €300 million with a maturity of more than one year

The supervisory board examines the company's annual financial statements, the executive board's proposal for the distribution of the profit, the consolidated financial statements for the Evonik Group, and the combined management report. It also examines the separate combined non-financial report. The supervisory board submits a written report on the outcome of the audit to the shareholders' meeting. The supervisory board is subject to the German Codetermination Act (MitbestG). In accordance with these statutory provisions, the supervisory board comprises 20 members, ten representatives of the shareholders, and ten representatives of the workforce. The representatives of the shareholders are elected by the shareholders' meeting on the basis of nominations put forward by the supervisory board as prepared by the nomination committee. The representatives of the employees are elected by the workforce and comprise seven employee representatives and three representatives of the industrial union.

The composition of the supervisory board should ensure that its members collectively have the knowledge, skills, and professional expertise required to properly perform their duties. The members of the supervisory board may not undertake any duties as officers or advisors to the company's major competitors. The supervisory board should not include more than two former members of the executive board. A former member of the executive board was elected to the supervisory board. In compliance with the statutory waiting period, his term of office on the executive board ended more than two years before the date of his election to the supervisory board. All members of the supervisory board shall ensure that they have sufficient time to perform their tasks as a member of the supervisory board. Members of the supervisory board who are also members of the executive board of a publicly listed stock corporation should not hold more than two seats on the supervisory boards of listed companies outside their group of companies or boards where comparable demands are made on them; members of the supervisory board who are not members of the executive board of a publicly listed corporation may not hold more than five seats on such supervisory or comparable boards. For this purpose, chairing a supervisory board counts as holding two seats. Members of the supervisory board must act in the interests of the company and not pursue personal interests in their decisions, nor may they utilize business opportunities available to the company for themselves. Members must disclose conflicts of interest to the supervisory board. Any member of the supervisory board who discloses a conflict of interest is excluded from resolutions at the meetings of the supervisory board dealing with matters relating to the conflict of interest. In its report to the shareholders' meeting, the supervisory board discloses any conflicts of interest that have arisen and how they have been dealt with. Material conflicts of interest relating to a member of the supervisory board that are not by nature temporary should lead to termination of his/her term of office. Consultancy, service, and similar contracts between a member of the supervisory board and the company must be approved by the supervisory board. There were no contracts of this type in 2020.

The supervisory board has adopted rules of procedure, which also govern the formation and tasks of the committees. At least two regular meetings of the supervisory board are held in each calendar half-year. In addition, meetings may be convened as required, and the supervisory board may adopt resolutions outside meetings. If an equal number of votes is cast when taking a decision, and a second vote does not alter this situation, the chairman of the supervisory board has the casting vote.

The supervisory board has set the following objectives for its composition, which are taken into account in the proposals put to the shareholders' meeting with regard to the regular election of members of the supervisory board and the subsequent election of a member of the supervisory board:

- At least two members should have a sound knowledge of and experience in regions that are of material importance for the Evonik Group's business, either through their background or through professional experience gained in an international context.
- At least two members should have special knowledge and experience in business administration and finance/accounting or auditing.
- The members of the supervisory board as a whole should be familiar with the chemical sector.
- At least two members should have experience managing or supervising a major company.
- The supervisory board should comprise at least 30 percent women and at least 30 percent men.
- The members of the supervisory board should not hold consulting or governance positions with customers, suppliers, creditors, or other business partners that could lead to a conflict of interest. Deviations from this rule are permitted in legitimate individual cases.
- Members of the supervisory board should not normally be over 75 when they are elected.
- Members of the supervisory board should not normally hold office for more than three full terms within the meaning of section 102 paragraph 1 of the German Stock Corporation Act (AktG), i.e., normally 15 years. It is possible to deviate from this rule, in particular, in the case of a member of the supervisory board who directly or indirectly holds at least 25 percent of the company's shares or belongs to the governance body of a shareholder that directly or indirectly holds at least 25 percent of the company's shares.

- The collective knowledge and professional expertise of the members of the supervisory board should adequately reflect the skills profile.
- At least six supervisory board members representing the shareholders should be independent of the company and its executive board and independent of a controlling shareholder.

These targets were last revised in December 2019.

The supervisory board currently comprises seven women and 13 men. In accordance with its own targets and in compliance with statutory requirements, it therefore meets the minimum of 30 percent women and 30 percent men.

The independence of a supervisory board member representing the shareholders depends on whether the member is independent of the company and its executive board and independent of a controlling shareholder. The supervisory board classifies all current members as independent. In this context, it is satisfied, in particular, that the fact that Dr. Luther and Dr. Trautz have held seats for more than twelve years and Mr. Tönjes' position as chairman of the executive board of RAG-Stiftung do not constitute a conflict of interests with regard to the work of the supervisory board that would counteract their independence. Even taking into account the more far-reaching criteria set out in the European Commission's recommendation of February 15, 2005, there are no conflicts of interest and no doubts regarding the independence of the members of the supervisory board.[1] The shareholders' representatives classified as independent members are: Bernd Tönjes, Prof. Barbara Albert, Prof. Aldo Belloni, Prof. Barbara Grunewald, Dr. Siegfried Luther, Michael Rüdiger, Peter Spuhler, Angela Titzrath, Dr. Volker Trautz, and Ulrich Weber.

The length of membership of the supervisory board is disclosed in the resumes of the members of the supervisory board.

The present supervisory board satisfies the objectives for its composition.

In accordance with the recommendation in the German Corporate Governance Code, as well as setting objectives for its composition, the supervisory board has drawn up a profile of the skills and expertise required for the entire supervisory board. Future proposals for the election of supervisory board members will be based on this profile. The objectives and profile together form the supervisory board's diversity concept pursuant to section 289f paragraph 2 no. 6 and section 315d of the German Commercial Code (HGB), which is outlined in subsection 2.4 p. 89 f.

The supervisory board considers that the following skills are appropriate for the proper performance of its duties and are reflected by its members:

- International experience
  This requires professional experience gained by spending an extended period working in a foreign country or another international context. At present, six members of the supervisory board meet this requirement.
- Knowledge of business administration
  The basis for such knowledge may be vocational training, a course of study, or professional activity in a relevant field. Nine members of the supervisory board have such expertise in business administration.
- Experience in human resources and social issues
  This requires professional experience in organizing, selecting, and hiring personnel. Based on this description, 14 members of the supervisory board have experience in human resources and social issues.
- Scientific knowledge (especially a knowledge of the chemical sector)
  Such knowledge may have been acquired through vocational training, a course of study, or professional activity in a scientific context. Eight members of the supervisory board meet this requirement.
- Experience in corporate management
  Experience in corporate management requires many years of professional experience in a company in managerial positions with personnel and management responsibility. Eight members of the supervisory board meet this requirement.

Digital progress in the industry is increasingly impacting the work of the supervisory board. Before the next supervisory board elections, which are scheduled for 2023, a review will therefore be conducted to establish which additional competencies need to be added in the areas of digitalization and information technology and taken into account when selecting candidates. Until then, these topics should regularly be included in the annual training offered by the company to the present supervisory board members.

The supervisory board has the following committees:

The **executive committee** comprises the chairman of the supervisory board, his deputy, and two further members. It undertakes the regular business of the supervisory board and advises the executive board on fundamental issues relating to the ongoing strategic development of the company. Insofar as is permitted by law, it takes decisions in place of the full supervisory board on matters which cannot be deferred until the necessary resolution is passed by the full supervisory board without detrimental effects for the company. It also takes decisions on the use of authorized capital. It prepares meetings of the supervisory board and, in particular, personnel decisions and resolutions on the

[1] Section 13.2 in conjunction with annex 2 of the Commission Recommendation of February 15, 2005 on the role of non-executive directors/supervisory board members of publicly listed companies and committees of the board of directors/supervisory board (2005/162/EC).

remuneration of the executive board, including the main contractual elements and the overall remuneration of individual members of the executive board. It is also responsible for concluding, amending, and terminating employment contracts with the members of the executive board, where this does not involve altering or setting remuneration, and represents the company in other transactions of a legal nature with present and former members of the executive board and certain related parties. **Members:** Bernd Tönjes (chairman), Karin Erhard (deputy chairwoman), Martin Albers, Dr. Volker Trautz.

The **audit committee** has six members. Members of the audit committee have specialist knowledge and experience in the application of accounting standards and internal control systems. Moreover, the chairman is independent and is not a former member of the company's executive board. Acting on behalf of the supervisory board, the audit committee's principal tasks comprise supervising the accounting, the accounting process, the effectiveness of the internal control system, the risk management system, and the internal audit system, the auditing of the financial statements, especially the independence of the auditor, any additional services provided by the auditor by prior agreement and retrospective review, as well as compliance and the related decisions. It can make proposals and recommendations geared to ensuring the integrity of the financial reporting process. It prepares the supervisory board's proposal to the shareholders' meeting on the appointment of the auditor. If the audit engagement is put out to tender, the proposal must include at least two candidates. Further, the audit committee takes decisions on the appointment of the auditor, the focal points of the audit, and the agreement on audit fees. It assumes the specific duties regarding the statutory audit of public-interest entities assigned to the audit committee under applicable law, especially EU Regulation no. 537/2014. The audit committee prepares the decision of the supervisory board on approval of the annual financial statements of Evonik Industries AG and the consolidated financial statements for the Evonik Group. For this purpose, it is required to conduct a preliminary examination of the annual financial statements of Evonik Industries AG, the consolidated financial statements for the Evonik Group, the combined management report, and the executive board's proposal for the distribution of the profit. The audit committee also examines the auditor's report. Furthermore, the audit committee prepares the decision of the supervisory board on the combined non-financial report. For this purpose, it is required to undertake a preliminary examination of the report. The audit committee reviews the interim reports, especially the half-yearly report, discusses the audit review report with the auditor—if an auditor is engaged to conduct a review—and decides whether to raise any objections. Further, it examines issues relating to corporate governance and reports to the supervisory board at least once a year on the status, effectiveness, and scope to implement any improvements to corporate governance, and on new requirements and new developments in this field. **Members:** Dr. Siegfried Luther (chairman), Birgit Biermann (deputy chairwoman), Jens Barnhusen, Prof. Barbara Grunewald, Dr. Thomas Sauer, Angela Titzrath.

The **finance and investment committee** has eight members. Its work covers aspects of corporate finance and investment planning. For example, it takes decisions on behalf of the supervisory board on approving investment and real estate transactions with a value of more than €100 million. Further, the finance and investment committee takes decisions on behalf of the supervisory board involving approval for the establishment, acquisition, and divestment of businesses, and on capital measures at other Group companies with a value of between €100 million and €500 million. It also prepares decisions of the full supervisory board on such measures, where they exceed €500 million. Furthermore, it takes decisions on the assumption of guarantees and sureties for credits exceeding €50 million and on investments in companies of more than €100 million. **Members:** Michael Rüdiger (chairman), Karin Erhard (deputy chairwoman), Martin Albers, Prof. Aldo Belloni, Frank Löllgen, Anke Strüber-Hummelt, Bernd Tönjes, Ulrich Weber.

The **innovation and research committee** has eight members. It examines the company's innovation and research strategy, in particular by analyzing expected future developments both in the chemical sector and in the markets of relevance to the company. It discusses the resulting implications for the company's innovation and research programs with the executive board. **Members:** Prof. Barbara Albert (chairwoman), Frank Löllgen (deputy chairman), Prof. Aldo Belloni, Karin Erhard, Hussin El Moussaoui, Martina Reisch, Bernd Tönjes, Dr. Volker Trautz.

The **nomination committee** comprises three supervisory board members elected as representatives of the shareholders. The task of the nomination committee is to prepare a proposal for the supervisory board on the candidates to be nominated to the shareholders' meeting for election to the supervisory board. **Members:** Bernd Tönjes (chairman), Dr. Volker Trautz, Ulrich Weber.

Finally, there is a **mediation committee** established in accordance with section 27 paragraph 3 of the German Codetermination Act. This mandatory committee is composed of the chairman of the supervisory board, his deputy, one shareholder representative, and one employee representative. This committee puts forward proposals to the supervisory board on the appointment of members of the executive board if the necessary two-thirds majority of the supervisory board members is not achieved in the first vote. **Members:** Bernd Tönjes (chairman), Karin Erhard (deputy chairwoman), Martin Albers, Dr. Volker Trautz.

The mediation committee is only convened when necessary. All other committees meet regularly and may also hold additional meetings on specific issues in line with their responsibilities as set out in the rules of procedure for the supervisory board.

Further details of the work of the supervisory board and its committees in the past fiscal year can be found in the report of the supervisory board p. 74 ff. The report of the supervisory board also outlines the composition of the various committees and the meetings attended by members the supervisory board. The composition of the supervisory board and membership of supervisory boards and similar governance bodies are outlined in the further information on corporate officers p. 91 ff.

The supervisory board regularly examines the efficiency of its work. A self-assessment involving supervisory board members filling out a questionnaire was conducted in 2020. On the basis of the evaluation of the results, measures were resolved and implemented during the year.

Directors' dealings

In accordance with the EU market abuse regulation (article 19 paragraph 1 MAR), which came into force on July 3, 2016, members of the executive board and supervisory board and persons closely associated with them (including spouses, partners who are equivalent to a spouse, and dependent children) are required to notify Evonik Industries AG and the Federal Financial Supervisory Authority (BaFin) of any transactions in shares or debt instruments of Evonik Industries AG, or derivatives, or other financial instruments linked thereto. This applies to transactions undertaken within a calendar year after a total value of € 20,000 has been reached. The transactions notified are disclosed on the website of Evonik Industries AG. www.evonik.com/investor-relations (Corporate Governance)

2.4 Diversity at Evonik

Since Evonik Industries AG is a publicly listed company and is also subject to German codetermination legislation, the diversity requirements set forth in the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code apply. The statutory ratio of at least 30 percent women and at least 30 percent men applies for the composition of the supervisory board. The supervisory board meets this ratio: Alongside 13 men, it has seven female members, three of whom represent the shareholders, and four of whom represent the workforce. For the proportion of women on the executive board, the supervisory board has set a target of at least 25 percent, with a deadline for achieving this of June 30, 2022. The executive board comprises one woman and three men, so it meets this target.

Further, for the period from January 1, 2020 through December 31, 2020, the executive board of Evonik Industries AG set a target of 27.3 percent female managers at first management level below the executive board and 25.0 percent female managers at the second management level. A short period of one year was defined for the achievement of this target as an exception due to the planned introduction of a new corporate structure on July 1, 2020. In connection with this, there were group-wide personnel changes, partly with a view to executive development and succession planning. As a result, the proportion of female managers at the first management level fell very slighty short of the target at 26.9 percent. At the second management level, the target was exceeded, with 26.3 percent female managers. For the period from January 1, 2021 through December 31, 2024, the target is 30.0 percent female managers at both the first and the second management level of Evonik Industries AG.

Diversity concept

The previous diversity requirements set out in the German Stock Corporation Act (AktG) and the German Corporate Governance Code for publicly listed corporations that are also classified as large stock corporations have been extended by the revised version of section 289f paragraph 2 no. 6 of the German Commercial Code (HGB). The diversity concept, which has to be described pursuant to this provision, and which has to be followed in appointments to the supervisory board and the executive board, comprises the following elements at Evonik Industries AG:

The diversity concept for Evonik's supervisory board comprises both the supervisory board's objectives for its composition and the profile for the skills and expertise of the supervisory board as a whole. Further details can be found in subsection 2.3 p. 85 ff. Most of the requirements set out in the new rules for the supervisory board's diversity concept are already reflected in the supervisory board's objectives. These include rules on the age and gender of supervisory board members and on professional experience and knowledge of business administration and the chemical sector. These objectives have been supplemented by a profile that sets out the required skills and expertise and documents the extent to which they are met. The diversity concept is implemented by ensuring that the proposals put to the shareholders' meeting for the election of supervisory board members reflect the objectives and the profile. The present composition of the supervisory board meets all requirements of the diversity concept.

The supervisory board, executive committee, and executive board together ensure long-term succession planning for appointments to the executive board. Structured talent management and targeted executive development form the basis for filling executive board positions from within the company where possible. The principles of succession planning are agreed with the executive committee, and the executive board and the chair man of the supervisory board regularly discuss potential candidates. The chairman of the supervisory board informs the executive committee or the full supervisory board of the status of succession planning, as necessary. The basis for this includes the diversity concept for the executive board. Alongside the target of 25 percent female members outlined above, it sets a maximum age limit of 65 for members of the executive board. In addition to this age limit, when selecting suitable candidates for the executive board, the supervisory board ensures a suitable mixture of ages to ensure long-term succession planning. Further, as a leading global specialty chemicals company, when making appointments to the executive board, Evonik pays attention to ensuring that at least one member has knowledge of the area of human resources, one has knowledge of finance and accounting, and one has knowledge of the chemical sector. In addition, at least one member of the executive board should have international professional experience. The present composition of the executive board fully meets the requirements set by the diversity concept.

3. Shareholders and the shareholders' meeting

The shareholders exercise their rights at the shareholders' meeting. The shareholders' meeting elects the auditor and the shareholder representatives on the supervisory board and resolves on the ratification of the actions of members of the executive board and supervisory board, the distribution of the profit, capital transactions, and amendments to the articles of incorporation. The shares are registered shares. Shareholders who are entered in the register of shareholders are eligible to attend the shareholders' meeting and exercise their voting rights, providing they register in good time to attend the meeting. The shareholders may exercise their voting rights at the shareholders' meeting in person, through a proxy of their choice or a proxy appointed by the company. Each share entitles the holder to one vote.

4. Information on accounting and auditing of the financial statements

Evonik Industries AG prepares its annual financial statements in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The consolidated financial statements are prepared on the basis of the International Financial Reporting Standards (IFRS), as adopted for use in the EU. In addition, the applicable statutory provisions of section 315e paragraph 1 of the German Commercial Code (HGB) are taken into account. For the first time, the consolidated financial statements are being published in the new European Single Electronic Format (ESEF). This was audited separately by the auditor. As proposed by the supervisory board, the annual shareholders' meeting on August 31, 2020 elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Frankfurt am Main, as auditor for the annual financial statements of Evonik Industries AG, the consolidated financial statements of the Evonik Group, and the combined management report for fiscal 2020. The supervisory board previously ascertained the independence of the auditor. The auditors that sign the audit of the annual financial statements of Evonik Industries AG and the consolidated financial statements of the Evonik Group are Dr. Peter Bartels (since fiscal 2020) and Ms. Aissata Touré (since fiscal 2020). In addition to the accounting, the audit covered the system to identify emerging risks and the accounting-related internal control system. Furthermore, in accordance with the decision by Essen District Court on June 23, 2020, PwC was appointed as the auditor to review the half-year financial report in fiscal 2020.

In 2019, KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), Berlin (Germany), won the tender to audit Evonik Industries AG. In line with the proposal put forward by the supervisory board, the annual shareholders' meeting on August 31, 2020 appointed KPMG as the auditor for any review of the condensed financial statements and the interim management report in fiscal 2021 in accordance with section 115 paragraph 7 of the German Securities Trading Act (WpHG) on additional intraperiod financial information, effective until the next annual shareholders' meeting.

5. Risk management and internal control system (ICS)

Risk management in the Evonik Group, including the ICS relating to the accounting process, is described in the opportunity and risk report p. 59 ff. in the combined management report.

6. Remuneration

The principles of the remuneration system and the remuneration of the members of the executive board and the supervisory board are outlined in the remuneration report p. 94 ff. To meet the new content requirements for the declaration on corporate governance pursuant to section 289f paragraph 2 no. 1a of the German Commercial Code (HGB), the remuneration system (section 87a paragraph 1 and paragraph 2 sentence 1 of the German Stock Corporation Act [AktG]) and the remuneration resolution (section 113 paragraph 3 AktG) are published on the website of Evonik Industries AG at **www.evonik.com/remunerationsystem-executiveboard** and **www.evonik.com/remunerationsystem-supervisoryboard.**

Further information on corporate officers

Supervisory Board of Evonik Industries AG

Bernd Tönjes, Marl
Chairman of the Supervisory Board

Chairman of the Executive Board of RAG-Stiftung

a) • RAG Aktiengesellschaft (Chair)
• RSBG SE (Chair)

b) • Contilia GmbH (until September 30, 2020)
• DEKRA e.V.

Karin Erhard, Hanover
Deputy Chairwoman of the Supervisory Board (since September 1, 2020)

Member of the Central Board of Executive Directors of the German Mining, Chemical and Energy Industrial Union (IG BCE)

a) • 50Hertz Transmission GmbH

Martin Albers, Dorsten
Chairman of the Group Works Council of Evonik Industries AG

Chairman of the Works Council of the jointly operated Essen campus

b) • RAG-Stiftung (since July 1, 2020)

Prof. Barbara Albert, Darmstadt
Professor of Solid State Chemistry at the Eduard-Zintl Institute of Inorganic and Physical Chemistry of the Technical University of Darmstadt

a) • Schunk GmbH

Jens Barnhusen, Bottrop
Deputy Chairman of the Works Council for Evonik's Goldschmidtstrasse facilities

a) • Pensionskasse Degussa VVaG

Prof. Aldo Belloni, Eurasburg
Former Chairman of the Executive Board of Linde Aktiengesellschaft

b) • TÜV Süd e.V. (Chair)

Birgit Biermann, Bochum
(since September 1, 2020)

District Manager Dortmund-Hagen of the German Mining, Chemical and Energy Industrial Union (IG BCE)

b) • DMT-Gesellschaft für Lehre und Bildung mbH

Prof. Barbara Grunewald, Bonn
Emeritus Professor for Civil Law and Commercial Law at the University of Cologne

Martin Kubessa, Velbert
Member of the Works Council for Evonik's Marl facilities

Frank Löllgen, Cologne
Regional Director North Rhine of the German Mining, Chemical and Energy Industrial Union (IG BCE)

a) • Bayer AG

Dr. Siegfried Luther, Gütersloh
Former Chief Financial Officer of Bertelsmann AG (now Bertelsmann SE & Co. KGaA)

a) • Sparkasse Gütersloh-Rietberg

Hussin El Moussaoui, Brachttal Schlierbach
Deputy Chairman of the Group Works Council of Evonik Industries AG

Deputy Chairman of the Works Council for the jointly operated Hanau site

a) • Evonik Technology & Infrastructure GmbH (until June 30, 2020)

a) Membership of other statutory supervisory boards.
b) Membership of comparable German and foreign supervisory bodies of business enterprises pursuant to section 125 paragraph 1 sentence 5 of the German Stock Corporation Act (AktG).

Martina Reisch, Rheinfelden
Chairwoman of the Works Council of
the jointly operated Rheinfelden site

a) • Evonik Resource Efficiency GmbH (until June 30, 2020)

Michael Rüdiger, Utting am Ammersee
Former Chairman of the Executive Board of
DekaBank Deutsche Girozentrale

a) • BlackRock Asset Management Deutschland AG (Chair) (since July 1, 2020)
• Deutsche Börse AG (since May 19, 2020)

Dr. Thomas Sauer, Bad Homburg
Chairman of the Executive Staff Council of the Evonik Group

Peter Spuhler, Weiningen (Switzerland)
Interim Group CEO of Stadler Rail AG and Chairman of the Board of Directors of Stadler Rail AG, Bussnang (Switzerland) and of PCS Holding AG, Frauenfeld (Switzerland)

a) • Robert Bosch GmbH, Stuttgart

b) • Aebi Schmidt Holding AG, Frauenfeld (Switzerland) (Chair)
• AngelStar S.r.l., Mola di Bari (Italy)
• Allreal Holding AG, Zug (Switzerland)
• Autoneum Holding AG, Winterthur (Switzerland)
• Chesa Sül Spelm AG, Frauenfeld (Switzerland)
• DSH Holding AG, Warth-Weiningen (Switzerland)
• Estonia Train Finance AG, Frauenfeld (Switzerland) (Chair) (until July 24, 2020)
• European Loc Pool AG, Frauenfeld (Switzerland)
• Nordic Train Finance AG, Frauenfeld (Switzerland) (Chair) (until July 24, 2020)
• Rana Aps AG, Warth-Weiningen (Switzerland) (Chair) (until April 30, 2020)
• Rana Aps Iberica S.L., Warth-Weiningen (Switzerland) (Chair)
(until April 30, 2020)
• Rieter Holding AG, Winterthur (Switzerland)
• Stadler CIS AG, Bussnang (Switzerland) (Chair)
• Stadler Minsk CJSC, Minsk (Belarus) (Chair)
• Stadler Pankow GmbH, Berlin (Chair)
• Stadler Trains Magyarország Kft., Budapest (Hungary)
• Stadler US Inc., Westfield (USA)
• Wohnpark Promenade AG, Frauenfeld (Switzerland) (until June 15, 2020)
• ZLE Betriebs AG, Zurich (Switzerland)

Anke Strüber-Hummelt, Marl
Deputy Chairwoman of the
Group Works Council of Evonik Industries AG

Chairwoman of the Works Council for
Evonik's Marl facilities

Angela Titzrath, Hamburg
Chairwoman of the Executive Board of
Hamburger Hafen und Logistik Aktiengesellschaft

a) • Deutsche Lufthansa AG (since September 2, 2020)
• Talanx AG

Dr. Volker Trautz, Munich
Former Chairman of the Executive Board of
LyondellBasell Industries

a) • Citigroup Global Markets Deutschland AG

b) • CERONA Companhia de Energia Renovável, São Paulo (Brazil)

Ulrich Weber, Krefeld
Former member of the Executive Board,
Human Resources & Law, of Deutsche Bahn AG

a) • HDI Global SE
• ias Aktiengesellschaft

b) • ias Stiftung

The following member left the supervisory board in 2020:

Edeltraud Glänzer, Hanover
(until August 31, 2020)

Deputy Chairwoman of the Supervisory Board

Political Secretary for Special Matters of the German Mining, Chemical and Energy Industrial Union (IG BCE)

a) • B. Braun Melsungen AG
• Merck KGaA

a) Membership of other statutory supervisory boards.
b) Membership of comparable German and foreign supervisory bodies of business enterprises pursuant to section 125 paragraph 1 sentence 5 of the German Stock Corporation Act (AktG).

Executive Board of Evonik Industries AG

Christian Kullmann, Hamminkeln
Chairman of the Executive Board

a) • Borussia Dortmund GmbH & Co. KGaA

Dr. Harald Schwager, Speyer
Deputy Chairman of the Executive Board

a) • Evonik Operations GmbH (since July 1, 2020, Chair since September 28, 2020)
• Evonik Nutrition & Care GmbH (Chair) (until June 30, 2020)
• Evonik Resource Efficiency GmbH (Chair) (until June 30, 2020)
• Evonik Performance Materials GmbH (Chair) (until June 30, 2020)

b) • KSB Management SE

Thomas Wessel, Recklinghausen
Chief Human Resources Officer and Industrial Relations Director

a) • Evonik Operations GmbH (since July 1, 2020)
• Evonik Nutrition & Care GmbH (until June 30, 2020)
• Evonik Resource Efficiency GmbH (until June 30, 2020)
• Evonik Performance Materials GmbH (until June 30, 2020)
• Evonik Technology & Infrastructure GmbH (Chair) (until June 30, 2020)
• Pensionskasse Degussa VVaG (Chair until June 16, 2020)
• Vivawest GmbH
• Vivawest Wohnen GmbH

b) • Gesellschaft zur Sicherung von Bergmannswohnungen mbH

Ute Wolf, Düsseldorf
Chief Financial Officer

a) • DWS Group GmbH & Co. KGaA
• Evonik Nutrition & Care GmbH (until June 30, 2020)
• Evonik Resource Efficiency GmbH (until June 30, 2020)
• Evonik Performance Materials GmbH (until June 30, 2020)
• Klöckner & Co. SE
• Pensionskasse Degussa VVaG

b) • Borussia Dortmund Geschäftsführungs-GmbH

a) Membership of other statutory supervisory boards.
b) Membership of comparable German and foreign supervisory bodies of business enterprises pursuant to section 125 paragraph 1 sentence 5 of the German Stock Corporation Act (AktG).

Remuneration report[1]

The remuneration report outlines the principles of the remuneration system for the members of the executive board and the supervisory board, together with the structure and level of their individual remuneration. This report complies with the German Commercial Code (HGB), including the principles set out in German Accounting Standard No. 17 (DRS 17), the International Financial Reporting Standards (IFRS), and the requirements of the German Corporate Governance Code.

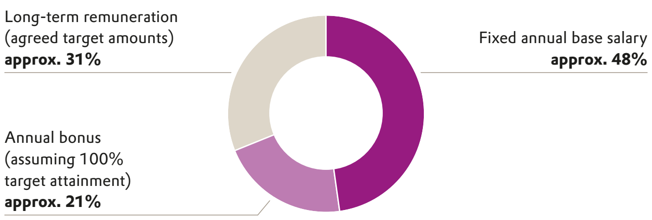
Remuneration system for the executive board

Principles and objectives

The remuneration system for the executive board is designed to ensure that members receive appropriate remuneration for their tasks and responsibilities and to take direct account of the performance of each member of the executive board and of the company. The structure of the remuneration system for the members of the executive board of Evonik Industries AG is geared to sustained value creation and performance-oriented management of the company. It comprises a fixed monthly base salary, which takes account of the tasks and services performed by the respective member, a variable short-term component comprising an annual bonus, which is dependent on the attainment of the company's annual performance targets, and a long-term component linked directly to the increase in the value of the company as an incentive for sustained commitment to the company. The targets for the short- and long-term variable remuneration components are derived from the corporate strategy of Evonik Industries AG. In addition, the customary fringe benefits are granted. Overall, the remuneration supports the long-term development of the company.

The next chart shows the breakdown of the remuneration components in 2020. The benefits in kind, other fringe benefits, and company pension provision (IFRS service cost) are included in the fixed annual base salary.

Structure of remuneration of members of the executive board C34



Performance-unrelated components

Fixed annual base salary

The fixed **annual base salary** is a cash payment for the fiscal year. It takes account of the scope of responsibility of each executive board member and is paid out in twelve equal installments.

Benefits in kind and other fringe benefits

As benefits in kind and other fringe benefits, members of the executive board receive a company car with a driver, the installation of telecommunications equipment, and an entitlement to an annual medical check-up. Executive board members may receive a rent subsidy if performance of their duties requires them to rent a second apartment. Benefits in kind are presented in this remuneration report at the values defined in the tax regulations.

Further, members of the executive board may receive additional remuneration for offices they hold in the interests of the company. Apart from fees for the attendance of meetings, insofar as such fees are paid to executive board members, they are deducted from their annual bonus or paid over to the company. In this remuneration report, remuneration for offices held in the interests of the company is included in other fringe benefits.

Performance-related components

Short-term variable remuneration

The performance-related annual bonus is dependent on the attainment of business targets measured by performance indicators (bonus factor) and the attainment of individual objectives (performance factor). The bonus factor and performance factor are multiplied. The level of the bonus factor depends on the achievement of the agreed business targets, and may be between 0 percent and 200 percent. The adjusted EBITDA margin, adjusted EBITDA, and free cash flow are defined as business targets. All parameters are measured against the long-term strategic objectives for the company, based on the actual results in the calendar year. The development of plant safety and accident frequency, and the severity of accidents in the fiscal year are also taken into account.

[1] This report is part of the audited combined management report.

The performance factor rewards the attainment of the qualitative targets and can vary between 80 percent and 120 percent. The reference indicators are aligned to the performance objectives for the executive board and normally have a multi-year context within the target-setting framework, taking into consideration targets in areas such as strategy/portfolio, the efficiency of cost structures, and corporate culture. If the qualitative and business objectives are achieved in full, the contractually agreed target bonus is paid. If the company's income falls short of the planned level, the bonus factor may—in the extreme case—be zero, regardless of personal attainment. In other words, it is conceivable that a bonus might not be paid for a specific year. The bonus is capped at 200 percent of the target bonus. The business and qualitative targets set for executive board members for the bonus and performance factors are agreed in writing at the start of each fiscal year between the supervisory board and each member of the executive board, and the level of attainment is determined by the supervisory board after the end of the year.

Long-term variable remuneration (LTI plans)

The members of the executive board receive long-term variable remuneration in the form of long-term incentive (LTI) plans. The general reference base for long-term remuneration is a sustained rise in the value of the company.

Performance is measured by the absolute performance of Evonik's share price and its performance relative to the MSCI World Chemicals Index^{SM}. Based on the contractually agreed target amount, which is defined in euros, a number of virtual shares is calculated using the share price at the start of the performance period. This is based on the price in the last 60 trading days before the start of the performance period. The performance period starts on January 1 of the grant year and runs for four years. At the end of the performance period, the starting price of Evonik shares is viewed against the average share price at the end of the performance period, plus any dividends per share actually paid in this period. This is compared with the performance of the benchmark index (total shareholder return). Eligible participants are informed of the outcome after the end of the performance period. They can then opt to accept the payment calculated or to extend the performance period on a one-off basis for a further year. In this case, a renewed calculation is performed at the end of the extended performance period.

Since 2019, the intrinsic value of the LTI has been measured at the end of each year in the four-year performance period by comparing the starting price of Evonik shares with the average price of the shares plus the dividends per share actually paid during the performance period. This is then compared with the performance of the benchmark index (total shareholder return). There is no longer an option to extend the performance period.

The relative performance may be between 70 percentage points and 130 percentage points. If the relative performance is below 70 percentage points, the relative performance factor is deemed to be zero. If the relative performance is above 130 percentage points, the relative performance is set at 130 percent.

The payment is calculated by multiplying the relative performance by the number of virtual shares allocated and the average price of Evonik shares at the end of the performance period. Since 2019, the overall performance, and thus the amount to be paid at the end of the performance period, has been calculated as an average of the performance in each year. The upper limit for these payments is set at 300 percent of the individual target amount.

The fair values of the LTI tranches 2015 through 2020 as of the date of the legally binding commitment are shown in the next table:

LTI tranches [a] T33

	2015		2016		2017		2018		2019		**2020**	
	No. of virtual shares	in €'000	No. of virtual shares	in €'000	No. of virtual shares	in €'000	No. of virtual shares	in €'000	No. of virtual shares	in €'000	No. of virtual shares	in €'000
Christian Kullmann	28,506	893	28,803	616	41,787	1,033	39,949	1,018	64,504	1,429	65,372	1,303
Dr. Harald Schwager	–	–	–	–	12,090	299	31,959	814	46,912	1,039	47,544	948
Thomas Wessel	28,506	893	23,637	505	27,203	672	23,969	611	35,184	779	35,658	711
Ute Wolf	28,506	893	23,637	505	27,203	672	23,969	611	35,184	779	35,658	711
Total	**85,518**	**2,679**	**76,077**	**1,626**	**108,283**	**2,676**	**119,846**	**3,054**	**181,784**	**4,026**	**184,232**	**3,673**

[a] The date of the legally binding commitment corresponds to the grant date.

In 2020, the total expense for all LTI tranches for the executive board was €346 thousand. The breakdown of the expense was as follows: €75 thousand for Mr. Kullmann, €301 thousand for Dr. Schwager, –€15 thousand for Mr. Wessel, and –€15 thousand for Ms. Wolf.

Company pension plan

A defined contribution system has been introduced as the standard pension plan. This is a capital-based system funded by provisions. The company credits a fixed annual amount to the pension account of each executive board member. This is 15 percent of their target remuneration, i.e., the fixed annual base salary and target bonus (variable short-term remuneration assuming 100 percent target attainment). The guaranteed annual return is 5 percent. The pension benefit comprises the amount that has accrued on the account, i.e., contributions credited to the account plus accumulated interest. In the event of death or disability, the amount that would be available on the account on the member's 55th birthday, including projected contributions and interest, is calculated. Payment normally comprises a lifelong pension. Alternatively, executive board members may opt for disbursement of part of the capital (maximum 50 percent) in six to ten instalments. Where executive board members accrued pension entitlements prior to their appointment to the executive board, these are either integrated into the system as an initial contribution or continue to be managed separately. If a member's contract as a member of the executive board ends before benefits are payable, no further contributions are credited to the account. However, it continues to earn interest at the common market interest rate based on the average return earned by major German life insurers (at least 2.25 percent p.a.) until benefits are claimed.

Members of the executive board are entitled to pension benefits after they leave the company if they leave on or after reaching the individually agreed retirement age or if they leave as a result of permanent incapacity to work. In addition, Mr. Kullmann and Mr. Wessel can claim pension benefits from the date of premature termination or non-extension of their executive board contracts, providing they do not give due cause for such termination. This claim also relates to pension entitlements they accrued prior to their appointment to the executive board. An arrangement that differs from the pension system has been agreed with Dr. Harald Schwager. He has been given a commitment that he will receive a lifelong pension of €40 thousand p.a. for each full year of service, and a pro rata amount for each partial year of service.

In 2020, the service cost for members of the executive board totaled €2,321 thousand (2019: €2,066 thousand) based on the German Commercial Code (HGB) and €2,849 thousand (2019: €2,540 thousand) based on IFRS. The difference in service cost for pension commitments is attributable to differences in the valuation methods used to calculate the settlement amount in accordance with the German Commercial Code and the present value of pension obligations calculated in accordance with IFRS.

The present value of pension obligations for members of the executive board was €22,354 thousand (2019: €17,844 thousand) based on the German Commercial Code (HGB) and €29,820 thousand (2019: €23,998) based on IFRS.

Service cost and present value of pension obligations T34

	HGB				IFRS			
	Service cost		Settlement amount of pension obligations as of Dec. 31		Service cost		Present value of the defined benefit obligation as of Dec. 31	
in €'000	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Christian Kullmann	682	751	7,009	8,706	814	960	9,794	12,079
Dr. Harald Schwager	727	810	1,852	2,893	878	972	2,363	3,659
Thomas Wessel	321	392	5,928	6,938	442	460	7,658	8,895
Ute Wolf	336	368	3,055	3,817	406	457	4,183	5,187
Total	**2,066**	**2,321**	**17,844**	**22,354**	**2,540**	**2,849**	**23,998**	**29,820**

Provisions for pension obligations to former members of the executive board and their surviving dependents as of the reporting date were €68,420 thousand (2019: €65,314 thousand) based on the German Commercial Code (HGB) and €90,170 thousand (2019: €86,502 thousand) based on IFRS.

Determination of maximum remuneration

The maximum remuneration of members of the executive board is defined as follows and is based on the maximum possible performance-related and performance-unrelated remuneration components, including service cost for the company pension plan:

Chairman of the executive board:	€9,700 thousand
Deputy chairman:	€7,200 thousand
Chief human resources officer:	€5,200 thousand
Chief financial officer:	€5,200 thousand

In 2020, the remuneration of the individual members of the executive board was below this maximum level. Details can be found in the section headed "Benefits granted and allocation" p. 98 f.

Explanation of how the remuneration is determined

The remuneration is reviewed regularly by the supervisory board, where appropriate on the basis of remuneration reports from independent consultants. These reviews examine the structure and level of remuneration of the executive board, particularly in comparison with the external market, and also in relation to remuneration elsewhere in the company. The external comparison uses peer groups comprising, on the one hand, comparable companies in the chemicals sector and, on the other hand, companies listed on the MDAX/DAX indices. The assessment of the appropriateness of the remuneration compared with remuneration elsewhere in the company starts by determining the average remuneration at the first management level below the executive board and the remuneration of the workforce as a whole. This is then compared with the peer group described above and includes the development of remuneration over time. The supervisory board defines the senior management level and relevant workforce and how the remuneration is assessed in relation to these groups. If this reveals a need to adjust the remuneration system or the level or structure of remuneration, the executive committee of the supervisory board submits a corresponding proposal to the full supervisory board for a decision. If the supervisory board involves an external remuneration expert, it makes sure the expert is independent. The last external review of the appropriateness of the remuneration system was in 2020. The review confirmed the appropriateness of the remuneration.

Cap on termination benefits in the event of premature termination of term of office

In conformance with the German Corporate Governance Code, the employment contracts with all members of the executive board provide for a cap on termination benefits. If a member's term of office is prematurely terminated, payments may not exceed two years' remuneration, including variable remuneration components. In no case is remuneration payable for periods beyond the remaining term of the contract. The contracts specify that no termination benefits are payable if an executive board member's contract is terminated for reasons for which he or she is responsible. The cap on termination benefits is based on total remuneration including fringe benefits in the previous fiscal year and, where appropriate, the anticipated total remuneration for the current fiscal year.

Post-contractual non-compete agreements

Post-contractual non-compete agreements have not been concluded with members of the executive board.

Share ownership guidelines

The members of the executive board are subject to a contractual requirement to acquire shares in Evonik equivalent to at least 100 percent of their fixed remuneration, at their own expense, within three years from 2019 or from their initial appointment and to hold these for the duration of their appointment to the executive board.

Claw-back clause

In case a member of the executive board commits a serious breach of his or her statutory duties or internal rules of conduct, future contracts with members of the executive board will introduce a contractual clause providing for the reimbursement or offsetting, in full or in part, of any variable remuneration components paid to the member of the executive board for the performance period in question (claw-back clause).

Remuneration of the executive board in fiscal 2020

The total remuneration paid to the members of the executive board for their work in 2020, including remuneration for the performance of other offices, was €11,001 thousand (2019: €12,387 thousand). The figure for 2020 includes bonus payments

Remuneration of the executive board T35

	Performance-unrelated remuneration				Performance-related remuneration					
	Fixed remuneration		Benefits in kind and other fringe benefits		Annual bonus		LTI [a]		Total remuneration in accordance with DRS 17	
in €'000	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Christian Kullmann	1,400	1,400	59	61	1,521	1,155	1,429	1,303	4,409	3,919
Dr. Harald Schwager	1,130	1,130	222	272	805	490	1,039	948	3,196	2,840
Thomas Wessel	800	800	227	281	597	341	779	711	2,403	2,133
Ute Wolf	800	800	113	137	687	461	779	711	2,379	2,109
Total	**4,130**	**4,130**	**621**	**751**	**3,610**	**2,447**	**4,026**	**3,673**	**12,387**	**11,001**

[a] Fair value as of the legally binding commitment or grant date.

of €40 thousand for the previous year, for which no provision was established in 2019.

The table T35 p. 97 shows the remuneration of the individual members of the executive board for 2020, based on the principles outlined above.

In 2020, no member of the executive board received benefits or corresponding promises from third parties in connection with his or her service on the executive board. Further, as of December 31, 2020, there were no loans or advances to members of the executive board.

Finally, third-party financial loss insurance cover is provided for each member of the executive board to cover their statutory liability arising from their work on the executive board. In the event of a claim, this provides for a deductible of 10 percent of the damage, up to one-and-a-half times the individual member's fixed annual remuneration.

Former executive board members

Total remuneration of former members of the executive board and their surviving dependents was €2,848 thousand in 2020 (2019: €2,849 thousand).

Benefits granted and allocation

Benefits granted T36

	Christian Kullmann Chairman of the Executive Board				Dr. Harald Schwager Deputy Chairman of the Executive Board			
in €'000	2019	2020	2020 (min.)	2020 (max.)	2019	2020	2020 (min.)	2020 (max.)
Fixed remuneration	1,400	1,400	1,400	1,400	1,130	1,130	1,130	1,130
Fringe benefits	59	61	61	61	222	272	272	272
Total	**1,459**	**1,461**	**1,461**	**1,461**	**1,352**	**1,402**	**1,402**	**1,402**
One-year variable remuneration	1,200	1,200	–	2,400	750	750	–	1,500
Multi-year variable remuneration	1,429	1,303	–	4,950	1,039	948	–	3,600
LTI 2019 through 2022	1,429	–	–	–	1,039	–	–	–
LTI 2020 through 2023	–	1,303	–	4,950	–	948	–	3,600
Total variable remuneration	**2,629**	**2,503**	**–**	**7,350**	**1,789**	**1,698**	**–**	**5,100**
Pension expense (service cost)	814	960	960	960	878	972	972	972
Total remuneration	**4,902**	**4,924**	**2,421**	**9,771**	**4,019**	**4,072**	**2,374**	**7,474**

	Thomas Wessel Chief Human Resources Officer				Ute Wolf Chief Financial Officer			
in €'000	2019	2020	2020 (min.)	2020 (max.)	2019	2020	2020 (min.)	2020 (max.)
Fixed remuneration	800	800	800	800	800	800	800	800
Fringe benefits	227	281	281	281	113	137	137	137
Total	**1,027**	**1,081**	**1,081**	**1,081**	**913**	**937**	**937**	**937**
One-year variable remuneration	600	600	–	1,200	600	600	–	1,200
Multi-year variable remuneration	779	711	–	2,700	779	711	–	2,700
LTI 2019 through 2022	779	–	–	–	779	–	–	–
LTI 2020 through 2023	–	711	–	2,700	–	711	–	2,700
Total variable remuneration	**1,379**	**1,311**	**–**	**3,900**	**1,379**	**1,311**	**–**	**3,900**
Pension expense (service cost)	442	460	460	460	406	457	457	457
Total remuneration	**2,848**	**2,852**	**1,541**	**5,441**	**2,698**	**2,705**	**1,394**	**5,294**

Allocation T37

in €'000	Christian Kullmann Chairman of the Executive Board 2019	2020	Dr. Harald Schwager Deputy Chairman of the Executive Board 2019	2020	Thomas Wessel Chief Human Resources Officer 2019	2020	Ute Wolf Chief Financial Officer 2019	2020
Fixed remuneration	1,400	1,400	1,130	1,130	800	800	800	800
Fringe benefits	59	61	222	272	227	281	113	137
Total	**1,459**	**1,461**	**1,352**	**1,402**	**1,027**	**1,081**	**913**	**937**
One-year variable remuneration [a, b, c]	1,335	1,140	655	480	488	334	578	454
Multi-year variable remuneration	620	–	–	–	620	–	620	–
LTI 2015 through 2018	620	–	–	–	620	–	620	–
LTI 2016 through 2019	–	–	–	–	–	–	–	–
Total variable remuneration	**1,955**	**1,140**	**655**	**480**	**1,108**	**334**	**1,198**	**454**
Pension expense (service cost)	814	960	878	972	442	460	406	457
Total remuneration	**4,228**	**3,561**	**2,885**	**2,854**	**2,577**	**1,875**	**2,517**	**1,848**

[a] In some cases, fees for other offices held are offset against the one-year variable remuneration contained in fringe benefits; 2019: Schwager €180 thousand, Wessel €180 thousand, Wolf €90 thousand; 2020: Schwager €233 thousand, Wessel €236 thousand, Wolf €116 thousand.
[b] The one-year variable remuneration for 2019 corresponds to the actual payments made in 2020 for 2019 (a correction has been made for any discrepancies between the actual payments and the estimates made in the remuneration report in 2019).
[c] The one-year variable remuneration for 2020 has not yet been finalized; estimate based on assumptions made for provisions.

Remuneration system for the supervisory board

The remuneration of the supervisory board is governed by section 15 of the articles of incorporation of Evonik Industries AG. The remuneration system takes account of the responsibilities and scope of activities of the members of the supervisory board. Given its duty to oversee the executive board in its management of the business, the supervisory board makes a contribution to promoting the business strategy and to the long-term development of the company. In addition to reimbursement of their expenses and value-added tax payable on their remuneration and expenses, the members of the Supervisory Board receive a fixed annual payment. Their remuneration does not include a variable component. In view of the special nature of the remuneration of the supervisory board, which is granted for activities that differ fundamentally from the work of employees and of the Evonik Group, it is not possible to conduct a comparison with the remuneration of the workforce.

Different levels of fixed annual remuneration are paid to the chairman (€250 thousand), his deputy (€175 thousand), and other members of the supervisory board (€100 thousand). The chairman of the executive committee receives additional remuneration of €60 thousand, the deputy chairwoman €45 thousand, and the other members €35 thousand each. The chairman of the audit committee receives additional remuneration of €90 thousand, the deputy chairwoman €60 thousand, and the other members €50 thousand each. The chairman of the finance and investment committee receives additional remuneration of €60 thousand, the deputy chairwoman €45 thousand, and the other members €35 thousand each. The chairwoman of the innovation and research committee receives additional remuneration of €30 thousand, the deputy chairman €20 thousand, and the other members €15 thousand each. The chairmen of the nomination committee and the mediation committee receive additional remuneration of €20 thousand each, the deputy chairpersons receive €10 thousand each, and the other members €10 thousand each. Entitlement to the additional remuneration for work on the mediation committee only applies if the committee is actually convened during the fiscal year.

Further, members of the supervisory board receive a fee of €1 thousand for each meeting of the supervisory board and its committees that they attend. If several meetings are held on the same day, this fee is only paid once.

Members who only serve on the supervisory board for part of a fiscal year receive remuneration on a pro rata basis. This also applies for increases in the remuneration of the chairman of the supervisory board and his deputy and any increased remuneration paid for membership of or chairing a committee.

Remuneration of the supervisory board

T38

in €'000	Fixed remuneration		Remuneration for membership of a committee		Attendance fees		**Total**	
	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Martin Albers	100	100	70	70	9	10	179	180
Prof. Barbara Albert	100	100	30	30	6	6	136	136
Jens Barnhusen	100	100	35	50	9	4	144	154
Prof. Aldo Belloni	100	100	35	44	9	9	144	153
Birgit Biermann (from September 1, 2020)	–	33	–	20	–	3	–	56
Hussin El Moussaoui (from December 12, 2019)	8	100	1	15	–	6	9	121
Karin Erhard	100	125	60	79	10	7	170	211
Carmen Fuchs (until December 11, 2019)	100	–	15	–	6	–	121	–
Edeltraud Glänzer (until August 31, 2020)	175	117	90	60	8	5	273	182
Prof. Barbara Grunewald	100	100	50	50	10	8	160	158
Michael Hofmann (until April 30, 2019)	33	–	17	–	1	–	51	–
Martin Kubessa	100	100	–	–	5	4	105	104
Frank Löllgen	100	100	55	55	9	5	164	160
Dr. Siegfried Luther	100	100	90	90	10	8	200	198
Martina Reisch (from May 13, 2019)	67	100	9	15	5	6	81	121
Michael Rüdiger	100	100	60	60	9	8	169	168
Dr. Thomas Sauer	100	100	50	50	10	8	160	158
Peter Spuhler	100	100	–	–	4	3	104	103
Anke Strüber-Hummelt	100	100	35	35	9	8	144	143
Angela Titzrath	100	100	50	50	6	7	156	157
Bernd Tönjes	250	250	130	130	12	15	392	395
Dr. Volker Trautz	100	100	60	60	8	9	168	169
Ulrich Weber	100	100	45	45	8	8	153	153
Total	**2,233**	**2,225**	**987**	**1,008**	**163**	**147**	**3,383**	**3,380**

The remuneration and attendance fees paid to the supervisory board in 2019 and 2020 are presented on a cost basis. For members who joined or left the supervisory board during 2019 and 2020, the amounts are calculated on a pro rata basis.

As of December 31, 2020, there were no loans or advances to members of the supervisory board. In 2020 the members of the supervisory board did not receive any remuneration for services provided personally, especially consulting and referral services.

Finally, third-party financial loss insurance cover is provided for each member of the supervisory board to cover their statutory liability arising from their work on the supervisory board. In the event of a claim, this provides for a deductible of 10 percent of the damage, up to one-and-a-half times the individual member’s fixed annual remuneration.

Information pursuant to section 289a and section 315a of the German Commercial Code (HGB) and explanatory report by the executive board pursuant to section 176 paragraph 1 of the German Stock Corporation Act (AktG)[1]

Structure of issued capital
The capital stock of Evonik Industries AG is €466,000,000 and is divided into 466,000,000 no-par registered shares. Each share entitles the holder to one vote. Under section 5 paragraph 2 of the articles of incorporation, shareholders do not have any claim to the issue of certificates for their shares unless the issue of a certificate is required by the rules of a stock exchange on which the share has been admitted for trading. There are no different share classes, nor any shares with special rights.

Restrictions on voting rights or the transfer of shares
In connection with Evonik's employee share programs, there are restrictions on the ability of participating employees to dispose of their shares for a certain time period. In particular, they are required to hold their shares in each case until the end of the next-but-one calendar year after the year of allocation. The executive board is not aware of any other restrictions on voting rights or the transfer of shares.

Direct and indirect shareholdings that exceed 10 percent of the voting rights
Under the German Securities Trading Act (WpHG), every shareholder whose voting rights in the company reach, exceed, or drop below a certain level, whether through the purchase or sale of shares or in any other way, must notify the company and the Federal Financial Supervisory Authority (BaFin). Under section 33 paragraph 1 of the German Securities Trading Act, the relevant thresholds are 3, 5, 10, 15, 20, 25, 30, 50, and 75 percent of the voting rights. Changes in voting rights between these thresholds are not subject to notification under the German Securities Trading Act, so the following data may differ from more recent overviews of the shareholder structure. In compliance with section 160 paragraph 1 no. 8 of the German Stock Corporation Act (AktG), the notes to the financial statements of Evonik Industries AG contain an overview of all voting rights notifications submitted to the company pursuant to section 33 of the German Securities Trading Act.

Under section 289a paragraph 1 sentence 1 no. 3 and section 315a paragraph 1 sentence 1 no. 3 of the German Commercial Code (HGB), all direct and indirect shareholdings exceeding 10 percent of the voting rights must be declared. As of December 31, 2020, the executive board had only received notification of one direct shareholding exceeding 10 percent of the voting rights—from RAG-Stiftung, Essen (Germany). The executive board is not aware of any further direct or indirect holdings in the company's capital stock that exceed 10 percent of the voting rights.

Method of exercising oversight through voting rights in the event of employee shareholdings
Employees can become shareholders in the company through employee share programs. Instead of exercising their rights of oversight themselves, employees who hold shares in the company's capital may transfer these rights to an employee shareholder association, which acts in their interests. 104,946 voting rights had been transferred to the employee shareholder association as of the reporting date.

Appointment and dismissal of executive board members, amendments to the articles of incorporation
The appointment and dismissal of members of the executive board of Evonik Industries AG is governed by section 84 of the German Stock Corporation Act (AktG) and section 31 of the German Codetermination Act (MitbestG), in conjunction with section 6 of the company's articles of incorporation. Section 6 of the articles of incorporation states that the executive board comprises at least two members. Further, the supervisory board is responsible for determining the number of members.

Changes to the articles of incorporation are normally resolved by the annual shareholders' meeting. Section 20 paragraph 2 of the articles of incorporation states that, unless mandatory provisions require otherwise, resolutions shall be adopted by a simple majority of the votes cast and—unless, besides a majority of the votes, a majority of the capital is required by law—by a simple majority of the capital stock represented. Under section 11 paragraph 7 of the articles of incorporation, the supervisory board is authorized to resolve on amendments to the articles of incorporation, provided they are only editorial. A simple majority vote is sufficient.

Authorization of the executive board, especially to issue and repurchase shares
Pursuant to a resolution of the shareholders' meeting of August 31, 2020, the executive board is authorized until August 30, 2025, subject to the approval of the supervisory board, to purchase up to 10 percent of the company's capital stock. Together with other

[1] This report is part of the audited combined management report.

shares in the company, which the company has already acquired or still owns, or which are attributable to it pursuant to sections 71d and 71e of the German Stock Corporation Act (AktG), the shares acquired under this authorization may not, at any time, exceed 10 percent of the capital stock. Shares in the company may not be purchased for trading purposes. Subject to the principle of equal treatment (section 53a AktG), the purchase may take place via the stock exchange or via a public offer to all shareholders for the purchase or exchange of shares. In the latter case, notwithstanding the exclusion of tender rights permitted in specific circumstances, the principle of equal treatment (section 53a AktG) must also be taken into account. The resolution adopted by the annual shareholders' meeting on May 18, 2016 authorizing the executive board to buy back shares in the company was rescinded.

The annual shareholders' meeting on May 23, 2018 adopted an amendment to section 4 paragraph 6 of the articles of incorporation authorizing the executive board until May 22, 2023, subject to the approval of the supervisory board, to increase the company's capital stock by up to €116,500,000 (authorized capital 2018). This authorization may be exercised through one or more issuances. The new shares may be issued against cash and/or contributions in kind. The executive board is authorized, subject to the approval of the supervisory board, to exclude shareholders' statutory subscription rights when issuing new shares in the following cases:

- capital increases against contributions in kind
- if the capital increase is against cash and the proportionate share of the capital stock attributable to the new shares does not exceed 10 percent of the capital stock, and the issue price of the new shares is not significantly below the stock market price of shares already listed on the stock exchange
- to exclude fractional amounts arising from the subscription ratio
- insofar as is necessary to grant holders and/or creditors of warrants or conversion rights or obligors of warrant and/or conversion obligations subscription rights to new shares to the extent that they would be entitled to them after exercise of their warrants and/or conversion rights or fulfillment of their warrant or conversion obligations
- to grant shares to employees (employee stock), provided that the new shares for which subscription rights are excluded do not in aggregate account for a proportionate share of the capital stock in excess of 1 percent
- for the execution of a scrip dividend.

The proportionate amount of the capital stock attributable to the shares for which subscription rights are excluded, together with the proportionate amount of the capital stock attributable to treasury stock or to conversion and/or warrant rights or obligations arising from debt instruments, which are sold or issued after May 23, 2018 under exclusion of subscription rights, may not exceed 20 percent of the capital stock. If the sale or issue takes place in application—analogously or mutatis mutandis—of section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (AktG), this shall also be deemed to constitute an exclusion of subscription rights.

The executive board is authorized, subject to the approval of the supervisory board, to define further details of capital increases out of the authorized capital 2018. The authorized capital has not yet been utilized.

In connection with the authorization of May 23, 2018 to issue convertible and/or warrant bonds with a nominal value of up to €1.25 billion up to May 22, 2023, the capital stock is conditionally increased by a further €37,280,000 (conditional capital 2018). The conditional capital increase will only be conducted insofar as holders or creditors of warrant or conversion rights or obligors of warrant or conversion obligations arising from warrant bonds and/or convertible bonds issued or guaranteed on the basis of the authorization resolved at the annual shareholders' meeting of May 23, 2018, exercise their warrants or conversion rights or, insofar as they have an obligation to exercise the warrants or conversion obligations, meet the obligation to exercise the warrant or conversion obligations, and other forms of settlement are not used. The new shares are entitled to a dividend from the start of the fiscal year in which they are issued.

Significant agreements concluded by the company that are contingent upon a change of control resulting from a takeover bid

Evonik Industries AG is a contracting party in the following agreements that are contingent upon a change of control resulting from a takeover bid:

- In 2017, the company agreed a €1.75 billion syndicated credit facility with its core banks; this had not been drawn as of December 31, 2020. In the event of a change of control resulting from a takeover bid, these banks could withdraw the credit facility. On the terms agreed, this applies if a new major shareholder (apart from RAG-Stiftung and its subsidiaries) acquires direct or indirect voting rights of more than 50 percent in Evonik Industries AG—including through a voting rights agreement with one or more other shareholders (pursuant to section 30 paragraph 2 of the German Securities Acquisition and Takeover Act/WpÜG).
- The company has a debt issuance program to place bonds with a total volume of up to €5 billion. By December 31, 2020, four bonds with a total nominal value of €2.5 billion had been issued under this program. The issue conditions contain a change-of-control clause. In the event of a change of control resulting from a takeover bid and a deterioration in the credit rating of Evonik Industries AG to non-investment grade within

90 days as a result of such change of control, the bondholders have the right to demand redemption of the bond at nominal value plus accrued interest. A change of control is deemed to have occurred if a person (apart from RAG-Stiftung or a (direct or indirect) subsidiary of RAG-Stiftung) or persons acting in a concerted manner directly or indirectly acquire(s) more than 50 percent of the voting rights in Evonik Industries AG.

- The company issued a €500 million hybrid bond in 2017. If there is a change of control and if, within a defined change-of-control period, the rating agencies withdraw all ratings previously assigned to the company or downgrade them to non-investment grade, Evonik Industries AG has the right to redeem the bond within a defined period. If the bond is not redeemed, the interest rate applicable for interest payments on the bond will be increased by 5 percentage points p.a.
- In 2020, the company agreed revolving credit facilities for €100 million in each case for general funding of working capital with DZ Bank AG, the German branch of BNP Paribas S.A., and the Frankfurt branch of Mizuho Bank, Ltd. (the “lenders”). The lenders have the right to terminate the credit facilities within agreed deadlines in the event of a change of control and to declare outstanding amounts due and payable. Under the terms of the agreements, a change of control is deemed to have occurred if a person (apart from RAG-Stiftung, Essen, or a direct or indirect subsidiary of RAG-Stiftung) or persons acting in a concerted manner directly or indirectly acquire(s) more than 50 percent of the voting rights in Evonik Industries AG.

Agreements on payment of compensation by the company to members of the executive board or other employees in the event of a change of control

Change-of-control clauses are only agreed with members of the executive board in connection with long-term remuneration. A change of control is defined as cases when another company obtains control of Evonik Industries AG as defined in the German Securities Acquisition and Takeover Act (WpÜG), or there is a material change in the company’s shareholders as a result of a merger or comparable reorganization or business combination. In such cases, the long-term remuneration due to the eligible employees is calculated immediately on a pro rata basis, i.e., based on the period between the grant date and the change of control relative to the total four-year performance period, and paid into their salary account with their next regular salary payment.

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Income statement

T39

in € million	Notes	2019	2020
Sales	5.1	13,108	12,199
Cost of sales	5.2	–9,413	–8,833
Gross profit on sales		**3,695**	**3,366**
Selling expenses	5.2	–1,511	–1,498
Research and development expenses	5.2	–428	–433
General administrative expenses	5.2	–568	–502
Other operating income	5.3	359	345
Other operating expense	5.3	–466	–474
Result from investments recognized at equity	5.4	5	15
Income before financial result and income taxes, continuing operations		**1,086**	**819**
Interest income		104	48
Interest expense		–221	–171
Other financial income/expense		–15	–12
Financial result	5.5	**–132**	**–135**
Income before income taxes, continuing operations		**954**	**684**
Income taxes	5.6	–180	–181
Income after taxes, continuing operations		**774**	**503**
Income after taxes, discontinued operations		1,353	–24
Income after taxes	5.7	**2,127**	**479**
thereof attributable to non-controlling interests		21	14
thereof attributable to shareholders of Evonik Industries AG (net income)		2,106	465
Earnings per share in € (basic and diluted)	5.8	**4.52**	**1.00**
thereof attributable to continuing operations		1.62	1.05
thereof attributable to discontinued operations		2.90	–0.05

Statement of comprehensive income

T40

in € million	2019	2020
Income after taxes	**2,127**	**479**
Other comprehensive income from hedging instruments: designated risk components	13	77
Other comprehensive income from hedging instruments: cost of hedging	2	5
Other comprehensive income from currency translation	104	–580
Other comprehensive income from investments recognized at equity	–	–2
Deferred taxes	–5	–22
Other comprehensive income that can be reclassified	**114**	**–522**
Other comprehensive income from the remeasurement of the net defined benefit liability	–823	–622
Other comprehensive income from equity instruments	25	39
Deferred taxes from the remeasurement of the net defined benefit liability	357	213
Other comprehensive income that cannot be reclassified	**–441**	**–370**
Other comprehensive income after taxes	**–327**	**–892**
Total comprehensive income	**1,800**	**–413**
thereof attributable to non-controlling interests	21	7
thereof attributable to shareholders of Evonik Industries AG	1,779	–420

Balance sheet

T41

in € million	Notes	Dec. 31, 2019	Dec. 31, 2020
Intangible assets	6.1, 6.5	5,858	5,877
Property, plant and equipment	6.2, 6.5	6,435	6,588
Right-of-use assets	6.3	640	668
Investments recognized at equity	6.4, 6.5	45	75
Other financial assets	6.6	625	607
Deferred taxes	6.14	1,718	2,004
Other income tax assets	6.14	12	13
Other assets	6.8	82	102
Non-current assets		**15,415**	**15,934**
Inventories	6.7	1,884	1,806
Trade accounts receivable	6.6	1,569	1,455
Other financial assets	6.6	1,278	697
Other income tax assets	6.14	325	211
Other assets	6.8	387	231
Cash and cash equivalents	6.6, 7	1,165	563
Current assets		**6,608**	**4,963**
Total assets		**22,023**	**20,897**

in € million	Notes	Dec. 31, 2019	Dec. 31, 2020
Issued capital		466	466
Capital reserve		1,167	1,167
Retained earnings including distributable profit		7,341	6,876
Other equity components		–4	–497
Equity attributable to shareholders of Evonik Industries AG		**8,970**	**8,012**
Equity attributable to non-controlling interests		90	87
Equity	6.9	**9,060**	**8,099**
Provisions for pensions and other post-employment benefits	6.10	3,967	4,618
Other provisions	6.11	779	715
Other financial liabilities	6.12	3,713	3,564
Deferred taxes	6.14	537	586
Other income tax liabilities	6.14	320	275
Other payables	6.13	93	114
Non-current liabilities		**9,409**	**9,872**
Other provisions	6.11	778	744
Trade accounts payable	6.12	1,324	1,273
Other financial liabilities	6.12	918	434
Other income tax liabilities	6.14	59	136
Other payables	6.13	475	339
Current liabilities		**3,554**	**2,926**
Total equity and liabilities		**22,023**	**20,897**

Statement of changes in equity

Note 6.9

T42

in € million	Issued capital	Capital reserve	Treasury shares	Retained earnings/ distributable profit	Other equity components	**Equity attributable to shareholders of Evonik Industries AG**	Equity attributable to non-controlling interests	**Total equity**
As of January 1, 2019	**466**	**1,167**	**–**	**6,237**	**−141**	**7,729**	**96**	**7,825**
Capital increases/decreases	–	–	–	–	–	–	4	4
Dividend distribution	–	–	–	−536	–	−536	−16	−552
Purchase of treasury shares	–	–	−17	–	–	−17	–	−17
Share-based payment	–	4	–	–	–	4	–	4
Sale of treasury shares	–	−4	17	–	–	13	–	13
Income after taxes	–	–	–	2,106	–	2,106	21	2,127
Other comprehensive income after taxes	–	–	–	−466	139	−327	–	−327
Total comprehensive income	–	–	–	1,640	139	1,779	21	1,800
Other changes	–	–	–	–	−2	−2	−15	−17
As of December 31, 2019	**466**	**1,167**	**–**	**7,341**	**−4**	**8,970**	**90**	**9,060**
Capital increases/decreases	–	–	–	–	–	–	2	2
Dividend distribution	–	–	–	−536	–	−536	−12	−548
Purchase of treasury shares	–	–	−16	–	–	−16	–	−16
Share-based payment	–	3	–	–	–	3	–	3
Sale of treasury shares	–	−3	16	–	–	13	–	13
Income after taxes	–	–	–	465	–	465	14	479
Other comprehensive income after taxes	–	–	–	−409	−476	−885	−7	−892
Total comprehensive income	–	–	–	56	−476	−420	7	−413
Other changes	–	–	–	15	−17	−2	–	−2
As of December 31, 2020	**466**	**1,167**	**–**	**6,876**	**−497**	**8,012**	**87**	**8,099**

Cash flow statement

Note 7

T43

in € million	2019	2020
Income before financial result and income taxes, continuing operations	1,086	819
Depreciation, amortization, impairment losses/reversal of impairment losses on non-current assets	984	1,018
Result from investments recognized at equity	–5	–15
Gains/losses on the disposal of non-current assets	–13	–10
Change in inventories	129	70
Change in trade accounts receivable	41	54
Change in trade accounts payable	–62	–30
Change in provisions for pensions and other post-employment benefits	–60	–14
Change in other provisions	–294	–133
Change in miscellaneous assets/liabilities	–15	33
Cash inflows from dividends	15	27
Tax payments relating to the carve-out of the methacrylates business	–245	–
Cash inflows/outflows for other income taxes	–209	–83
Cash flow from operating activities, continuing operations	**1,352**	**1,736**
Cash flow from operating activities, discontinued operations [a]	–31	–9
Cash flow from operating activities	**1,321**	**1,727**
Cash outflows for investments in intangible assets, property, plant and equipment	–880	–956
Cash outflows to obtain control of businesses	–25	–451
Cash outflows for investments in other shareholdings	–402	–23
Cash inflows from divestments of intangible assets, property, plant and equipment	25	45
Cash inflows from the divestment of the methacrylates business	2,206	18
Cash inflows/outflows relating to the loss of control over businesses	1	2
Cash inflows from divestment of other shareholdings	1	45
Cash inflows/outflows relating to securities, deposits, and loans	–1,223	720
Cash inflows from interest	52	30
Cash flow from investing activities, continuing operations	**–245**	**–570**
Cash flow from investing activities, discontinued operations [a]	–47	–
Cash flow from investing activities	**–292**	**–570**
Cash inflows/outflows relating to capital contributions	4	2
Cash outflows for dividends to shareholders of Evonik Industries AG	–536	–536
Cash outflows for dividends to non-controlling interests	–12	–16
Cash outflows for the purchase of treasury shares	–17	–16
Cash inflows from the sale of treasury shares	13	12
Cash inflows from the addition of financial liabilities	110	1,039
Cash outflows for repayment of financial liabilities	–295	–2,156
Cash inflows/outflows in connection with financial transactions	–1	14
Cash outflows for interest	–114	–77
Cash flow from financing activities, continuing operations	**–848**	**–1,734**
Cash flow from financing activities, discontinued operations [a]	–8	–
Cash flow from financing activities	**–856**	**–1,734**
Change in cash and cash equivalents	**173**	**–577**
Cash and cash equivalents as of January 1	**988**	**1,165**
Change in cash and cash equivalents	173	–577
Changes in exchange rates and other changes in cash and cash equivalents	4	–25
Cash and cash equivalents as on the balance sheet as of December 31	**1,165**	**563**

[a] Cash flows from discontinued operations relate entirely to the methacrylates business.

Notes to the consolidated financial statements

1. Segment report

Segment report by operating segments Note 8.1 T44

	Specialty Additives		Nutrition & Care		Smart Materials		Performance Materials		Services		Corporate, other operations, consolidation		**Total Group (continuing operations)**	
in € million	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
External sales	3,381	3,225	2,922	2,992	3,371	3,235	2,634	1,983	763	734	37	30	13,108	12,199
Internal sales	15	10	23	15	50	57	94	65	1,831	1,739	−2,013	−1,886	–	–
Total sales	3,396	3,235	2,945	3,007	3,421	3,292	2,728	2,048	2,594	2,473	−1,976	−1,856	13,108	12,199
Result from investments recognized at equity	1	2	–	–	9	6	−13	4	8	3	–	–	5	15
Adjusted EBITDA	886	857	462	560	651	529	248	88	122	92	−216	−220	2,153	1,906
Adjusted EBITDA margin in %	26.2	26.6	15.8	18.7	19.3	16.4	9.4	4.4	16.0	12.5	–	–	16.4	15.6
Adjusted EBIT	716	681	231	301	433	270	117	−45	−42	−72	−254	−245	1,201	890
Capital employed (annual average)	4,396	4,218	3,974	3,905	3,651	4,223	1,296	1,290	834	977	−116	−13	14,035	14,600
ROCE in %	16.3	16.1	5.8	7.7	11.9	6.4	9.0	−3.5	−5.0	−7.4	–	–	8.6	6.1
Depreciation and amortization [a]	−157	−173	−223	−255	−218	−259	−139	−126	−160	−160	−35	−25	−932	−998
Capital expenditures [b]	108	93	214	139	303	466	55	49	150	245	12	3	842	995
Financial investments	–	–	30	32	9	464	13	–	15	14	369	–	436	510
No. of employees as of December 31	3,651	3,666	5,322	5,295	7,065	7,874	1,645	1,639	14,428	14,310	312	322	32,423	33,106

Prior-year figures restated.

For details of the segmentation of impairment losses and reversals of impairment losses pursuant to IAS 36, see note 6.5 p. 137 ff.

[a] For intangible assets, property, plant and equipment, and right-of-use assets.
[b] For intangible assets, property, plant and equipment.

Segment report by regions Note 8.2

T45

in € million	Europe, Middle East & Africa 2019	Europe, Middle East & Africa 2020	North America 2019	North America 2020	Central & South America 2019	Central & South America 2020	Asia-Pacific 2019	Asia-Pacific 2020	Total Group (continuing operations) 2019	Total Group (continuing operations) 2020
External sales [a]	6,700	5,868	2,952	2,953	591	537	2,865	2,841	13,108	12,199
Goodwill as of December 31 [b]	2,352	2,348	1,932	1,924	32	29	254	244	4,570	4,545
Other intangible assets, property, plant and equipment as of December 31 [b]	4,464	4,739	1,961	2,122	148	100	1,790	1,627	8,363	8,588
Capital expenditures	563	738	137	158	6	6	136	93	842	995
No. of employees as of December 31	22,476	22,506	4,287	4,862	656	669	5,004	5,069	32,423	33,106

Prior-year figures restated.

[a] External sales Europe, Middle East & Africa: thereof Germany €2,074 million (2019: €2,290 million).
[b] Non-current assets according to IFRS 8.33 b.

2. General information

Evonik Industries AG is an international specialty chemicals company headquartered in Germany. Its registered office is at Rellinghauser Strasse 1–11, 45128 Essen (Germany), and the company is registered in the commercial register at Essen District Court under HRB no. 19474.

As a subsidiary of RAG-Stiftung, Essen (Germany), Evonik Industries AG and its subsidiaries are included in the annual consolidated financial statements of RAG-Stiftung, which prepares consolidated financial statements for the largest and smallest groups of companies to which Evonik and its subsidiaries belong. The consolidated financial statements of RAG-Stiftung are published in the German Federal Gazette (Bundesanzeiger).

The present consolidated financial statements of Evonik Industries AG and its subsidiaries (referred to jointly as Evonik or the Group) were prepared by the executive board of Evonik Industries AG at its meeting on February 19, 2021, discussed at the meeting of the audit committee on February 26, 2021, and presented to the supervisory board for approval at its meeting on March 3, 2021. The consolidated financial statements are also published in the German Federal Gazette.

3. Basis of preparation of the financial statements

3.1 Compliance with IFRS

As permitted by section 315e paragraph 1 of the German Commercial Code (HGB), the present consolidated financial statements have been prepared on the basis of the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and comply with these standards.

3.2 Presentation and methods

The consolidated financial statements cover the period from January 1 to December 31, 2020 and are presented in euros. All amounts are stated in millions of euros (€ million) except where otherwise indicated. In some cases, rounding may mean that the figures in this report do not add up exactly to the totals stated, and percentages do not correlate exactly to the figures presented.

The accounting policies are outlined in the respective notes.

Both the accounting policies and the items presented in the consolidated financial statements are in principle consistent from one period to the next. Deviations from this principle resulting from changes in accounting standards are outlined in note 3.4. p. 112. Other changes to the prior-year figures are outlined either in note 3.5 p. 113. or in the relevant notes.

3.3 Assumptions and estimation uncertainties

The preparation of consolidated financial statements involves assumptions and estimates about the future. The subsequent circumstances may differ from these estimates. Adjustments to estimates are recognized in income as soon as better information is available. We regularly review our assumptions and estimates to identify any need for adjustment. The estimates and assumptions that constitute a considerable risk that the carrying amounts of assets and liabilities may have to be adjusted within the next fiscal year are discussed in the corresponding notes. Taking into account the coronavirus pandemic, there has been a significant increase in forecasting uncertainty compared with the previous year, principally with regard to impairment testing in accordance with IAS 36 Impairment of Assets (see note 6.5 p. 137 ff.).

3.4 Accounting standards to be applied for the first time

A number of revised and newly issued standards and interpretations had to be applied for the first time in fiscal 2020. However, none are material for Evonik.

3.5 Restatement of prior-year figures

Restatement in the segment report

Effective July 1, 2020, the executive board of Evonik Industries AG introduced a **new corporate structure.** The new chemicals divisions—Specialty Additives, Nutrition & Care, Smart Materials, and Performance Materials—are more balanced in terms of size and profitability. Moreover, clearer alignment to the technology platforms allows more selective management. As part of this, research and development employees have been transferred to the Services segment. Their role is to support the chemicals divisions. At the same time, the administrative functions were optimized.

The Western Europe, Eastern Europe, and Middle East & Africa **regions** were combined on July 1, 2020, so they can operate as one region in the future and respond to the upcoming challenges. The Asia-Pacific North and Asia-Pacific South regions were combined on January 1, 2020.

The **goodwill** and identified hidden reserves relating to former acquisitions of shares in Evonik Operations GmbH (Evonik Operations), which were previously reported in "Corporate, consolidation" in the segment report, have been allocated among the segments on a pro rata basis since December 31, 2020.

The prior-year figures for the reporting segments and the regions have been restated accordingly.

3.6 Accounting standards that are not yet mandatory

The International Accounting Standards Board (IASB) has issued further accounting standards (IFRS, IAS) and interpretations (IFRIC, SIC), which did not become mandatory in fiscal 2020 or have not yet been officially adopted by the European Union (amendments to IFRS 3: Reference to the Conceptual Framework, IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16: Interest Rate Benchmark Reform—Phase 2, IAS 1: Classification of Liabilities as Current or Non-current, IAS 16: Proceeds Before Intended Use, IAS 37: Onerous Contracts—Cost of Fulfilling a Contract, Annual Improvements 2018–2020 including further amendments to IFRS 1, IFRS 9, IFRS 16, and IAS 41, amendment to IFRS 16: Covid 19-Related Rent Concessions, and finally the amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies and IAS Definition of Accounting Estimates). The new provisions are not expected to have a material impact on current or future reporting periods or on foreseeable future transactions but are monitored continuously.

3.7 Consolidation methods and scope of consolidation

Scope of consolidation

Alongside Evonik Industries AG, all material German and foreign **subsidiaries** and two specialized funds for the investment of liquidity, which are directly or indirectly controlled by Evonik Industries AG, are fully consolidated in the consolidated financial statements of Evonik Industries AG. Evonik Industries AG controls a company or a fund if it is exposed to, or has rights to, variable returns from its involvement with the company or fund and has the ability to affect those returns through its power over the company or the fund. Evonik has power over the two specialized funds, LBBW AM-EVO, Essen (Germany) and Union Treasury 1, Essen (Germany), because Evonik has contractually agreed unconditional rights of dismissal. Consequently, the fund managers are deemed to be agents whose power over the fund is attributable to Evonik.

Joint operations are included in the consolidated financial statements on a pro rata basis. A joint operation is an arrangement where the parties that have joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint ventures and **associates** are generally recognized at equity. A joint venture is a joint arrangement where the Evonik Group has joint control, together with other parties, and has rights to the net assets of the arrangement. Associates are companies where the Evonik Group has a significant influence but does not have control or joint control of financial and operating policies. ARG mbH & Co. KG, Oberhausen (Germany) is included in the consolidated financial statements as an associate even though both the voting rights and the shareholding are below 20 percent, because Evonik has a material influence through contractual agreements.

Companies whose influence on the assets, financial position, and earnings of the Evonik Group, both individually and in aggregate, is **negligible** are carried at fair value in accordance with IFRS 9 Financial Instruments and are allocated to the category "at fair value through other comprehensive income without subsequent reclassification."

Changes in the scope of consolidation are outlined in note 4.1 p. 115 f.

Consolidation methods

The **financial statements of the consolidated German and foreign subsidiaries** are prepared using uniform accounting policies.

Capital is consolidated at the **time of acquisition** by offsetting the carrying amount of the business acquired against the pro rata revalued equity of the subsidiary. Ancillary acquisition costs are not included in the carrying amount of the subsidiary; instead, they are recognized as expense in the income statement. The assets and liabilities (net assets) of the subsidiary are included at their fair values. If shares in the subsidiary are held before acquiring control, they must be revalued, and any resultant change in value must be recognized in the income statement in other operating income or other operating expense. Gains or losses recognized in other comprehensive income must be derecognized in the same way as if the acquirer had divested the shares previously held. Any remaining excess of the acquisition cost over the fair value of the net assets is recognized as goodwill. Negative differences are included in income following a renewed examination of the fair value of the net assets.

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

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

Intragroup income and expenses, profits, losses, receivables, and liabilities between consolidated subsidiaries are fully eliminated. In the case of joint operations, elimination is pro rata. Write-downs on shares in such companies recognized in the separate financial statements are reversed.

Joint operations are recognized in the consolidated financial statements at the proportionate amount of their assets, liabilities, income, and expenses in accordance with Evonik's rights and obligations.

The consolidation principles used for subsidiaries also apply to **companies accounted for using the equity method.** In this case, any goodwill is recognized in the carrying amount of the investment. The financial statements of the companies recognized at equity are prepared using uniform accounting policies.

3.8 Currency translation

The financial statements of Evonik Industries AG and its subsidiaries are generally prepared in their functional currency.

In the **separate financial statements** prepared by these companies, business transactions in foreign currencies are translated at the exchange rate on the date of initial recognition. Any gains or losses resulting from the valuation of monetary assets and liabilities in foreign currencies are recognized in other operating income, other operating expense, or other financial result at the closing rate on the reporting date.

In the **consolidated financial statements,** the assets and liabilities of all foreign subsidiaries are translated from their functional currency into euros at closing rates on the reporting date. Goodwill and hidden assets and liabilities from the acquisition of a foreign subsidiary are translated at the closing rate as assets and liabilities of the foreign subsidiary. Income and expense items are translated at average exchange rates for the year, which are derived from the mean of the exchange rates at month-end over the past 13 months. Translation differences compared to the prior year and translation differences between the income statement and balance sheet are recognized in other comprehensive income from currency translation in the statement of comprehensive income. They are only reclassified to the income statement when the foreign subsidiary is divested.

The equity of foreign companies recognized using the equity method is translated in the same way.

Exchange rates T46

	Average annual rates		Closing rates	
€1 corresponds to	2019	**2020**	Dec. 31, 2019	**Dec. 31, 2020**
Brazilian real (BRL)	4.42	5.88	4.52	6.37
British pound (GBP)	0.88	0.89	0.85	0.90
Chinese renminbi yuan (CNY)	7.74	7.89	7.82	8.02
Japanese yen (JPY)	122.26	121.89	121.94	126.49
Singapore dollar (SGD)	1.53	1.57	1.51	1.62
US dollar (USD)	1.12	1.15	1.12	1.23

Argentina has been classified as a hyperinflationary economy since July 1, 2018, so the concept of historical cost of acquisition and production pursuant to IAS 29 Financial Reporting in Hyperinflationary Economies are therefore applied to two Argentinean subsidiaries. The profit or loss on the net monetary items is recognized in the financial result. In 2020, it was €7 million (2019: €1 million). Foreign currency translation and measurement are based on the consumer price index published by the National Institute of Statistics and Censuses of the Argentine Republic (INDEC), which is updated monthly. As of November 30, 2020, it was 371.02 (November 30, 2019: 273.22).

4. Changes in the Evonik Group

4.1 Scope of consolidation

Changes in the scope of consolidation T47

No. of companies	Germany	Other countries	**Total**
Evonik Industries AG and consolidated subsidiaries			
As of December 31, 2019	**35**	**104**	**139**
Acquisitions	1	21	22
Other companies consolidated for the first time	–	1	1
Divestments	–	–1	–1
Intragroup mergers	–8	–	–8
Other companies deconsolidated	–	–1	–1
As of December 31, 2020	**28**	**124**	**152**
Joint operations			
As of December 31, 2019	**1**	**2**	**3**
As of December 31, 2020	**1**	**2**	**3**
Investments recognized at equity			
As of December 31, 2019	**4**	**9**	**13**
Acquisitions	–	3	3
Other companies deconsolidated	–	–1	–1
As of December 31, 2020	**4**	**11**	**15**
Total	**33**	**137**	**170**

Further information on the material acquisitions and divestments in 2020 can be found in note 4.2. p. 116 ff.

The following list contains material subsidiaries selected on the basis of quantitative and qualitative criteria. An overview of all companies included in the consolidated financial statements and full details of the shareholdings in accordance with section 313 paragraph 2 of the German Commercial Code (HGB) can be found in the list of shareholdings.[1]

[1] The complete list of shareholdings is published with the consolidated annual financial statements in the Federal Gazette and can be viewed on Evonik's website (www.evonik.com/list-of-shareholdings).

Material consolidated subsidiaries T48

Name of company	Registered office	Shareholding in %
Germany		
Evonik Operations GmbH	Essen	100.00
Evonik Real Estate GmbH & Co. KG	Marl	100.00
LBBW AM-EVO[a]	Essen	0.00
Union Treasury 1[a]	Essen	0.00
Other countries		
Evonik Antwerpen NV	Antwerp (Belgium)	100.00
Evonik Brasil Ltda.	São Paulo (Brazil)	100.00
Evonik (China) Co., Ltd.	Beijing (China)	100.00
Evonik Canada Inc.	Calgary (Canada)	100.00
Evonik Corporation	Parsippany (New Jersey, USA)	100.00
Evonik Finance B.V.	Amsterdam (Netherlands)	100.00
Evonik India Pvt. Ltd.	Mumbai (India)	100.00
Evonik International Holding B.V.	Amsterdam (Netherlands)	100.00
Evonik Japan Co., Ltd.	Tokyo (Japan)	100.00
Evonik Korea Ltd.	Seoul (South Korea)	100.00
Evonik Methionine SEA Pte. Ltd.	Singapore (Singapore)	100.00
Evonik Oil Additives USA, Inc.	Horsham (Pennsylvania, USA)	100.00
Evonik Oxeno Antwerpen NV	Antwerp (Belgium)	100.00
Evonik Specialty Chemicals (Shanghai) Co., Ltd.	Shanghai (China)	100.00
Evonik Speciality Organics Ltd.	Greenford (UK)	100.00
Evonik Taiwan Ltd.	Taipei (Taiwan)	100.00
Evonik Ticaret Ltd. Sirketi	Tuzla/Istanbul (Turkey)	100.00
Evonik UK Holdings Ltd.	Greenford (UK)	100.00
Nippon Aerosil Co., Ltd.	Tokyo (Japan)	80.00
OOO Evonik Chimia	Moscow (Russian Federation)	100.00
PeroxyChem LLC	Dover (Delaware, USA)	100.00

[a] Fully consolidated structured company in accordance with IFRS 10.B8 in conjunction with B19 (b).

4.2 Acquisitions and divestments

When accounting for acquisitions, all identifiable assets, liabilities, and contingent liabilities are measured at fair value as of the acquisition date. The principal estimation uncertainties relate to the determination of their fair values.

Land and **buildings** are normally measured on the basis of independent valuations, while **plant and machinery** are recognized at their estimated replacement cost.

The identification and measurement of intangible assets depends on the type of intangible asset and the complexity of determining the fair value using appropriate valuation techniques, which are normally based on a projection of the expected future cash flows. Purchased **technologies** are generally measured using the relief from royalty method or the multi-period excess earnings method. **Trademarks** are normally valued using the relief from royalty method. This is based on the royalties that would have to be paid if the trademark were owned by a third party. An appropriate, market-oriented royalty rate is determined and applied to a reference parameter such as net sales, which can be allocated to use of the trademark. The value of the trademark is derived from the present value of the fictitious royalties. The value of **customer relationships** is normally determined using the multi-period excess earnings method. Assuming that customer relationships normally generate cash flows in conjunction with other fixed or intangible assets, this method deducts fictitious cash outflows for supporting assets from the expected excess earnings that can be allocated to a bundle of assets including the customer relationship. The value of the customer relationship is then derived from the present value of the residual excess cash inflows.

These valuations are closely linked to management assumptions regarding future changes in the value of the respective assets and the discount rate applied.

Only material acquisitions are outlined below. There were no material divestments in 2020.

Acquisition of Wilshire Technologies, Inc.

Evonik acquired all shares in Wilshire Technologies, Inc. (Wilshire Technologies), Princeton (New Jersey, USA) on January 16, 2020. This company has developed a technology that can be used to obtain products from renewable, non-animal sources for use as cosmetic active ingredients. The acquisition extends Evonik's portfolio of sustainable active ingredients for cosmetics. Wilshire Technologies has been integrated into the **Nutrition & Care** division.

Purchase price allocation for Wilshire Technologies as of the acquisition date T49

in € million	Fair value recognized
Intangible assets	7
Non-current assets	**7**
Inventories	3
Other assets	4
Current assets	**7**
Total assets	**14**
Net assets	**14**
Goodwill	5
Purchase price pursuant to IFRS 3	**19**

The intangible assets include acquired technologies and one brand. A useful life of ten years is assumed for the technologies. Measurement of the brand is based on a royalty period of ten years and a royalty rate of 3 percent. Churn rates are applied when measuring the intangible assets. The discount factor applied was a weighted cost of capital based on companies with comparable business activities.

The **purchase price** was agreed in US dollars. As of the acquisition date, the equivalent of €12 million was settled out of cash and cash equivalents and a further €7 million, comprising a firmly agreed retrospective purchase price payment and payments linked to product deliveries by suppliers, was recognized in other financial liabilities. By the end of the fiscal year, €3 million of these liabilities had been paid; the remaining €4 million will probably result in cash outflows within two years from the acquisition date.

The **goodwill** mainly comprises the expected future benefits of assets that were not individually identifiable or for which recognition was not permitted. These include synergies resulting from backward integration of production, and the workforce. The full amount of goodwill is expected to be tax-deductible.

Acquisition of PeroxyChem

On November 7, 2018, Evonik signed an agreement to acquire PeroxyChem, Philadelphia (Pennsylvania, USA) from One Equity Partners, Chicago (Illinois, USA). PeroxyChem is a manufacturer of hydrogen peroxide and peracetic acid. The acquisition was initially delayed because the Federal Trade Commission (FTC) in the USA filed a lawsuit to block the transaction. The lawsuit was dismissed in January 2020, and the acquisition was then closed on February 3, 2020.

The acquisition comprised the purchase of 100 percent of the shares in 16 companies, a 50 percent share deal, and a 20 percent share deal. To meet antitrust requirements, the 100 percent stake in a Canadian PeroxyChem company had to be sold immediately. In the balance sheet for initial consolidation, this stake is presented in other current financial assets.

PeroxyChem has been integrated into the **Smart Materials** division. This acquisition extends Evonik's portfolio of environment-friendly, high-growth specialty applications. The business has above-average growth rates, low capital intensity, and low cyclical exposure.

Purchase price allocation for PeroxyChem as of the acquisition date T50

in € million	Fair value recognized
Intangible assets	156
Property, plant and equipment	193
Right-of-use assets	25
Investments recognized at equity	29
Other financial assets	6
Other assets	49
Non-current assets	**458**
Inventories	30
Trade accounts receivable	45
Other financial assets	22
Cash and cash equivalents	6
Current assets	**103**
Total assets	**561**
Provisions for pensions and other post-employment benefits	3
Other provisions	2
Other financial liabilities	31
Deferred taxes	5
Other payables	1
Non-current liabilities	**42**
Other provisions	10
Trade accounts payable	23
Other financial liabilities	309
Other income tax liabilities	1
Other payables	8
Current liabilities	**351**
Total liabilities	**393**
Net assets	**168**
Goodwill	119
Purchase price pursuant to IFRS 3	**287**

The intangible assets include acquired customer relationships, technologies, and brands. A useful life of between seven and 16 years, including churn rates in some cases, is assumed for the customer relationships. For the acquired technologies, a useful life of between five and 17 years is assumed, including churn rates in some cases, and royalty rates of 4 percent or 5 percent are applied. Brands are measured using royalty periods of ten or 15 years and a royalty rate of 1 percent. The discount rate applied was a weighted cost of capital, taking into account the useful life and country-specific risk adjustments.

The acquired other financial liabilities contain a loan of €298 million, which has been recognized as a purchase price adjustment. Complete repayment of the loan is presented in the cash flow statement in the cash flow from financing activities. In addition, a payment of €5 million in connection with the acquisition is recognized as a loan repayment in the cash flow from financing activities. This amount has been transferred from the cash flow from investing activities, where it was recognized as of March 31, 2020, to the cash flow from financing activities.

In the period between the provisional initial recognition and finalization of the opening balance sheet (measurement period), there was a material change in the value of the balance sheet items as of the acquisition date because the purchase price allocation was not available for the quarterly financial statement as of March 31, 2020. Therefore, the assets and liabilities were recognized using provisional carrying amounts. Changes resulting from the purchase price allocation include an increase of €150 million in intangible assets and an increase of €21 million in investments recognized at equity. An additional €50 million was allocated to property, plant and equipment, while a further €13 million was allocated to other assets. Furthermore, there was a reclassification from property, plant and equipment to other assets. Overall, property, plant and equipment increased by €18 million compared with the first quarter and other assets increased by €35 million.

Purchase price for the acquisition of PeroxyChem T51

in € million	
Purchase price before purchase price adjustments and currency hedging effects	**565**
Purchase price adjustments	–275
Currency hedging effects transferred to the acquired assets	–3
Purchase price pursuant to IFRS 3	**287**
Acquired cash and cash equivalents	–6
Cash outflow as per cash flow statement	**281**

The **purchase price** was agreed in US dollars and was settled out of cash and cash equivalents.

Development of goodwill relating to PeroxyChem T52

in € million	
Goodwill as of February 3, 2020 as shown in the quarterly statement for Q1 2020	**344**
Effects of purchase price allocation	–225
Goodwill as of February 3, 2020 based on the final status of the purchase price allocation	**119**
Currency translation	–11
Goodwill as of December 31, 2020	**108**

The **goodwill** mainly comprises the expected future benefits of assets that were not individually identifiable or for which recognition was not permitted. These include expected synergies from complementary business areas, cost optimization in the areas of logistics, distribution, and procurement, and the workforce. €107 million of the goodwill totaling €119 million is expected to be tax-deductible.

The **costs** presented in other operating expense **in connection with the acquisition** are contained in the adjustments. Their breakdown is as follows:

Costs relating to the acquisition of PeroxyChem T53

in € million	2018	2019	**2020**
Acquisition costs	8	22	6
Integration costs	–	–	8
Total	**8**	**22**	**14**

From the date of acquisition, PeroxyChem's sales amounted to €239 million and income after taxes was €13 million. Income after taxes contains a loss of €12 million resulting from the sale of a Canadian PeroxyChem company, which was necessary to meet antitrust requirements, and some of the integration costs. The earnings calculation takes into account additional expenses of €6 million resulting from the fact that the inventories acquired by Evonik and used in the reporting period were subject to a fair value step-up in the course of the purchase price allocation. These effects are recognized in other operating expense and contained in the adjustments. Furthermore, the income after taxes includes depreciation and amortization of assets newly recognized or remeasured during the purchase price allocation.

Acquisition of the Porocel Group

Evonik acquired the Porocel Group (Porocel), Wilmington (Delaware, USA) on November 3, 2020. The acquisition comprised the purchase of 100 percent of the shares in twelve companies and a 22.5 percent stake in another company (share deals). Porocel has been integrated into the **Smart Materials** division.

Porocel offers a technology for highly efficient rejuvenation of desulfurization catalysts, which are in increasing demand in the growing market for low-sulfur fuel. This technology offers customers a considerable CO_2 reduction compared with newly produced catalysts with comparable efficacy, as well as clear cost benefits. The acquisition gives Evonik access to major customers in the refinery and petrochemicals sector. In addition, Porocel has available production capacity, enabling Evonik to speed up expansion of its existing business with fixed-bed catalysts.

Provisional purchase price allocation for Porocel as of the acquisition date T54

in € million	Fair value recognized
Intangible assets	56
Property, plant and equipment	58
Right-of-use assets	9
Other financial assets	1
Non-current assets	**124**
Inventories	37
Trade accounts receivable	14
Other assets	11
Cash and cash equivalents	30
Current assets	**92**
Total assets	**216**
Other financial liabilities	7
Deferred taxes	24
Other payables	4
Non-current liabilities	**35**
Other provisions	12
Trade accounts payable	3
Other financial liabilities	32
Other payables	9
Current liabilities	**56**
Total liabilities	**91**
Provisional net assets	**125**
Provisional goodwill	48
Provisional purchase price pursuant to IFRS 3	**173**

The **purchase price allocation** has not yet been finalized. Therefore, there could be changes in the measurement parameters and the purchase price allocation to the acquired assets and liabilities. This mainly applies to remeasurement of intangible assets, property plant and equipment, inventories, and deferred taxes.

The intangible assets include acquired customer relationships, technologies, and brands. A useful life of ten years, including churn rates, is assumed for the customer relationships. For the acquired technologies, a useful life of between five and 15 years is assumed, including churn rates in some cases. Moreover, royalty rates of between 2 percent and 4 percent are applied, along with the terms of a firm license agreement with a customer. Measurement of the brand is based on a royalty period of 15 years and royalty rates of 0.5 percent and 1 percent. The discount rate applied was a weighted cost of capital, taking into account the useful life and country-specific risk adjustments.

The acquired other financial liabilities contain a loan of €31 million, which has been taken into account as a purchase price adjustment. The complete repayment of the loan is presented in the cash flow statement in the cash flow from financing activities. Other provisions contain obligations to employees amounting to €5 million, which were paid at the acquisition date. Thus, payment is presented in the cash flow statement in the cash flow from operating activities.

Provisional purchase price for the acquisition of Porocel T55

in € million	
Purchase price before purchase price adjustments	**179**
Provisional purchase price adjustments	−6
Provisional purchase price pursuant to IFRS 3	**173**
Acquired cash and cash equivalents	−30
Cash outflow as per cash flow statement	**143**

The **purchase price** was agreed in US dollars and was settled out of cash and cash equivalents. Changes in the purchase price could result from the finalization of the agreed purchase price adjustments, which relate, among other things, to net working capital, cash and cash equivalents, and liabilities as of the acquisition date.

Development of goodwill relating to Porocel T56

in € million	
Goodwill as of November 3, 2020	**48**
Currency translation	–2
Goodwill as of December 31, 2020	**46**

The provisional calculation of **goodwill** mainly comprises the expected future benefits of assets that were not individually identifiable or for which recognition was not permitted. These include synergies from the use of available production capacity.

Other operating expenses include **acquisition costs** totaling €5 million, which are contained in the adjustments.

From the date of acquisition, Porocel's sales amounted to €11 million and income after taxes was –€1 million. The earnings calculation takes into account additional expenses of €2 million resulting from the fact that the inventories acquired by Evonik and used in the reporting period were subject to a fair value step-up in the course of the purchase price allocation. These effects are recognized in other operating expense and contained in the adjustments. Furthermore, the income after taxes includes depreciation and amortization of assets newly recognized or remeasured during the purchase price allocation.

Other disclosures, such as the amount of tax-deductible goodwill, will be published when the necessary information is available.

Acquisition of the LACTEL® business

On December 31, 2020, Evonik acquired the LACTEL® biodegradable polymers business from DURECT Corporation, Cupertino (California, USA). This business has been integrated into the **Nutrition & Care** division.

LACTEL® is a leading brand of standard and customized poly(lactide-co-glycolide) polymers. These are widely used as functional excipients to control the release of parenteral drug products. They are also utilized to control the biodegradation of implantable medical devices across various orthopedic, cardiovascular, and wound healing applications. This acquisition complements Evonik's present business with RESOMER® polymers and strengthens its position as a leading contract development and manufacturing company for drug delivery.

The **purchase price** in accordance with IFRS 3 was agreed in US dollars and was equivalent to €12 million. It was settled out of cash and cash equivalents. In addition, payment of a maximum amount of €2 million is linked to a contractually defined earnings target. Based on present information, this target will not be met. Changes in the purchase price could result from the finalization of the agreed purchase price adjustments, which mainly relate to net working capital.

A **purchase price allocation** has not yet been performed as the transaction was only closed on the reporting date. Inventories and trade accounts receivable of €1 million each were acquired at their carrying amount. The difference between the purchase price and the acquired net assets of €10 million has been provisionally allocated entirely to **goodwill.** It is expected that the final goodwill calculated in the purchase price allocation will be tax-deductible.

If the acquisitions outlined above had been made on January 1, 2020, the sales presented in the income statement for the Evonik Group would have been €12,295 million (instead of €12,199 million) and income after taxes would have been €486 million (instead of €479 million). This is based on the assumption that the purchase price allocations as of January 1, 2020 would have resulted in the same adjustments to the carrying amounts.

4.3 Assets held for sale and discontinued operations

A **non-current asset** or a **disposal group** is classified on the balance sheet as **held for sale** if the corresponding carrying amount is to be realized principally through a sale transaction rather than through continued use. The prior-year figures are not restated. A disposal group may also contain current assets and liabilities.

The assets and liabilities must be measured in accordance with the previously relevant accounting standards immediately before initial classification as held for sale. The non-current assets or disposal groups are subsequently valued at the lower of the carrying amount and fair value less costs to sell. In the income statement, their income is still included in income from continuing operations.

Additionally, a non-current asset or disposal group classified as held for sale may meet the criteria for classification as a **discontinued operation.** This is either a major line of business or geographical area of the company that has been, or is to be, sold or shut down based on a single coordinated plan, either as a whole or in parts, or a subsidiary acquired with a view to resale.

The income from the operating activities, measurement, and divestment of a discontinued operation is reported separately from continuing operations in the income statement. Similarly, the cash flows are reported separately in the cash flow statement. The prior-year figures are restated in each case.

In 2020, income after taxes, discontinued operations, once again related principally to the methacrylates business divested in the previous year and included, among other things, retrospective purchase price adjustments.

Income after taxes, discontinued operations T57

in € million	Operating income after taxes 2019	Operating income after taxes 2020	Divestment gains/losses after taxes 2019	Divestment gains/losses after taxes 2020	Income after taxes, discontinued operations 2019	Income after taxes, discontinued operations 2020
Methacrylates business	72	–	1,283	−31	1,355	−31
Other discontinued operations	–	–	−2	7	−2	7
Income after taxes, discontinued operations	**72**	**–**	**1,281**	**−24**	**1,353**	**−24**

Operating income of the methacrylates business T58

in € million	2019	2020
Income	994	–
Expenses	−893	–
Operating income before income taxes, methacrylates business	**101**	**–**
Income taxes	−29	–
Operating income after taxes, methacrylates business	**72**	**–**

Divestment gains/losses from discontinued operations T59

in € million	2019	2020
Methacrylates business	1,506	−25
Other discontinued operations	−2	5
Income before income taxes from the divestment of discontinued operations	**1,504**	**−20**
Methacrylates business	−223	−6
Other discontinued operations	–	2
Income taxes	**−223**	**−4**
Methacrylates business	1,283	−31
Other discontinued operations	−2	7
Income after taxes from the divestment of discontinued operations	**1,281**	**−24**

5. Notes to the income statement

5.1 Sales

Revenue is normally recognized when the distinct performance obligations set out in a contract or bundle of contracts are satisfied. The amount of revenue recognized is the transaction price allocated to these performance obligations.

If a contract with a customer has enforceable commercial substance, the payment terms are known, and it is probable that the transaction will take place, it falls within the **scope of IFRS 15** Revenue from Contracts with Customers. **Contracts entered into with the same customer are combined** for accounting purposes if they are concluded close together and are commercially linked. Exchange-type transactions (exchange of similar products) with competitors to overcome bottlenecks or reduce transportation costs are explicitly outside the scope of IFRS 15 and therefore do not result in revenue recognition.

A **performance obligation is distinct** if the products or services contained in the contract can be identified individually, and the customer can benefit from the goods or services directly and separate them from other products and services in the same contract. Freight services relating to product deliveries are distinct performance obligations if the freight service takes place after transfer of control of the products to the customer. If, in connection with the sale of products to the customer, temporary storage of the products until final collection by the customer or shipment to the customer is agreed, and if the storage takes place after transfer of control over the products to the customer, there is a distinct performance obligation in the form of storage. If customers are granted free additional benefits, these normally also constitute a distinct performance obligation.

The **transaction price** is the consideration expected to be received from the customer for transfer of the products or performance of the service. It contains both fixed and variable components. When determining the transaction price, volume-based rebates and bonuses are included at their expected value. This regularly results in an adjustment of the transaction price based on the estimate of the annual volumes for the rebates and bonus payments. If the price includes a significant financing component as a result of prepayments by the customer, the transaction price is increased, and the financing component results in recognition of financing expenses.

If there are several performance obligations, the **transaction price** (including possible price discounts) is **allocated** among the individual performance obligations based on the relative stand-alone selling price. If stand-alone selling prices cannot be determined from an observable market price, appropriate estimates are used. For freight or warehouse services that comprise a distinct performance obligation within the context of product deliveries, part of the transaction price specified in the agreement on the delivery of the product must be allocated to the freight or warehouse service. If a free additional benefit constitutes a separate performance obligation, and the underlying product delivery agreement contains a fixed take-off amount, it is assumed that the customer pays the consideration for the free additional benefit delivered via the minimum take-off amount, so part of the transaction price is allocated to the free additional benefit.

The criteria for **satisfaction of a performance obligation** are differentiated as follows: The Evonik Group recognizes **revenue from product deliveries** at the point in time when the customer obtains control of the product. For this purpose, the provisions of the General Business Conditions and any individual contractual arrangements must be taken into account; these include the Incoterms©. The Evonik Group has consignment warehouse agreements with some customers. Here, transfer of control of the goods to the customer normally only takes place when the goods are removed from the warehouse. In most cases, billing for the goods takes place monthly with short payment terms (less than three months). The Evonik Group recognizes **revenue for services** over time. The level of revenue to be recognized is determined from the stage of fulfillment based on the work already performed relative to the overall service. The stage of fulfillment is determined using both input- and output-based methods. A contract liability for non-current prepayments by customers is recognized as revenue on a straight-line basis over the contractually agreed performance period.

Sales totaled €12,199 million (2019: €13,108 million). In all segments, they consist principally of revenue from the sale of products and services.

All segments sell **products** on the basis of multi-year master agreements with annual adjustment of volumes and prices. There are also agreements with customers on the provision of fixed capacities. In these cases, volumes and prices are also regularly renegotiated. Further, the Evonik Group delivers to some of its customers on the basis of short-term orders. In individual cases, Evonik has agreements with customers on firmly agreed minimum take-off amounts. The underlying prices are often variable, in other words, based on commodity prices or indexed to energy prices, and are only fixed at the time of delivery or transfer of control. In addition, there are volume-based rebates and bonuses that are normally agreed annually. In some cases, customers make long-term prepayments for keeping or building up customer-specific production capacity. These are recognized as contract liabilities from contracts with customers and released to revenue over the performance period. The Evonik Group supplies energy (for example, steam, water, electricity, gas) to customers on the basis of site agreements, which are generally concluded for the long term. Energy is normally supplied free to the customer's place of consumption, i.e., including transportation from the generating facility to the place of consumption. Order volumes are determined by the customer. Prices comprise components for the work performed and for services. Billing is on delivery, at least monthly. Payment terms are normally short-term, i.e., between 30 and 60 days.

Services are provided principally by the Services segment and, to a smaller extent, by the chemicals divisions (for example, contract manufacturing of certain chemical products). The Services segment provides site management, utilities, waste management, technical, process technology, engineering, and logistics services for the four chemicals divisions and external customers at our sites.

Further, the Nutrition & Care division undertakes **customer-specific development work.** The development process is normally long-term and may be structured either as a service agreement or as an agreement with a target outcome. In the second case, transaction prices are often dependent on milestones. Customer payments are due shortly after reaching each milestone. In such cases, revenue is recognized over time using output-based methods. In the case of contracts for customer-specific developments, for which Evonik has no alternative use and which cannot be offered to other customers, revenue is recognized over time whenever Evonik is entitled to remuneration for the work performed, including a margin. Revenue is also recognized over time if Evonik drives forward the development of an existing customer product or customer-specific know-how. If the achievement of milestones is dependent on factors that Evonik cannot influence, for example, successful registration of active ingredients or products by the customer, revenue is only recognized when achievement of the milestone is certain.

Furthermore, in the four chemicals divisions, **licenses** are granted, for example, for the use of know-how, the construction of plants, or the production and commercialization of products. The licenses normally constitute a distinct performance obligation, either as a right of use or as a right of access. In the case of a right of use, revenue is recognized at a point in time, while for rights of access it is recognized over time. In some cases, the transaction prices for licenses include firmly agreed royalties, which are often due shortly after the achievement of a predefined milestone. In other cases, customers pay sales-based royalties, which are only recognized as revenues when the customer has generated the revenue that is linked to the royalty.

Sales by segments and regions 2020 T60

in € million	Europe, Middle East & Africa	North America	Central & South America	Asia-Pacific	**Total Group**
Specialty Additives	1,330	839	92	964	3,225
Nutrition & Care	975	878	296	843	2,992
Smart Materials	1,473	858	93	811	3,235
Performance Materials	1,427	339	55	162	1,983
Services	656	39	–	39	734
Corporate, other operations	7	–	1	22	30
Total Group	**5,868**	**2,953**	**537**	**2,841**	**12,199**
thereof sales outside the scope of IFRS 15	14	–11	–1	5	7

Sales by segments and regions 2019 T61

in € million	Europe, Middle East & Africa	North America	Central & South America	Asia-Pacific	**Total Group**
Specialty Additives	1,421	922	94	944	3,381
Nutrition & Care	966	849	313	794	2,922
Smart Materials	1,622	729	107	913	3,371
Performance Materials	1,980	406	75	173	2,634
Services	699	46	–	18	763
Corporate, other operations	12	–	2	23	37
Total Group	**6,700**	**2,952**	**591**	**2,865**	**13,108**
thereof sales outside the scope of IFRS 15	8	–32	–7	–29	–60

Prior-year figures restated.

Sales outside the scope of IFRS 15 comprise the results of currency hedging of forecast sales in foreign currencies, which are included in hedge accounting, and revenues from operating leases.

Sales may result from **performance obligations satisfied in prior periods.** In the case of rebate and bonus agreements, this may apply if the refund liability for rebate and bonus agreements recognized in previous years does not match the final invoice in the current fiscal year. Further, it applies to license agreements comprising a right of use with sales-based royalties.

Sales from performance obligations satisfied in prior periods T62

in € million	2019	**2020**
Rebate and bonus agreements	18	9
License agreements	1	1
Total	**19**	**10**

Firmly agreed performance obligations that had not been satisfied in full as of the reporting date are expected to result in revenue realization, as shown below. The transaction price of the unsatisfied performance obligations is based on the volumes and services contractually agreed with the customer as of the reporting date for which the customer has a take-off obligation, and Evonik has a performance obligation. Variable transaction price elements are included in future sales on the basis of an estimate based on the present price. Sales- or usage-based royalties structured as a right of access are included if there is a legally enforceable minimum take-off amount. Evonik applies the practical expedient set out in IFRS 15.121 and does not disclose the outstanding performance obligations for contracts with an expected term of no more than one year.

Transaction prices of unsatisfied performance obligations as of December 31, 2020 T63

	Revenue recognition in			
in € million	More than 1 and up to 3 years	More than 3 and up to 5 years	More than 5 years	**Total**
Transaction prices of unsatisfied performance obligations	873	515	1,229	2,617

Transaction prices of unsatisfied performance obligations as of December 31, 2019 T64

	Revenue recognition in			
in € million	More than 1 and up to 3 years	More than 3 and up to 5 years	More than 5 years	**Total**
Transaction prices of unsatisfied performance obligations	867	452	1,006	2,325

Further information on contract assets from contracts with customers can be found in note 6.8 p. 141, while further information on contract liabilities from contracts with customers can be found in note 6.13 p. 153.

5.2 Function costs

Function costs are derived from cost accounting data. IFRS accounting policies are the central recognition principles used at Evonik. Therefore, implicit costs may not be allocated to the functional areas. Function costs are determined after internal cross-charging to ensure that they take account of transactions between the functional areas.

Evonik distinguishes between the following functional areas: cost of sales, selling expenses, research and development expenses, and general administrative expenses.

Operating expenses that cannot be allocated to the functional areas are recognized as other operating expense.

Function costs were €11,266 million in 2020 (2019: €11,920 million). The function costs included impairment losses pursuant to IAS 36 of €3 million (2019: none). Note 6.5 p. 137 ff. contains details of segmentation and additional information, together with details of the impairment losses pursuant to IAS 36 recognized in other operating expense.

5.3 Other operating income/expense

Other operating income/expense T65

	Other operating income		Other operating expense	
in € million	2019	**2020**	2019	**2020**
Restructuring measures	83	33	–101	–48
thereof impairment losses/reversal of impairment losses pursuant to IAS 36	–	–	–6	–
thereof from the disposal of assets	–	2	–8	–2
thereof income from the reversal of/additions to other provisions	73	29	–56	–23
Reversal of/additions to other provisions[a]	86	52	–34	–71
Recultivation and environmental protection measures	1	1	–23	–13
Disposal of assets[a]	21	9	–9	–21
Impairment losses/reversal of impairment losses pursuant to IAS 36[a]	–	–	–52	–21
Impairment losses/reversals of impairment losses pursuant to IFRS 9 (net presentation)[b]	–	–	–5	–1
Currency translation of operating monetary assets and liabilities (net presentation)[b]	–	–	–4	–4
Operational currency hedging (net presentation)[b]	–	–	–7	–12
REACH Regulation	1	1	–10	–11
Other[a]	167	249	–221	–272
Other operating income/expense	**359**	**345**	**–466**	**–474**
thereof adjustments	138	86	–240	–161

[a] Excluding restructuring measures.
[b] The gross income and expense from operational currency hedging, currency translation of operating monetary assets and liabilities, and impairment losses/reversal of impairment losses pursuant to IFRS 9 are netted. The corresponding net amounts are recognized in other operating income or other operating expense as appropriate.

The income and expenses relating to **restructuring measures** mainly come from the program to reduce selling and administrative expenses. A new estimate was made of the obligations relating to this program due to a change in the employees affected. This resulted in reversals of provisions for restructuring and the establishment of new provisions. This item also includes expenses in connection with the shutdown of a production facility in the Nutrition & Care division and income in connection with the optimization of the product portfolio in the Performance Materials division. In 2019, the income and expenses relating to restructuring measures mainly resulted from programs to reduce selling and administrative expenses, projects to enhance the efficiency of oleochemicals in the Nutrition & Care division and optimize the product portfolio in the Performance Materials division, and the closure of the production site in Hungary. Further, the line item for restructuring measures includes income and expenses that by nature would otherwise be allocated to other line items in other operating income and expense.

€12 million of the **losses on the disposal of assets** result from the divestment of a Canadian PeroxyChem company, which was necessary to meet antitrust requirements. In 2019, the income and losses from the disposal of investments resulted from the divestment of the subsidiaries Evonik Thai Aerosil Co., Ltd. and Evonik Agroferm Zrt.

Disposal of assets T66

	Income		Losses	
in € million	2019	2020	2019	2020
Property, plant and equipment	10	11	–4	–5
Investments	11	–	–7	–14
Trade accounts receivable	–	–	–3	–3
Other assets	–	–	–3	–1
Total	**21**	**11**	**–17**	**–23**

Overall, other operating expense contains **impairment losses pursuant to IAS 36** amounting to €21 million (2019: €58 million). Note 6.5 contains details of segmentation and additional information on the impairment losses determined pursuant to IAS 36 p. 137 ff., together with the impairment losses pursuant to IAS 36 recognized in function costs.

In 2020, **impairments/reversals of impairments** for expected credit losses **pursuant to IFRS 9** Financial Instruments comprised net expense of €1 million (2019: €5 million) relating entirely to trade accounts receivable.

The net income and expense from the **currency translation of operating monetary assets** and from **operational currency hedging** mainly comprise balance sheet items recognized in foreign currencies that arose in the course of the operating business, where the currency risk is hedged using the portfolio approach; see note 9.4.4 p. 174 ff.

The **other income** of €249 million (2019: €167 million) contains income of €52 million (2019: €71 million) from occasional, unplanned business activities not intended to be permanent operations (non-core operations). Furthermore, this item contains income of €19 million (2019: €7 million) from subsidies in connection with measures relating to the change in German energy policy. In addition, the other income contains insurance refunds, insurance premiums, and commission. Furthermore, it contains income of €6 million (2019: none) from public subsidies in the China region in connection with the coronavirus pandemic.

The **other expense** of €272 million (2019: €221 million) contains an expense of €28 million (2019: €41 million) in connection with the acquisition of PeroxyChem and Porocel, other acquisitions made in previous years, and the divestment of the methacrylates business. Further, this item includes expenses for insurance deductibles, outsourcing, non-core businesses, commission payments, other taxes, and legal and consultancy fees.

Evonik refers to the special items that are factored out when calculating the operational performance indicators adjusted EBITDA and adjusted EBIT as **adjustments**. These adjustments are included in other operating income and expense in the income statement and relate to the following functional areas:

Adjustments T67

	Other operating income		Other operating expense	
in € million	2019	2020	2019	2020
Production-related	23	29	−76	−61
Sales-related	18	7	−22	−10
Administration-related	43	21	−74	−50
Not allocated to any functional area	54	29	−68	−40
Total	**138**	**86**	**−240**	**−161**

5.4 Result from investments recognized at equity

Result from investments recognized at equity T68

in € million	2019	2020
Income from measurement at equity	19	16
Expenses for measurement at equity	−14	−1
Result from investments recognized at equity	**5**	**15**
thereof adjustments	−13	4

The adjustments comprise the reversal of an impairment loss of €4 million on an investment recognized at equity (2019: impairment loss of €13 million). Note 6.5 contains details of segmentation and additional information on the impairment losses/reversal of impairment losses determined in accordance with IAS 36 p. 137 ff.

5.5 Financial result

Financial result T69

in € million	2019	2020
Income from securities and loans	12	15
Interest and similar income from derivatives	7	5
Other interest-type income	85	28
Interest income	**104**	**48**
Interest expense on financial liabilities	−47	−37
Interest and similar expenses for derivatives	−36	−14
Interest expense for other provisions[a]	−34	−23
Net interest expense for pensions	−66	−54
Interest expense for leases	−16	−16
Other interest-type expense	−22	−27
Interest expense	**−221**	**−171**
Result from currency translation of financing-related assets and liabilities	−12	−41
Income from financing-related currency hedging	3	36
Miscellaneous financial income and expenses	−6	−7
Other financial income/expense	**−15**	**−12**
Financial result	**−132**	**−135**

[a] This item contains expense from the unwinding of discounting and from changes in interest rates.

The **interest income from loans** and the **interest expense on financial liabilities** are recognized on a pro rata temporis basis using the effective interest method. As in 2019, negative interest on short-term deposits resulted in negative interest income. This was €2 million in 2020 (2019: €1 million) and is included in interest expense on financial liabilities.

The **other interest-type income** contains €9 million (2019: €16 million) relating to taxes in connection with income from plan assets and, in the previous year, an amount in the mid-double-digit millions of euros from the reversal of provisions for legal disputes that have ended.

Interest and similar expenses for derivatives and the corresponding income item mainly comprise accrued and realized interest from cross-currency interest rate swaps used for currency hedging of non-current intragroup loans.

As in 2019, the **other interest-type expense** contains €1 million for a significant financing component in connection with non-current prepayments by customers.

The **result from currency translation of financing-related assets and liabilities** included in other financial income mainly results from the exchange rate risk of current intragroup financing transactions (cash pooling) denominated in foreign currencies and from cash and cash equivalents in foreign currencies as these balance-sheet items are not included in hedge accounting.

The effects of the associated currency hedging are recognized in **income from financing-related currency hedging,** which also includes any ineffectiveness; see note 9.4.4 p. 174 ff.

As in 2019, the **miscellaneous financial income and expenses** do not include any net profit in respect of impaired financial assets.

5.6 Income taxes

Income taxes shown in the income statement T70

in € million	2019	2020
Other income taxes	356	244
thereof relating to other periods	17	23
Deferred taxes	–176	–63
thereof relating to other periods	–22	–27
thereof relating to temporary differences	–129	–56
Income taxes	**180**	**181**

Prior-year figures restated.

The tax reconciliation shows the development of expected income taxes relative to the effective income taxes stated in the income statement. The expected income taxes are based on an overall tax rate of 32 percent. The overall tax rate comprises German corporation tax of 15 percent, a solidarity surcharge of 5.5 percent, and an average trade tax rate of around 16 percent. The effective income taxes include other income taxes and deferred taxes.

Tax reconciliation T71

in € million	2019	2020
Income before income taxes, continuing operations	**954**	**684**
Expected income taxes	305	219
Variances due to differences in the assessment base for trade tax	5	4
Deviation from the expected tax rate	–67	–53
Changes in the valuation of deferred taxes	–12	–23
Losses not affecting deferred taxes and the use of loss carryforwards	–60	1
Changes in tax rates and tax legislation	–11	2
Non-deductible expenses	47	25
Interest ceiling	–	–
Tax-free income	–14	–34
Result from investments recognized at equity	–2	–5
Other	–11	45
Effective income taxes (current income taxes and deferred taxes)	**180**	**181**
Effective income tax rate in %	18.9	26.4

The changes in the valuation of deferred taxes comprise the revaluation of previously non-recognized deferred taxes. €17 million of this amount related to loss carryforwards and €6 million to temporary differences. "Other" contains taxes relating to other periods, non-deductible withholding taxes and, in particular, the revaluation of uncertain income tax positions.

5.7 Income after taxes

Income after taxes T72

in € million	2019	2020
Income after taxes, continuing operations	**774**	**503**
thereof attributable to non-controlling interests	21	14
thereof attributable to shareholders of Evonik Industries AG	753	489
Income after taxes, discontinued operations	**1,353**	**–24**
thereof attributable to non-controlling interests	–	–
thereof attributable to shareholders of Evonik Industries AG	1,353	–24

5.8 Earnings per share

Earnings per share as shown in the income statement are calculated by dividing net income by the weighted average number of shares issued, i.e., 466,000,000 shares. Net income comprises the total earnings for the year less non-controlling interests, including the earnings of discontinued operations. Earnings per share could be diluted by potential ordinary shares. Since there were no potential ordinary shares in either 2020 or 2019, diluted earnings per share are identical to basic earnings per share.

Earnings per share T73

			Earnings per share in € (basic and diluted)	
in € million	2019	2020	2019	2020
Income after taxes, continuing operations	774	503	1.66	1.08
Income after taxes, discontinued operations	1,353	–24	2.90	–0.05
Less income after taxes attributable to non-controlling interests	–21	–14	–0.04	–0.03
Income after taxes attributable to shareholders of Evonik Industries AG (net income)	**2,106**	**465**	**4.52**	**1.00**

5.9 Impact of the coronavirus pandemic

Business performance in fiscal 2020 was hampered by the impact of the coronavirus pandemic. As a result of the recession, Evonik registered a perceptible downturn in demand, especially from certain customer industries such as the automotive and fuel industries. The resulting volume and price effects were the main reasons for the 7 percent drop in sales. Some isolated relief came from the cost side. The reduction in the cost of sales was mainly attributable to the lower price of raw materials, especially petrochemical feedstocks. The principal relief for selling, administrative, and R&D expenses came from the reduction in business travel and slightly lower bonus expectations for fiscal 2020. A slightly positive effect also came from claiming public subsidies in the Asia region; these are recognized in other operating income.

6. Notes to the balance sheet

6.1 Intangible assets

Intangible assets are capitalized at acquisition or production cost and amortized using the straight-line method if their useful life is finite. An impairment test is conducted on assets with a finite useful life if there are indications of a possible impairment and on assets with an indefinite useful life, especially goodwill, at least once a year.

The estimated useful life of **franchises, trademarks, and licenses** is between five and 25 years. Trademarks with no restriction on their use (an indefinite useful life) are tested annually for impairment and to check that their useful life is still indefinite. If the assessment alters and the useful life is reclassified as finite, the carrying amounts of such trademarks are amortized over their estimated remaining useful life using the straight-line method.

Development costs are capitalized if they can be clearly assigned to a newly developed product or process that is technically feasible and designated for captive use or commercialization. They are amortized over their estimated useful life of between three and 15 years using the straight-line method.

The **other intangible assets** mainly comprise acquired customer relationships. Their useful life is estimated on the basis of contractual data and experience and is generally between five and 20 years. Amortization also takes account of the probability of continuance of the customer relationship in the form of a churn rate.

Change in intangible assets

T74

in € million	Goodwill	Franchises, trademarks, and licenses	Capitalized development costs	Other intangible assets	Total
Cost of acquisition/production					
As of January 1, 2019	**4,845**	**2,126**	**164**	**1,288**	**8,423**
Currency translation	57	3	–	15	75
Additions from business combinations	5	1	–	26	32
Other additions	–	13	2	12	27
Reclassification in accordance with IFRS 5	−240	−56	−20	−2	−318
Disposal	−1	−23	–	–	−24
Reclassification	–	12	–	−6	6
As of December 31, 2019	**4,666**	**2,076**	**146**	**1,333**	**8,221**
Currency translation	−206	−11	–	−74	−291
Additions from business combinations	182	61	–	160	403
Other additions	–	12	–	19	31
Disposal	–	−700	−142	−387	−1,229
Reclassification	–	17	–	−11	6
As of December 31, 2020	**4,642**	**1,455**	**4**	**1,040**	**7,141**
Amortization and impairment losses					
As of January 1, 2019	**97**	**1,464**	**163**	**565**	**2,289**
Currency translation	–	2	–	2	4
Amortization	–	78	1	57	136
Impairment losses	–	1	–	–	1
Reclassification in accordance with IFRS 5	–	−22	−20	−2	−44
Disposal	–	−23	–	–	−23
As of December 31, 2019	**97**	**1,500**	**144**	**622**	**2,363**
Currency translation	–	−4	–	−17	−21
Amortization	–	77	–	66	143
Impairment losses	–	5	–	–	5
Disposal	–	−697	−141	−389	−1,227
As of December 31, 2020	**97**	**881**	**3**	**283**	**1,264**
Carrying amounts as of December 31, 2019	**4,569**	**576**	**2**	**711**	**5,858**
Carrying amounts as of December 31, 2020	**4,545**	**574**	**1**	**757**	**5,877**

Under cost of acquisition/production as well as amortization and impairment losses, higher amounts are recognized for the disposal of **franchises, trademarks, and licenses, capitalized development costs,** and **other intangible assets** compared with the previous year. In each case, this comprises €1,221 million relating to assets from historic business combinations, which were fully amortized in previous periods but were identified in an asset inventory in connection with the new corporate structure introduced on July 1, 2020 and have now been derecognized.

Franchises, trademarks, and licenses include trademarks with an indefinite useful life totaling €170 million (2019: €172 million).

As in the previous year, there were no intangible assets on the reporting date to which title was restricted.

6.2 Property, plant and equipment

Property, plant and equipment are carried at acquisition or production cost and depreciated over their useful life. If there are indications of a possible impairment, an impairment test is conducted.

The **cost of acquisition** includes expenses directly attributable to the acquisition. The cost of production comprises all direct costs, plus the systematically allocable material costs and manufacturing overheads. Costs relating to obligations to dismantle or remove non-current assets at the end of their useful life are also included in the cost of acquisition or production.

Acquisition and production costs may also include transfers from gains and losses on cash flow hedges entered into to hedge foreign currency exposures in connection with the purchase of plants that were recognized in other comprehensive income in the statement of comprehensive income until they were reclassified to property, plant and equipment.

Borrowing costs that can be allocated directly to the acquisition, construction, or production of a qualifying asset (necessary timescale: more than one year) are included in the cost of acquisition or production.

Government grants for the purchase or construction of property, plant and equipment reduce the cost of acquisition or production of such assets. They are reflected in the income statement over the useful life of the assets through lower depreciation.

Property, plant and equipment are **depreciated** using the straight-line method over the expected useful life of the assets. This is between five and 50 years for buildings, between two and 25 years for plant and machinery, and between three and 25 years for other plant, office furniture, and equipment.

Gains and losses on disposal are recognized in profit or loss via other operating income or expense.

Change in property, plant and equipment T75

in € million	Land, land rights, and buildings	Plant and machinery	Other plant, office furniture, and equipment	Advance payments and construction in progress	**Total**
Cost of acquisition/production					
As of January 1, 2019	**3,701**	**13,916**	**1,106**	**1,248**	**19,971**
Currency translation	33	98	4	13	148
Other additions	42	216	41	526	825
Reclassification in accordance with IFRS 5	−334	−1,413	−59	−71	−1,877
Disposal	−47	−199	−54	−6	−306
Reclassification	197	699	32	−922	6
As of December 31, 2019	**3,592**	**13,317**	**1,070**	**788**	**18,767**
Currency translation	−120	−393	−17	−15	−545
Additions from business combinations	50	203	14	16	283
Other additions	70	158	37	699	964
Disposal	−24	−299	−50	−10	−383
Reclassification	7	279	15	−342	−41
As of December 31, 2020	**3,575**	**13,265**	**1,069**	**1,136**	**19,045**
Depreciation and impairment losses					
As of January 1, 2019	**1,848**	**10,374**	**914**	**50**	**13,186**
Currency translation	11	65	3	–	79
Depreciation	89	526	66	–	681
Impairment losses	4	51	1	–	56
Reclassification in accordance with IFRS 5	−211	−1,113	−49	−6	−1,379
Disposal	−40	−200	−53	−1	−294
Reclassification	2	1	–	–	3
As of December 31, 2019	**1,703**	**9,704**	**882**	**43**	**12,332**
Currency translation	−44	−226	−12	–	−282
Additions from business combinations	5	27	–	–	32
Depreciation	93	552	68	–	713
Impairment losses	2	16	1	1	20
Disposal	−28	−273	−50	−1	−352
Reclassification	−7	3	–	−2	−6
As of December 31, 2020	**1,724**	**9,803**	**889**	**41**	**12,457**
Carrying amounts as of December 31, 2019	**1,889**	**3,613**	**188**	**745**	**6,435**
Carrying amounts as of December 31, 2020	**1,851**	**3,462**	**180**	**1,095**	**6,588**

Under cost of acquisition/production as well as depreciation and impairment losses, higher amounts are recognized for the disposal of **plant and machinery** compared with the previous year. In both cases, €109 million relates to assets from historic business combinations, which were fully depreciated in previous periods but were identified in an asset inventory in connection with the new corporate structure introduced on July 1, 2020 and have now been derecognized.

Property, plant and equipment include assets of €20 million (2019: €3 million) that Evonik as **lessor lets to third parties under operating leases.** These assets are mainly investment property.

The carrying amount of property, plant and equipment used as **collateral for liabilities of Evonik** is €23 million, as in the previous year.

6.3 Right-of-use assets

Right-of-use assets are normally recognized at the amount of the lease liability and depreciated. If there are indications of a possible impairment, an impairment test is conducted.

Right-of-use assets are depreciated using the straight-line method, usually over the expected lease term of the right-of-use asset. This is primarily between two and 99 years for right-of-use assets for land, land rights, and buildings, between five and 50 years for right-of-use assets for plant and machinery, and between two and 20 years for right-of-use assets for other plant, office furniture, and equipment.

The right-of-use assets for plant and machinery mainly relate to power plants and storage tanks. The right-of-use assets for other plant, office furniture, and equipment mainly relate to rail wagons and transport containers, ships, and motor vehicles.

Development of right-of-use assets T76

in € million	Land, land rights, and buildings	Plant and machinery	Other plant, office furniture, and equipment	Total
Cost of acquisition/production				
As of January 1, 2019	**176**	**338**	**148**	**662**
Currency translation	3	1	1	5
Other additions	83	22	30	135
Reclassification in accordance with IFRS 5	–3	–9	–14	–26
Disposal	–8	–2	–9	–19
As of December 31, 2019	**251**	**350**	**156**	**757**
Currency translation	–10	–2	–7	–19
Additions from business combinations	11	5	17	33
Other additions	32	32	90	154
Disposal	–17	–25	–19	–61
Reclassification	33	–	–	33
As of December 31, 2020	**300**	**360**	**237**	**897**
Depreciation and impairment losses				
As of January 1, 2019	**–**	**–**	**–**	**–**
Depreciation	38	39	53	130
Impairment losses	–	–	1	1
Reclassification in accordance with IFRS 5	–	–	–1	–1
Disposal	–3	–2	–8	–13
As of December 31, 2019	**35**	**37**	**45**	**117**
Currency translation	–2	–	–1	–3
Depreciation	34	40	67	141
Disposal	–14	–2	–17	–33
Reclassification	7	–	–	7
As of December 31, 2020	**60**	**75**	**94**	**229**
Carrying amounts as of December 31, 2019	**216**	**313**	**111**	**640**
Carrying amounts as of December 31, 2020	**240**	**285**	**143**	**668**

6.4 Investments recognized at equity

Associates and joint ventures are generally recognized using the equity method. They are initially measured at cost of acquisition, including all directly allocable ancillary costs. If there are indications of a possible impairment, an impairment test is conducted.

For **initial measurement,** the difference between the cost of acquisition and the investor's share in the investee's equity is determined. Any positive difference remaining after identification of hidden reserves or hidden liabilities is treated as goodwill and recognized in the carrying amount of the investment. A negative difference is recognized in profit or loss and the carrying amount of the investment is recognized in acquisition costs.

In **subsequent periods,** the carrying amount of the investment is increased or reduced by the pro rata share of the investee's net income. Further adjustments to the carrying amount of the investment are necessary if the equity of the investment alters as a result of items contained in other comprehensive income. Subsequent measurement must take into account depreciation of the hidden reserves identified at the time of initial recognition, which must be deducted from the investor's share in the investee's net income. To avoid dual recognition, any dividends received must be deducted from the carrying amount.

Investments recognized at equity T77

in € million	Dec. 31, 2019	Dec. 31, 2020
Carrying amount of individually non-material associates	8	8
Carrying amount of individually non-material joint ventures	37	67
Investments recognized at equity	**45**	**75**

The condensed financial data for the investments recognized at equity that are classified individually as non-material for Evonik, based on Evonik's interest, are as follows:

Condensed financial data for individually non-material investments recognized at equity T78

	Associates		Joint ventures	
in € million	2019	2020	2019	2020
Income after taxes, continuing operations	8	3	–3	12
Total comprehensive income	**8**	**3**	**–3**	**12**

For further information on contingent liabilities to associates and joint ventures, see note 9.5 p. 183 ff.

6.5 Impairment test pursuant to IAS 36

If there are indications of possible impairment, an impairment test is conducted on intangible assets, property plant and equipment, right-of-use assets, investments recognized at equity, and certain other assets in accordance with IAS 36 Impairment of Assets

Goodwill and other intangible assets with an indefinite useful life are tested for impairment at least once a year. The impairment test is generally conducted for a cash-generating unit (CGU) or a group of CGUs. For the impairment test, the recoverable amount of the CGU/group of CGUs is compared with its carrying amount. The recoverable amount is determined as the higher of the fair value less costs of disposal and the value in use of the CGU/group of CGUs. An impairment loss is recognized if the recoverable amount is below the carrying amount. The impairment loss is reversed—except in the case of goodwill—if the reason for the original impairment charge no longer applies.

When **testing goodwill for impairment,** the recoverable amount of goodwill is determined from the fair value less costs of disposal of the relevant segment. The fair value less costs of disposal is determined as the present value of future cash flows using a valuation model, and thus on the basis of non-observable inputs (level 3 of the fair value hierarchy defined in IFRS 13 Fair Value Measurement). Future cash flows are derived from the current three-year mid-term plan, which is based on a mixture of experience and expectations of future market trends. The main economic data, such as growth in gross domestic product, the development of exchange rates, raw material and energy prices, and the increase in wages and salaries used for planning purposes, are derived from internal and external market expectations and are set centrally by Evonik. In addition, the planning for each segment uses separate assumptions about market-specific developments, such as expected changes in the competitive environment and on the demand side. The specific growth rates for individual segments are derived from experience and future expectations; a terminal growth rate is also assumed. The expected future cash flows are discounted using the segment-specific weighted average cost of capital (WACC) after taxes. The weighted average cost of capital is determined for each segment on the basis of a capital asset pricing model and is the weighted average cost of debt and equity. In connection with the initial application of IFRS 16, in 2019, adjustments were made to the determination of the cost of capital and the derivation of the recoverable amount.

For **impairment testing of other intangible assets, property, plant and equipment, and right-of-use assets,** the recoverable amount is normally determined by calculating the value in use of the CGU/group of CGUs.

Parameters used in impairment testing and allocation of goodwill by segment T79

	WACC after taxes (in %)		Terminal growth rate (in %)		Goodwill (in € million)	
	2019	2020	2019	2020	Dec. 31, 2019	Dec. 31, 2020
New segment structure						
Specialty Additives	–	6.52	–	1.50	–	1,835
Nutrition & Care	–	6.39	–	1.50	–	1,096
Smart Materials	–	7.28	–	1.50	–	1,271
Performance Materials	–	7.56	–	1.50	–	284
Services	–	6.96	–	1.50	–	59
Old segment structure						
Nutrition & Care	7.52	–	1.50	–	2,070	–
Resource Efficiency	6.63	–	1.50	–	2,155	–
Performance Materials	7.07	–	1.50	–	286	–
Services	7.09	–	1.50	–	59	–

The carrying amounts of goodwill are normally recognized directly in the segments. In the past, the goodwill relating to former acquisitions of shares in Evonik Operations formed an exception to this rule. In the segment reporting, this was assigned to “Corporate, consolidation.” For impairment testing, this goodwill was also allocated among the segments. Since 2020, this goodwill has been recognized directly by the restructured segments.

The **impairment test on goodwill** requires assumptions and estimates that could change, leading to impairment losses in future periods. Three scenarios were examined with regard to the coronavirus pandemic based on different assumptions for the timing of the recovery to pre-crisis level. For the impairment test on goodwill, the scenario with the highest probability of occurrence was used. This assumes recovery to the pre-crisis level in the third quarter of 2021.

In the three segments where goodwill is material—the Specialty Additives division, the Nutrition & Care division, and the Smart Materials division—the impairment test did not indicate any impairment. In these three segments, a relative increase in the weighted average cost of capital after taxes of 10 percent or a reduction of 10 percent in the net cash flow or terminal growth rate would not result in an impairment loss.

Moreover, the impairment test did not show any need to recognize an impairment loss in the segments where goodwill is not material, the Performance Materials division and Services.

Using the least likely scenario, which assumes that recovery to the pre-crisis level will not occur until the second quarter of 2022, the impairment test on goodwill did not result in any indication of impairment.

In the **impairment tests on other intangible assets, property, plant and equipment, right-of-use assets, and investments recognized at equity,** the recoverable amount was determined analogously to the method used for the impairment test on goodwill. Here too, the scenario with the highest probability of occurrence was used. This assumes recovery to the pre-crisis level in the third quarter of 2021.

The impairment tests on investments recognized at equity led to a reversal of impairment losses in the amount of €4 million for a CGU in the Performance Materials division (2019: impairment loss of €13 million).

The impairment tests on other intangible assets, and on property, plant and equipment, and right-of-use assets resulted in impairment losses and reversals of impairment losses for individual CGUs: The impairment losses in the Smart Materials and Performance Materials divisions related to production facilities in Asia and Europe. In the Services segment, an impairment loss was taken on the full carrying amount of a gas-fired power plant at the site in Marl (Germany). All impairment losses involved a write-down of the value in use.

Impairment losses by assets and segments T80

in € million	Intangible assets 2019	Intangible assets 2020	Property, plant and equipment 2019	Property, plant and equipment 2020	Right-of-use assets 2019	Right-of-use assets 2020	Investments recognized at equity 2019	Investments recognized at equity 2020	Total 2019	Total 2020
Specialty Additives	–	–	2	3	–	–	–	–	2	3
Nutrition & Care	–	1	12	2	–	–	–	–	12	3
Smart Materials	–	–	4	6	–	–	–	–	4	6
Performance Materials	–	–	1	5	–	–	13	–	14	5
Services	–	2	37	3	1	–	–	–	38	5
Other operations	1	2	–	–	–	–	–	–	1	2
Total Group	**1**	**5**	**56**	**19**	**1**	**–**	**13**	**–**	**71**	**24**

Prior-year figures restated.

The **impairment test on trademarks with an indefinite useful life** is conducted at business line level. Trademarks are valued using the relief from royalty method. The calculation is based on the revenues for the respective trademark, derived from the current three-year mid-term plan. The royalty rate is determined on the basis of experience. For information on the weighted average cost of capital for discount purposes, please refer to our comments on impairment testing of goodwill at the start of this section p. 137 f.

Carrying amount of trademarks with an indefinite useful life by segment T81

in € million	Dec. 31, 2019	Dec. 31, 2020
Specialty Additives	78	78
Nutrition & Care	31	31
Smart Materials	61	61
Performance Materials	2	–
Total Group	**172**	**170**

Prior-year figures restated.

6.6 Financial assets

Financial assets T82

in € million	Dec. 31, 2019 Total	Dec. 31, 2019 thereof non-current	Dec. 31, 2020 Total	Dec. 31, 2020 thereof non-current
Trade accounts receivable	**1,569**	**–**	**1,455**	**–**
Cash and cash equivalents	**1,165**	**–**	**563**	**–**
Other investments	556	556	568	568
Loans	47	7	49	5
Securities and similar claims	1,225	22	492	27
Receivables from derivatives	58	37	163	5
Miscellaneous other financial assets	17	3	32	2
Other financial assets	**1,903**	**625**	**1,304**	**607**
Financial assets	**4,637**	**625**	**3,322**	**607**

The **other investments** are all designated at fair value through other comprehensive income, without reclassification. The investment in Borussia Dortmund GmbH & Co. KGaA is recognized at its stock market value on the reporting date; the remaining equity investments are not listed on a stock exchange. The 7.5 percent shareholding in Vivawest GmbH was measured using the discounted cash flow method (see note 9.4.1 p. 165 ff.). The other unlisted equity investments totaling €60 million (2019: €52 million) comprise a mid-double-digit number of investments whose individual fair values are immaterial in a range of €0 million to €8 million. €38 million of this amount (2019: €32 million) comprises equity investments resulting from venture capital activities.

Other investments T83

in € million	Dec. 31, 2019	Dec. 31, 2020
Borussia Dortmund GmbH & Co. KGaA	120	49
Vivawest GmbH	384	459
Other	52	60
Total	**556**	**568**

Loans of €37 million (2019: €39 million) solely comprise payments of interest and principal, so they are recognized at amortized cost. In addition, this line item includes convertible bonds totaling €12 million (2019: €8 million), which are recognized at fair value. The fair values recognized are based on the nominal value of the convertible bonds. The conversion right is taken into account if it is material.

Securities and similar claims comprise listed bonds and money market paper purchased for short-term investment of liquid funds and shares in unlisted investment funds relating to venture capital activities in which Evonik has a long-term strategic investment.

Receivables from derivatives T84

in € million	Dec. 31, 2019	Dec. 31, 2020
Receivables from interest rate swaps	2	–
Receivables from cross-currency interest rate swaps	33	72
Receivables from forward exchange contracts, currency options, and currency swaps	23	90
Receivables from commodity derivatives	–	1
Total	**58**	**163**

The **miscellaneous other financial assets** comprise time deposits at banks, receivables from profit-and-loss transfer agreements with investments that are not fully consolidated, and claims relating to the termination of contracts. They also contain receivables from finance leases totaling €3 million, as in the previous year.

6.7 Inventories

Inventories are measured at the lower of cost and net realizable value. Normally, the cost of inventories is determined uniformly using an average, the first-in first-out method, or the standard cost method. The cost of production of finished goods and work in progress comprises the cost of raw materials and supplies, directly attributable personnel expenses, other direct costs, and general overheads that can be assigned to production.

Inventories T85

in € million	Dec. 31, 2019	Dec. 31, 2020
Raw materials and supplies	427	436
Work in progress	85	95
Finished goods and merchandise	1,372	1,275
Inventories	**1,884**	**1,806**

Impairment losses on **raw materials, supplies, and merchandise** totaling €47 million were recognized in the reporting period (2019: €19 million), while reversals of impairment losses amounted to €19 million (2019: €44 million). Reversals of impairment losses were mainly due to higher selling prices and improved market conditions.

6.8 Other assets

Other assets T86

	Dec. 31, 2019		Dec. 31, 2020	
in € million	Total	thereof non-current	Total	thereof non-current
Advance payments made	22	–	28	–
Deferred expenses	42	9	69	40
Contract assets from contracts with customers	18	12	20	12
Miscellaneous other assets	387	61	216	50
Other assets	**469**	**82**	**333**	**102**

Contract assets from contracts with customers arise from license agreements based on milestones, where a customer is granted a right of use from agreements to develop products that are realized over time and from take-or-pay agreements where it is probable that contractually agreed minimum take-off amount will not be achieved. The contract assets are reclassified to receivables as soon as the associated rights become unconditional. Information on risk provisioning is presented in note 9.4.4 p. 174 ff.

Development of contract assets from contracts with customers T87

in € million	2019	2020
As of January 1	**11**	**18**
Additions	10	7
Reclassification to receivables	–3	–4
Currency translation	–	–1
As of December 31	**18**	**20**

Miscellaneous other assets mainly comprise receivables from other taxes, receivables from governments, and receivables from insurance policies.

6.9 Equity

Issued capital and capital reserves contain the paid-up capital of Evonik Industries AG. By contrast, the capital earned by the Evonik Group that is attributable to shareholders of Evonik Industries AG is recognized in retained earnings including distributable profit, and in other equity components. The share of paid-up and earned equity of consolidated subsidiaries of the Evonik Group that is attributable to non-controlling interests is presented in the line item non-controlling interests.

As in the previous year, the company's **fully paid-up capital** was €466,000,000 on the reporting date. It is divided into 466,000,000 no-par registered shares. The arithmetic value of each share is €1. Each no-par share entitles the holder to one vote.

A resolution on **authorized capital** was adopted at the annual shareholders' meeting on May 23, 2018. This authorizes the executive board until May 22, 2023 to increase the company's capital stock, subject to the approval of the supervisory board, by up to €116,500,000 by issuing new registered no-par shares (authorized capital 2018). This authorization may be exercised through one or more issuances.

The new shares may be issued against cash and/or contributions in kind. The executive board is authorized, subject to the approval of the supervisory board, to exclude shareholders' statutory subscription rights when issuing new shares in the following cases:

- capital increases against contributions in kind
- if the capital increase is against cash and the proportionate share of the capital stock attributable to the new shares does not exceed 10 percent of the capital stock, and the issue price of the new shares is not significantly below the stock market price of shares already listed on the stock exchange
- to exclude fractional amounts arising from the subscription ratio
- insofar as is necessary to grant holders and/or creditors of warrants or conversion rights or obligors of warrant and/or conversion obligations subscription rights to new shares to the extent that they would be entitled to them after exercise of their warrants and/or conversion rights or fulfillment of their warrant or conversion obligations
- to grant shares to employees (employee stock), provided that the new shares for which subscription rights are excluded do not in aggregate account for a proportionate share of the capital stock in excess of 1 percent
- for the execution of a scrip dividend.

The proportionate amount of the capital stock attributable to the shares for which subscription rights are excluded, together with the proportionate amount of the capital stock attributable to treasury stock or to conversion and/or warrant rights or obligations arising from debt instruments, which are sold or issued after May 23, 2018 under exclusion of subscription rights, may not exceed 20 percent of the capital stock. If the sale or issue takes place in application—analogously or mutatis mutandis—of section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (AktG), this shall also be deemed to constitute an exclusion of subscription rights. The executive board is authorized, subject to the approval of the supervisory board, to define further details of capital increases out of the authorized capital 2018. The authorized capital has not yet been utilized.

Under a further resolution adopted by the annual shareholders' meeting of May 23, 2018, the capital stock is conditionally increased by up to €37,280,000, divided into up to 37,280,000 registered shares with no par value (**conditional capital** 2018). This conditional capital increase relates to a resolution of the above shareholder's meeting granting authorization to issue convertible and/or warrant bonds.

The conditional capital increase will only be conducted insofar as holders or creditors of warrant or conversion rights or obligors of warrant or conversion obligations arising from warrant bonds and/or convertible bonds issued or guaranteed on the basis of the authorization resolved at the annual shareholders' meeting of May 23, 2018, exercise their warrants or conversion rights or, insofar as they have an obligation to exercise the warrants or conversion obligations, meet the obligation to exercise the warrant or conversion obligations, and other forms of settlement are not used. In principle, the shareholders have a statutory right to subscription rights to the convertible and/or warrant bonds; the authorization sets out specific cases where the executive board may exclude subscription rights to convertible and/or warrant bonds, subject to the approval of the supervisory board. The new shares shall be issued at the warrant or conversion price set in accordance with the above provisions of the resolution. The new shares are entitled to a dividend from the start of the fiscal year in which they are issued. The executive board is authorized, subject to the approval of the supervisory board, to define further details of capital increases out of the conditional capital. The conditional capital has not yet been utilized.

The **capital reserve** mainly contains other payments received from shareholders pursuant to section 272 paragraph 2 no. 4 of the German Commercial Code (HGB).

On March 5, 2020, Evonik Industries AG announced that it would be utilizing the authorization granted by the annual shareholders' meeting on May 18, 2016 to purchase **shares in the company** totaling up to €126,440,000 thousand by April 3, 2020 at the latest. The purpose of purchasing the shares was to grant shares under an employee share program to employees of Evonik Industries AG and certain subordinated affiliated companies in the Evonik Group and to members of the management of subordinated affiliated companies of Evonik Industries AG.

Through this share buyback program, by April 1, 2020 Evonik Industries AG purchased a total of 841,030 shares in the company (corresponding to 0.2 percent or €841,030 of the capital stock). A total of €15.7 million was spent on the shares, corresponding to an average price of €18.72 per share. The purchases were made from March 6, 2020 at an average daily volume of around 47,000 shares on each Xetra trading day through a bank acting on the instructions of Evonik Industries AG. The maximum purchase price of each share repurchased (excluding ancillary costs) could not exceed or fall short of the opening price as set in the opening auction for the trading day for shares in Evonik Industries AG in Xetra trading on the Frankfurt stock exchange by more than 5 percent. In April 2020, 726,558 ordinary shares (including 187,025 bonus shares) were transferred to participating employees on the basis of the share price of €18.35 on April 2, 2020 and the exchange rates prevailing on the same date. The remaining 114,472 ordinary shares were sold to third parties via the stock market by April 20, 2020 at an average price of €21.84 per share. As of December 31, 2020, Evonik Industries AG therefore no longer held any treasury shares.

The authorization issued to the executive board at the annual shareholders' meeting on May 18, 2016 to purchase shares in the company was revoked at the annual shareholders' meeting on August 31, 2020 and replaced by a new authorization to purchase shares in the company up to August 30, 2025.

Retained earnings including distributable profit amounted to €6,866 million (2019: €7,341 million) and comprise Group earnings from 2020 and previous years, as well as other comprehensive income from the remeasurement of the net defined benefit liability.

A proposal will be submitted to the annual shareholders' meeting that the entire distributable profit of Evonik Industries AG of €535,900,000.00 for 2020 should be used to pay a dividend. That corresponds to a dividend of €1.15 per no-par share.

The **other equity components** contain gains and losses that are recognized outside of profit or loss, i.e., that are not included in the income statement. The other equity components from equity instruments contain increases and decreases in the fair value of other investments, which are recognized outside of profit or loss. The other equity components from hedging instruments for designated risk components comprise net gains or losses from the change in the fair value of the effective portion of cash flow hedges and hedges of a net investment. The other equity components from hedging instruments for the cost of hedging reflect changes in the time value of options, and the interest spread and foreign currency basis spreads on forward currency transactions and currency swaps. The cost of hedging relates to hedged items recognized both at a point in time and over time. The other equity components from the revaluation of acquisitions in stages contain the change in the fair value of shares previously held in subsidiaries that were consolidated for the first time on or before December 31, 2009. The other equity components from currency translation comprise differences arising from the translation of foreign financial statements.

Change in other equity components (after taxes) attributable to shareholders of Evonik Industries AG T88

in € million	Equity instruments recognized at fair value in OCI	Hedging instruments: designated risk components	Hedging instruments: cost of hedging	Revaluation of acquisitions made in stages	Currency translation	Total
As of January 1, 2019	**51**	**–14**	**–13**	**4**	**–169**	**–141**
Recognized gains and losses	25	–27	–33	–	–	–35
Amounts reclassified to the income statement	–	40	35	–	–	75
Currency translation	–	–	–	–	104	104
From investments recognized at equity (after income taxes)	–	–	–	–	–	–
Deferred taxes	–	–8	3	–	–	–5
Other comprehensive income as in the statement of comprehensive income	**25**	**5**	**5**	**–**	**104**	**139**
Other changes	–	–	–	–2	–	–2
As of December 31, 2019	**76**	**–9**	**–8**	**2**	**–65**	**–4**
Recognized gains and losses	39	100	–40	–	–	99
Amounts reclassified to the income statement	–	–23	45	–	–	22
Currency translation	–	–	–	–	–573	–573
From investments recognized at equity (after income taxes)	–	–	–	–	–2	–2
Deferred taxes	–	–23	1	–	–	–22
Other comprehensive income as in the statement of comprehensive income	**39**	**54**	**6**	**–**	**–575**	**–476**
Other changes	–15	–	–	–2	–	–17
As of December 31, 2020	**100**	**45**	**–2**	**–**	**–640**	**–497**

In 2020, –€22 million (2019: –€75 million) was reclassified from other equity components for designated risk components and for the cost of hedging to the income statement:

Reclassification of hedging results from other equity components to the income statement T89

in € million	2019	2020
Sales	–80	–21
Cost of sales	2	–1
Other operating income/expense	2	–
Other financial income/expense	1	–
Total	**–75**	**–22**

For further information on changes in the other equity components from hedging instruments for designated risk components and for the cost of hedging and their allocation among the various risk types, see note 9.4.3 p. 169 ff.

Non-controlling interests amounting to €87 million (2019: €90 million) comprise shares in the issued capital and reserves of consolidated subsidiaries that are not attributable to the shareholders of Evonik Industries AG. Other changes in the reporting period totaling €15 million contain €8 million from the sale of companies with non-controlling interests. Changes in shareholdings in subsidiaries without loss of control were negligible in the reporting period, as in the previous year.

Change in other equity components attributable to non-controlling interests T90

in € million	Currency translation	Total
As of January 1, 2019	**–1**	**–1**
Currency translation	–	–
Other comprehensive income as in the statement of comprehensive income	**–**	**–**
As of December 31, 2019	**–1**	**–1**
Currency translation	–7	–7
Other comprehensive income as in the statement of comprehensive income	**–7**	**–7**
As of December 31, 2020	**–8**	**–8**

6.10 Provisions for pensions and other post-employment benefits

Provisions for pensions and other post-employment benefits are measured using the projected unit credit method for **defined benefit** obligations in accordance with IAS 19 Employee Benefits. This method takes account of future salary and pension increases, biometric assumptions, as well as pension obligations and accrued entitlements as of the reporting date. Pension obligations are determined using country-specific parameters and measurement principles.

Actuarial gains and losses relating to pension obligations and income from plan assets (apart from interest income) are derived from the difference between the expected pension obligations and the actual obligation calculated at year end, and from deviations between the expected and actual fair value of plan assets calculated at year end. Changes that arise as a result of actuarial gains/losses relating to pension obligations, income from plan assets (excluding interest income), changes in the asset ceiling (excluding interest cost), and income from claims to refunds (excluding interest income) are offset directly in other comprehensive income.

The **defined benefit obligations** at year end are compared with the fair value of the plan assets (funded status) and pension provisions are derived from this, taking into account the asset ceiling and the net defined benefit assets from overfunded plans recognized on the assets side.

Defined contribution plans result in an expense in the period in which the contribution is made. Defined contribution plans exist for both company pension plans and state pension plans (statutory pension insurance).

Provisions for pensions are established to cover **benefit plans for retirement, disability, and surviving dependents' pensions.** The benefit obligations vary depending on the legal, tax, and economic circumstances in the various countries in which the companies operate. The level of the benefit obligations generally depends on length of service and remuneration.

At the German companies, **occupational pension plans** are predominantly defined benefit plans. They are primarily funded by provisions, pension fund assets, and a contractual trust arrangement (CTA). The pension plans at companies outside Germany may be either defined contribution or defined benefit plans.

The present value of the defined benefit obligations and the fair value of the plan assets as of December 31, 2019 mainly relate to Germany, the USA, and the UK:

Breakdown of the present value of the defined benefit obligations and the fair value of plan assets T91

	2019		2020	
in € million	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
Germany	10,847	7,134	11,722	7,314
thereof pension fund/reinsured support fund	5,424	3,660	6,056	3,807
thereof funded through CTA	5,096	3,474	5,315	3,507
USA	658	455	504	342
UK	529	630	537	542
Other	191	145	199	153
Total Group	**12,225**	**8,364**	**12,962**	**8,351**

The main pension plans for employees in **Germany** are as follows:

Pension fund (Pensionskasse): There are a number of closed pension plans. Income-related contributions are converted into defined benefits and invested with the company-owned Degussa Pension Fund. The structure of the tariffs, including investment of the assets, is subject to oversight by the supervisory authority for the insurance sector. The pension fund is a multi-employer fund. It is funded on a projected benefit basis. The level of plan assets required to cover the projected benefits is derived from a technical business plan approved by the supervisory authority, and from statutory requirements. Funding must be sufficient at all times to cover benefits, which have to be upheld even if the employer's contributions are terminated. The company contribution to Tariff DuPK is calculated to ensure that, together with the employee contributions, funding of the resulting entitlements in line with the technical business plan is assured. The company contribution to the Marl and Troisdorf tariffs is proposed by the responsible actuary and is based on the funds required to cover the benefits. As the sponsoring company of this pension fund, Evonik Operations GmbH has a contractual obligation to cover benefits under the Marl and Troisdorf tariffs if sufficient funding is not available. This obligation is not limited to the company where the insurees are employed. The obligation was assumed on the basis of a requirement stipulated by the supervisory authority when these tariffs were established. At that time, only company employees were insured in the plan. At present, it is not possible to estimate whether this obligation could be of relevance as a supplement to the tools set out in the pension fund regulation, such as increasing company contributions or cutting benefits in the event of a loss.

Support fund (Unterstützungskasse): The support fund comprises two plans, one of which is open to new employees. It also allows for deferred compensation arrangements. Income-related contributions are converted into defined benefits and reinsured with the company-owned Degussa Pension Fund. The structure of the tariffs, including investment of the assets, is subject to oversight by the supervisory authority for the insurance sector. Pension increases of 1 percent p.a. are a firm commitment. The support fund meets the criteria for classification as a multi-employer plan. It is funded through reinsurance with the Degussa Pension Fund, which covers pension adjustments for the open plan. The Degussa Pension Fund maintains sufficient funding for this in compliance with the German Insurance Supervision Act and the ordinances issued by the supervisory authority. Funding must be sufficient at all times to cover benefits, which have to be upheld even if the employer's contributions are terminated. The level of benefits is based on the contributions paid into the fund. The support fund does not have any arrangements under which the Group is liable for the obligations of companies outside the Evonik Group in the event of inadequate funding.

Direct pension commitments: These comprise various defined benefit plans where the pension benefit is generally directly or indirectly linked to the final salary. Most of these plans grant higher benefits for income components above the ceiling for contributions to the state pension insurance plan or are intended exclusively to cover such income components. All final salary plans are closed and, in most cases, now only operate through the protection of the accrued benefits for insurees who are currently still working. Direct commitments of this type are now only used for senior executives and voluntary deferred compensation arrangements. In such cases, a defined benefit is calculated on the basis of an income-related contribution or an amount credited by the employee. Insurees can choose between various forms of payment, for example, as a lump sum, an annuity, or installment payments. The benefits include a fixed pension increase of 1 percent p.a. Plan assets for large companies in the Evonik Group, which account for the vast majority of obligations under direct commitments, are managed by Evonik Pensionstreuhand e.V. This fund is not subject to regulatory oversight or minimum funding requirements. It uses an asset-liability matching strategy, whereby changes in obligations are offset through changes in the plan assets. In this strategy, the interest rate and credit sensitivities of the liabilities are partially replicated in the plan assets.

Description of the potential risks arising from pension plans: Most German pension plans grant lifelong pension benefits. A specific risk here is that rising life expectancy could increase the benefit obligation. In most cases, increases in the benefits paid by these funds are linked to the consumer price index. This entails an additional inflation risk. In the case of plans where employees can choose between a lump-sum payment or an annuity, there is a risk that the option could be selected on the basis of individual assessments of health and life expectancy. For final salary plans, the benefit risk relates to future salary trends for employees covered by collective agreements and exempt employees and, in some cases, changes in the ceiling for contributions to statutory pension insurance. Where assets are invested externally by the pension fund, support fund, and Evonik Pensionstreuhand e.V., plans are exposed to a capital market risk. Depending on the composition of the investment portfolio, this comprises a risk of changes in value and income risks, which could mean that the assumed performance or return is not generated over the term of the investment. Under German legislation on occupational pensions, the employer is liable to cover firm benefit commitments and guaranteed returns.

The main pension plans for employees in the **USA:**

In the USA there are unfunded, fully funded, and partially funded pension plans and post-employment benefits under healthcare plans. The majority of the obligations relate to funded plans. The defined benefit pension plans in the USA are not open to new employees. Benefits are based on a range of parameters such as final salary, average salary during career, individual pension accounts, and fixed benefits. Most plans include a lump-sum option with a corresponding risk to the company that this will be utilized. An asset-liability matching strategy supports compliance with minimum funding levels to avoid volatility. This is implemented primarily through US government bonds and corporate bonds denominated in US dollars. The assets are managed by a pension trust.

As part of the de-risking strategy in the USA, a partial buy-out of the pension obligations was arranged in 2020: Pension obligations amounting to €85 million and plan assets of €81 million were transferred to an external insurance company. For both the pension obligations and the plan assets, the transfer is recognized as a plan settlement of €81 million. Since the pension obligations transferred were €4 million higher, this resulted in a settlement gain.

The main pension plans for employees in the **UK:**

All obligations in the UK relate to vested benefits for former employees and retirees. The majority of the pension obligations are asset-funded. In 2020, these plans were combined in a single plan, which is administered by an external trust. All plans have been closed to new entrants since 2020. Almost all plans are final salary plans. The plan assets are subject to the asset ceiling. Similarly, surplus assets cannot be returned to the companies without the approval of the trustees.

As part of the de-risking strategy in the UK, the majority of plan assets were transferred to a reinsurance funding model ("buy-in") in 2020. The assets affected by the buy-in have been invested in an insurance policy which covers the risk relating to fluctuations in the valuation of pension obligations. At the same time, for future increases in benefit entitlements, the remaining commitments under these plans were altered to a defined-contribution commitment.

The table shows the weighted average **assumptions** used for the actuarial valuation of the obligations:

Assumptions used in the actuarial valuation of pension obligations T92

	Evonik Group		Germany	
in %	2019	**2020**	2019	**2020**
Discount rate as of December 31	1.44	0.98	1.30	0.90
Future salary increases	2.55	2.53	2.50	2.50
Future pension increases	1.57	1.57	1.50	1.50
Healthcare cost trend	6.47	6.18	–	–

The **discount rate** for **Germany** and the **euro zone countries** is extrapolated from a yield structure curve derived from AA-rated corporate bonds denominated in euros and, where there are no market data available, a yield curve for zero-coupon German government bonds, taking into account a risk premium for euro-denominated AA-rated corporate bonds. The data on AA-rated euro-denominated corporate bonds are based on bonds with an AA rating from at least one of the major rating agencies. The yield structure curve derived from AA-rated euro-denominated corporate bonds is used to determine the present value of the cash flows from company pension obligations. The discount rate comprises the rounded constant interest rate that results in the same present value when applied to the cash flow.

The method used to determine the discount rate for Germany was altered as of December 31, 2020: Extended selection criteria in the data for euro-denominated corporate bonds allowed, for the first time, the identification of bonds issued by government-owned enterprises. These systematically showed lower risk premiums than other AA-rated euro-denominated corporate bonds. This can be attributed to the higher creditworthiness of governments. Consequently, Evonik has decided to exclude bonds issued by government-owned enterprises from the data used to determine the discount rate for pensions. The discount rate as of December 31, 2020 is 0.90 percent when determined this way. By contrast, the previous method would have given a discount rate of 0.70 percent. If this had been applied, the present value of the pension obligations would have been €447 million higher. For 2021, the original method would have reduced the net interest cost by €5 million and increased the service cost by €14 million.

Analogous methods are used to determine the discount rates for the pension plans in the **USA** and the **UK**. As of December 31, 2020, the rounded discount rate was 2.44 percent for the USA (2019: 3.29 percent) and 1.23 percent for the UK (2019: 1.94 percent).

In Germany, valuation is based on the **biometric data** in the 2018 G mortality tables published by Klaus Heubeck. For the companies in the UK, the S2PXA tables are used, and for the USA the MP-2020 mortality projection scales are used.

Change in the present value of the defined benefit obligation T93

in € million	2019	2020
Present value of the defined benefit obligation as of January 1	**11,669**	**12,225**
Current service cost	186	210
Interest cost	232	170
Employee contributions	42	42
Actuarial gains (–) and losses (+) (remeasurement component)	1,355	944
of which based on financial assumptions	1,378	936
of which based on demographic assumptions	1	–2
of which changes in the past fiscal year	–24	10
Benefits paid	–435	–468
Past service cost	–3	–3
Changes at the companies	–3	10
Reclassification in accordance with IFRS 5	–849	–
Gain/loss from settlement	–10	–4
Payments for settlement of plans	–	–81
Currency translation	41	–83
Present value of the defined benefit obligation as of December 31	**12,225**	**12,962**

The weighted term of the obligations is 18.2 years (2018: 17.6 years).

Breakdown of the present value of the defined benefit obligation T94

in € million	2019	2020
Unfunded plans	361	362
Partially or fully funded plans	11,761	12,505
Healthcare benefit obligations	103	95
Present value of the defined benefit obligation as of December 31	**12,225**	**12,962**

The valuation of pension provisions is subject, among other things, to assumptions about discount rates, expected future salary and pension increases, the cost trend for healthcare, and mortality tables. The actual data may differ from these assumptions as a result of changes in economic or market conditions.

Sensitivity analysis: effects of changes in parameters on the defined benefit obligation T95

	Reduction of 1 percentage point		Increase of 1 percentage point	
in € million	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020
Group-wide discount rate	2,449	2,714	–1,852	–2,039
Future salary increases	–123	–110	129	121
Future pension increases	–904	–994	1,084	1,198
Healthcare cost trend	–9	–8	11	10

Assuming all other parameters remain unchanged, a reduction of 20 percent in mortality in the retirement phase would increase the defined benefit obligation by €1,066 million (2019: €956 million).

Change in the fair value of plan assets T96

in € million	2019	2020
Fair value of plan assets as of January 1	**8,037**	**8,364**
Interest income from plan assets	167	118
Employer contributions	206	166
Employee contributions	10	9
Income from assets excluding interest income from plan assets (remeasurement component)	606	225
Other administrative expense	–6	–4
Benefits paid	–383	–378
Payments for settlement of plans	–	–81
Changes at the companies	–	1
Reclassification in accordance with IFRS 5	–313	–
Currency translation	40	–69
Fair value of plan assets as of December 31	**8,364**	**8,351**

Breakdown of the fair value of plan assets T97

	Dec. 31, 2019		Dec. 31, 2020	
	in € million	in %	in € million	in %
Cash/balances with banks	268	3.2	434	5.2
Shares—active market	1,171	14.0	1,119	13.4
Government bonds—active market	786	9.4	359	4.3
Government bonds—no active market	17	0.2	–	–
Corporate bonds—active market	2,777	33.2	2,455	29.4
Corporate bonds—no active market	586	7.0	526	6.3
Other bonds—active market	510	6.1	601	7.2
Real estate (direct and indirect investments)—active market	17	0.2	17	0.2
Real estate (direct and indirect investments)—no active market	1,012	12.1	1,111	13.3
Alternative investments (infrastructure/hedge funds/commodities)—active market	736	8.8	685	8.2
Alternative investments (infrastructure/hedge funds/commodities)—no active market	351	4.2	384	4.6
Other—active market	33	0.4	25	0.3
Other—no active market	100	1.2	635	7.6
Total	**8,364**	**100.0**	**8,351**	**100.0**

In 2020, as in 2019, none of the other assets included in the plan assets were used by the company.

Change in the asset ceiling T98

in € million	2019	2020
Asset ceiling as of January 1	**100**	**106**
Interest expense on the unrecognized portion of plan assets	3	2
Changes in asset ceiling, excluding interest expense (remeasurement component)	–1	–97
Currency translation	4	–4
Asset ceiling as of December 31	**106**	**7**

The change in the asset ceiling in 2020 was mainly due to the buy-in in the UK.

Change in the net defined benefit liability T99

in € million	Dec. 31, 2019	Dec. 31, 2020
Net defined benefit liability as of January 1	**3,732**	**3,967**
Current service cost	186	210
Past service cost	–3	–3
Gain/loss from settlement	–10	–4
Net interest cost	68	54
Employee contributions	32	33
Other administrative expense	6	4
Changes recognized in OCI (remeasurement)	748	622
Benefits paid	–52	–90
Employer contributions	–206	–166
Changes at the companies	–3	9
Reclassification in accordance with IFRS 5	–536	–
Currency translation	5	–18
Net defined benefit liability as of December 31	**3,967**	**4,618**

The pension provisions recognized on the balance sheet included healthcare benefit entitlements, mainly of retirees of US subsidiaries.

The methacrylates business was reclassified to discontinued operations on March 4, 2019. As of the divestment date, July 31, 2019, the pension provisions allocated to the discontinued operations amounted to €612 million (€941 million present value of pension obligations, €329 million fair value of plan assets).

Expected change in net benefit payments T100

in € million	Prior year	Reporting period
2020	236	–
2021	243	240
2022	249	248
2023	253	254
2024	260	258
2025	–	261

The presentation of future net benefit payments does not include any pension reimbursements by Evonik Pensionstreuhand e.V. in the reporting period because it is up to the companies to decide whether to claim such reimbursements for the respective fiscal year. Employer contributions of €162 million are expected to be incurred for the following year (2019: €168 million).

The **net interest cost** is included in the financial result; see note 5.5 p. 128 f. The other pension amounts are allocated to the functional areas as personnel expense (pension expenses).

A breakdown of overall **personnel expense** is given in note 10.2 p. 186. Foreign subsidiaries paid a total of €30 million (2019: €32 million) into defined contribution plans, which are also included in personnel expense (pension expenses).

Further, €134 million (2019: €135 million) were paid into defined contribution state plans (statutory pension insurance) in Germany and abroad. This is also reported in personnel expense (expenses for social security contributions).

For details of the **deferred tax assets** relating to pension provisions, see note 6.14, deferred taxes, other income taxes p. 153 ff.

6.11 Other provisions

Other provisions are liabilities of uncertain timing or amount. They are established to cover a present legal or constructive obligation to third parties, based on past events, that will probably lead to a cash outflow. In addition, it must be possible to reliably estimate the level of the obligation.

Provisions are based on the probable settlement obligations and take account of future cost increases. Non-current provisions are discounted.

Reversals of provisions are recognized as income in the functional areas where the original expense for the provision was recognized.

The determination of other provisions, especially provisions for legal risks, recultivation, environmental protection, and restructuring, is naturally exposed to significant estimation uncertainties regarding the level and timing of the obligation. In some cases, the company has to make assumptions about the probability of occurrence or future trends, such as the costs to be recognized for the obligation, on the basis of experience. In particular, the level of non-current provisions depends to a large extent on the selection and development of the market-oriented discount rates. The Evonik Group uses different interest rates for different currencies and terms to maturity.

Other provisions T101

	Dec. 31, 2019		Dec. 31, 2020	
in € million	Total	thereof non-current	Total	thereof non-current
Personnel-related	687	248	610	229
Recultivation and environmental protection	308	261	314	264
Restructuring	193	121	133	51
Sales and procurement	22	6	33	4
Other taxes and interest on taxes	64	47	80	66
Other obligations	283	96	289	101
Other provisions	**1,557**	**779**	**1,459**	**715**

Overall, the other provisions were €98 million lower than in 2019, principally as a result of the development of restructuring and personnel-related provisions. It is expected that half of the total provisions will be utilized in 2021.

Provisions relating to relevant legal risks are allocated to the various categories of provisions based on type. In 2020 and 2019, all of these provisions were recognized in other obligations. They contain appropriate expenses for court and lawyers' fees, payments to plaintiffs, and any payments for settlement or indemnity. The level of such provisions is based, among other factors, on the type of dispute or claim, the status of the legal proceedings, the opinion of lawyers, experience of comparable cases, and probability assumptions. A relevant legal risk comprises a lawsuit filed by the purchaser of the former carbon black business for an alleged claim to indemnification from environmental guarantees. Further, Evonik was engaged in a dispute with the purchaser of the methacrylates business, which was divested in 2019, on the finalization of the purchase price. The background is outlined in detail in section 6.4 p. 67 f. of the combined management report. Evonik refrains from stating the amount of such provisions as this could impair its position in the ongoing legal disputes.

Change in other provisions T102

in € million	Personnel-related	Recultivation, environmental protection	Restructuring	Sales, procurement	Other taxes, interest on taxes	Other obligations	Total
As of January 1, 2020	**687**	**308**	**193**	**22**	**64**	**283**	**1,557**
Additions	349	34	19	17	23	101	543
Utilization	−401	−27	−45	−5	−3	−46	−527
Reversal	−35	−11	−33	−1	−4	−44	−128
Unwinding of discounting/interest rate changes	6	11	–	–	–	1	18
Other	4	−1	−1	–	–	−6	−4
As of December 31, 2020	**610**	**314**	**133**	**33**	**80**	**289**	**1,459**

Personnel-related provisions are established for many different reasons and include bonus payments and variable remuneration, including long-term incentive plans. These are performance-related remuneration plans for Evonik's executives and members of the executive board. The resulting obligations are settled in cash and expensed in accordance with IFRS 2 Share-based Payment. Further personnel-related provisions are established for statutory and in-house early retirement arrangements, lifetime working arrangements, and anniversary bonuses. About half of non-current personnel-related provisions will result in payments after the end of 2025.

Provisions for recultivation and environmental protection are established on the basis of laws, contracts, and regulatory requirements. They cover soil reclamation obligations, water protection, the recultivation of landfills, and site decontamination obligations. Around three-quarters of the non-current provisions will result in payments after the end of 2025.

Restructuring provisions are only established if constructive obligations exist on the basis of a formal, detailed plan, and those affected have been given justifiable expectations that the restructuring will be carried out. Such measures comprise programs that are planned and controlled by the company and will materially alter one of the company's areas of business activity or the way in which a business activity is carried out. Restructuring provisions may only be established for costs that are directly attributable to the restructuring program. These include severance packages, redundancy and early retirement arrangements, expenses for the termination of contracts, dismantling and soil reclamation expenses, rents for unused facilities, and all other shutdown and wind-up expenses. As of the reporting date, this item included provisions for programs to optimize the sales and administrative functions. The change in these provisions was the principal reason for the reduction in provisions for restructuring in the reporting period. The non-current portion of all restructuring provisions will be utilized by the end of 2025.

The **provisions for sales and procurement** mainly relate to guarantee obligations and contracts where the unavoidable costs of performing the contractual obligation exceed the expected economic benefits. The non-current portion will be utilized by the end of 2025.

Provisions for other taxes and interest on taxes mainly comprise property tax, value-added tax, and interest obligations relating to all types of taxes. The non-current portion will be utilized by the end of 2025.

Provisions for other obligations comprise provisions for a variety of obligations that cannot be allocated to the above categories. These include provisions for legal disputes, administrative proceedings or fines, liability risks, guarantee claims relating to divestments, and dismantling obligations. Further, this item includes provisions for legal and consultancy expenses, audit fees, and changes in public law regulations, for example, in connection with the levy on renewable energy sources[1] and European emissions trading. The non-current portion of provisions for other obligations will mainly be utilized by year-end 2025.

6.12 Financial liabilities

Financial liabilities T103

	Dec. 31, 2019		Dec. 31, 2020	
in € million	Total	thereof non-current	Total	thereof non-current
Trade accounts payable	**1,324**	**–**	**1,273**	**–**
Bonds	3,637	3,137	2,986	2,986
Commercial paper	–	–	45	–
Liabilities to banks	150	25	142	23
Loans from non-banks	18	–	12	–
Lease liabilities	650	539	653	532
Liabilities from derivatives	68	1	19	–
Refund liability	45	–	47	–
Miscellaneous other financial liabilities	63	11	94	23
Other financial liabilities	**4,631**	**3,713**	**3,998**	**3,564**
Financial liabilities	**5,955**	**3,713**	**5,271**	**3,564**

[1] German Renewable Energies Act (EEG).

In April 2020, Evonik redeemed the fixed-interest bond issued in 2013. In addition, in December 2020, it redeemed the fixed-interest bond issued in 2016, which was due in 2021, by exercising its right to terminate the bond three months before the regular maturity date. In May 2020, a new fixed-interest bond with a nominal value of €500 million was issued.

Bonds T104

			Carrying amount		Stock market value	
in € million	Interest coupon in %	Nominal value[a]	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020
Evonik Industries AG						
Fixed-interest bond 2013/2020	1.875	500	500	–	503	–
Fixed-interest bond 2015/2023	1.000	750	747	748	771	764
Hybrid bond 2017/2077[b]	2.125	500	497	498	516	511
Fixed-interest bond 2020/2025	0.625	500	–	497	–	514
Evonik Finance B.V.						
Fixed-interest bond 2016/2021[c]	0.000	650	650	–	651	–
Fixed-interest bond 2016/2024	0.375	750	747	747	755	755
Fixed-interest bond 2016/2028	0.750	500	496	496	512	520
Total		**3,000**	**3,637**	**2,986**	**3,708**	**3,064**

[a] The redeemed fixed-interest bonds 2013/2020 and 2016/2021 are not included in the total nominal value.
[b] The formal tenor of the bond is 60 years, and Evonik has a first repayment right in 2022.
[c] The bond was redeemed in December 2020 under the early redemption right.

The accrual of €12 million (2019: €18 million) for payment of the coupon on the bonds is recognized in current **loans from non-banks.**

The **lease liabilities** contain the present value of future lease payments. Further information on lease liabilities can be found in notes 9.2 p. 161 f. and 9.4 p. 164 ff.

Liabilities from derivatives T105

in € million	Dec. 31, 2019	Dec. 31, 2020
Liabilities from forward exchange contracts and currency swaps	64	19
Liabilities from commodity derivatives	4	–
Total	**68**	**19**

The **refund liabilities** show the liabilities under rebate and bonus agreements arising from contracts with customers.

The **miscellaneous other financial liabilities** contain liabilities to partners in joint operations totaling €57 million (2019: €54 million).

6.13 Other payables

Other payables T106

	Dec. 31, 2019		Dec. 31, 2020	
in € million	**Total**	thereof non-current	**Total**	thereof non-current
Contract liabilities from contracts with customers	133	75	177	86
Deferred income	24	15	35	16
Miscellaneous other payables	411	3	241	12
Other payables	**568**	**93**	**453**	**114**

Contract liabilities from contracts with customers mainly result from prepayments received from customers and from freight services that are declared as distinct performance obligations. Revenues are only recognized when the corresponding performance obligation is satisfied.

Revenue recognition relating to contract liabilities arising from contracts with customers totaling –€24 million (2019: –€31 million) includes contract liabilities of €13 million (2019: €13 million) established in prior years and contract liabilities of €11 million (2019: €18 million) recognized in 2020.

Development of contract liabilities T107

in € million	2019	2020
As of January 1	**89**	**133**
Currency translation	1	–4
Additions	82	71
Reclassification in accordance with IFRS 5	–6	–
Refunds	–2	1
Revenue recognition	–31	–24
As of December 31	**133**	**177**

The **miscellaneous other payables** mainly comprise liabilities for other taxes, liabilities to the public sector, and liabilities from insurance contracts.

6.14 Deferred taxes, other income taxes

Deferred tax assets and liabilities are established for temporary valuation and recognition differences between the assets and liabilities recognized in the balance sheets prepared for tax purposes and those prepared in accordance with IFRS. Tax-deductible loss carryforwards that will probably be utilized in the future are capitalized at the amount of the deferred tax asset, taking into account whether they can be carried forward for a limited or unlimited period.

The **recognition of deferred tax assets** at companies with tax-deductible loss carryforwards is based, on the one hand, on current planning calculations, which are normally for a five-year period, and on the other hand, on the availability of sufficient temporary tax differences.

Deferred tax assets are recognized where it is probable that future taxable income will be generated, which can cover these temporary differences. If these expectations are not met, an impairment loss must be recognized in income for the deferred tax assets.

Deferred taxes are calculated on the basis of the tax rates applicable on the date when temporary differences are likely to be reversed.

Deferred tax assets and liabilities are netted if the company is permitted to net other income tax assets and liabilities and if the deferred tax assets and liabilities relate to income taxes in the same tax jurisdiction.

Other income taxes for the reporting period and previous periods are recognized on the basis of the expected payment or refund. They are calculated using the company-specific tax rates applicable on the reporting date.

Group companies are liable to pay income tax in many countries around the world. When evaluating global income tax assets and liabilities, there may be some uncertainty relating, in particular, to the interpretation of tax regulations. It cannot be ruled out that the fiscal authorities will take a different view on the correct interpretation of tax regulations. Changes in assumptions regarding the correct interpretation of tax regulations, for example, as a result of changes in legal decisions, are reflected in the recognition of uncertain income tax assets and liabilities for the corresponding fiscal year. Uncertain tax assets and liabilities are recognized as soon as their probability of occurrence is more than 50 percent. Uncertain income tax positions are recognized on the basis of their most likely amount or expected amount, depending on which of these amounts better reflects the situation if the uncertainty materializes.

Deferred taxes and other income taxes reported on the balance sheet T108

	Dec. 31, 2019		Dec. 31, 2020	
in € million	Total	thereof non-current	Total	thereof non-current
Deferred tax assets	1,718	1,632	2,004	1,754
Other income tax assets	337	12	224	13
Deferred tax liabilities	537	497	586	505
Other income tax liabilities	379	320	411	275

In accordance with IAS 1 Presentation of Financial Statements, the current elements of deferred taxes are reported on the balance sheet under non-current assets and liabilities.

Deferred taxes by balance sheet item T109

	Deferred tax assets		Deferred tax liabilities	
in € million	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020
Intangible assets	175	182	210	228
Property, plant and equipment	28	28	354	335
Right-of-use assets	–	–	169	172
Financial assets	961	952	16	90
Inventories	47	74	2	1
Other assets	54	63	51	23
Provisions	1,496	1,742	880	897
Payables	210	213	82	67
Special tax allowance reserves (based on local law)	–	–	44	41
Loss carryforwards	18	29	–	–
Tax credits	2	1	–	–
Other	–	3	2	15
Deferred taxes (gross)	**2,991**	**3,287**	**1,810**	**1,869**
Netting	–1,273	–1,283	–1,273	–1,283
Deferred taxes (net)	**1,718**	**2,004**	**537**	**586**

€1,588 million of the deferred tax assets (2019: €1,351 million) relate to the pension provisions recognized on the balance sheet. Payables of €167 million (2019: €170 million) are deferred tax assets relating to lease liabilities. The deferred tax liabilities recognized in “Other” are mainly deferred taxes relating to subsidiaries.

No deferred tax assets were recognized on **temporary differences** of €45 million (2019: €84 million) because it is not probable that there will be sufficient future taxable income to enable them to be realized. The taxable temporary differences relating to shares in subsidiaries for which no deferred taxes were recognized amounted to €171 million (2019: €162 million). Evonik is in a position to manage the timing of the reversal of temporary differences.

Deferred tax assets of €2 million (2019: €25 million) were recognized for companies that made a loss. Utilization will be ensured by restructuring. In addition to **tax loss carryforwards** for which deferred taxes were recognized, there were tax loss carryforwards that were not utilizable and for which no deferred taxes were recognized.

Tax loss carryforwards by expiration date T110

	Corporation taxes (German and foreign)		Local taxes (German and foreign)		Tax credits (foreign)	
in € million	2019	**2020**	2019	**2020**	2019	**2020**
Up to 1 year	–	21	–	–	–	–
More than 1 and up to 5 years	40	21	–	–	–	–
More than 5 and up to 10 years	–	3	–	–	–	–
Unlimited	331	242	201	93	4	8
Total	**371**	**287**	**201**	**93**	**4**	**8**

7. Notes to the cash flow statement

The cash flow statement shows the changes in cash and cash equivalents of the Evonik Group in the reporting period. The cash flows are classified by operating, investing, and financing activities. The net cash flow from discontinued operations that is attributable to third parties is shown separately. The impact of changes in the scope of consolidation has been eliminated.

The **cash flow from operating activities** is calculated using the indirect method. Income before financial result and income taxes, continuing operations, is adjusted for the effects of non-cash income and expenses and items that are allocated to investing or financing activities. Certain other changes in amounts shown on the balance sheet are calculated and added to the result. Cash inflows from dividends are also allocated to the cash flow from operating activities.

The **cash flow from investing activities** is derived from the cash inflows and outflows relating to investment in/divestment of intangible assets, property, plant and equipment, obtaining or losing control over businesses, and investment in/divestment of other shareholdings. Cash inflows and outflows relating to securities, deposits, and loans and cash inflows from interest are also used to calculate the cash flow from investment activities.

The **cash flow from financing activities** is derived from cash inflows and outflows relating to financial liabilities, the purchase and sale of treasury shares, and other cash inflows and outflows in connection with financial transactions. Cash outflows for interest and dividend payments are also included in the cash flow from financing activities.

Cash and cash equivalents include both the cash and cash equivalents shown on the balance sheet and, where applicable, cash and cash equivalents included in assets held for sale. Cash and cash equivalents comprise balances with banks, checks, and cash. This item also includes highly liquid financial instruments with a maturity, calculated as of the date of purchase, of no more than three months, provided that they can be converted into cash and cash equivalents at any time and are only subject to negligible fluctuations in value. They are measured at fair value.

The **cash outflows to obtain control of businesses** include, among other things, the gross purchase prices for the shares in subsidiaries consolidated for the first time. As in the previous year, the entire purchase prices comprised a cash outflow. The acquisitions included cash and cash equivalents amounting to €36 million (2019: none).

In 2019, the **cash inflows from the divestment of the methacrylates business** and the **cash inflows/outflows relating to the loss of control over businesses** contained gross selling prices of €2,439 million less cash and cash equivalents disposed of amounting to €227 million. In 2019, the purchase prices were settled entirely through cash inflows. There were no material divestments in the reporting period. As in 2019, the other cash inflows/outflows relating to the loss of control over businesses relate to divestments in prior periods.

The following reconciliation shows the **change in financial debt.** The additions and repayments are disclosed in the cash flow statement in cash flow from financing activities. The definition of financial debt is explained in section 2.9 p. 34 ff. of the combined management report.

Reconciliation of financial debt 2020

T111

		Cash inflows/ outflows from financing activities		Changes with no impact on cash flow					
in € million	**As of Jan. 1**	Addition of financial liabilities	Repayment of financial liabilities	Change in the scope for consolidation	Currency translation	Reclassification in accordance with IFRS 5	Additions and disposals of lease liabilities	Other	**As of Dec. 31**
Bonds	3,637	499	−1,150	–	–	–	–	–	2,986
Commercial paper	–	140	−95	–	–	–	–	–	45
Liabilities to banks	150	371	−443	31	−12	–	–	45	142
Loans from non-banks	18	–	−7	–	–	–	–	1	12
Lease liabilities	650	–	−139	33	−15	–	125	−1	653
Miscellaneous other financial liabilities	63	29	−322	315	−4	–	–	13	94
Financial debt	**4,518**	**1,039**	**−2,156**	**379**	**−31**	**–**	**125**	**58**	**3,932**

Reconciliation of financial debt 2019

T112

		Cash inflows/ outflows from financing activities		Changes with no impact on cash flow					
in € million	**As of Jan. 1**	Addition of financial liabilities	Repayment of financial liabilities	Change in the scope for consolidation	Currency translation	Reclassification in accordance with IFRS 5	Additions and disposals of lease liabilities	Other	**As of Dec. 31**
Bonds	3,632	–	–	–	–	–	–	5	3,637
Liabilities to banks	214	90	−153	−1	–	–	–	–	150
Loans from non-banks	18	–	–	–	–	–	–	–	18
Lease liabilities	666	–	−126	–	4	−26	136	−4	650
Miscellaneous other financial liabilities	49	20	−16	–	–	–	–	10	63
Financial debt	**4,579**	**110**	**−295**	**−1**	**4**	**−26**	**136**	**11**	**4,518**

The **cash and cash equivalents** shown on the balance sheet amounted to €563 million (2019: €1,165 million).

8. Notes to the segment report

8.1 Reporting based on operating segments

Following the introduction of the new corporate structure on July 1, 2020, the executive board of Evonik Industries AG decides on the allocation of resources and evaluates the earnings power of the Evonik Group's operations on the basis of the following **new reporting segments,** which reflect the core operating business (subsequently referred to as divisions or segments).

- Specialty Additives
- Nutrition & Care
- Smart Materials
- Performance Materials
- Services.

The reporting based on operating segments therefore reflects the internal reporting and management structure of the Evonik Group (management approach). The external financial reporting standards are applied, see note 3 p. 112 f., together with the accounting policies described in the other notes, with the exception of intragroup leasing transactions, which are still recognized by the segments as income or expense.

Evonik's reporting segments are outlined below:

The **Specialty Additives** division comprises the business with high-performance additives based on an extensive range of organically modified silicones and versatile crosslinkers. An important part of this business comprises ingredients, specialty additives, and system solutions for high-quality consumer goods and specialized industrial applications. Among other things, they help make coatings tougher and more sustainable and improve automotive and industrial lubricants. Key success factors are high innovative capability, integrated technology platforms, and strategic partnerships. Specialty Additives has an excellent knowledge of interfacial chemistry for industrial applications and, above all, formulation expertise for customer-specific applications that improve the performance of products for the coatings, mobility, infrastructure, and consumer goods markets. This division's specialties therefore make sure that end-products are better quality, more durable, and use less energy.

The **Nutrition & Care** division produces specialty chemicals, principally for use in consumer goods for daily needs, and in animal nutrition and healthcare products. Nutrition & Care has outstanding knowledge of interfacial chemistry for consumer goods. Its products are based on an extensive range of oleochemical derivatives and active ingredients produced by biotechnology. The Nutrition & Care division also produces and markets essential amino acids and probiotics for animal nutrition. Alongside high technological competence and integrated technology platforms, its success is due to years of experience of chemical synthesis and biotechnology. Competence in sustainable solutions for animal nutrition, a global distribution network, and an extensive range of differentiated products and services drive the growth of this segment and give it a competitive advantage. Nutrition & Care is a strategic partner for the healthcare industry, focusing on the synthesis of active ingredients and controlled release of active ingredients for modern drugs.

The **Smart Materials** division includes business with innovative materials that enable resource-saving solutions and replace conventional materials. Its products are continuously developed and adapted to the needs of its customers. This division's strong technology platforms pave the way for greater resource efficiency and sustainability: inorganic materials with superior properties such as silica, silanes, peroxides, specialty catalysts, high-tech polymers such as polyamide 12, polyimide, specialty polybutadienes and polyester, and the compounds, composites and membranes based on them. The Smart Materials division plays a part in helping people lead a good and sustainable life. With its unique combination of innovative capability, responsibility, and proximity to customers, this division empowers its customers and partners to choose sustainable and smart new routes.

The heart of the **Performance Materials** division is the production of polymer materials and intermediates, mainly for the automotive, rubber, and plastics industries. Performance Materials aspires to be a leading supplier. Its special strengths are its product properties, integrated structures, experience, and expertise. For this reason, it is often the market leader with its high-volume intermediates and custom-tailored solutions. This applies to its integrated C_4 production facilities, superabsorbents, and alkoxides, which are used, among other things, in the production of biodiesel.

The **Services** segment provides site management, utilities, waste management, technical, process technology, engineering, and logistics services for the chemicals divisions and external customers at Evonik's sites. This segment also supports the chemicals divisions and the corporate center by providing standardized group-wide business services, for example, in the areas of IT, human resources, accounting, and legal services.

The column headed **Corporate, other operations, consolidation** combines various activities of the Evonik Group. Business activities that cannot be allocated to any of the reporting segments are recognized in other operations. Corporate, consolidation comprises, among other things, the management of the Evonik Group by the corporate center, strategic research, and intersegment consolidation effects.

Composition of Corporate, other operations, consolidation T113

	Other operations		Corporate, consolidation		Corporate, other operations, consolidation	
in € million	2019	**2020**	2019	**2020**	2019	**2020**
External sales	36	29	1	1	37	30
Internal sales	37	36	−2,050	−1,922	−2,013	−1,886
Total sales	73	65	−2,049	−1,921	−1,976	−1,856
Adjusted EBITDA	−39	−57	−177	−163	−216	−220
Adjusted EBIT	−63	−77	−191	−168	−254	−245
Capital employed (annual average)	−37	29	−79	−42	−116	−13
Depreciation and amortization	−22	−21	−13	−4	−35	−25
Capital expenditures	11	3	1	–	12	3
Financial investments	369	–	–	–	369	–
No. of employees as of December 31	23	21	289	301	312	322

Prior-year figures restated.

8.2 Reporting based on regions

For this purpose, countries and country groups are aggregated into regions. The reporting based on regions is outlined in more detail in note 8.3 p. 158 ff.

8.3 Notes to the segment data

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

Reconciliation of the sales of all reporting segments to Group sales T114

in € million	2019	**2020**
Sales, reporting segments	**15,084**	**14,055**
Sales, other operations	73	65
Corporate, consolidation, less discontinued operations	−2,049	−1,921
External sales of the Evonik Group	**13,108**	**12,199**

Prior-year figures restated.

External sales by country (location of customer) T115

in € million	2019	2020
USA	2,593	2,587
Germany	2,290	2,074
China	1,009	1,139
Switzerland	712	541
Netherlands	577	498
Japan	511	429
France	387	333
Brazil	359	332
UK	391	303
Italy	321	294
Other countries	3,958	3,669
External sales of the Evonik Group	**13,108**	**12,199**

The **result from investments recognized at equity** corresponds to the result for these investments as reported in the income statement; see note 5.4 p. 128.

The executive board of Evonik Industries AG uses **adjusted EBITDA** as the main parameter to measure operating performance. Adjusted EBITDA is the main earnings parameter that can be influenced by the segment management. It comprises earnings before financial result, income taxes, depreciation, amortization, and impairment losses/reversals of impairment losses, after adjustments.

Reconciliation from adjusted EBITDA of the reporting segments to income before income taxes, continuing operations T116

in € million	2019	2020
Adjusted EBITDA, reporting segments	2,369	2,126
Adjusted EBITDA, other operations	–39	–57
Adjusted EBITDA corporate, consolidation, less discontinued operations	–177	–163
Adjusted EBITDA	**2,153**	**1,906**
Depreciation and amortization	–932	–998
Impairment losses/reversals of impairment losses	–76	–34
Depreciation, amortization, impairment losses/reversals of impairment losses included in adjustments	56	16
Adjusted depreciation, amortization, and impairment losses	–952	–1,016
Adjusted EBIT	**1,201**	**890**
Adjustments[a]	–115	–71
Financial result	–132	–135
Income before income taxes, continuing operations	**954**	**684**

Prior-year figures restated.

[a] See section 2.4 p. 21 ff., combined management report.

The **adjusted EBITDA margin** is the ratio of adjusted EBITDA to external sales.

Adjusted EBIT comprises earnings before financial result and income taxes, after adjustments. It is used to calculate the internal management parameter return on capital employed (ROCE).

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

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

Depreciation and amortization relate to the depletion in the value of intangible assets, property, plant and equipment, and right-of-use assets over their estimated useful life.

Capital expenditures comprise additions to intangible assets (excluding goodwill from capital consolidation), property, plant and equipment in the reporting period. Additions resulting from changes in the scope of consolidation are not taken into account. Capital expenditures by region are based on the location of the subsidiaries.

Additions to investments recognized at equity, other investments, non-current loans, and non-current securities and similar claims made in the reporting period are recognized as **financial investments.** The acquisition of subsidiaries is shown as an addition to financial investments in the year of acquisition (including goodwill from capital consolidation).

The **headcount** is taken on the reporting date. It shows the number of employees. Part-time employees are included as absolute figures. The headcount by region is based on the location of the subsidiaries.

Goodwill, other intangible assets, property, plant and equipment, and right-of-use assets are segmented by the location of the subsidiaries. Together, these assets comprise the non-current assets in accordance with IFRS 8 Operating Segments (cf. IFRS 8.33 b).

Breakdown of non-current assets by country T117

in € million	Dec. 31, 2019	Dec. 31, 2020
Germany	5,037	5,350
USA	3,732	3,899
Singapore	1,129	997
Belgium	810	751
China	593	566
Other countries	1,632	1,570
Non-current assets	**12,933**	**13,133**

9. Other disclosures

9.1 Capitalized borrowing costs

As in the previous year, borrowing costs of €6 million that could be allocated directly to the acquisition, construction, or production of a qualifying asset were capitalized. The average underlying cost of financing was 1.2 percent (2019: 1.0 percent).

9.2 Additional information on leases

A lease comprises an agreement that transfers the right to use an asset for a certain period in return for one or more payments.

As lessee, the Evonik Group mainly leases assets required for business operations (see also note 6.3 p. 135 f.); as a lessor, it mainly leases out land not required for business operations through operating leases (see also note 6.2 p. 133 ff.).

IFRS 16 specifies that, in principle, **lessees** must recognize all leases on the balance sheet at present value in the form of a right-of-use asset and a lease liability. The right-of-use asset is normally depreciated over the term of the lease and the lease liability is increased to reflect interest on the lease using the effective interest method and reduced to reflect lease payments. Consequently, lease expense is no longer recognized in the income statement. The right-of-use asset is subject to an impairment test pursuant to IAS 36.

The incremental borrowing rate is normally used to determine the present value of lease liabilities and the subsequent discount rate. The incremental borrowing rate is based on uniform discount rates, taking into account the contract currency, lease term, and the economic circumstances of the lease. The lease liabilities are recognized in other financial liabilities.

As lessee, Evonik applies the practical expedients for short-term leases and leases for low-value assets. These are not recognized on the balance sheet in accordance with IFRS 16; instead, lease expense is still recognized in the income statement (IFRS 16.5). Furthermore, Evonik does not apply the standard to leases for intangible assets (IFRS 16.4).

In addition, for the following classes of assets, lease and non-lease components are combined (IFRS 16.15): power plants, ships, and storage tanks.

Lessors are still required to classify leases as finance or operating leases, based on the ratio of the opportunities and risks transferred.

In the case of finance leases, the underlying asset is derecognized from the balance sheet and a finance lease receivable is recognized.

In the case of operating leases, the underlying asset is still recognized on the balance sheet and the lease payments received are recognized in the income statement as revenue from operating leases.

Amounts recognized for lessee transactions T118

in € million	2019	2020
Right-of-use assets as of December 31 [a]	640	668
Lease liabilities as of December 31 [a]	650	653
Depreciation and impairment losses	131	141
Interest cost	16	16
Expenses for short-term leases	13	11
Expenses for leases for assets of low value	2	2
Expenses for variable lease payments not recognized on the balance sheet	7	6
Revenue from subleasing	2	11
Total cash outflows for leases	164	175
Gain or loss on sale-and-leaseback transactions	1	–

[a] See note 6.3 p. 135 f..
[b] See notes 6.12 p. 152 f. and 9.4 p. 164 ff.

Evonik rents and leases assets required for its operations. Most of these are peripheral to production or as in the case of administrative buildings, for example, have only a slight connection with production. The principal right-of-use assets relate to land and land rights (20 percent), buildings (16 percent), power plants (10 percent), storage tanks (28 percent), and rail wagons and transport containers (11 percent). For information on lease terms, see note 6.3 p. 135 f.

As **lessee,** Evonik recognizes lease payments that are certain on the balance sheet as lease liabilities. In addition, there may be further cash outflows for leases where recognition on the balance sheet is not permitted, for example, variable lease payments based on use and pending lease contracts.

In the Evonik Group, variable lease payments are not material.

Evonik has pending lease contracts, which have been signed but will only be recognized for the first time after the reporting date. The material contracts relate to new gas and steam turbine power plants and a warehouse. The discounted lease payments for these leases are around €370 million, payable over terms of up to 25 years.

Many leases contain extension and/or termination options. These give Evonik the flexibility to adjust its lease portfolio to changing business requirements. There is considerable discretion involved in assessing the probability of exercise of such options. Considering all facts and circumstances, Evonik only regards the options as exercisable if there is a high probability that they will be exercised. Exercise of the options is reassessed if the facts and circumstances change. Until then, Evonik regards the liability recognized on the balance sheet as the best indicator of future cash outflows. For a detailed presentation of cash outflows for leases, see note 9.4 p. 164 ff.

Evonik does not have any off-balance-sheet residual value guarantees that could result in possible cash outflows in the future. Furthermore, there are no clauses in lease agreements that impose restrictions on Evonik or require it to achieve certain financial covenants. There are no material sale-and-leaseback transactions.

As **lessor,** Evonik is not exposed to any residual risks relating to the assets underlying finance leases.

Amounts recognized for lessor transactions T119

in € million	2019	2020
Assets under operating leases[a]	3	20
Receivables from finance leases[b]	3	3
Revenue (operating leases)	18	28
thereof revenue from variable lease payments that are based on usage of the leased asset	1	1

[a] See note 6.2 p. 133 ff.
[b] See notes 6.6 p. 139 f. and 9.4 p. 164 ff.

Maturity structure of future minimum lease payments (lessor; operating leases) T120

in € million	2019	2020
Due within 1 year	14	14
Due in more than 1 and up to 2 years	9	9
Due in more than 2 and up to 3 years	7	6
Due in more than 3 and up to 4 years	5	5
Due in more than 4 and up to 5 years	5	4
Due in more than 5 years	142	137
Total	**182**	**175**

9.3 Performance-related remuneration

Evonik's remuneration system comprises a basic salary, annual short-term incentive payments and, as a long-term component, the long-term incentive (LTI) plans for members of the executive board and other executives. Following the stock exchange listing, the performance of Evonik shares became the central element in the LTI plan for the first time in 2013. The redesigned LTI plan was introduced for both executive board members and other executives.

It comprises share-based payments with cash settlement. They are valued on the reporting date using a Monte Carlo simulation, which models exercise patterns. The LTI plans result in personnel expense, which is distributed over the term of each tranche.

Performance is measured by the absolute performance of Evonik's share price and its performance relative to the MSCI World Chemicals IndexSM.

Based on the contractually agreed target amount, which is defined in euros, a number of virtual shares is calculated using the share price at the start of the performance period. This is based on the price in the last 60 trading days before the start of the performance period. The performance period starts on January 1 of the grant year and runs for four years. At the end of the performance period, the starting price of Evonik shares is viewed against the average share price at the end of the performance period. This is compared with the performance of the benchmark index (total shareholder return).

If the relative performance is below 70 percentage points, the relative performance factor is deemed to be zero. If the relative performance is above 130 percentage points, the relative performance factor is set at 130.

The payment is calculated by multiplying the relative performance by the number of virtual shares allocated and the average price of Evonik shares at the end of the performance period.

For LTI tranches up to and including 2018, there is a one-time option to extend the tranche for a further year at the end of the performance period. Partial exercise at the end of the original performance period is not permitted. The upper limit for these payments is set at 300 percent of the individual target amount.

Starting in 2019, the intrinsic value of the LTI is no longer measured at the end of the performance period; instead it is measured at the end of each year in the four-year performance period. In line with previous practice, the starting price of Evonik shares is viewed against the average share price at the end of each year of the performance period, plus any dividends per share actually paid in this period. This is then compared with the performance of the benchmark index (total shareholder return). At the end of the performance period, the overall performance is calculated as the average of the performance in each year. There is no longer an option to extend the performance period.

LTI Plan for executive board members—Tranches 2015 through 2020 T121

		2015 tranche	2016 tranche	2017 tranche	2018 tranche	2019 tranche	**2020 tranche**
Grant date		Apr. 29, 2015	May 18, 2016	Jun. 7, 2017	May 15, 2018	Jul. 7, 2019	May 27, 2020
No. of virtual shares granted		175,787	139,109	108,283	119,846	181,784	184,232
No. of virtual shares forfeited		–	–	–	–	–	–
No. of virtual shares exercised		175,787	63,032	–	–	–	–
No. of virtual shares as of December 31, 2020		–	76,077	108,283	119,846	181,784	184,232
Performance period	From – to	Jan. 1, 2015–Dec. 31, 2019[a]	Jan. 1, 2016–Dec. 31, 2020[a]	Jan. 1, 2017–Dec. 31, 2021[a]	Jan. 1, 2018–Dec. 31, 2021	Jan. 1, 2019–Dec. 31, 2022	Jan. 1, 2020–Dec. 31, 2023
Expense (+)/income (-) for the period	in €'000	–	–	–1,434	148	666	967
Carrying amount of provision	in €'000	–	–	–	1,429	1,674	967

[a] Extension option utilized in some cases.

LTI Plan for executives—Tranches 2015 to 2020 T122

		2015 tranche	2016 tranche	2017 tranche	2018 tranche	2019 tranche	**2020 tranche**
Grant date		May 18, 2015	May 18, 2016	June 6, 2017	May 11, 2018	Jul. 2, 2019	May 25, 2020
No. of virtual shares granted		535,195	436,125	523,169	460,694	532,476	476,182
No. of virtual shares forfeited		14,821	56,729	73,998	65,755	46,131	–
No. of virtual shares exercised		520,374	–	–	–	–	–
No. of virtual shares as of December 31, 2020		–	379,396	449,171	394,939	486,345	476,182
Performance period	From – to	Jan. 1, 2015–Dec. 31, 2019[a]	Jan. 1, 2016–Dec. 31, 2020[a]	Jan. 1, 2017–Dec. 31, 2021[a]	Jan. 1, 2018–Dec. 31, 2021[a]	Jan. 1, 2019–Dec. 31, 2022	Jan. 1, 2020–Dec. 31, 2023
Expense (+)/income (-) for the period	in €'000	–	–	–6,391	143	1,564	2,500
Carrying amount of provision	in €'000	–	–	–	4,710	4,479	2,500

[a] Extension option utilized in some cases.

As of December 31, 2020, total provisions for share-based payment amounted to €15.8 million (2019: €20.4 million). In 2020, the total income for share-based payment was €1.8 million (2019: total expense of €7.9 million).

9.4 Additional information on financial instruments

Derivative and non-derivative financial instruments comprise contractually agreed rights and obligations resulting in an inflow or outflow of financial assets or the issue of equity instruments. Derivative financial instruments are used to hedge the risk of changes in exchange rates, the price of commodities, and interest rates. Derivatives are recognized on the balance sheet either on a stand-alone basis or as part of a hedging relationship with the corresponding hedged items (hedge accounting). While all financial derivatives are part of an economic hedging relationship, hedge accounting is only applied to a portion of these hedging relationships (see note 9.4.4 p. 174 ff.).

Non-derivative financial assets are **initially recognized** at the settlement date, while derivatives are recognized on the trading date.

They are **derecognized** when the contractual rights to receive payments lapse or are transferred, and Evonik has transferred substantially all opportunities and risks associated with ownership. Financial liabilities are derecognized when the obligation has been settled or canceled or has expired.

Financial instruments are **initially measured** at fair value plus any directly attributable transaction costs. As an exception to this, trade accounts receivable without significant financing components are measured at the transaction price in accordance with the provisions of IFRS 15. Transaction costs for financial instruments assigned to the category at fair value through profit or loss are recognized directly in the income statement.

The **fair value** is the amount that would be received or paid for the sale of a financial asset or the transfer of a financial liability in an orderly transaction between market participants at the measurement date. It is therefore an exit price based on a hypothetical transaction on the measurement date. The fair value is determined on the basis of the three-level hierarchy set out in IFRS 13. Where available, it is determined from the quoted prices for identical financial assets or liabilities in an active market without adjustment (level 1). If such data are not available, measurement based on directly or indirectly observable inputs is used (level 2). In all other cases, valuation methods that are not based on observable market data are used (level 3). Where input factors from different levels are used, the level applicable for the lowest material input factor is determined and the overall fair value is assigned to this level.

Subsequent measurement of financial instruments is based on their valuation category. **Non-derivative financial assets** are allocated to the categories “at fair value through other comprehensive income, without reclassification,” “at amortized cost,” or “at fair value through profit or loss,” based on the business model used by the company to manage the respective financial assets and the characteristics of the contractual cash flows from the financial instrument. **Non-derivative financial liabilities** are allocated to the category “at amortized cost.” Stand-alone **derivative financial instruments** are carried at fair value through profit or loss. Derivatives included in hedge accounting are not allocated to any of the IFRS 9 valuation categories. They are also carried at fair value. However, the treatment of changes in their fair value is based on the special rules for hedge accounting. Voluntary designation at fair value through profit or loss (fair value option) is not currently used for either financial assets or financial liabilities.

The shares in other investments have been irrevocably designated as **“at fair value through other comprehensive income, without reclassification”** because Evonik classifies them as long-term, strategic investments. The **financial assets in the category “at amortized cost”** mainly comprises trade accounts receivable, loans, and miscellaneous other financial assets, insofar as the contractual terms solely comprise cash flows that are payments of principal and interest on the principal amount outstanding, and they are held within a “hold” business model. These financial assets are valued at amortized cost using the effective interest rate method and are subject to the impairment rules for expected credit losses. The category **“at fair value through profit or loss”** contains loans and securities, and miscellaneous other financial assets, whose contractual terms do not solely comprise cash flows from payments of principal and interest on the principal amount outstanding or those that are allocated to the business model “hold” or “held for sale.” The **financial liabilities in the category at amortized cost** mainly comprise trade accounts payable, bonds, liabilities to banks, and loans from non-banks. They are measured at amortized cost using the effective interest rate method. Receivables and liabilities from finance leases, which are recognized at Evonik in miscellaneous other financial assets or miscellaneous other financial liabilities, are **not allocated to any category** because they are measured in accordance with IFRS 16 and not IFRS 9. Similarly, refund liabilities for rebate and bonus agreements pursuant to IFRS 15, which are recognized in other financial assets or liabilities, are not allocated to any category.

The **notional value** of interest rate swaps is the principal on which the swap agreement is based, while the notional value of the cross-currency interest rate swaps, forward exchange contracts, currency options, and currency swaps is the hedged foreign exchange amount translated into euros. The notional value of the commodity derivatives is the hedged procurement cost translated into euros.

9.4.1 Disclosures on the carrying amounts and fair values of financial instruments

Carrying amounts and fair values of financial assets as of December 31, 2020 T123

	Carrying amounts by valuation category				Dec. 31, 2020	
in € million	At fair value through OCI without subsequent reclassification	At amortized cost	At fair value through profit or loss	Not allocated to any category	Carrying amount	Fair value
Trade accounts receivable	**–**	**1,455**	**–**	**–**	**1,455**	**1,455**
Cash and cash equivalents	**–**	**563**	**–**	**–**	**563**	**563**
Other investments	568	–	–	–	568	568
Loans	–	37	12	–	49	49
Securities and similar claims	–	–	492	–	492	492
Receivables from derivatives	–	–	30	133	163	163
Miscellaneous other financial assets	–	29	–	3	32	32
Other financial assets	**568**	**66**	**534**	**136**	**1,304**	**1,304**
Financial assets	**568**	**2,084**	**534**	**136**	**3,322**	**3,322**

Carrying amounts and fair values of financial assets as of December 31, 2019 T124

	Carrying amounts by valuation category				Dec. 31, 2019	
in € million	At fair value through OCI without subsequent reclassification	At amortized cost	At fair value through profit or loss	Not allocated to any category	Carrying amount	Fair value
Trade accounts receivable	**–**	**1,569**	**–**	**–**	**1,569**	**1,569**
Cash and cash equivalents	**–**	**1,165**	**–**	**–**	**1,165**	**1,165**
Other investments	556	–	–	–	556	556
Loans	–	39	8	–	47	47
Securities and similar claims	–	–	1,225	–	1,225	1,225
Receivables from derivatives	–	–	11	47	58	58
Miscellaneous other financial assets	–	14	–	3	17	17
Other financial assets	**556**	**53**	**1,244**	**50**	**1,903**	**1,903**
Financial assets	**556**	**2,787**	**1,244**	**50**	**4,637**	**4,637**

Carrying amounts and fair values of financial liabilities as of December 31, 2020 T125

in € million	Carrying amounts by valuation category			Dec. 31, 2020	
	At fair value through profit or loss	At amortized cost	Not allocated to any category	Carrying amount	Fair value
Trade accounts payable	**–**	**1,273**	**–**	**1,273**	**1,273**
Bonds	–	2,986	–	2,986	3,064
Commercial paper	–	45	–	45	45
Liabilities to banks	–	142	–	142	144
Loans from non-banks	–	12	–	12	12
Lease liabilities	–	–	653	653	653
Liabilities from derivatives	14	–	5	19	19
Refund liability	–	–	47	47	47
Miscellaneous other financial liabilities	–	94	–	94	94
Other financial liabilities	**14**	**3,279**	**705**	**3,998**	**4,078**
Financial liabilities	**14**	**4,552**	**705**	**5,271**	**5,351**

Carrying amounts and fair values of financial liabilities as of December 31, 2019 T126

in € million	Carrying amounts by valuation category			Dec. 31, 2019	
	At fair value through profit or loss	At amortized cost	Not allocated to any category	Carrying amount	Fair value
Trade accounts payable	**–**	**1,324**	**–**	**1,324**	**1,324**
Bonds	–	3,637	–	3,637	3,707
Commercial paper	–	–	–	–	–
Liabilities to banks	–	150	–	150	153
Loans from non-banks	–	18	–	18	18
Lease liabilities	–	–	650	650	650
Liabilities from derivatives	16	–	52	68	68
Refund liability	–	–	45	45	45
Miscellaneous other financial liabilities	–	63	–	63	63
Other financial liabilities	**16**	**3,868**	**747**	**4,631**	**4,704**
Financial liabilities	**16**	**5,192**	**747**	**5,955**	**6,028**

Financial instruments recognized at fair value are allocated to the levels in the fair value hierarchy.

The financial instruments allocated to **level 1** are recognized at their present stock market price. They comprise securities and similar claims bundled in two segregated funds and the investment in Borussia Dortmund GmbH & Co. KGaA.

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 based on the exchange rates at the European Central Bank, observed interest rate structure curves, FX volatilities, observed commodity prices, and observed credit default premiums.

The other investments, which are allocated to **level 3,** are unlisted equity investments and are measured on the basis of the best available information as of the reporting date. The shares in Vivawest GmbH were valued using the discounted cash flow method (fair value as of December 31, 2020: €459 million; December 31, 2019: €384 million). The material non-observable inputs in the valuation were the cost of capital and sales growth. An increase in the cost of capital accompanied by a drop in sales growth of 10 percent would reduce the fair value by €150 million (2019: €127 million). A reduction in the capital cost accompanied by an increase in sales growth of 10 percent would increase the fair value by €208 million (2019: €166 million). The fair value of the remaining other investments (€60 million as of December 31, 2020; 2019: €52 million) was derived from observable prices in connection with equity refinancing and using discounted cash flow and multiples methods. A 10 percent relative change in the key valuation parameters (segment-specific cost of capital, sustained dividend expectations, EBITDA multiple) does not result in a material change in the fair values. There is no intention of selling these investments. The loans allocated to level 3 are convertible bonds. The fair values recognized are based on the nominal value of the bonds. The conversion right is taken into account if it is material. Securities and similar claims, which are allocated to level 3, are unlisted investment funds. The fair values recognized are the net asset values provided by the investment fund companies, which are determined on the basis of internationally recognized valuation principles.

Financial instruments recognized at fair value as of December 31, 2020 T127

	Fair value based on			Dec. 31, 2020
in € million	Publicly quoted market prices (level 1)	Directly observable market-related prices (level 2)	Individual valuation parameters (level 3)	**Total**
Other investments	49	–	519	568
Loans	–	–	12	12
Securities and similar claims	464	–	28	492
Receivables from derivatives	–	163	–	163
Liabilities from derivatives	–	–19	–	–19

Financial instruments recognized at fair value as of December 31, 2019 T128

	Fair value based on			Dec. 31, 2019
in € million	Publicly quoted market prices (level 1)	Directly observable market-related prices (level 2)	Individual valuation parameters (level 3)	**Total**
Other investments	120	–	436	556
Loans	–	–	8	8
Securities and similar claims	1,201	–	24	1,225
Receivables from derivatives	–	58	–	58
Liabilities from derivatives	–	–68	–	–68

There were no transfers between the levels of the fair value hierarchy in the reporting period.

Fair value of level 3: Reconciliation from the opening to the closing balances T129

in € million	Other investments	Loans	Securities and similar claims	**Total**
As of January 1, 2019	**41**	**3**	**18**	**62**
Additions/disposals	382	5	2	389
Gains or losses recognized in OCI in the reporting period	13	–	–	13
Gains or losses recognized in profit or loss in the reporting period (other financial income/expense)	–	–	4	4
As of December 31, 2019	**436**	**8**	**24**	**468**
Additions/disposals	10	4	–	14
Gains or losses recognized in OCI in the reporting period	73	–	–	73
Gains or losses recognized in profit or loss in the reporting period (other financial income/expense)	–	–	4	4
As of December 31, 2020	**519**	**12**	**28**	**559**

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, miscellaneous other financial assets, liabilities to banks, and loans from non-banks, 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 miscellaneous 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.

9.4.2 Results of financial instruments

Net result by valuation category 2020 T130

	Net result by valuation category				2020
in € million	Financial assets at amortized cost	Financial liabilities at amortized cost	Financial assets at fair value through OCI without subsequent reclassification	Financial assets and liabilities at fair value through profit or loss	Total
Proceeds from disposals	–3	–	–	–6	–9
Result from currency hedging	–	–	–	24	24
Result from currency translation of monetary assets and liabilities	–45	–	–	–	–45
Impairment losses/reversals of impairment losses	–1	–	–	–	–1
Interest income	4	–	–	16	20
Interest expense	–	–37	–	–14	–51
Result from securities and other investments[a]	–	–	10	–3	7
Total	**–45**	**–37**	**10**	**17**	**–55**

[a] In 2020, dividends of €1 million were received from other investments. They do not contain any dividends received from other investments divested during the fiscal year.

Net result by valuation category 2019 T131

	Net result by valuation category				2019
in € million	Financial assets at amortized cost	Financial liabilities at amortized cost	Financial assets at fair value through OCI without subsequent reclassification	Financial assets and liabilities at fair value through profit or loss	Total
Proceeds from disposals	–3	–	–	–	–3
Result from currency hedging	–	–	–	–4	–4
Result from currency translation of monetary assets and liabilities	–15	–	–	–	–15
Impairment losses/reversals of impairment losses	–6	–	–	–	–6
Interest income	6	–	–	13	19
Interest expense	–	–47	–	–36	–83
Result from securities and other investments[a]	–	–	1	–4	–3
Total	**–18**	**–47**	**1**	**–31**	**–95**

[a] In 2019, dividends of €1 million were received from other investments. They do not contain any dividends received from other investments divested during the fiscal year.

Income from currency hedging does not include income from the currency translation of operating monetary assets or income from derivative financial instruments, for which hedge accounting is applied. As in 2019, net interest expense did not include any interest income on the impaired portion of financial assets or trade accounts receivable.

9.4.3 Hedge accounting

Derivatives used as hedging instruments and the corresponding hedged items form a hedging relationship. Hedge accounting requires, in particular, extensive documentation of the hedging relationship and its effectiveness. The effectiveness of the hedging relationship is determined prospectively. It takes account of the economic relationship between the hedged item and the hedging instrument, and the credit risk. A derivative no longer qualifies for hedge accounting if these conditions are not fulfilled. While hedging instruments with a positive fair value are contained in the balance sheet item financial assets, those with a negative fair value are recognized in other financial liabilities.

The purpose of **cash flow hedges** (CFH) is to minimize the risk of volatility of future cash flows. This risk may result from a recognized asset or liability or a forecast transaction that is considered highly probable. The effective portion of changes in the fair value of a hedging instrument is recognized in other comprehensive income and the ineffective portion of the change in value is recognized in the income statement. The ineffective portion of hedges is recognized in other operating income or expense if the hedges relate to forecast sales in foreign currencies or to forecast purchases of raw materials, in other financial income if they relate to intragroup loans in foreign currencies and planned acquisitions, and in interest expense if they relate to the interest rate risk. Possible ineffectiveness may result from significant changes in the default risk of Evonik or the counterparty to the derivatives transaction, irrespective of the risk category. Amounts recognized in other comprehensive income in the statement of comprehensive income are reclassified to the income statement as soon as the hedged item has an impact on the income statement. In the case of interest rate hedges, such amounts are included in net interest income or expense, while in the case of currency hedges for forecast sales in foreign currencies they are included in sales revenues, and hedges on the procurement of goods are included directly in the cost of sales. If the hedged future transaction comprises a non-financial asset or a non-financial liability, the gain or loss previously recognized in other comprehensive income is included in the cost of acquisition of the asset or liability when it is initially recognized. Hedge accounting must also be halted if the forecast transaction is no longer expected. The amount recognized in other comprehensive income is reclassified to the income statement.

The purpose of a **hedge of a net investment** (NIH) is to reduce the foreign currency risk involved in an investment in a company whose functional currency is not the euro. Such hedges are accounted for in the same way as cash flow hedges. Gains and losses recognized in other comprehensive income are reclassified to the income statement when the foreign subsidiary is divested or the investment in it is reduced.

The purpose of **fair value hedges** (FVH) is to hedge the fair value of assets or liabilities reflected on the balance sheet. Both changes in the fair value of the hedging instrument and changes in the value of the hedged item are recognized in the income statement. In view of this method, changes in the value of the hedged item and the hedge cancel each other out in the income statement.

The effectiveness of the hedging relationships is determined using the dollar offset method, critical term match, the hypothetical derivatives method, and regression analysis.

The principal hedging transactions for which hedge accounting was applied in the reporting period are outlined below:

Forward exchange contracts and currency swaps are used as cash flow hedges to hedge **forecast foreign currency sales** against exchange rate movements. Only part of the forecast foreign currency sales is hedged. The currency component is designated using the spot-to-spot method, while the forward components and the foreign currency basis spreads are managed as hedging costs. The effective portions of these components are recognized in other equity components. A direct hedging relationship is used, and the economic relationship is reviewed by comparing the notional values of the hedging instruments and the hedged items. Ineffectiveness may occur if the notional values of the hedging instruments and the hedged items do not correspond or their maturities differ. A maturity mismatch may be caused by the fact that the hedging instruments expire as of the date of revenue recognition, while the hypothetical derivative that reflects the characteristics of the hedged item and is used to measure effectiveness expires as of the expected date of payment. As in the previous year, the resulting ineffectiveness was not material.

Evonik hedges the **currency risk arising from intragroup foreign currency loans** against the functional currency of the relevant Group company through cross-currency interest rate swaps, forward exchange contracts, and currency swaps recognized as cash flow hedges. In forward exchange transactions and currency swaps, the currency component is designated using the spot-to-spot method, while the forward components and the foreign currency basis spreads are managed as hedging costs.

In cross-currency interest rate swaps, the currency component is designated using the forward-to-forward method, and only the foreign currency basis spreads are managed as hedging costs. The effective portions of these components are recognized in other equity components. A direct hedging relationship is used, and the economic relationship is reviewed by comparing the notional values of the hedging instruments and the hedged items. The maturities of the hedging instrument and hedged item normally correspond. Ineffectiveness may occur if the notional value of the hedging instruments and hedged items do not correspond or their maturities differ.

The following weighted average hedging rates for the major currency pairs are derived from hedging of the currency risk:

Hedging of currency risk T132

	Maturing in 2021	Maturing in 2022
Average EUR/USD exchange rate	1.10	1.21
Average EUR/CNH[a] exchange rate	8.31	8.19
Average EUR/SGD exchange rate	1.58	–

[a] CNH is the technical market designation for renminbi that are tradable and deliverable outside the territory of China.

To hedge the **currency risk of the acquisition** of PeroxyChem, a US dollar currency option transaction was concluded. This was recognized as a cash flow hedge until July 2019. The notional value of this transaction was US$113 million. The intrinsic value of the option was designated. The time value of the option was recognized as hedging expense together with its effective portion in other equity components from hedging instruments. A direct hedging relationship was used, and the economic relationship was reviewed by comparing the notional value of the hedging instruments and the hedged item. Since the notional amounts and maturities of the hedging instruments and the hedged item corresponded, there was no ineffectiveness. The hedge accounting was ended in July 2019, when the FTC filed its lawsuit in the USA. The transfer of the effective designated risk components and the hedging expense from other equity components to the hedged item took place on February 3, 2020 when the transaction was closed (see note 4.2 p. 116 ff.).

Forward exchange contracts and currency swaps are used as **net investment hedges** to hedge subsidiaries in the UK against **foreign currency risks** on a rolling basis. In addition, there is a hedge of a net investment that has ended but will only be reclassified when the hedged company is divested.

To hedge the **risk of changes in interest rates,** Evonik generally uses cash flow hedges and fair value hedges. No cash flow hedges were used to hedge this risk in either 2020 or 2019. In 2020, a fair value hedge was terminated because the financial liability designated as the hedged item was repaid and the hedging instrument was closed out.

Fair value hedges recognized on the balance sheet T133

	Interest rate hedges	
in € million	2019	**2020**
Carrying amount of the hedged items on the balance sheet	648	–
Cumulative fair value hedge adjustment of active hedging relationships	−2	–

The **price risk relating to forecast purchases of raw materials** is hedged using gas and coal commodity swaps recognized as cash flow hedges.

Derivative financial instruments as of December 31, 2020 — T134

in € million	Notional value, total		Carrying amount	
	Total	thereof non-current	Receivables from derivatives	Liabilities from derivatives
Currency risks				
Forward exchange contracts, currency options, and currency swaps	4,092	217	90	19
thereof cash flow hedges	1,831	217	60	4
thereof hedges of a net investment	72	–	–	1
Cross-currency interest rate swaps	421	–	72	–
thereof cash flow hedges	421	–	72	–
Total	**4,513**	**217**	**162**	**19**
Commodity price risks				
Gas derivatives[a]	6	2	–	–
thereof cash flow hedges	6	2	–	–
Coal derivatives[b]	7	–	1	–
thereof cash flow hedges	7	–	1	–
Total	**13**	**2**	**1**	**–**

[a] Hedged volume of gas derivatives 88 million m^3 (of which non-current: 23 million m^3).
[b] Hedged volume of coal derivatives 133 thousand metric tons (of which non-current: none).

Derivative financial instruments as of December 31, 2019 — T135

in € million	Notional value, total		Carrying amount	
	Total	thereof non-current	Receivables from derivatives	Liabilities from derivatives
Currency risks				
Forward exchange contracts, currency options, and currency swaps	5,637	224	24	64
thereof cash flow hedges	2,057	224	12	44
thereof hedges of a net investment	76	–	–	4
Cross-currency interest rate swaps	460	460	32	–
thereof cash flow hedges	460	460	32	–
Total	**6,097**	**684**	**56**	**64**
Interest rate risks				
Interest rate swaps	650	650	2	–
thereof fair value hedges	650	650	2	–
Total	**650**	**650**	**2**	**–**
Commodity price risks				
Gas derivatives[a]	16	7	–	2
thereof cash flow hedges	16	7	–	2
Coal derivatives[b]	18	–	–	2
thereof cash flow hedges	18	–	–	2
Total	**34**	**7**	**–**	**4**

[a] Hedged volume of gas derivatives 195 million m^3 (of which non-current: 89 million m^3).
[b] Hedged volume of coal derivatives 329 thousand metric tons (of which non-current: none).

The costs of hedging result from changes in the forward components that are not designated and from foreign currency basis spreads. There were no material effects from changes in the time value of currency options transactions in the reporting period. There were no hedging costs for hedged items realized over time. In 2020 and 2019, there were no reclassifications due to early termination of the hedging relationship.

Excluding deferred taxes, the other equity components from hedging instruments for designated risk components, and other equity components for the cost of hedging pursuant to IFRS 9 changed as follows:

Development of other equity components (before taxes) from hedging instruments

T136

	Designated risk components			Cost of hedging	
in € million	Currency hedges	Commodity price hedges	Total	Hedged item realized at a point in time	Total
As of January 1, 2019	**–24**	**2**	**–22**	**–17**	**–17**
Gains/losses from effective hedging relationships recognized in OCI (CFH)	–22	–1	–23	–33	–33
Gains/losses from effective hedging relationships recognized in OCI (NIH)	–4	–	–4	–	–
Reclassification to the income statement due to realization of the hedged item (CFH)	44	–2	42	35	35
Reclassification offset against cost of acquisition (CFH)	–	–	–	–	–
Reclassification due to early termination of the hedging relationship (CFH)	–	–2	–2	–	–
As of December 31, 2019	**–6**	**–3**	**–9**	**–15**	**–15**
Gains/losses from effective hedging relationships recognized in OCI (CFH)	94	4	98	–39	–39
Gains/losses from effective hedging relationships recognized in OCI (NIH)	4	–	4	–	–
Reclassification to the income statement due to realization of the hedged item (CFH)	–24	1	–23	45	45
Reclassification offset against cost of acquisition (CFH)	–2	–	–2	–1	–1
Reclassification due to early termination of the hedging relationship (CFH)	–	–	–	–	–
As of December 31, 2020	**66**	**2**	**68**	**–10**	**–10**

Other equity components from active hedging relationships and those that had ended as of December 31, 2020

T137

in € million	Currency hedges	Commodity price hedges
Carrying amount of other equity components from active hedging relationships	58	2
Carrying amount of other equity components from hedging relationships that have ended	–	–
Cash flow hedges	**58**	**2**
Carrying amount of other equity components from active hedging relationships	–4	–
Carrying amount of other equity components from hedging relationships that have ended	3	–
Hedge of a net investment	**–1**	**–**

Other equity components from active hedging relationships and those that had ended as of December 31, 2019

T138

in € million	Currency hedges	Commodity price hedges
Carrying amount of other equity components from active hedging relationships	–16	–3
Carrying amount of other equity components from hedging relationships that have ended	–	–
Cash flow hedges	**–16**	**–3**
Carrying amount of other equity components from active hedging relationships	–8	–
Carrying amount of other equity components from hedging relationships that have ended	3	–
Hedge of a net investment	**–5**	**–**

To present the effectiveness of designated hedging relationships, the following table compares the changes in the fair value of the designated hedged items with the designated hedging instruments. No ineffective portions were recognized in profit or loss for any of the hedging relationships.

Effectiveness of the hedging relationships 2020

T139

in € million	Currency hedges	Commodity price hedges
Change in the value of the hedged item	–135	–5
Changed in the designated value of the hedging instrument	135	5
Cash flow hedges	**–**	**–**
Change in the value of the hedged item	–4	–
Changed in the designated value of the hedging instrument	4	–
Hedge of a net investment	**–**	**–**

Effectiveness of the hedging relationships 2019

T140

in € million	Currency hedges	Commodity price hedges
Change in the value of the hedged item	31	–3
Changed in the designated value of the hedging instrument	–31	3
Cash flow hedges	**–**	**–**
Change in the value of the hedged item	4	–
Changed in the designated value of the hedging instrument	–4	–
Hedge of a net investment	**–**	**–**

9.4.4 Notes on financial risk management

As an international company, Evonik is exposed to financial risks in the normal course of business. A major objective of corporate policy is to minimize the impact of market, liquidity, and default risks on both the value of the company and profitability in order to check adverse fluctuations in cash flows and earnings without forgoing the opportunity to benefit from positive market trends. For this purpose, a systematic financial and risk management system has been established. Interest rate and exchange rate risks are managed centrally by the Finance division of Evonik Industries AG, while commodity risks are managed by the segments in accordance with established corporate policies.

The financial derivatives contracts used by Evonik are entered into exclusively in connection with a corresponding underlying transaction (hedged item) relating to normal operating business, which provides a risk profile directly opposite to that of the hedge. The instruments used are customary products found on the market. For the management of interest rates and exchange rates, they comprise currency swaps, forward exchange contracts, currency options, cross-currency interest rate swaps, and interest rate swaps. Commodity swaps are used to hedge the risk of fluctuations in the price of coal, natural gas, and electricity. The procurement of emission allowances to meet obligations pursuant to section 6 of the German Greenhouse Gas Emissions Trading Act (TEHG) can be optimized using emission allowance and emission reduction transactions based on swaps and futures.

Overview of financial risks T141

Risk	Exposure arising from	Measurement	Management
Market risk—foreign exchange	Off-balance-sheet transactions (firmly agreed or forecast) Recognized financial assets and liabilities denominated in currencies other than the company's functional currency	Cash flow forecasting Sensitivity analyses	Forward exchange contracts, currency options, currency swaps, cross-currency interest rate swaps
Market risk—risk of changes in variable interest rates	Non-current loans/bonds with variable interest rates	Sensitivity analyses	Interest rate swaps
Market risk—risk of changes in fixed interest rates	Non-current loans/bonds with fixed interest rates	Sensitivity analyses	Interest rate swaps
Market risk—impairment risk	Investments in equity instruments	Sensitivity analyses	Observation and portfolio decisions
Market risk—commodity risk	Purchase and sale of raw materials	Sensitivity analyses	Price escalation clauses, swaps
Liquidity risk	Unplanned liquidity requirements	Rolling cash flow forecasts	Cash and cash equivalents, availability of committed credit lines
Default risk	Cash and cash equivalents, trade accounts receivable, derivative financial instruments, debt instruments, and contract assets	Analysis of residual maturity/Credit scoring/ratings	Diversification of bank deposits, credit lines, and letters of credit Investment guidelines for debt instruments

9.4.4.1 Market risk

Exchange rate risks relate to both the sourcing of raw materials and the sale of end-products in currencies other than the functional currency of the company concerned. One aim of currency risk management is to protect the company's operating business from fluctuations in earnings and cash flows resulting from changes in exchange rates. The opposite effects arising from procurement and sales activities are taken into account. Another objective of currency risk management is to eliminate the currency risk relating to financing transactions that are not denominated in the functional currency of the respective Group companies.

In the **management of currency risks,** Evonik distinguishes between risk positions recognized on the balance sheet and off-balance-sheet (i.e., firmly agreed or forecast) exposures. For currency hedging of current risk positions on the balance sheet, Evonik uses a portfolio approach where the hedged items and hedging instruments are accounted for separately. By contrast, micro-hedging is applied for non-current loans and exposures arising from firmly agreed or forecast transactions. The hedging instrument and related hedged item are then designated in a formal hedge relationship (cash flow hedge accounting or net investment hedge accounting). This synchronizes the earnings impact of the hedging instruments with hedged items that can only be recognized on the balance sheet at a later date. In the case of hedges on loans, it allows the distribution of the cost of hedging on a straight-line basis over the term of hedging relationship. In individual cases, there may be a shift in the timing of the hedged item in forecast transactions. In this case, the hedging strategy is maintained unchanged, the amount exposed to the risk is updated, and the hedging transactions are adjusted.

In the **portfolio approach,** the net risk position in each foreign currency is determined for each company in the Evonik Group and then hedged via intragroup investment or borrowing via the cash pool. The net risk positions on cash pool balances at Group level are hedged on the market on a currency-by-currency basis using external derivatives. Gross income and expenses from currency translation of operating monetary assets and liabilities are netted; so are gross income and expenses from the corresponding operational currency hedging. The net result from the translation of operating monetary assets and liabilities and the net result of operational currency hedging calculated in this way are recognized in other operating income or other operating expense as appropriate. Gross income and expenses from the currency translation of financing-related risk positions and financing-related currency hedging are netted analogously. The resulting net results for currency translation and currency hedging are recognized in other financial income/expense. The net presentation of the results reflects both the management of risk positions in the Evonik Group and the economic substance.

Due to the application of hedge accounting 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 the hedging of planned or firmly agreed foreign currency cash flows (for example, hedging of forecast sales revenues), their hedge results are only reflected in profit or loss in any ineffective portions that are excluded from the hedge accounting relationship. By contrast, the effective results of micro-hedges reflected in cash flow hedge accounting and the cost of hedging (forward components, time value of options, and foreign currency basis spreads) are recognized in other equity components until the hedged transaction is realized. Subsequently, they are transferred to sales if they were used as a sales hedge, to inventories or the cost of sales if they were used to hedge cost risks relating to procurement, or to the initial carrying balance of property, plant and equipment if the purpose was to hedge the foreign currency risk relating to the procurement of assets of this type. In the case of currency hedges for loans for which cash flow hedge accounting is applied, the effective portion of the hedge is transferred from other equity components to offset the net result of currency translation of monetary assets and liabilities triggered by the hedged item (see also note 6.9 (Other equity components p. 141 ff.)). In addition, the currency risks relating to net investments in foreign operations are hedged and included in hedge account as hedges of a net investment.

The aim of **interest rate management** is to protect net income from the negative effects of fluctuations in market interest rates and the resulting changes in fair values or cash flows. Interest rate risk is generally managed using derivative and non-derivative financial instruments. The aim is to achieve an appropriate ratio of fixed rates (with interest rates fixed for more than one year) and variable rates (terms of less than one year), taking costs and risks into account. At year-end 2020, as in the previous year, 98 percent of financial instruments recognized in other financial liabilities were fixed-interest instruments. The bonds and money market paper recognized in securities and similar claims entail interest rate risks. These are minimized by a short investment horizon. The average interest rate duration is one year.

Several scenario analyses were carried out to **measure exchange rate and interest rate risk** as of December 31, 2020.

The most important currencies for Evonik are the US dollar (USD) and the Chinese renminbi yuan (CNY/CNH). CNH is the technical market designation for renminbi that are tradable and deliverable outside the territory of China. A sensitivity analysis was performed for these currencies as of December 31, 2020 by modeling a change of 5 percent and 10 percent in the exchange rate relative to all other currencies to simulate the possible loss of value of derivative and non-derivative financial instruments in the event of the appreciation or depreciation of these currencies. The percentage standard deviation of changes in exchange rates versus the euro in 2020 was 7.8 percent for the USD (2019: 4.8 percent), and 7.3 percent for the CNY/CNH (2019: 5.5 percent).

USD sensitivity analysis T142

	Dec. 31, 2019		Dec. 31, 2020	
in € million	Impact on income	Impact on equity	Impact on income	Impact on equity
+5%	10	−41	9	41
−5%	−10	41	−9	−41
+10%	20	−83	18	81
−10%	−20	83	−18	−81

CNY/CNH sensitivity analysis T143

	Dec. 31, 2019		Dec. 31, 2020	
in € million	Impact on income	Impact on equity	Impact on income	Impact on equity
+5%	–	−11	4	11
−5%	–	11	−4	−11
+10%	−1	−21	8	23
−10%	1	21	−8	−23

Several scenario analyses were carried out to measure interest rate risk as of December 31, 2020. These analyzed shifts of 50, 100, and 150 basis points in EUR interest rates due to changes in EUR interest rates to simulate the possible impact on earnings and equity of a loss of value of derivative and non-derivative financial instruments.

EUR interest rate sensitivity analysis T144

	Dec. 31, 2019		Dec. 31, 2020	
in € million	Impact on income	Impact on equity	Impact on income	Impact on equity
+50 basis points	−6	–	−1	–
−50 basis points	6	–	1	–
+100 basis points	−12	−1	−3	–
−100 basis points	12	1	3	–
+150 basis points	−18	−1	−4	–
−150 basis points	18	1	4	–

Impairment risks relating to exchange-listed equity instruments result from company-specific data of individual funds and listed companies and from the general risk of possible negative developments on the equity market. For unlisted equity instruments, the risk results from company-specific aspects and the general economic situation. The risk is measured using sensitivity analysis, and risk management comprises constant observation and the related portfolio decisions.

Commodity risks result from changes in the market prices for the purchase and sale of raw materials. Raw materials were purchased principally to meet in-house demand. Other factors of importance for Evonik's risk position are the availability and price of relevant raw materials, starting products, and intermediates. In particular, raw material prices of significance to the Evonik Group are dependent on exchange rates and the price of crude oil. Commodity management, which is the responsibility of the segments, involves identifying procurement risks and defining effective measures to minimize them. For example, price escalation clauses and swaps are used to reduce price volatility. Pricing and procurement risks are reduced through worldwide procurement and optimized processes to ensure immediate sourcing of additional raw material requirements. Further, the use of alternative raw materials is examined for various production processes and Evonik is working on the development of alternative production technologies.

Financial derivatives were also used on a small scale to hedge procurement price risks. If the price of natural gas had been 10 percent higher or lower, the impact of the fluctuation in the value of the commodity derivatives on other equity components from hedging components would have been +€1 million or −€1 million at year-end 2020, as in 2019. As in the previous year, the impact on income was immaterial.

9.4.4.2 Liquidity risk

Liquidity risk is managed through business planning to ensure that the funds required to finance the current operating business and current and future investments at all companies in the Evonik Group are available at the right time and in the right currency at optimum cost. Liquidity requirements for business operations, investments, and other financial activities are derived from a financing status and liquidity planning, which form part of liquidity risk management. Liquidity is pooled in a central cash management pool where this makes economic sense and is legally permissible. Central liquidity risk management facilitates low-cost borrowing and advantageous offsetting of financial requirements.

As of December 31, 2020, Evonik had cash and cash equivalents amounting to €563 million and current securities totaling €466 million. In addition, Evonik has a €1.75 billion revolving credit facility as a central source of liquidity. This credit line was agreed in June 2017 and runs until June 2024. It was not utilized in 2020 and does not contain any covenants requiring Evonik to meet specific financial ratios. There are also diverse other credit lines. As of December 31, 2020, €614 million of the total amount of these had not been drawn.

The table shows the remaining maturity of the non-derivative financial instruments based on the agreed dates for interest and redemption payments.

Payments for non-derivative financial instruments by residual maturity as of December 31, 2020 T145

in € million	Up to 1 year	More than 1 and up to 3 years	More than 3 and up to 5 years	More than 5 years	Total
Trade accounts payable	**1,273**	**–**	**–**	**–**	**1,273**
Bonds	40	1,295	1,267	511	3,113
Commercial paper	45	–	–	–	45
Liabilities to banks	119	20	3	–	142
Loans from non-banks	12	–	–	–	12
Lease liabilities	136	188	130	302	756
Miscellaneous other financial liabilities	70	25	–	–	95
Other financial liabilities	**422**	**1,528**	**1,400**	**813**	**4,163**

Payments for non-derivative financial instruments by residual maturity as of December 31, 2019 T146

in € million	Up to 1 year	More than 1 and up to 3 years	More than 3 and up to 5 years	More than 5 years	Total
Trade accounts payable	**1,324**	**–**	**–**	**–**	**1,324**
Bonds	516	1,199	1,521	515	3,751
Commercial paper	–	–	–	–	–
Liabilities to banks	124	19	6	1	150
Loans from non-banks	18	–	–	–	18
Lease liabilities	124	179	124	390	817
Miscellaneous other financial liabilities	53	12	–	–	65
Other financial liabilities	**835**	**1,409**	**1,651**	**906**	**4,801**

A disclosure on the maturity of existing financial guarantees can be found in the section on risk of default below p. 179 ff. The Evonik Group met all payment terms agreed for its financial liabilities.

The breakdown of the sum of interest and redemption payments by maturity in the following table relates to derivative financial instruments with positive and negative fair values. The table shows the net value of cash inflows and outflows. Since netting was not agreed for forward exchange contracts, currency swaps, interest rate swaps, or cross-currency interest rate swaps, they are presented as gross amounts:

Payments relating to derivative financial instruments by remaining maturity as of December 31, 2020 T147

in € million	Up to 1 year	More than 1 and up to 3 years	More than 3 years	Total
Cross-currency interest rate swaps	70	–	–	70
thereof cash inflows	498	–	–	498
thereof cash outflows	−428	–	–	−428
Forward exchange contracts, currency options, and currency swaps	78	2	–	80
thereof cash inflows	2,427	209	–	2,636
thereof cash outflows	−2,349	−207	–	−2,556
Commodity derivatives	1	–	–	1
Receivables from derivatives	**149**	**2**	**–**	**151**
Forward exchange contracts, currency options, and currency swaps	−18	–	–	−18
thereof cash inflows	1,420	8	–	1,428
thereof cash outflows	−1,438	−8	–	−1,446
Liabilities from derivatives	**−18**	**–**	**–**	**−18**

Payments relating to derivative financial instruments by remaining maturity as of December 31, 2019 T148

in € million	Up to 1 year	More than 1 and up to 3 years	More than 3 years	Total
Cash inflows interest rate swaps	2	–	–	2
Cross-currency interest rate swaps	−12	32	–	20
thereof cash inflows	3	499	–	502
thereof cash outflows	−15	−467	–	−482
Forward exchange contracts, currency options, and currency swaps	16	−3	–	13
thereof cash inflows	1,898	195	–	2,093
thereof cash outflows	−1,882	−198	–	−2,080
Receivables from derivatives	**6**	**29**	**–**	**35**
Forward exchange contracts, currency options, and currency swaps	−71	−1	–	−72
thereof cash inflows	3,417	28	–	3,445
thereof cash outflows	−3,488	−29	–	−3,517
Commodity derivatives	−3	−1	–	−4
Liabilities from derivatives	**−74**	**−2**	**–**	**−76**

In 2019, receivables from cross-currency interest rate swaps comprised transactions with negative net cash flows resulting from positive inflows in euros and negative outflows in foreign currencies. In the maturity bracket up to one year, the foreign currency outflows translated into euros exceeded the actual euro inflows. As a result of the translation and discounting of the higher notional value of the swap in later maturity brackets, the fair value of the cross-currency interest swaps was positive overall.

9.4.4.3 Default risk

The default risk (= credit risk) is managed at Group level. Three categories are defined for credit risk management, each of which is treated separately on the basis of its specific features. The categories are financial counterparties (generally banks but also other financial institutions and industrial counterparties, insofar as derivatives transactions are concluded with them), other counterparties (mainly debtors and creditors), and countries. Credit risks are defined generally as a potential threat to earnings power and/or corporate value resulting from a deterioration of the respective contractual counterparty. More precisely, it means defaulting on payments as a result of financial difficulties/insolvency by the counterparty. On principle, Evonik does not hold any purchased or originated credit-impaired financial assets. To monitor any risk concentrations, the individual risk limits are set for business partners on the basis of internal and external ratings.

The credit risk of **financial counterparties** also includes additional earnings and value effects, which may be either direct (for example, a security held by a counterparty loses value as a result of a rating downgrade) or indirect due to a deterioration in the credit rating (for example, reduction in the probability that a counterparty will be able to fulfill a future obligation to Evonik—for example, from a guarantee bond or a loan commitment—in the manner originally agreed). In addition, a specific limit is set for financial counterparties for each type of risk (money market, capital market, and derivatives). Maximum limits for each contracting party are set on the basis of the creditworthiness analyses. These are predominantly based on ratings and our own internal credit analysis. In addition, the development of the price of CDS (credit default swaps) and equity prices (where available) is analyzed. Country limits are set for the money and capital markets to ensure diversification of country risks.

In the case of **debtors, creditors, and other counterparties,** credit risk management also covers possible damage from orders that have been placed but not yet fulfilled and further potential damage to Evonik resulting from non-performance of a counterparty's supply, service, or other obligation. An internal limit system is used for risk assessment and monitoring. Political risk (country risk) is also taken into account for export orders so that the overall risk assessment takes account of both political and economic risk factors. Based on this analysis, a maximum default risk is set for the contracting party. The credit standing of contracting parties is updated constantly via ratings or scoring processes. The internal credit scoring model used for this comprises six risk categories (1 = high creditworthiness; 6 = low creditworthiness).

Scoring model for credit default risk T149

Risk category	Attributes
1 = high creditworthiness	• Very good payment profile in the past year • Long-term business relationships • Countries with good to very good economic and political risk assessments
2 = good creditworthiness	• Good payment profile in the past year • Business relationships over several months • Countries with good economic and political risk assessments
3 = medium creditworthiness	• Payments are made regularly • Relatively new business relationships • Countries with weaker economic and political prospects
4–6 = low creditworthiness	• Payments are sometimes unpunctual • Countries with economic and political risks

Evonik applies the **IFRS 9 impairment model for expected credit losses** as follows: For financial assets that are subject to the impairment rules of IFRS, loss allowances are recognized for expected credit losses. At Evonik, these include loans carried at amortized cost, miscellaneous other financial assets, which are subject to the general impairment approach, and trade accounts receivable (with and without financing components), receivables from finance leases, and contract assets (with and without financing components), for which the simplified approach using an impairment matrix is applied.

As a matter of principle, Evonik only places investments with financial counterparties with an investment grade rating. A low default risk **(level 1 of the general approach)** is assumed for financial counterparties that have an investment grade rating (at least Baa3 from Moody's or BBB- from Standard & Poor's or Fitch). Other instruments are considered to have a low risk of default if the risk of non-performance is low and the issuer is able to meet its contractual payment obligations at all times. The 12-month expected credit loss is calculated on the basis of the probability of default for each CDS as of the reporting date and a group-wide LGD (loss given default) of 40 percent is assumed. Forward-looking information is implicitly included in the CDS. The exposure at default (EAD) is the nominal value. A review of whether there has been a significant increase in the default risk since the last assessment **(level 2 of the general approach)** must be made at least quarterly. Transfer to level 2 takes place if payment is 30 days overdue. Unless there were indicators of an impairment of creditworthiness at an earlier period

(level 3 of the general approach), impairment is generally assumed when payments are more than 90 days overdue. Financial assets that are significantly overdue, possibly by more than 90 days as a result of the customer structure, or where insolvency or similar proceedings have been initiated against the debtor, are tested individually for impairment.

The **impairment matrix used in the simplified approach** is based on the lifetime expected credit losses. It takes account of all components of receivables that are exposed to a risk, except where they are subject to an individual loss allowance. The matrix has a two-step structure. Components of receivables that are not exposed to credit losses (especially any value-added tax or sales tax and receivables covered by credit insurance) are disregarded when calculating the loss allowance. In the first step (ECL1), for all receivables deemed to be at risk, the expected credit loss is determined for all customers on the basis of the customer risk category. In a second step, for all customer in risk categories 4–6, an additional loss allowance is calculated on the basis of a past-due analysis (ECL2). The expected loss ratios are based on the payment profiles for sales in the past five years and the corresponding defaults in the same period. The historical loss ratios are adjusted to reflect current and future-oriented information on macroeconomic factors that affect the ability of customers to settle receivables. The determination of loss allowances for receivables from finance leases and contract assets is analogous to the procedure for trade accounts receivable, based on common risk characteristics and number of days overdue, because they essentially have the same risk characteristics and expected loss ratios as trade accounts receivable. Therefore, the expected loss ratios for trade accounts receivable represent an appropriate approximation for contract assets and receivables from finance leases.

In principle, cash and cash equivalents are also subject to the impairment provisions of IFRS 9. However, since they are due daily, impairment losses are normally immaterial.

As of December 31, 2020, the **general approach** was applied for loans amounting to €37 million (2019: €39 million) and miscellaneous other financial assets of €28 million (2019: €14 million), which are measured at amortized cost. Of these, loans amounting to €37 million and miscellaneous other financial assets totaling €3 million have an investment grade rating. Miscellaneous other financial assets totaling €25 million do not have an external rating. Analogously to the previous year, all loans and other financial assets have a low absolute default risk, so they were allocated to level 1, for which only the 12-month expected credit loss is calculated. No significant increase in the credit risk was identified in fiscal 2020. As of December 31, 2020, the allocation to level 1 was therefore unchanged for both loans and miscellaneous other financial assets. Calculation of the 12-month expected credit loss did not result in a material impairment either, so we do not present a table showing the change in loss allowances. Even taking into account the (expected) impact of the coronavirus pandemic, there were no significant changes in the estimation methods or assumptions in the reporting period. There were no overdue items.

As of December 31, 2020, the **simplified approach** was applied for trade accounts receivable of €1,455 million (2019: €1,569 million), receivables from finance leases of €3 million (2019: €3 million), and contract assets of €20 million (2018: €18 million). In this approach too, the (expected) impact of the coronavirus pandemic did not result in any significant changes in the estimation methods or assumptions. The loss allowances for receivables from finance leases and contract assets calculated on this basis and the change in these loss allowances are not material.

Loss allowances for financial assets—simplified approach (loss allowance matrix) T150

in € million	Trade accounts receivable
As of January 1, 2019	**7**
Change	2
As of December 31, 2019	**9**
Change	–3
As of December 31, 2020	**6**

Credit loss matrix for trade accounts receivable as of December 31, 2020

T151

	Low default risk			High default risk	
in € million	Risk category 1	Risk category 2	Risk category 3	Risk category 4–6	**Total**
Credit default rate in %	–	–	–	2.0	2,0
Gross carrying amount	56	323	363	306	1,048
Expected credit losses (risk provisioning)	–	–	–	6	6
thereof based on credit risk attributes	–	–	–	2	2
thereof based on 1–180 days past due	–	–	–	–	–
thereof based on 181–270 days past due	–	–	–	–	–
thereof based on 271–365 days past due	–	–	–	1	1
thereof based on >365 days past due	–	–	–	3	3

For receivables in categories 1–3, the lifetime expected credit losses based on credit risk criteria were less than €0.3 million. Therefore, they are not shown separately in the table.

Credit loss matrix for trade accounts receivable as of December 31, 2019

T152

	Low default risk			High default risk	
in € million	Risk category 1	Risk category 2	Risk category 3	Risk category 4–6	**Total**
Credit default rate in %	–	–	–	2.0	2.0
Gross carrying amount	59	343	474	375	1,251
Expected credit losses (risk provisioning)	–	–	–	9	9
thereof based on credit risk attributes	–	–	–	2	2
thereof based on 1–180 days past due	–	–	–	1	1
thereof based on 181–270 days past due	–	–	–	–	–
thereof based on 271–365 days past due	–	–	–	–	–
thereof based on >365 days past due	–	–	–	6	6

For receivables in categories 1–3, the lifetime expected credit losses based on credit risk criteria were less than €0.4 million. Therefore, they are not shown separately in the table.

Loss allowances for financial assets that have to be tested individually for impairment T153

in € million	Trade accounts receivable
As of January 1, 2019	**24**
Changes in the scope of consolidation	–3
Additions	7
Utilization	–9
Reversal	–4
As of December 31, 2019	**15**
Changes in the scope of consolidation	–
Additions	5
Utilization	–13
Reversal	–1
As of December 31, 2020	**6**

In the reporting period, no write-downs were made on financial assets where the amount was still outstanding under contract law and the receivables were still subject to enforcement proceedings. Receivables are only derecognized when, based on an appropriate assessment, realization is no longer expected. This is the case, in particular, when insolvency proceedings in respect of the debt have been completed.

At year-end, trade accounts receivable totaling €252 million (2019: €415 million) were covered by credit insurance (after factoring out the deductible). The maximum default risk was €1,203 million (2019: €1,154 million).

As of December 31, 2020, there was no collateral for any further financial assets subject to the scope of the impairment model. Their maximum default rate is therefore their carrying amount. As in the previous year, no terms were renegotiated for non-current loans or trade accounts receivable not yet due.

All further financial assets that are not subject to the IFRS 9 impairment model are carried at fair value through profit or loss. The default risk of these instruments is therefore their carrying amount. There is no default risk relating to the other investments because they are equity instruments.

Owing to the diversity of business and the large number of customers and financial counterparties, there were no significant cluster risks.

The **default risk on financial derivatives** is equivalent to their positive fair value. This risk is minimized by setting high standards for the creditworthiness of counterparties. Only common instruments found on the market with sufficient liquidity are used. Consequently, no material risk of default is expected in this field. Evonik concludes master netting arrangements and similar agreements for financial derivatives on a limited scale. These mainly come into effect in the event of the insolvency of a counterparty. The resulting net positions of receivables and liabilities from derivatives are presented in the following tables:

Offsetting rights for financial assets and liabilities as of December 31, 2020 T154

	Amounts set off			Amounts not set off		
in € million	Gross amount	Netting	**Net amount recognized**	Affected by enforceable master netting arrangements	Amounts related to financial collateral	**Potential net amount**
Receivables from derivatives	161	–	161	13	–	148
Liabilities from derivatives	18	–	18	13	–	5

Offsetting rights for financial assets and liabilities as of December 31, 2019 T155

	Amounts set off			Amounts not set off		
in € million	Gross amount	Netting	**Net amount recognized**	Affected by enforceable master netting arrangements	Amounts related to financial collateral	**Potential net amount**
Receivables from derivatives	57	–	57	22	–	35
Liabilities from derivatives	64	–	64	22	–	42

Further, there is a default risk relating to the granting of financial guarantees. As of the reporting date, guarantees with a total nominal value of €32 million (2019: €35 million) had been granted to a joint venture. This amount is also the maximum default risk; see note 9.6 p. 185. In principle, these guarantees can be called in full at any time during their residual term (2022 or 2031), as soon as the contractual conditions are met. At present, there is no indication that these financial guarantees will result in a loss.

9.5 Related parties

In addition to the subsidiaries included in the consolidated financial statements, the Evonik Group maintains relationships with related parties.

Related parties comprise RAG-Stiftung, Essen (Germany), as a shareholder of Evonik Industries AG, due to its controlling influence, fellow subsidiaries of Evonik owned by RAG-Stiftung, and associates and joint ventures of Evonik which are recognized at equity.

At the virtual annual shareholders' meeting, which was postponed to August 31, 2020 due to the coronavirus pandemic, the shareholders resolved that, taking into account an advance payment of €0.57 per share made in the second quarter, a dividend of €0.58 per share should be paid out of the distributable profit for 2019 (total €1.15 per share). RAG-Stiftung, Essen (Germany) received €315 million (2019: €344 million). In 2020, Evonik received dividends of €16 million (2019: €14 million) from associates and joint ventures.

The contingent liability shown in the joint ventures column as of December 31, 2020 comprises €31 million resulting from a guarantee granted to secure a loan for the joint venture Saudi Acrylic Polymers Company, Ltd., Jubail (Saudi Arabia). In addition, one guarantee totaling €1 million was provided as collateral for a facility for hedging transactions at the joint venture LiteCon GmbH, Hönigsberg/Mürzzuschlag (Austria).

Business relations with related parties T156

in € million	RAG-Stiftung 2019	RAG-Stiftung 2020	Fellow subsidiaries 2019	Fellow subsidiaries 2020	Joint ventures 2019	Joint ventures 2020	Associates 2019	Associates 2020
Goods and services supplied	1	1	2	1	28	16	3	6
Goods and services received	–	–	–5	–2	–	–	–1	–1
Other income	–	–	–	–	6	9	8	7
Receivables as of December 31	–	–	–	–	2	2	–	1
Liabilities as of December 31	–	–	–1	–	–38	–10	–	–
Contingent liabilities as of December 31	–	–	–	–	–35	–32	–	–

The Federal Republic of Germany and the federal states of North Rhine-Westphalia and Saarland are also classified as **related partie**s as they are able to exercise a significant influence on RAG-Stiftung through their membership of the board of trustees of RAG-Stiftung.

Transactions effected between Evonik and these federal and state governments and their subsidiaries or joint ventures in the reporting period comprised generally available government grants and subsidies, and investments in their securities. Further, customary business relationships were maintained with the Deutsche Bahn Group, the Deutsche Telekom Group, and the Duisport Group.

Individuals defined as related parties include members of the management who are directly or indirectly responsible for corporate planning, management, and oversight, and members of their families. At Evonik, these parties comprise members of the executive board and supervisory board of Evonik Industries AG, members of the executive board and board of trustees of RAG-Stiftung, and other management members who hold key positions in the Evonik Group. The new corporate structure introduced on July 1, 2020, and the accompanying optimization of administrative structures has reduced the number of other management members who hold key positions.

Short-term remuneration comprises both amounts not related to performance and short-term performance-related payments. As of December 31, 2020, there were provisions of €2,408 thousand (2019: €3,015 thousand) for short-term performance-related remuneration of members of the executive board, and €1,910 thousand (2019: €7,872 thousand) for other management members.

At year-end 2020, provisions for share-based payments amounted to €4,071 thousand (2019: €3,725 thousand) for members and former members of the executive board, and €921 thousand (2019: €4,043 thousand) for other management members. The share-based payments are expenses incurred in 2020 for LTI tranches from 2016 to 2020.

The present value of pension obligations (defined benefit obligations) was €29,820 thousand (2019: €23,998 thousand) for the executive board and €12,155 thousand (2019: €38,884 thousand) for other members of the management.

Further, the employee representatives elected to the supervisory board of Evonik Industries AG continued to receive the regular salary agreed in their employment contract. The level of their salary provided appropriate remuneration for the exercise of their functions and tasks in the company.

Remuneration paid to related parties T157

	Executive Board of Evonik Industries AG		Supervisory Board of Evonik Industries AG		Other management members		Total	
in €'000	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
Short-term remuneration	8,361	7,328	3,383	3,380	13,683	6,898	25,427	17,606
Share-based payment	2,044	346	–	–	1,653	−516	3,697	−170
Current service cost for pensions and other post-employment benefits	2,540	2,849	–	–	1,612	1,142	4,152	3,991
Termination benefits	–	–	–	–	–	5,516	–	5,516

Apart from the relationships stated above, Evonik did not have any other significant business relationships with related parties.

9.6 Contingent liabilities, contingent receivables, and other financial commitments

Contingent liabilities, except for those recognized in connection with a business combination, are possible or present obligations arising from past events where an outflow of resources is not improbable, but which are not recognized on the balance sheet.

Contingent liabilities mainly comprise guarantee and warranty obligations totaling €48 million (2019: €58 million). They include guarantees of €32 million in favor of joint ventures, see note 9.5 p. 183 ff., and indemnity obligations of €7.3 million in connection with divestments.

Through its corporate venture capital activities, the Evonik Group also invests indirectly in specialized technology funds. Evonik holds between 0.82 percent and 25 percent of the respective (sub-)fund assets and recognizes them in financial assets as securities and similar claims with a total carrying amount of €26 million (2019: €21 million). As a result of contractual agreements, there are obligations to make payments into the fund assets of a maximum of €18 million (2019: €17 million) at the request of the fund management companies. The maximum default risk arising from these investments is the sum of the carrying amounts on the balance sheet and the outstanding payment obligations. There is no intention of providing further financial or other support.

There were no **contingent receivables** as of December 31, 2020.

Other financial commitments result from non-onerous executory contracts, continuous obligations, statutory requirements, and other commercial obligations that are not already included in the liabilities shown on the balance sheet or in contingent liabilities.

The **other financial commitments** are order commitments for the purchase of intangible assets, property, plant and equipment. As of the reporting date, the Evonik Group had no commitments (2019: €1 million) to purchase intangible assets and commitments of €288 million (2019: €314 million) to purchase property, plant and equipment.

9.7 Events after the reporting date

No material events have occurred since the reporting date.

10. Disclosures in compliance with German legislation

10.1 Information on shareholdings pursuant to section 313 paragraph 2 of the German Commercial Code (HGB)

The overview of all companies included in the consolidated financial statements and full details of the shareholdings in accordance with section 313 paragraph 2 of the German Commercial Code (HGB), along with details of the subsidiaries that are exempt from the obligation to prepare and publish financial statements, forms part of the audited consolidated financial statements submitted to the electronic Federal Gazette (Bundesanzeiger). The complete list of shareholdings is also available on the internet.[1]

Evonik holds more than 5 percent of the voting rights in the following stock corporations:

Disclosure pursuant to section 313 paragraph 2 nos. 4 and 5 of the German Commercial Code (HGB) T158

	Shareholding in %		Income after taxes		Equity	
in € million	2019	2020	2019	2020	2019	2020
Borussia Dortmund GmbH & Co. KGaA	14.78	9.83	26.2	–49.4	390	334
Vivawest GmbH[a]	15.00	15.00	165.6	100.3	1,822	1,732

[a] Based their nature as plan assets, shares amounting to 7.5 percent of this shareholding (2019: 7.5 percent) are measured at fair value in accordance with IAS 19.

10.2 Personnel expense and number of employees pursuant to section 314 paragraph 1 no. 4 of the German Commercial Code (HGB)

The disclosures pursuant to section 314 paragraph 1 no. 4 of the German Commercial Code (HGB) contain the methacrylates business in 2019 until closure of the divestment.

Personnel expense T159

in € million	2019	2020
Wages and salaries	2,633	2,460
Social security contributions	416	388
Pension expenses	213	233
Other personnel expense	86	87
Total	**3,348**	**3,168**

Wages and salaries also include expenses related to restructuring. The net interest expense for pension provisions is shown in the financial result; see note 5.5 p. 128 f.

Headcount (annual average) T160

No. of employees	2019	2020
Specialty Additives	3,655	3,640
Nutrition & Care	5,395	5,281
Smart Materials	7,232	7,609
Performance Materials	3,075	1,647
Services	14,811	14,256
Corporate, other operations	307	308
Total	**34,475**	**32,741**

The companies included in the consolidated financial statements on a pro rata basis do not have any employees.

[1] www.evonik.com/list-of-shareholdings

10.3 Remuneration of the executive board and supervisory board pursuant to section 314 paragraph 1 no. 6 of the German Commercial Code (HGB)

Remuneration paid to the members of the **executive board of Evonik Industries AG** for their work in 2020 amounted to €11,001 thousand (2019: €12,387 thousand). The figure for 2020 includes bonus payments of €40 thousand for the previous year, for which no provision was established in 2019. Further details, including an individual breakdown of remuneration, can be found in the remuneration report in the combined management report.

Total remuneration of **former members of the executive board and their surviving dependents** was €2,848 thousand in 2020 (2019: €2,849 thousand). As of the balance sheet date, the present value of pension obligations (defined benefit obligations) for former members of the executive board and their surviving dependents amounted to €90,170 thousand (2019: €86,502 thousand).

The remuneration of the **supervisory board** for 2020 totaled €3,380 thousand (2019: €3,383 thousand).

10.4 Declaration on the German Corporate Governance Code

In December 2020, the executive board and supervisory board of Evonik Industries AG submitted the declaration required by section 161 of the German Stock Corporation Act (AktG) and made it permanently available to the public on the company's website **www.evonik.com/declaration-on-corporate-governance.**

10.5 Auditor's fees pursuant to section 314 paragraph 1 no. 9 of the German Commercial Code (HGB)

The auditor for the consolidated financial statements of the Evonik Group was Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Frankfurt (Germany), Düsseldorf branch.

The fees charged by the PwC group for auditing financial statements mainly comprised expenses for the statutory audit of the separate and consolidated financial statements of Evonik Industries AG and its German and foreign subsidiaries, the closely related audit of information systems and processes, and audit-related support in connection with the change in the structure of the Evonik Group. The fees recognized for other audit services mainly relate to services in connection with reviews of interim financial statements, sustainability reporting, the transformation of the ERP system, and other regulatory and statutory requirements. The other services were principally consultancy services in connection with regulatory and statutory requirements, strategic considerations relating to the ongoing development of data management, the application of accounting policies, and other business-related matters.

Auditor's fees T161

	Germany		Other countries		Total fees	
in € million	2019	**2020**	2019	**2020**	2019	**2020**
Auditing of financial statements	4.2	4.2	4.0	3.8	8.2	8.0
Other audit-related services	1.2	1.0	0.2	0.5	1.4	1.5
Tax consultation services	–	–	–	–	–	–
Other services	1.4	0.3	0.1	–	1.5	0.3
Total	**6.8**	**5.5**	**4.3**	**4.3**	**11.1**	**9.8**

In 2019, the fee for for the auditing of financial statements contained €1 million for the review of interim financial statements in Germany and abroad. Following clarification by the German auditor oversight organization APAS, with effect from 2020, these fees are allocated to other audit-related services.

Essen, February 19, 2021

Evonik Industries AG
The Executive Board

Kullmann Dr. Schwager

Wessel Wolf

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Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Evonik Group in accordance with German accepted accounting principles and the management report for the Group, which is combined with the management report for Evonik Industries AG, includes a fair review of the development and performance of the business and the position of the Evonik Group, together with a description of the material opportunities and risks associated with the expected development of the Evonik Group.

Essen, February 19, 2021

Evonik Industries AG
The Executive Board

Kullmann	Dr. Schwager
Wessel	Wolf

Independent auditor’s report

The following independent auditor’s report also contains an “Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes” (“ESEF assurance report”). The materials (ESEF documents) covered by the assurance report are not attached. The ESEF documents can be viewed or downloaded from the Federal Gazette.

Independent auditor’s report

To Evonik Industries AG, Essen

Report on the audit of the consolidated financial statements and of the group management report

Audit Opinions

We have audited the consolidated financial statements of Evonik Industries AG, Essen, and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2020, and the statement of comprehensive income, income statement, statement of changes in equity and statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Evonik Industries AG, which is combined with the Company’s management report, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report“ section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Recoverability of goodwill
❷ Pension provisions

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Recoverability of goodwill

① In the consolidated financial statements of Evonik Industries AG, goodwill amounting in total to EUR 4.54 billion is reported under the "Intangible assets" balance sheet item, representing 22% of consolidated total assets. Goodwill is tested for impairment on the measurement reporting date or when there are indications that goodwill may be impaired. The executive directors have classified the developments of the coronavirus pandemic, the associated effects on the group and the forecasts for future market developments as indicators that assets may be impaired. Therefore, comprehensive impairment tests were performed both based on indicators and at the measurement date. In addition, the valuations for the trigger-based impairment test also formed the basis for the goodwill reallocation required due to the change in the management structure as at 1 July 2020. The impairment tests determined that no write-downs were necessary. The results of this measurements depend to a large extent on the executive directors' assessment of future cash inflows and the discount rate used and is subject to considerable uncertainty. Against this background and due to the underlying complexity of the measurement of this significant item in terms of its amount, this matter was of particular significance for our audit.

② As part of our audit, we assessed the methodology used for the purposes of performing the impairment tests, among other things. In this context, we also reconstructed the goodwill reallocation as at 1 July 2020 due to the changed management structure and assessed on the basis of appropriate documentation whether it was appropriately taken into account in the impairment tests. We assessed the appropriateness of the expected future cash inflows used in the impairment tests in financial year 2020, among other things, by comparing this data with the current budgets in the medium-term business plan in effect at the respective date, and by reconciling it with general and sector-specific market expectations. In this connection, we also evaluated the assessment of the executive directors regarding the effects of the coronavirus pandemic on the business activities of the Group and examined how they were taken into account in determining the future cash inflows. We discussed supplementary adjustments to the medium-term plan for the purposes of the impairment test with the specialist departments responsible and assessed their appropriateness. In addition, we assessed the appropriate consideration of the costs for group functions. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the value of the entity calculated using this method, we focused our testing in particular on the determination of the parameters used for the discount rate applied, including the average cost of capital, and evaluated the measurement model. Due to the materiality of goodwill and the fact that its measurement also depends on economic conditions which are outside of the Company's sphere of influence, in addition to the Company's analyses we carried out our own sensitivity analyses for the cash-generating units and found, based on the information available, that the respective items of goodwill are sufficiently covered by the discounted future net cash inflows. Overall, the measurement parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on goodwill are contained in sections 6.1 "Intangible Assets" and 6.5 "Impairment test pursuant to IAS 36" of the notes to the consolidated financial statements.

❷ Pension provisions

① In the consolidated financial statements of Evonik Industries AG, pension provisions of EUR 4.62 billion are reported. For all defined benefit pension plans, the present value of the obligations amounts to EUR 12.96 billion, the fair value of the plan assets to EUR 8.35 billion and the effect of the asset ceiling to EUR 0.01 billion. Most of these amounts relate to pension commitments in Germany, the USA and the United Kingdom, with a smaller amount of additional obligations from medical care plans in the USA. Obligations from defined-benefit pension plans and the medical care plans are measured using the projected unit credit method in accordance with IAS 19. This requires assumptions to be made in particular about long-term salary and pension increases and average life expectancy, as well as the cost trend for medical care plans. Furthermore, the discount rate applied as of the balance sheet date must be determined by reference to market yields on high-quality corporate bonds with matching currencies and terms which are consistent with the expected maturities of the obligations. Changes to these actuarial assumptions are recognized in other comprehensive income as actuarial gains or losses. Actuarial losses arising in respect of the obligations in the past financial year amounted to EUR 0.94 billion. In our view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the executive directors.

② Our audit included evaluating the actuarial expert reports obtained by the respective Group companies and the technical competence of the actuarial expert, among other things. Given the special features of the actuarial calculations, we received support from our internal pension specialists for this purpose. With their assistance, we assessed whether the valuation methods on which the valuations were based as well as the valuation parameters used were appropriate and complied with the relevant standards. In addition, we analyzed the development of the obligations and the cost components on the basis of the actuarial expert reports in the light of changes occurring in the valuation parameters and the changes in the numerical data, and assessed their plausibility. Finally, we reconciled the accounting entries for the provisions and the disclosures in the notes based on the actuarial expert reports. We evaluated an internal company valuation available to us for the audit of the fair value of the equity interest in Vivawest GmbH contained in the plan assets. We also obtained bank confirmations for the fair values of the quoted securities held directly, fund units and bank balances included in the plan assets. In the case of quoted securities for which the bank confirmations did not include fair values, unquoted bonds and structured products held directly as well as fund units, we assessed the methods on which the respective valuation was based and the valuation parameters used on a sample basis with the assistance of our internal specialists. Based on our audit procedures, we were able to satisfy ourselves that the estimates applied and assumptions made by the executive directors were justified and sufficiently documented.

③ The Company's disclosures relating to the pension provisions are contained in section 6.10 "Provisions for pensions and other post-employment benefits" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the declaration on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate governance" of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB
- chapters 5.1 "Sustainability strategy" and 5.4 "Value chain" included in section 5 "Sustainability" of the group management report

The other information comprises further the remaining parts of the financial report—excluding cross-references to external information—with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file "Evonik_Industries_AG_KA+KLB_ESEF-2020-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) [if considered to be beneficial for the understanding of the separate report on ESEF compliance in an international context: and the International Standard on Assurance Engagements 3000 (Revised)]. Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 31 August 2020. We were engaged by the supervisory board on 8 October 2020. We have been the group auditor of Evonik Industries AG, Essen, without interruption since the Company first met the requirements as a public-interest entity within the meaning of § 319a Abs. 1 Satz 1 HGB in the financial year 2013.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Aissata Touré.

Düsseldorf, 22 February 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Peter Bartels	Aissata Touré
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Market positions 2020 [a]

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Product	Application	Global ranking [a]	Capacity in metric tons
Specialty Additives			
Polyurethane additives	Stabilizers and catalysts for the production of polyurethane foam	1	[b]
Organically modified silicones	Radiation-cured separation coatings, super-spreading agents, additives for paints and printing inks	1–2	[b]
Isophorone chemistry	Environment-friendly coating systems, high-performance composites (crosslinkers)	1	[b]
Epoxy curing agents	Epoxy coatings, adhesives, and composites	1	[b]
Oil additives	Viscosity modifiers	1	[b]
Fumed silicas, matting agents	Additives for the paints and coatings industry	1	[b]
TAA and TAA derivatives	UV stabilizers for plastics	1 [c]	[b]
Acetylenic diol-based surfactants	Additives for coatings and printing inks	1	[b]
Nutrition & Care			
Amphoteric surfactants	Shampoos, shower gels	1–2	[b]
Ceramides, phytosphingosines	Cosmetics	1	[b]
Oleochemical, quaternary derivatives	Fabric softeners	1	[b]
Amino acids and amino acid derivatives	Pharmaceutical intermediates and infusion solutions	3	[b]
Exclusive synthesis	Intermediates and active substances for pharmaceuticals and specialty applications	2	[b]
Pharmaceutical polymers	Drug delivery systems (e.g., tablet coatings) and medical products (e.g., bioresorbable implants)	2	[b]
DL-methionine	Animal nutrition	1	730,000
Smart Materials			
Hydrogen peroxide	Bleaching of pulp and textiles, oxidation agent for the chemical industry, starting product for polyurethane	1–2	> 1,000,000
Peracetic acid	Wastewater treatment, food and beverage industry, pharmaceuticals and health care	1	[b]
Activated nickel catalysts	Life sciences and fine chemicals, industrial chemicals	2	[b]
Precious metal powder catalysts	Life sciences and fine chemicals, industrial chemicals	1	[b]
Oil and fat hydrogenation catalysts	Life sciences and fine chemicals, industrial chemicals	3	[b]
Amorphous polyalphaolefins	Thermoplastic hot melt adhesives	2	[b]
Polybutadienes	Automotive manufacturing (adhesives and sealants)	2	[b]
Polyester resins	Can and coil coating, reactive hot melt adhesives	1	[b]
Thermoplastic and reactive methacrylate resins	Binders for paints and coatings	1–2	[b]
PEEK	Special applications in the oil and gas, automotive, and aviation industries, electronics/semiconductors, specialty medical technology (e.g., implants)	3	[b]
Polyamide 12	High-performance specialty polymer applications (e.g., automotive, medical, sport, gas and offshore pipelines, powder for 3D printing)	1	[b]
Organosilanes, chlorosilanes	Rubber, silicone rubber, paints and coatings, adhesives and sealants, building protection materials, pharmaceuticals, cosmetics, optical fibers	1 [b]	[b]
Fumed silicas, fumed metal oxides, precipitated silicas	Reinforcement of rubber, high-temperature insulation, electronics, consumer products, silicone rubber, adhesives, sealants, and plastics, pharmaceuticals, cosmetics	1	> 950,000
Performance Materials			
Butene-1	Co-monomer for polyolefins	1 [c]	235,000
DINP	High-molecular plasticizer for use in flexible PVC	3	220,000
Isononanol	Intermediate for high-molecular plasticizers	2	400,000
Cyanuric chloride	Industrial applications and specialties (e.g., UV stabilizers, crosslinkers, and optical brighteners), and crop protection	3	[b]
Alkoxides	Catalysts for biodiesel, pharmaceuticals, agrochemicals, and other applications	1	[b]
Superabsorbents	Diapers, incontinence products, feminine hygiene products, technical applications	3	[b]

[a] Evonik's assessment based on various individual market reports/information and in-house market research.
[b] No data available.
[c] Freely traded volumes.
[d] Chlorosilanes: freely traded volumes. Overall assessment—market position differs depending on application.

TCFD index

We are following the objectives of the Task Force on Climate-related Financial Disclosures (TCFD) and the ongoing development of established reporting standards closely. In keeping with its participation in CDP Climate Change, Evonik again published detailed strategies, data, and development paths on climate change in 2020 **https://www.evonik.com/CDP-ClimateChange.** For many years, we have also reported climate-related facts and figures in our combined management report and sustainability report **p. 63 ff.** A cross-unit working group examines the TCFD requirements and initiated a project in fall 2020 to determine the extent to which our risk management system already meets the TCFD requirements and the scope for optimization. Key climate-related information is presented in the following overview using the TCFD structure, divided into the categories governance, strategy, risk management, and metrics and targets.

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Climate-related information by category	You can find further information here:
Governance	
Climate change is a matter of the utmost importance for the entire executive board. Responsibility for our group-wide sustainability and climate strategy, monitoring, and reporting is assigned to the member of the executive board responsible for human resources, sustainability, and ESHQ (environment, safety, health, and quality). The head of ESHQ reports regularly to the executive board on climate-related issues. These include environmental indicators, including climate-related performance indicators, as well as targets and target attainment. In addition, the responsible member of the executive board and the heads of the ESHQ and Sustainability functions are members of the human resources executive committee. This committee meets quarterly and defines the strategic approach to climate-related issues. In 2020, the supervisory board received several reports on sustainability issues, including integration of the sustainability analysis into the strategic management process, our Next Generation Solutions, and the status of our targets.	Management report, chapter 5.4 The environment **p. 54 ff.** Sustainability report, chapter Strategy and growth **p. 11 ff.** 2020 CDP Climate Change response: chapter Governance **https://www.evonik.com/CDP-ClimateChange**
Strategy	
Climate change involves perceptible opportunities and risks for Evonik. Therefore, all material elements along the value chain are considered in our strategy. The most important upstream factor is the raw material "backpack" of the starting products we source; in the operation of our production facilities, it is scope 1 and 2 emissions[a]. Downstream, our products improve our customers' CO_2 performance. Examples can be found in the Evonik Carbon Footprint brochure, the sustainability report, and on our website. We want to increase the proportion of such products by developing further innovative products. In view of the increasing climate awareness, we expect a further rise in demand, with a correspondingly positive impact on our business. We have also identified short-, mid- and long-term transition risks and physical risks. You can find an extensive description of the individual risks in the 2020 CDP Climate Change questionnaire. The short- and mid-term opportunities and risks are taken into account in our financial planning. To drive forward continuous development, at two cross-functional workshops, we examined the requirements for scenario analyses in accordance with TCFD.	Management report, chapter 6. Opportunity and risk report **p. 59 ff.** Evonik Carbon Footprint **www.evonik.com/responsibility** Sustainability report, chapter Value chain and products, section "Sustainable products and solutions for our customers" **p. 49 f.** 2020 CDP Climate Change response: chapter Business Strategy **https://www.evonik.com/CDP-ClimateChange**
Risk management	
In keeping with the executive board's overall responsibility, the chief financial officer (CFO) is responsible for ensuring the correct functioning of risk management. To ensure this, we use an integrated, multidisciplinary opportunity and risk management system, which explicitly includes climate-related opportunities and risks. Opportunities and risks are identified and evaluated group-wide and measures are taken to control and monitor them. The risk committee chaired by the CFO meets quarterly. The corporate risk officer reports regularly to the executive board on the opportunities and risks for the Evonik Group, including climate-related risks. We continuously develop our risk management system and align it to new requirements. For example, various methods were discussed on the basis of the insights gained in the examination of the extent to which we meet the TFCD requirements.	Management report, chapter 6. Opportunity and risk report **p. 59 ff.** 2020 CDP Climate Change response: chapter Risks and opportunities **https://www.evonik.com/CDP-ClimateChange**
Metrics and targets	
Evonik and its predecessor companies have defined ambitious environmental targets since 2004. Our current targets are to cut scope 1 and 2 greenhouse gas emissions by 50 percent in absolute terms by 2025 (compared with 2008). Furthermore, by 2025 we want to cut scope 3 emissions[a] from our upstream value chain by 15 percent compared with 2020. We also aim to reduce both absolute and specific energy consumption by 5 percent. Our CO_2eq[b] emissions are calculated on the basis of the Greenhouse Gas Protocol. In 2020, our CO_2eq emissions were: Scope 1: 4.8 million metric tons Scope 2[c]: 0.6 million metric tons Scope 3: 17.8 million metric tons	Management report chapter 1.2 Principles and objectives **p. 16**, 5.4 The environment **p. 54 ff.** Sustainability report, chapter The environment **p. 63 ff.** 2020 CDP Climate Change response: chapter Targets and performance **https://www.evonik.com/CDP-ClimateChange**

[a] Scope 1 comprises direct energy and process emissions and scope 2 comprises emissions from purchased electricity and heat. Scope 3 comprises indirect emissions, for example, from the production of purchased raw materials.

[b] CO_2 equivalents.

[c] Net scope 2 (market-based). The net figure shows the position after subtracting electricity and steam supplied to third parties from the total amount of purchased electricity and steam.

Separate combined non-financial report[1]

This is our combined non-financial report in accordance with sections 315b and 315c and sections 289b to 289e of the German Commercial Code (HGB). Sustainability is a central element in our strategy and our activities. Therefore, much of the content of the non-financial report is contained in the management report, including the management-related performance indicators on occupational and plant safety and reporting on our non-financial targets. In addition to the chapters audited with reasonable assurance, we have included the chapter on the value chain in the management report so that all non-financial information is presented clearly and consecutively. The content of the chapter on the value chain was not included in the audit of the management report with reasonable assurance. However, most of it was included in the limited assurance review of the sustainability report.

Since all non-financial information is contained in the management report, references to the relevant chapters in the management report can be found below. In these, we report on concepts, processes, measures, metrics, and risks relating to the individual aspects of the non-financial report. When preparing the non-financial report, we used the GRI standards of the Global Reporting Initiative (GRI) as a guide.

The topics of relevance for the non-financial report are derived from the materiality analysis (see sustainability report www.evonik.com/sustainability-report) and the relevance of the topics for Evonik. The table shows which chapters in the management report contain information on the various aspects and topics. The disclosures on the business model can be found in the section headed "Business model" p. 14 f.

In 2020, we did not identify any material individual risks where there is a very high probability of negative impacts in connection with the respective non-financial matters. The opportunities and risks relating to the non-financial aspects are included in the opportunity and risk management system and described in the opportunity and risk report p. 59 ff. In addition, we refer to the risks relating to climate change, which are published in connection with our participation in CDP Climate Change. This information can be found on our website http://evonik.com/CDP-ClimateChange.

Information relating to 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 to 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 Evonik Group. Few of the key indicators are meaningful for Evonik Industries AG as it does not operate any production sites itself.

Key data on Evonik Industries AG T164

	2019	2020
Employees	2,366	2,526
Women as a proportion of the total workforce in %	45.2	45.7
Female managers in %	29.9	31.2
Employee turnover in %	3.8	4.4
Average length of service in years	17.0	17.3

Aspects	Topics	Chapter in combined management report
Employee matters	Safety	5.3 Safety p. 52 f.
	Appeal as an employer	5.2 Employees p. 48 f.
	Diversity and equal opportunity	5.2 Employees p. 49 f.
	Health protection and promotion	5.2 Employees p. 51 f.
	Training and continuing professional development	5.2 Employees p. 51
Environmental matters	Climate change	5.4 The environment p. 54 ff.
	Water management	5.4 The environment p. 56
	Product stewardship	5.5 Value chain[a] p. 57 f.
Respecting human rights	Responsible corporate governance and human rights	5.5 Value chain[a] p. 58 f.
Preventing bribery and corruption	Compliance	5.5 Value chain[a] p. 56 ff. Declaration on corporate governance[a] p. 82 ff.
Supply chain	Responsibility within the supply chain	5.5 Value chain[a] p. 57 ff.
Social matters	Social commitment	5.5 Value chain[a] p. 58

[a] Unaudited components of the combined management report.

[1] Outside the scope of the audit.

Glossary

Technical terms

3D printing
3D printing is an additive manufacturing process. On the basis of a three-dimensional digital blueprint, material is applied in layers on a base surface. Very soon a three-dimensional structure is produced that corresponds exactly to the digital specification—with no need for special molds or extensive post-processing. Evonik is a global leader in the production of polyamide 12 (PA 12) powders, which have been used in additive manufacturing for more than 20 years. In addition to polyamide 12 and polyamide 613, the product portfolio includes other flexible TPA and co-polyester powders belonging to the portfolio of ready-to-use materials marketed under the INFINAM® brand name.

Accident frequency (occupational safety indicator)
All work-related accidents involving Evonik employees (excluding traffic accidents) resulting in absences of at least one full shift, per 200,000 working hours (until 2020: per 1 million working hours).

Alkoxides
Evonik produces alkoxides, which are used as catalysts for efficient high-yield production of biodiesel. Using Evonik's catalysts, biodiesel can be manufactured in a water-free process. As a result, fewer unwanted by-products are generated, and this simplifies the production of biodiesel.

Amino acids
Amino acids are building blocks for proteins that are used in animal nutrition. They are used to ensure that the amino acid content of animal feed is optimally aligned to requirements. As a result, livestock needs less feed. That also reduces excretion of nitrogen and undigested nutrients, which improves the carbon footprint of livestock farming and reduces overfertilization of the soil. Evonik also produces amino acids and their derivatives in pharmaceutical quality for use in infusion solutions for parenteral nutrition, as starting products for animal cell cultures, and in the manufacture of active ingredients.

Butadiene
Butadiene is mainly used in synthetic rubber, for example, for the manufacture of tires. It also has a wide range of applications in elastomers and plastics. For example, it increases the hydrocarbon resistance of nitrile rubber gloves. Butadiene is also an important precursor for the production of latex mattresses.

C_4 chemistry
C_4 crack is a by-product of crude oil refining. It is mainly produced in a steam cracker when naphtha is split into ethylene and propylene. After isolation, Evonik processes the C_4 hydrocarbons and places them on the market. The C_4-based materials are used in rubber, plastics, and specialty chemicals. In daily life, they are mainly found in high-quality plastics and coatings, for example, for cars, the home, and leisure activities. However, applications are not confined to plastics. The wide-ranging applications for C_4 materials include lubricants, fuel additives, cosmetics, and solvents in the chemical and pharmaceutical industries.

Catalysts
Evonik has been producing catalysts for chemical processes for over 80 years. More than 80 percent of chemical reactions in the industry would not be possible or economically viable without a catalyst. A catalyst is a substance that accelerates chemical processes but is consumed during the reaction. It steers chemical reactions towards the desired products and avoids by-products/waste. Catalysts thus enable efficient chemical processes by using less feedstock and reducing energy consumption.

CO_2 emissions
Since 2008, we have reported an extensive overview of greenhouse gas emissions—from the extraction of raw materials through production to disposal of the products. The key parameter is the carbon footprint (CO_2 equivalent footprint). The data cover Evonik's direct energy and process emissions (scope 1), emissions from purchased electricity and heat (scope 2) and selected indirect emissions (scope 3). Scope 3 emissions include emissions from the production of purchased raw materials, packaging materials, capital goods, energy-related emissions outside scope 1 and scope 2, emissions from inbound shipments of raw materials, the disposal of production waste, business trips, commuting by employees, Evonik's fleet of vehicles, energy requirements for offices, and emissions from the disposal and recycling of products sold. The data exclude the usage phase of Evonik's products.

Crosslinkers
Polymers comprise long chains of linked molecules. Crosslinking these chains to form three-dimensional networks creates materials with high mechanical and thermal stability. Evonik produces the key components for the crosslinking process for many important classes of polymers such as epoxy resin and polyurethanes.

Greenhouse Gas Protocol (GHG Protocol)
The Greenhouse Gas Protocol is the most widespread voluntary international standard for calculating and compiling data on greenhouse gas emissions from industry. It was developed by the World Business Council for Sustainable Development and the World Resources Institute and is the basis for the classification of our CO_2eq emissions in scopes 1 to 3.

High-performance polymers
Evonik is a specialist for high-performance polymers. These have particularly high strength, making them a welcome alternative to metals in many fields, for example, in lightweight structures, medical, and industrial applications. Depending on where they are used, such materials have to withstand high temperatures, aggressive chemicals, and significant mechanical strain.

Hydrogen peroxide
Hydrogen peroxide (H_2O_2) is an environmentally friendly chemical: Its decomposition yields only oxygen and water. Due to its beneficial properties, it is used in a variety of areas, for example, as a bleaching agent in the pulp and textile industries, etching agents in the electronics industry, and active pharmaceutical ingredients and cosmetic applications. H_2O_2 is also used as a sterilization and disinfection agent in food processing, an oxidizing agent in chemical and pharmaceutical synthesis, and in the production of peracetic acid, which is an important derivative. Together with ThyssenKrupp Industrial Solutions, Evonik has developed the hydrogen-peroxide-to-propylene-oxide (HPPO) technology. This process enables cost-efficient and eco-friendly industrial-scale synthesis of propylene oxide. Recently, Evonik developed the HYPROSYN™ technology and entered into an exclusive technology partnership with Dow to bring this unique method for directly synthesizing propylene glycol (PG) from propylene and H_2O_2 to market maturity.

Incident frequency (plant safety indicator)
The number of incidents involving the release of substances/energy, fire, or explosion per 200,000 working hours, as defined by the ICCA/European Chemical Industry Council (Guideline 2016) (until 2020: as defined by the European Chemical Industry Council [Guideline 2011] per 1 million working hours).

Integrated technology platforms
Integrated technology platforms allow efficient use of product streams and thus high added value by utilizing by-products from one production process as starting products for others. That saves resources, reduces CO_2 emissions, and leverages cost-efficiency. Examples of integrated technology platforms in the Evonik Group are isophorone, silicon, silicones, and oleochemicals.

Isophorone/isophorone diamine/isophorone diisocyanate
Isophorone is used as a solvent, for example, in the paints and coatings industry. It is also used to produce the derivatives isophorone diamine and isophorone diisocyanate. Isophorone diamine is an important curing agent for epoxy resin systems, for example, to strengthen rotor blades. Isophorone diisocyanate is used to produce light- and weather-resistant polyurethane coatings, for example, for instrument panels and other plastic components.

Membranes
Membranes are used in separation processes. Evonik develops and manufactures hollow-fiber membrane modules for efficient gas separation and spiral-wound modules for separating organic solvents and volatile organic compounds (vapors). Both types of membranes are based on high-performance polymers that can withstand extreme pressure and temperatures.

Next Generation Solutions
Next Generation Solutions are products and solutions in our portfolio with a pronounced sustainability profile that meets the expectations of markets with high and very high sustainability requirements.

Oil additives
As a leading global supplier of oil additives, Evonik develops innovative technologies that improve the operative efficiency of engines, gears, and hydraulic systems. Specific and customized improvements in the flow properties of lubricants over a wide temperature range play an important role.

Polyamide 12 (PA 12)
Polyamide 12 (PA 12) is a thermoplastic with a linear structure, built up entirely from the monomer laurolactam. It is the lightest of all polyamide plastics. The density of the compact material is only slightly above 1.

Polymers
Long-chain, short-chain, or crosslinked molecules (macro-molecules) produced from smaller molecules (monomers).

Polyurethane additives
These products contribute to the outstanding performance of polyurethane foams and create advantages in the final foam performance. In the manufacture of flexible polyurethane foams, additives from Evonik enhance the comfort of mattresses, upholstered furniture, and automobile interiors. The use of these additives in rigid polyurethane foam applications contributes to an outstanding insulating performance in refrigerators and construction materials.

REACH
REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) is the European chemicals regulation (EC 1907/ 2006).

Responsible Care®
Responsible Care® is the chemical industry's worldwide voluntary commitment to drive continuous improvement in sound chemicals management. This goes beyond legislative and regulatory compliance and includes various initiatives involving stakeholders to foster the safe use of products and resources along the value chain.

Silanes
Silanes are a group of chemical compounds consisting of a silicon-based structure and up to four functional groups. Evonik produces three types of silanes:
- Organofunctional silanes have at least one functional hydrocarbon group and optionally another functional group. They are used to produce high-performance additives that improve the properties of inorganic particles, resins, and polymers. For example, they enhance the bonding properties of adhesives, make plastics heat-resistant, and add flame-retardant properties to cables.
- Sulfur-functional silanes have revolutionized the production of tires, where they are used in combination with precipitated silicas to improve key properties such as rolling resistance and wet grip.
- Chlorosilanes are key resources for the semiconductor and optical fiber industry.

Silica
Evonik manufactures both precipitated silica using a wet route and fumed silica, which is produced by a flame process. Silica is also known as silicon dioxide. These ultra-fine particles are used in a wide range of applications, including the life sciences (pharmaceuticals and cosmetics), construction, adhesives and sealants, paints and coatings, furniture manufacture, electronics applications such as polishing computer chips, and the production of toners for digital printing. They also play a key role in energy-saving tires with low rolling resistance ("green" tires).

Silica/silane system
Silica is used in combination with silanes to reinforce the tread of modern tires. The silica/silane system greatly reduces rolling resistance, resulting in fuel savings of up to 8 percent compared with conventional car tires. It also improves grip on wet and wintry roads.

Superabsorbents
Crosslinked polymers that are insoluble in water and can absorb and store large quantities of aqueous liquid through a mechanism that causes them to swell and form hydrogels. The liquid is not released even under pressure. Consequently, these polymers are mainly used in diapers. Special forms of superabsorbents are used in agriculture to regulate the moisture in soil. As well as absorbing large quantities of water, they can release it to the plants during dry periods.

Sustainable Development Goals
In 2015, the global community adopted the 2030 Agenda for Sustainable Development under the auspices of the United Nations, including 17 sustainable development goals (SDGs). Their vision is a better future that enables people to live a decent life and protects the natural basis of life. The SDGs cover economic, ecological, and social aspects. Evonik supports these goals and has been working intensively with them for a number of years.

UN Global Compact
The United Nations Global Compact is a strategic initiative for companies that undertake to align their business operations and strategies with ten principles relating to human rights, labor, environmental protection, and fighting corruption. Companies that join the Global Compact give an undertaking that they will report annually on their progress. Evonik has been a member of the UN Global Compact since 2009.

Financial and economic terms

Adjusted EBIT
Earnings before financial result and taxes, after adjustments. Earnings indicator showing Evonik's operating earnings performance irrespective of the structure of its assets.

Adjusted EBITDA
Earnings before financial result, taxes, depreciation, and amortization, after adjustments. Earnings indicator showing Evonik's operating earnings performance irrespective of the structure of its assets and its investment profile. This is a cash flow-related indicator, which is used in particular in the adjusted EBITDA margin to show the relationship to sales as a basis for comparison with competitors.

Adjustments
Evonik refers to the special items that are factored out when calculating the operational performance indicators adjusted EBITDA and adjusted EBIT as adjustments. They include restructuring, impairment losses/reversals of impairment losses, income and expenses in connection with the purchase/disposal of investments in companies, and other income and expense items that, due to their nature or amount, do not reflect the typical operating business.

Capital expenditures
Capital expenditures comprise investment in intangible assets, property, plant and equipment.

Cash conversion rate
The cash conversion rate is the ratio of free cash flow to adjusted EBITDA. It shows the company's ability to convert its operating result into available liquid funds.

EVA®
Abbreviation for economic value added. The indicator used for value-oriented management of the Evonik Group. EVA® is calculated from the difference between adjusted EBIT and the cost of capital employed. If EVA® is positive, value is created.

Free cash flow
The free cash flow is a measure of the company's internal financing capacity. The free cash flow is calculated from the cash flow from operating activities, continuing operations, less outflows for capital expenditures on intangible assets, property, plant and equipment.

Rating
In the financial community, a rating is an assessment of the creditworthiness of a debtor. Ratings are generally awarded by specialized rating agencies. The probability of default is calculated on the basis of specific criteria, and debtors are assigned to rating classes that are indicated by rating codes. Ratings are also awarded for corporate and government bonds. A rating indirectly affects the debtor's business activity. Normally, a better rating enables a debtor to obtain favorable terms for borrowing.

ROCE
The return on capital employed is a measure of the profitability of capital employed. It is calculated by dividing adjusted EBIT by the average capital employed in the reporting period.

Venture capital
Venture capital is risk capital that is made available to fund innovative concepts and ideas, generally at high-growth small and mid-sized enterprises. Through its venture capital activities, Evonik aims to invest up to €250 million in promising start-ups and leading specialized venture capital funds in the mid-term. The regional focus is Europe, the USA, and Asia.

Alternative performance measures

For internal management purposes, we use alternative performance measures that are not defined by IFRS. The calculation of these measures and their development are outlined in the management report in addition to the IFRS performance measures. The most important alternative performance measures are also presented in the segment reporting.

Alternative performance measures used T165

	For definition and calculation see page
Adjusted EBITDA	17, 21, 102, 159
Adjusted EBITDA margin	17, 21, 102, 159
Adjusted EBIT	17, 22, 102, 159
Adjustments	17, 22
Adjusted net income	23
Adjusted earnings per share	23
Capital employed	24, 102, 160
Economic value added (EVA®)	24
Free cash flow	17, 34
Net financial debt	35
ROCE	17, 24, 102, 160

Financial calendar

Financial calendar 2021 T166

Event	Date
Interim report Q1 2021	May 6, 2021
Annual shareholders' meeting 2021	June 2, 2021
Interim report Q2 2021	August 5, 2021
Interim report Q3 2021	November 4, 2021

Credits

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