

Evonik Group: Key figures

in € million	2006	2007	2008	2009	2010
Sales	14,125	14,444	15,873	10,518	13,300
EBITDA <sup>1)</sup>	2,157	2,236	2,165	1,607	2,365
EBITDA margin in %	15.3	15.5	13.6	15.3	17.8
EBIT <sup>2)</sup>	1,179	1,363	1,298	868	1,639
ROCE <sup>3)</sup> in %	8.4	9.7	9.0	7.7	15.0
Net income	1,046	876	281	240	734
Total assets as of December 31	20,953	19,800	20,115	18,907	20,543
Equity ratio as of December 31 in %	20.6	25.7	25.6	27.6	29.1
Cash flow from operating activities	1,142	1,215	388	2,092	2,075
Capital expenditures <sup>4)</sup>	935	1,032	1,160	569	652
Depreciation and amortization <sup>4)</sup>	943	862	842	712	694
Net financial debt as of December 31	5,434	3,924	4,583	3,431	1,655
Employees as of December 31	46,430	43,057	40,767	33,861	34,407

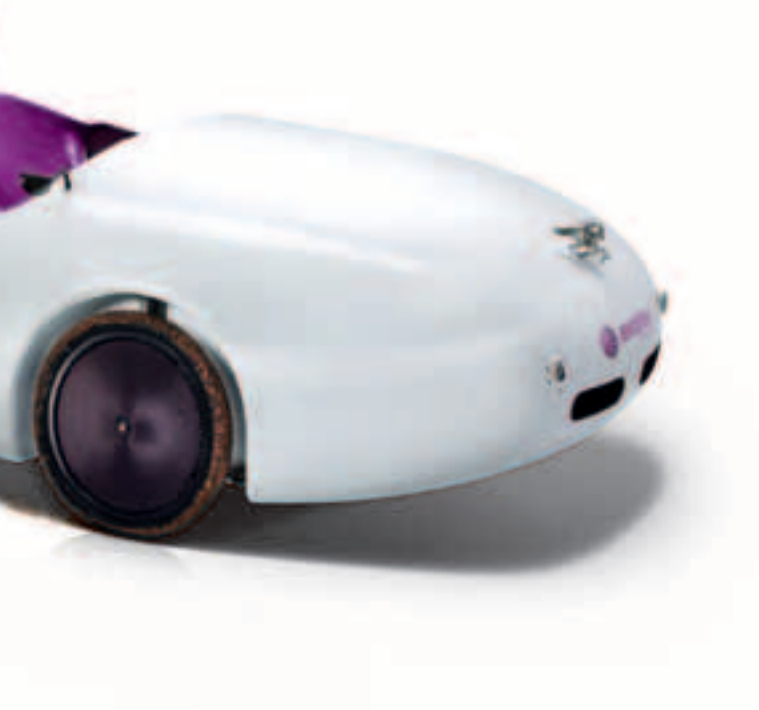
Figures for 2010 and 2009 adjusted to reflect the reclassification of the Energy Business Area to discontinued operations.  
Figures for 2006 to 2008 as reported.

<sup>1)</sup> EBITDA = Earnings before interest, taxes, depreciation, amortization, write-downs and non-operating result.

<sup>2)</sup> EBIT = Earnings before interest, taxes and non-operating result.

<sup>3)</sup> Return on capital employed.

<sup>4)</sup> Intangible assets, property, plant, equipment and investment property.



## At a glance

**Core specialty chemicals business:** Evonik is one of the world’s leading specialty chemicals companies. Our strategy is aligned to profitable growth and sustained value creation. Our specialty chemicals activities address economic megatrends and give us access to attractive future markets. We see especially promising opportunities in resource efficiency, health and nutrition and the globalization of technologies. Our chemicals business already generates more than 80 percent of sales in areas in which it ranks among the market leaders, supported by unique technology platforms and integrated production structures. Our strengths include a balanced spectrum of business activities and end-markets, close collaboration with customers, and market-oriented research and development.

### Chemicals Business Area: Key data

in € million	2010	2009	Change in %
External sales	12,867	9,978	29
EBITDA	2,357	1,602	47
EBIT	1,702	932	83
Capital employed (annual average)	9,228	9,452	–2
ROCE in %	18.4	9.9	
EBITDA margin in %	18.3	16.1	
Employees	31,061	30,318	2

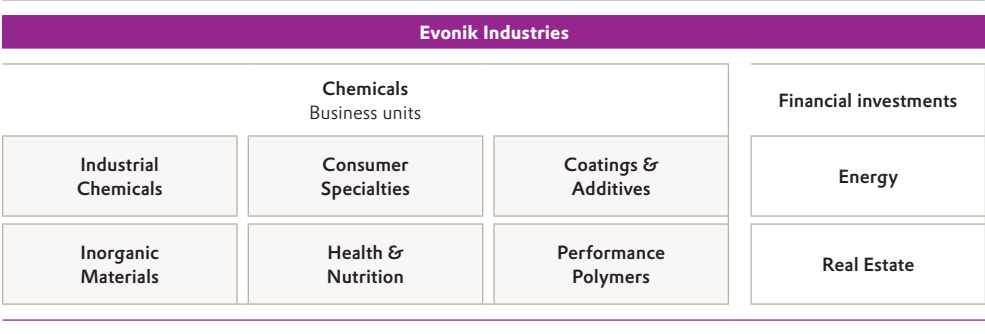
Prior-year figures restated.

In view of its concentration on its core specialty chemicals business, in future Evonik Industries will operate its Energy and Real Estate Business Areas as essentially autonomous entities.

**Real Estate:** Evonik Immobilien GmbH manages around 60,000 company-owned residential units. It also has a 50 percent stake in THS, which owns more than 70,000 residential units. In 2010 this business area’s sales were around €402 million (2009: €396 million). EBITDA improved to €190 million (2009: €184 million). Evonik Immobilien GmbH is to be amalgamated with THS and placed on a more independent basis in the medium term.

**Energy:** Evonik Steag GmbH bundles Evonik’s power and heat generation business and services for power stations. In 2010 the Energy Business Area posted sales of around €2,762 million (2009: €2,558 million). Its 4,916 employees generated EBITDA of €525 million (2009: €418 million). In December 2010 Evonik Industries signed an agreement to sell 51 percent of shares in its energy business to a consortium of municipal utilities in Germany’s Rhine-Ruhr region. The agreement was closed on March 2, 2011. Evonik will be selling its remaining stake to this majority partner within five years.

A clear structure

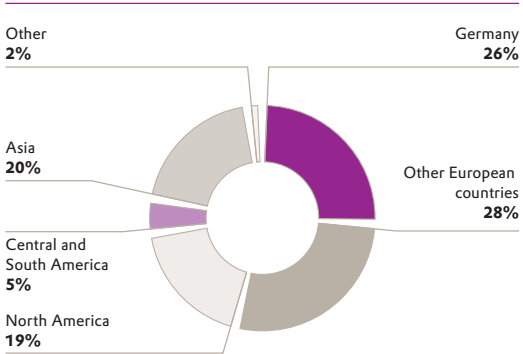


Overview of some of the major sites<sup>1)</sup>

	2010
Marl (Germany)	6,567
Essen (Germany)	3,342
Hanau-Wolfgang (Germany)	3,127
Darmstadt (Germany)	1,511
Wesseling (Germany)	1,236
Antwerp (Belgium)	1,001
Shanghai (China)	877
Mobile (AL, USA)	680
Lafayette (IN, USA)	650
Yingkou (China)	630
Parsippany (NJ, USA)	404
Nanning (China)	349
Nanping (China)	326
Zürich (Switzerland)	274
São Paulo (Brazil)	178

<sup>1)</sup>Based on number of employees.

Sales by region<sup>1)</sup>



<sup>1)</sup> By point of sale.





## Pioneers welcome the unconventional

Exceptional achievements are driven by a readiness to strike out in new directions. That is what we at Evonik understand by creative entrepreneurship—the resolute, unconventional and intrepid search for ground-breaking solutions. The successful pioneering trip by the Wind Explorer is an impressive example.

The project was triggered by Stefan Simmerer and Dirk Gion and their vision of traveling 5,000 kilometers across Australia in a self-sufficient lightweight electric vehicle. Their idea was that the Wind Explorer should utilize as little conventionally generated power as possible on the trip from Albany to Sydney. The battery should only be charged by conventional sources of electricity when absolutely necessary. Instead, a portable wind turbine would generate power, and along the world's longest cliff-top route, the vehicle would be propelled by kites. That was the theory.

Evonik helped put the theory into practice. As the technology partner for this project, we supplied the battery technology to store the electricity generated by the wind turbine. We also provided ROHACELL®, the ideal high-performance plastic

for lightweight yet tough bodywork. Finally our silica/silane systems were used to achieve a decisive reduction in the rolling resistance of the tires, which significantly reduced energy consumption.

The outcome was a successful pioneering trip that heralds the future in many ways. It demonstrated how electric power and lightweight structures can be combined to utilize resources efficiently. At the same time, it showed what close collaboration between project partners can achieve. Last but not least, it provided further evidence that in a world full of challenges Evonik has the necessary expertise to develop solutions that genuinely move us forward.

**We invite you to accompany Evonik along this unusual route.**

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**“Pioneering the future means  
exploring new opportunities.”**



**Members of the Executive Board of Evonik Industries AG (from left):**  
Ralf Blauth, Chief Human Resources Officer  
Dr. Wolfgang Colberg, Chief Financial Officer  
Dr. Klaus Engel, Chairman of the Executive Board



## Ladies and gentlemen:

Following the recent worldwide financial and economic turmoil, 2010 was dominated by a process of recovery on a scale not seen by the global economy for many decades. Driven by very dynamic demand from major growth hubs, especially China, this proved particularly positive for German industry thanks to the country's position as a leading exporter. Evonik Industries derived above-average benefit from the upswing. In fact, in 2010 we managed to prepare the Group for a new phase of sustained, profitable growth.

- Strategically, we have come a significant step closer to our goal of becoming one of the world's leading specialty chemicals companies. At the end of 2010 we successfully concluded our search for a partner for our energy business.
- Operationally, we have already surpassed the pre-recession level and our margins are well above the sector average. Demand increased very strongly, showing that Evonik's products are attractive and sought-after.
- Structurally, we have identified and leveraged considerable earnings potential within a very short time. That enhances the efficiency of the Evonik Group and increases our financial headroom for the future.
- We will use our robust earnings and liquidity trends to drive forward the development of the Group. We intend to grow along key global megatrends and strive for success, especially through further alliances and even closer proximity to our customers.
- In this way we are systematically creating value and raising the attractiveness of Evonik in preparation for a promising future on the capital markets.

The search for a partner for our energy business was a central strategic challenge in 2010. We narrowed down the wide range of interested parties and finally decided for a consortium of municipal utilities from Germany's Rhine-Ruhr region. As the first step, we are divesting 51 percent of the shares in Evonik Steag GmbH, which bundles the Group's energy activities. In addition, we agreed on a ruling allowing us to sell the remaining 49 percent to this consortium of seven municipal utilities after a holding period of up to five years. Successful conclusion of this transaction brings Evonik closer to realizing its strategic focus on specialty chemicals. The transaction offers good future prospects for the energy business and its employees: The consortium of municipal utilities shares our vision of value-enhancing development of Steag in its entirety. In the coming years, Steag is to be expanded into Germany's largest municipal energy generating platform.

Good progress has also been made in amalgamating our real estate business, Evonik Immobilien GmbH, with THS. Since January 1, 2011, a single four-member management team has been responsible for the operational development of both companies. At the same time, Evonik



and the German Mining, Chemical and Energy industrial union have agreed to draw up a common model for the future of what will be Germany's third-largest residential real estate company. The combined entity will have around 130,000 residential units and its hallmarks will be intrinsic value, quality and growth potential.

For our chemicals portfolio, our new strategic focus means systematic development of our strengths, growth opportunities and profitability. Where businesses do not fit in with our strategic growth profile because their competitiveness is limited within the Evonik organization or they do not have growth opportunities within the Group, our aim is to optimize value by divesting them. In view of this, we have defined the carbon blacks and colorants activities as non-core businesses. Having considered various options, we have decided to exit the carbon blacks business, where we generated sales of more than €1 billion in 2010. We are convinced that a new owner who invests in carbon blacks as part of its core business would be able to achieve a sustained improvement in its market position and thus give the roughly 1,700 employees good prospects for the future.

To meet our own efficiency, effectiveness, and profitability requirements, in the past 18 months we have examined our structures intensively for additional earnings potential. Through our "On Track" efficiency enhancement program, we have set ourselves the goal of achieving sustained annual cost savings of €500 million from 2012. By the end of 2010, measures had been defined for the entire savings volume, and over 75 percent of them had been implemented. Our management, employees and the bodies representing the workforce have worked together in an exemplary manner towards this common goal.

We expect further potential to come from the establishment of a new Site Services organization, which started operating as a profit center on October 1, 2010. Bundling the Group's site-specific services, which employ will nearly 7,000 people in the future, strengthens the competitiveness of our core chemicals business.

Operationally, Evonik can look back on a particularly successful year in 2010. Driven by a strong rise in demand, Group sales grew 26 percent to €13.3 billion. Earnings before interest, taxes, depreciation and amortization (EBITDA) rose to an impressive level of around €2.4 billion as a result of higher demand and improved margins. The resulting EBITDA margin was 17.8 percent. Our core chemicals business achieved by far the best results in its history. In this area our margin was 18.3 percent, placing it at the forefront of the sector. Overall, the Evonik Group more than tripled net income year-on-year from €240 million in 2009 to €734 million in 2010.



The other financial indicators were also driven by the very positive business trend. Thanks to the considerable improvement in the operating result to €2.1 billion, Evonik was able to generate a strong cash flow from operating activities. Capital expenditures advanced 15 percent to €652 million. Evonik used the cash flow to finance investments, pay the dividend of €320 million for fiscal 2009, and reduce net debt substantially. On a like-for-like basis, net financial debt was reduced from €3.4 billion at year-end 2009 to around €2.7 billion.

The capital market is also positive about the progress being made by the Evonik Group. Following successful placement of our €750 million debut bond issue in 2009, in 2010 we were able to negotiate a new €1.5 billion credit facility. This transaction, which involved some two dozen national and international banks, was heavily oversubscribed. Evonik was rated by the credit rating agencies in 2010. The ratings awarded were only just below investment grade: As of year end, Standard & Poor's rated the Evonik Group BB+ while Moody's rating was Ba1, in both cases with a positive outlook. In conjunction with our alignment to specialty chemicals, our objective is to obtain investment-grade ratings. Our recent successes provide evidence of our strength on the debt market and raise our confidence about the planned IPO.

One convincing argument is the success of our products. That is one reason why we raised investment in research and development 13 percent to €338 million in 2010. A good 40 percent of the total was spent on developing new products, and a further 19 percent was dedicated to basic research into key technologies. Our lithium-ion technology is a representative example of our successful research and development. We are presently stepping up production capacity for battery cells significantly in Kamenz (Dresden, Germany). In future we will be able to produce around 3 million cells a year compared with around 300,000 at the moment. That will allow serial production of Daimler's e-smart to start in 2012. This capacity expansion at our subsidiary Li-Tec Battery GmbH is the first step towards positioning ourselves as Europe's foremost battery cell producer. The market for electric vehicles is poised for dynamic growth. Experts expect there to be around 14 million electric vehicles on the road worldwide by 2020, which equates to well over one billion battery cells. We intend to benefit from this market.

Evonik is on course for growth. Our production facility for high-quality polymers and coating systems in Shanghai—the MATCH (Methacrylates to China) project in which we invested €250 million—was completed at the end of 2009 and operated at full capacity in its first year of service. Tippecanoe, our new site in Lafayette (Indiana, USA), which produces active ingredients and intermediates for the pharmaceutical industry, has been integrated very quickly into our global exclusive synthesis business and has already gained new customers. We plan to increase



capacity for isophorone chemicals and precipitated silicas significantly in the coming years. In addition, we are presently initiating the planning phase for a world-scale facility to produce methionine in Singapore. The recent debate in Germany about contaminated animal feeds shows how important reliable producers and high-quality feed additives are in the sensitive food market.

Our success over the past year is attributable to a large extent to the commitment of our employees and our constructive collaboration with representatives of the workforce. Our owners also provide consistent support for our successful development. That is an important basis for Evonik's future success, both in its business operations and on the capital markets.

Best regards,

Dr. Klaus Engel, Chairman of the Executive Board of Evonik Industries AG



# Highlights of 2010

## Strong business performance

2010 was an outstanding year for Evonik. We posted a very good operating performance in a positive global economic climate. The Evonik Group grew sales 26 percent to €13,300 million (2009: €10,518 million). EBITDA climbed 47 percent to €2,365 million (2009: €1,607 million) and EBIT surged 89 percent to €1,639 million (2009: €868 million). Net income tripled to €734 million (2009: €240 million).

## Record earnings in the Chemicals Business Area

2010 was a particularly successful year for the core chemicals business. EBITDA and EBIT rose to new records. The main growth driver was an improvement in our cost position, supported by volume growth, high capacity utilization and better margins.

## Successful search for a partner for Evonik Steag GmbH

The search for a partner for the energy business was concluded successfully in December 2010, when Evonik signed an agreement to sell 51 percent of the shares in Evonik Steag GmbH to a consortium of municipal utilities from Germany's Rhine-Ruhr region. The agreement was closed on March 2, 2011. Evonik will be selling its remaining stake to this majority partner within five years.

## Joint future for Evonik Immobilien GmbH and THS

Amalgamation of the real estate activities of Evonik Immobilien GmbH and THS has started. This will enable us to create the third largest residential real estate company in Germany and develop it into a leader in its field with high growth potential.

## Growth impetus driven by new investment

We have initiated key strategic investment projects to support our vision of long-term growth. We aim to significantly strengthen our market position in feed additives by building a methionine facility in Singapore. In addition, considerable capacity expansion for isophorone chemicals and precipitated silicas is planned. In Germany, we are rapidly driving forward expansion of battery cell production with our partner Daimler.

## Credit facility successfully renewed

Following successful placement of our €750 million debut bond issue in fall 2009, we achieved a further improvement in our liquidity arrangements in 2010. At the start of June we concluded a new €1.5 billion credit facility with a group of around two dozen national and international banks. This is divided into three €500 million tranches, giving us maximum flexibility.

## Ratings from Standard & Poor's and Moody's

In September 2010, Evonik Industries AG received its first external rating from the credit rating agencies Standard & Poor's and Moody's. Standard & Poor's gave us a BB+ rating with a positive outlook, while the rating from Moody's was Ba1 with a stable outlook. The outstanding €750 million bond (2009/2014) issued by Evonik Industries AG received the same ratings. In December 2010, Moody's raised the outlook for its Ba1 rating from stable to positive.



A scenic view of the Sydney Harbour Bridge and the city skyline across the water, with a small white electric car in the foreground. The car is white with purple and green accents, featuring the 'EVONIK' logo and 'DEARA' branding. Two people are seated in the car, wearing helmets and racing suits. The car is parked on a paved area next to a body of water, with the bridge and city in the background.

# The end is only the beginning

A pioneering expedition ended on February 12, 2011. The Wind Explorer, a vehicle featuring highly efficient use of resources thanks to lightweight materials and lithium ion technology, arrived in Sydney at the end of its trip across Australia. Along the almost 5,000 kilometer route it clocked up total electricity costs of just €10. Total power consumption was 87 kWh, and 45 kWh of that was generated by a portable wind turbine.

Evonik played a central role in achieving this good energy profile. Through our battery technology, which is able to store electricity produced from wind power. And our high performance plastic ROHACELL® which facilitated the construction of the vehicle's light weight bodywork. Sydney was the end of this pioneering trip, but for us it is only the beginning! Our long term aim is for electric drives and lightweight structures to become the standards in automotive engineering, paving the way for a world of resource efficient transportation.









## Imitation is expressly encouraged

Progress is fueled by ambition, creativity and competition. As one of the pioneers in the fields of electromobility and lightweight construction, we welcome imitators and collaborators. Spurring each other on to new achievements and working together to find new solutions are vital because that is the only way to create a world that is better for everyone.

The Wind Explorer expedition is only the first stage on this journey. One challenge posed by this pioneering project was matching the components of the portable wind turbine and the lithium-ion batteries as there was no experience with this portable combination to draw on. Crossing Australia in a completely emissions-free vehicle was not simply a demonstration of the smart application of industrial tools. It also symbolizes an approach that should inspire others to think outside the box and have the courage to strike out along new routes.





**1** Albany, January 26, 2011, 11.45 a.m.: The trip starts! The Wind Explorer team sets off towards Esperance, well-equipped and full of enthusiasm.

**2** The signs along the roadside are perfectly serious: Countless kangaroos across Australia witnessed the passage of a pioneering, resource-efficient method of transportation.

**3** The Wind Explorer heading for its next destination, somewhere in the vast reaches of the Australian bush.

**4** Where are we? A last glance at the day's route over a cup of coffee—with temperatures nearing 40°C, even that is a strenuous activity.

**5** Heat and lack of sleep take their toll: Far away from civilization the exhausted team is grateful for any flat surface that offers them a bed—even the roof of the support vehicle.

**6** Traffic, people, city streets: a welcome change from endless horizons, gusty winds and scorching heat.

**7** Large parts of Australia are still completely unspoilt, just as the team would like to see for the rest of the world. To give nature space to unfold we need many more new ideas like the Wind Explorer.



## Key data on the Wind Explorer

Route: Albany – Esperance – Norseman – Ceduna – Adelaide – Melbourne – Sydney  
 Distance: approx. 4,900 km  
 Dates: January 26 to February 12, 2011  
 Total energy consumption: 87 kWh  
 Consumption of wind power: 45 kWh  
 Consumption of power from the grid: €10 or 42 kWh  
 Weight: 80 kg (empty), 200 kg (loaded)  
 Top speed: 80 kph  
 Longest distance traveled in 36 hours: 493.5 km  
 Maximum distance per 8 kW battery pack: 430 km  
 Charging time: approx. 8 hours





# Collaboration is the secret of success

Developing ideas to market readiness as quickly as possible is both a challenge and an economic necessity. Ensuring that they offer the maximum benefit for customers and society is at least equally difficult. The best way to achieve these goals is through collaboration. We are convinced that proximity to customers and the joint search for solutions are the keys to success.

That is why we see the Wind Explorer project as a blueprint for the future: Stefan Simmerer and Dirk Gion came up with the original idea, and it was brought to fruition in collaboration with us. Turning their vision into reality took four months – from the first of the three test trips to the pioneering wind-powered expedition across Australia.

Certainly, this was a special project, but it epitomizes our approach to work, research and the way we conduct of our business—both now and in the future. Reliable partnership and collaboration open up new opportunities. We already have the basis for that. After all, reliability is one of our core competencies.







## Focusing on fundamentals is a key driver

Global mobility is essential these days so we need to find ways to scale back our use of resources and thus significantly reduce our impact on the environment. Taking a mid-term view, utilizing resources more efficiently is one of the most effective tools. For that we need technologies and processes that bring us closer to realizing this goal.

The Wind Explorer pilot project proves that a good deal can be achieved with relatively little – assuming an awareness of the necessary technologies and the ability to combine them effectively. State of the art lithium ion technology, lightweight carbon fiber structures, tires with low rolling resistance, and good aerodynamics can be combined so efficiently that a portable wind turbine can generate enough energy to travel 300 to 400 kilometers in a single day. Without any emissions. The Wind Explorer therefore symbolizes Evonik's strategic vision: generating the maximum benefit for customers and the company through efficient division of tasks and optimal use of materials.







# Power from the Earth

Our planet has sufficient regenerative resources to meet the energy requirements of the world's entire population. Sun, wind and water are inexhaustible sources of power that are available worldwide. All that is needed is the right technology to harness this potential and get the best out of the resources available.

Wind speeds of 25 kilometers per hour are needed to charge the Wind Explorer's lithium-ion batteries in eight to nine hours. That generates 8 kWh of power, enough to drive about 400 kilometers. Maximum efficiency—thanks to Evonik's SEPARION® ceramic separators and our LITARION® brand of electrodes. The result: electric drives with previously unattainable levels of performance.

But that is not enough: Based on our technology, it may well be possible to achieve a good deal more in the future, for example, large-scale installations that can store electricity generated from solar energy or wind for use when it is actually needed.











## No place for resistance

One way of saving fuel is to reduce the rolling resistance of tires. Rubber blends play an important part in this because they come into contact with the road surface and thus ultimately determine the performance of the tire.

Evonik has further improved the performance of its organic and inorganic chemical blends for rubber. Our silica/silane technology modifies tire rubber to reduce rolling resistance, which in turn significantly reduces energy requirements. That helped improve the performance of the Wind Explorer by several hundred kilometers on its trip across Australia. Yet Evonik strives for more: That is why we intend to raise production capacity for silicas, which are also used in other industrial applications, by 25 percent by 2014.



# Lightweight construction is far from simple

The Wind Explorer was constructed from our high-tech plastic ROHACELL®, which is also used in airplanes and in the aerospace sector. ROHACELL® is used, for example, in sandwich structures in combination with carbon fibers. Being light yet extremely tough, ROHACELL® opens up enormous opportunities for lightweight construction in the future. We are currently working on many other exciting potential applications.

And Evonik has more to offer in the field of lightweight construction: Following successful trials, PLEXIGLAS® is now being used in automotive construction, for example as glazing for rear and side windows and panoramic roofs. Two key qualities are required to achieve all of this, creativity and expertise—and those are two things Evonik has in abundance.











# Turning questions into solutions

Resource efficiency, health and nutrition, and globalization of technologies—these global megatrends pose major questions and challenges for society. How can energy resources be used efficiently in transportation, manufacturing and our homes? How can we provide healthy food for a population approaching seven billion people? How can modern technologies be transferred to tomorrow's leading regions? Evonik's aim is to provide answers. As a pioneer. As the market leader in many of its areas of business. And in many cases as the technology leader as well.









## It all started with an idea

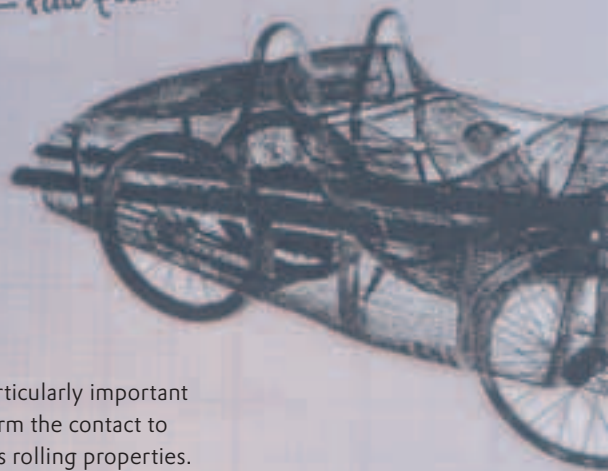
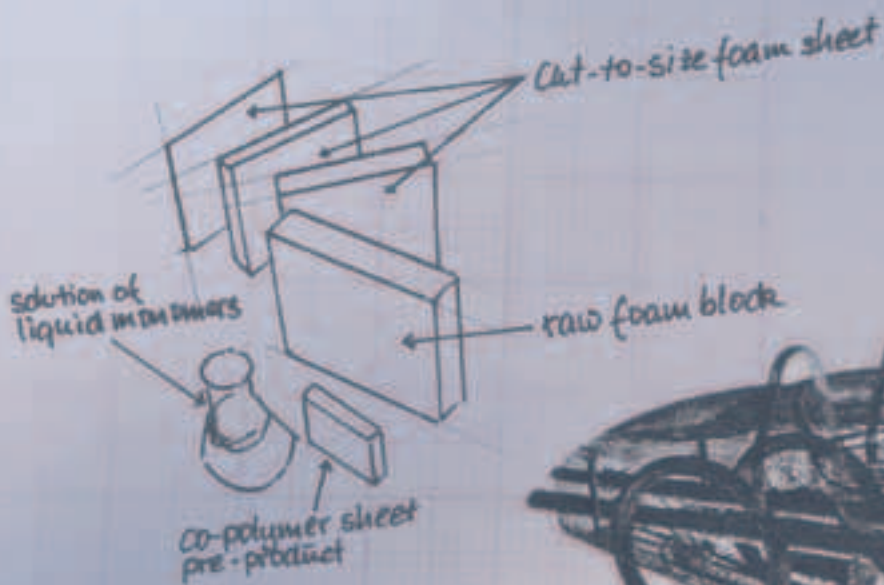
Ideas are spontaneous but realizing them often proves time consuming. For example, several months of joint development work were necessary before the idea that sparked the Wind Explorer could be turned into a viable vehicle. Months that were dominated by questions, complications, unforeseeable hurdles—and the boundless desire to find suitable answers. There is nothing we enjoy more than using our creativity, skill and courage to come up with inspiring solutions to momentous challenges.





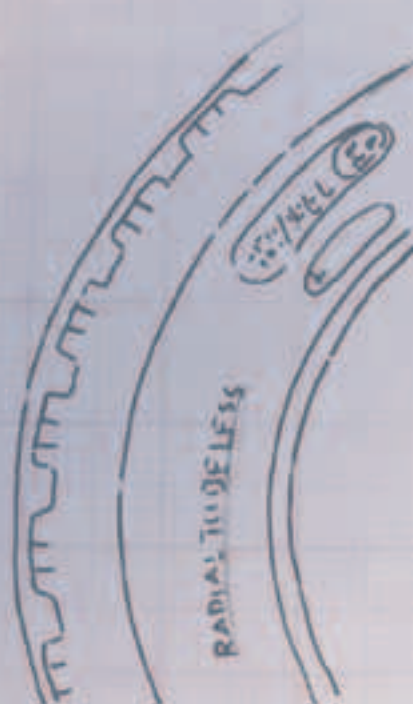
## Lightweight construction

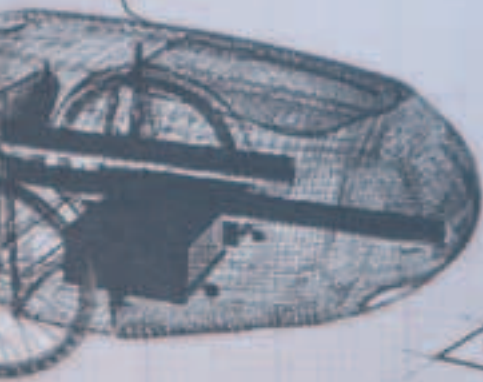
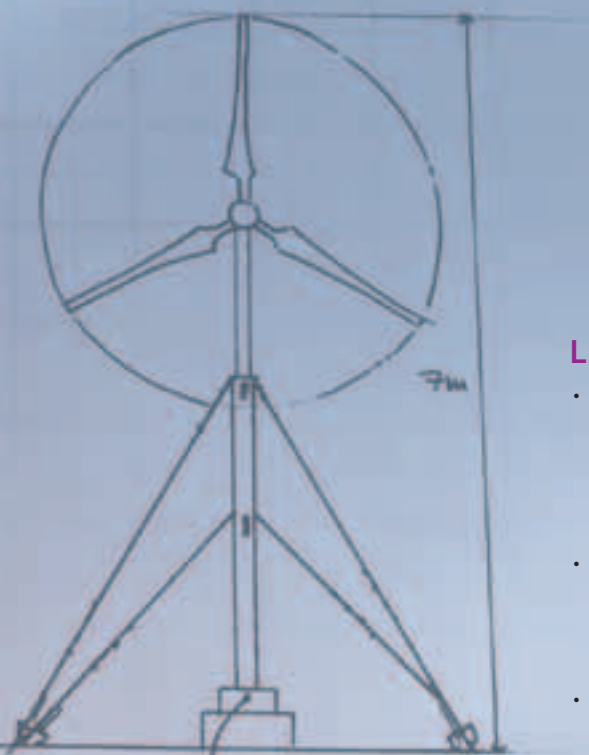
- When it is empty, the Wind Explorer weighs just 80 kg—thanks to ROHACELL®. This high-performance rigid polymethacrylimide foam will play a key role in reducing the weight of tomorrow's vehicles and improve fuel economy.
- ROHACELL® is the core element in high-tenacity sandwich constructions. The outer layers in the sandwich structures used for the Wind Explorer were carbon fiber reinforced plastics (CFRP). This extremely lightweight construction reduces the weight of individual parts by 50 to 60 percent compared with conventional metal components.
- Thermoforming and mechanical processing of ROHACELL® are easy. Together with its highly heat distortion resistance, this makes it extremely suitable for automated production processes with short throughput times.



## Tire technology

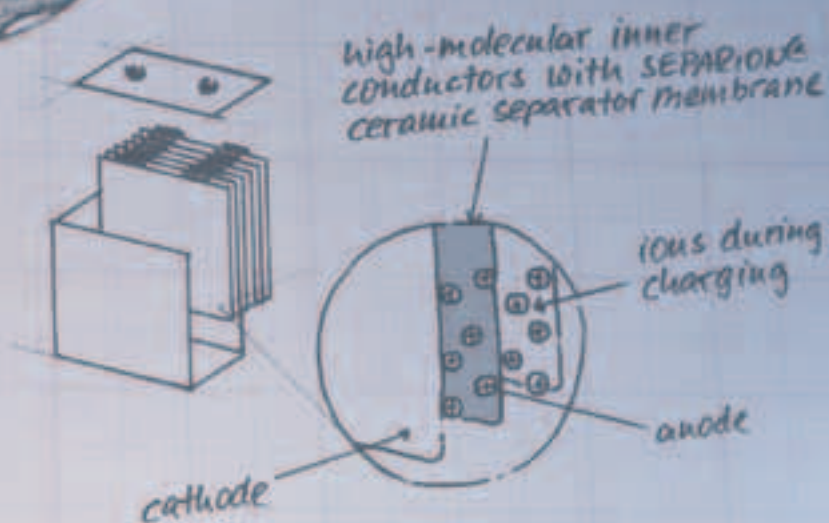
- The rubber blends used in tires are particularly important for their performance because they form the contact to the road surface and thus determine its rolling properties.
- Evonik has further improved the performance of rubber blends with its established silica/silane system. Its latest success is VPSi 363™, a new silane that reduces rolling resistance by 10 percent compared with established silica/silane systems and by around 40 percent compared with non-silica/silane systems. Despite this, there is no reduction in wet grip and service life.
- The lower rolling resistance of the tires reduces fuel consumption by 2 to 8 percent and thus reduces CO<sub>2</sub> emissions.
- Carbon emissions from the production of VPSi 363™ are also reduced. Emissions of substances containing carbon are up to 80 percent lower than from the production of other silanes.





## Lithium-ion technology

- The Wind Explorer has four battery modules, each comprising 14 cells with 2 kWh power. Together, they have a total range of up to 400 km. They are recharged using a portable wind turbine or by electricity from a conventional plug. Charging time: 8 hours.
- The battery cells are also being used by an alliance of Evonik Industries and Daimler. The first product of this alliance will be the e-smart which will go into serial production using this battery cell technology in 2012.
- The key advantage is Evonik's ceramic storage technology. Fully ceramic membranes maximize safety, performance and service life. Their unique feature is the SEPARION® separator. Evonik is the only company able to manufacture this solution.
- LITARION® electrodes and SEPARION® ceramic separators. This custom-tailored combination of key chemical components forms the basis for large-scale energy storage systems with previously unattainable levels of performance.



# Management report

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Sun, sea, wind—what may sound like the ingredients for a perfect vacation actually harbors enormous economic and ecological potential: energy generation from renewable sources. Evonik is working on that. Find out more at [www.evonik.com](http://www.evonik.com)





### Combined management report for 2010

This management report is a combined management report for the Evonik Group and Evonik Industries AG. Given the influence of the business areas, statements relating to the development of the business areas 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).

In view of the agreement to divest Evonik Steag GmbH, the Energy Business Area was reclassified to discontinued operations at year end.<sup>1)</sup> In the consolidated financial statements the prior year figures in the income statement and cash flow statement have been restated, but the prior year balance sheet figures have not. We report on the operational performance of the Energy Business Area in a separate section and separately in the relevant chapters.

<sup>1)</sup> See also Note (5.2) to the consolidated financial statements.



# An outstanding year for Evonik

## Performance and business conditions

### Overview

#### Strong chemicals business

2010 was a very successful year for Evonik. We achieved high earnings in a positive economic climate. At the same time, we drove forward the strategic refocusing of the Group and greatly improved our financial profile.

The key drivers of the very good earnings situation were high global demand and the successful implementation of our Group-wide On Track project. Initiated during the crisis in 2009, this project involves examining all major cost items throughout the Group. The aim is to achieve a sustained reduction in costs of around €500 million from 2012. We made clear progress towards this in 2010. Thanks to the resulting improvement in competitiveness and substantially higher volume sales, the Chemicals Business Area reported an excellent performance. Earnings in all six operating business units were far higher than before the crisis. As a result of the high demand, especially from Asia, many of our production facilities operated at full capacity, including the extensive new production complex for methacrylates and methacrylate specialties in Shanghai (China), where full-scale operation started in 2009.

#### Consistent focus on specialty chemicals

At the end of 2009 we decided to concentrate on specialty chemicals as the focus for our strategic development and our objective of an IPO. We are already one of the world's leading companies in this field. Our energy activities are to be given the opportunity to develop their growth potential to the full with a new majority owner. In December 2010 we signed an agreement to sell 51 percent of our shares in Evonik Steag GmbH to a consortium of municipal utilities from Germany's Rhine-Ruhr region. We plan to divest our stake entirely to the majority partner in five years at the latest and have already concluded a contractual arrangement for this. Accordingly, at year-end 2010 the Energy Business Area was reclassified to discontinued operations.

We are also developing attractive future prospects for our real estate business. We intend to amalgamate Evonik Immobilien GmbH with THS GmbH, in which we have a 50 percent stake, and are examining the possibility of divesting shares in the mid-term. In 2010 we reached agreement with the German Mining, Chemical and Energy industrial union, which holds the other 50 percent of THS, on the framework for the planned merger of these companies and initiated the first steps. Since the start of 2011 both companies have been managed by the same management team.

Our Chemicals Business Area is systematically focusing on high-margin business with attractive growth and earnings potential. Above all, we want to benefit from global megatrends: resource efficiency, health and nutrition, and the globalization of technologies.

#### Growth initiated

We have emerged strengthened from the global economic and financial crisis. Thanks to systematic action to reduce costs and raise efficiency, earnings were very high. At the same time, we are focusing intensively on profitable growth. The main drivers are expanding attractive business in growth regions and gaining access to new markets through innovative products and applications from our research pipeline. We will also consider selective acquisitions to strengthen our core business.

Many markets in which we operate should continue to grow rapidly. To respond to the rising demand and strengthen our market position, we initiated some key investment projects in 2010. These include building a new backwardly integrated production complex for the amino acid DL-methionine in Singapore, which is scheduled to come into service in 2014. Production capacity for precipitated silicas in Asia and Europe is also being increased by 25 percent, also by 2014. Construction of a new production plant for isophorone and isophorone diamine, preferably in Asia, is currently at the planning stage.



### Considerable improvement in our financial profile

Thanks to the very good operating performance, the cash flow from operating activities was a strong €2.1 billion, with €1.6 billion of this coming from the continuing operations. Net financial debt declined from €3.4 billion to €1.7 billion. €1.0 billion of the decline was attributable to the reclassification of the Energy Business Area to assets held for sale. Rating by the Standard & Poor's and Moody's rating agencies in fall 2010 has further improved our access to the capital markets. Our current ratings are only just below investment grade: As of year-end 2010 our rating from Standard & Poor's was BB+, positive outlook while Moody's rated us Ba1, positive outlook.

### Sights firmly set on an IPO

2010 was an outstanding year for Evonik. We also performed very well compared with our competitors

in the chemical industry. The Chemicals Business Area's EBITDA margin of 18.3 percent puts it among the sector leaders. Starting from the strong improvement in earnings, our goal is further profitable growth to ensure we remain among the best in class on a sustained basis. 2010 brought us a step closer to our goal of a successful IPO for Evonik, and we will continue to move systematically in this direction in 2011.

### Substantial rise in business

We registered a substantial upturn in business in the second half of 2009 and this trend continued and gained momentum throughout 2010. Driven by a perceptible rise in demand, especially from Asia and Europe, sales increased 26 percent to €13.3 billion. In the Chemicals Business Area sales grew 29 percent to €12.9 billion, principally due to volumes and prices. The Real Estate Business Area posted a 2 percent rise in sales to €402 million.

### Sales and reconciliation from EBITDA to net income

in € million	2010	2009	Change in %
<b>Sales</b>	<b>13,300</b>	<b>10,518</b>	<b>26</b>
<b>EBITDA (before non-operating result)</b>	<b>2,365</b>	<b>1,607</b>	<b>47</b>
Depreciation and amortization	-726	-739	
<b>EBIT (before non-operating result)</b>	<b>1,639</b>	<b>868</b>	<b>89</b>
Non-operating result, continuing operations	-236	-282	
Net interest expense	-428	-397	
<b>Income before income taxes, continuing operations</b>	<b>975</b>	<b>189</b>	<b>416</b>
Income before income taxes, discontinued operations	73	223	
<b>Income before income taxes (total)</b>	<b>1,048</b>	<b>412</b>	<b>154</b>
Income taxes, continuing operations	-175	-54	
Income taxes, discontinued operations	-80	-46	
<b>Income after taxes</b>	<b>793</b>	<b>312</b>	<b>154</b>
Non-controlling interests	-59	-72	
<b>Net income</b>	<b>734</b>	<b>240</b>	<b>206</b>

Prior-year figures restated.

**Considerable improvement in operating performance**

Strong demand, high capacity utilization and improved margins lifted earnings before interest, taxes, depreciation and amortization, and the non-operating result (EBITDA) 47 percent to €2,365 million. EBIT before the non-operating result improved 89 percent to €1,639 million. In the Chemicals Business Area EBIT surged 83 percent year-on-year to €1,702 million, while the Real Estate Business Area grew EBIT 5 percent to €140 million. Other operations, which include the Corporate Center and the Shared Service Center, reported negative EBIT of minus €203 million compared with minus €198 million in 2009.

**Considerable improvement in net income**

The non-operating loss of €236 million is the net balance of non-operating expense and non-operating income items which are by nature one-off or rare. The main non-operating expenses related to restructuring, impairment losses, pensions and environmental protection. In 2009, the principal non-operating expenses were for restructuring, impairment losses, the divestment of a non-core business and a one-off contribution to the German pension insurance association (Pensions-Sicherungs-Verein a. G.).

**Non-operating result**

in € million	2010	2009
Restructuring	-64	-117
Impairment losses/reversal of impairment losses	-72	-80
Purchase/sale of investments	0	-35
Other	-100	-50
<b>Non-operating loss, continuing operations</b>	<b>-236</b>	<b>-282</b>

Prior-year figures restated.

Net interest expense declined to €428 million, principally due to higher interest from financing activities. Income before income taxes from the continuing operations improved very significantly from €189 million to €975 million. Income before income taxes from the discontinued operations amounted to €73 million and mainly comprised the operating business of the Energy Business Area and one-off expenses relating to the divestment of this business. The previous year's figure of €223 million mainly contains income from the Energy Business Area's operations. Overall, income before income taxes rose 154 percent to €1,048 million. The income tax rate was 24 percent and thus below the expected

Group tax rate of 30 percent owing principally to income from write-ups of deferred tax assets and taxes relating to other periods. Net income rose 206 percent to €734 million.





## Economic background

### Emerging markets pulled the global economy out of recession

Thanks to steady growth in Brazil, India, China, and the other emerging markets in south-east Asia in recent years, the global economy emerged from the previous year's recession and grew by a strong 4.5 percent.

In **Germany** too, the economy picked up quickly. Although the sound growth rate of 3.8 percent was not able to offset the losses sustained in 2009, Germany was the driving force among the established industrialized nations. The reasons for this were the renewed strength of exports, which increased by 14.9 percent, and an 8.5 percent rise in capital expenditures. By contrast, consumer spending remained sluggish, posting only a marginal rise of 0.2 percent even though the unemployment rate fell by 0.5 percentage points to 7.7 percent.

The development in Germany also had a positive impact on the **euro zone**, which reported clear growth of 2.0 percent. Nevertheless, cyclical trends in the other euro zone countries varied considerably. In countries like Greece, Ireland and Spain, where there was a deep financial and debt crisis, the economy shrank by a further 3.9 percent, 0.3 percent and 0.2 percent respectively. By contrast, France and the Netherlands both reported a slight upswing and 1.6 percent growth. Italy also posted a comparatively weak growth rate of 1.0 percent.

Although the new EU member states reported a clear expansionary trend, growth rates varied. This group of countries was headed by the Slovak Republic, where the economy grew by 4.1 percent, Poland (3.5 percent) and the Czech Republic and Estonia (2.4 percent each). At the bottom end of the scale came Slovenia and Hungary with slight growth of 1.1 percent.

The British economy grew by just 1.8 percent, whereas the Scandinavian EU member states reported a perceptible rise averaging 3.1 percent. The mean growth rate in the **EU** was 1.7 percent.

**Russia**, which was badly impacted by the global crisis in 2009, moved out of recession in 2010. Following the downturn in the previous year, a 3.7 percent growth rate was respectable. **Brazil** did far better, growing by 7.5 percent. The top performers among the BRIC states and key global growth drivers were once again **China** and **India**, which were back at the pre-recession level with economic growth rates of 10.5 percent and 9.9 percent respectively.

**Japan** also seems to have emerged from recession. With growth of 3.7 percent, its economy seems to be in better shape again. **South Korea** did even better, posting an impressive growth rate of 6.2 percent.

By contrast, the overall trend in the **United States** was weaker. Although the growth rate climbed to 2.6 percent, other indicators such as the current account deficit of around US\$490 billion, an unusually high unemployment rate by American standards of 9.7 percent, and an only modest rise of 1.7 percent in consumer spending indicate that the US economy, which triggered the global crisis, will continue to feel the aftermath for some time. The situation in the other NAFTA states, Canada and Mexico, seems better. They reported growth rates of 3.0 percent and 5.0 percent.

### Trends in the chemical sector

Germany's export-oriented chemical industry developed analogously to the global economy. Having been badly affected by the crisis in 2009, it benefited from the upbeat global economic climate in 2010. Sales rose by 17.5 percent and foreign sales were 20.0 percent higher. Sales were thus above the level registered in 2008, before the recession. The reasons for this were sharp hikes in demand: a rise of 29 percent in Asia and 33 percent in Latin America was accompanied by an upturn in orders from industrial countries in the EU of a good 15 percent and 24 percent from the new EU member states, as well as 20.0 percent higher demand from Japan. Domestic sales also advanced 14.0 percent to a new all-time high. Pre-products for the automotive, electrical and electronics industries and for detergents and personal hygiene products benefited from the economic upturn. Sales of inorganic base chemicals grew by 18.0 percent, while sales of petrochemicals and derivatives shot up by between 26.0 and 28.0 percent, sales of fine and specialty chemicals were 20.0 percent higher, and polymer sales advanced 28.5 percent. By contrast, sales of pharmaceuticals only rose by 2.5 percent.

The global chemical industry also picked up. Growth was 13 percent in the EU while sales were up 8.5 percent in the United States. Output grew by 3.5 percent in Japan, 4.5 percent in South Korea, and 14 percent in China. The upswing also continued in Brazil (6.5 percent) and India (5.5 percent).



### Trends in the residential real estate sector

The German housing market is dominated by owner-occupiers and private landlords. Foreign institutional investors strengthened their position on the market in the period prior to the financial markets crisis by acquiring property portfolios and real estate companies from public-sector housing corporations and other owners. Since then, activity by foreign investors on the German residential real estate market has dropped off significantly, although the comparatively reliable returns are reviving long-term investors' interest in real estate assets. 111 real estate portfolios with around 49,500 residential units were sold in 2010.

General demand for housing is directly linked to the number of private households and their disposable incomes. The number of households is continuing to rise as the average size of households is declining, although there is a clear divergence between the situation in different towns and communities. There were also differences in the development of net rents for residential property (excluding utility charges). Overall the average net rent for new contracts increased by nearly 1.1 percent in 2010 (2009: 0.9 percent).

A turnaround in residential construction was registered in 2010. Construction permits were issued for 192,000 units (2009: 176,000), and were thus back above the prior-year level. Around 173,000 housing units were completed in 2010 (2009: around 143,000). Construction of new apartments and owner-occupied properties was thus once again well below the forecast requirement of between 183,000 and 256,000 units p.a. up to 2025.

### Trends in the energy sector<sup>1)</sup>

As a result of the cold weather at the start of the year and the recovery in the German economy, energy consumption in Germany picked up compared with 2009. Overall, primary energy consumption was approximately 4.0 higher than in 2009 at around 478 million metric tons hard coal equivalents, but that was still below the pre-recession level. Demand for hard coal benefited most from the economic trend. Total consumption of hard coal rose by 15.0 percent and German power plants used about 7.0 percent more hard coal than in the previous year.

In view of the higher demand from industrial users, German power consumption rose by more than 4.0 percent to around 603 terawatt hours (TWh) in 2010. Gross power generation was around 620 TWh. Power generation from hard coal increased 7.5 percent to around 116 TWh. Renewable energies accounted for 102 TWh (16.5 percent of total energy generation).

Fuel prices were low in the first quarter of 2010 but picked up during the year and by end-December they were well above the level registered at the start of the year. At the beginning of the year, the European market for steam coal (ARA region) was dominated by the extremely cold winter in Europe and China, with prices being pushed up by high demand. Prices then declined substantially through the first quarter and only started to rise significantly again from April. They then remained stable until December. In view of the improvement in economic situation a slight upward trend was registered in prices for CO<sub>2</sub> trading allowances and energy prices from April 2010. On average, prices were above the previous year's level.

A new energy concept was adopted in fall 2010 under the auspices of the German government. The overall strategy for the period up to 2050 includes guidelines for reliable, affordable and environmentally compatible energy supply. Renewable energies should comprise the bulk of the future energy mix. By 2050 they should account for 80 percent of gross annual power consumption, and greenhouse gas emissions should also be reduced by 80 percent by then. The operating period for German nuclear power plants was extended by an average of twelve years.

<sup>1)</sup> All data on primary energy consumption and power generation/consumption are provisional data from AG Energiebilanzen e. V. and the German water and energy industry association (BDEW).



## Business activities

### Corporate strategy geared to profitable growth

Evonik is one of the world's leading specialty chemicals companies. It also has investments in the energy and residential real estate sectors. Our strategy is aligned to profitable growth and sustained value creation. We are preparing resolutely for an IPO, in line with the objectives of our owners RAG-Stiftung (direct and indirect shareholdings 74.99 percent) and funds of the financial investor CVC Capital Partners (25.01 percent).

Our operating activities are grouped in eight operating business units, which are allocated to the Chemicals, Energy and Real Estate Business Areas. The business units operate as entrepreneurs within the enterprise. The Corporate Center supports the Executive Board in the strategic management of the company, while a Shared Service Center efficiently bundles internal services. The Energy Business Area has been reclassified to discontinued operations due to the agreement on its divestment.

Our specialty chemicals activities address economic megatrends and give us access to attractive future markets. We see especially promising opportunities in resource efficiency, health and nutrition, and the globalization of technologies. The Chemicals Business Area already generates more than 80 percent of sales in areas in which it ranks among the market leaders, thanks to our unique technology platforms and integrated production structures. Our strengths include a balanced spectrum of business lines and end markets, close collaboration with customers, and market-oriented research and development.

Our real estate business focuses on letting to private households. We manage a portfolio of around 60,000 company-owned residential units concentrated in the federal state of North Rhine-Westphalia (NRW) in Germany. This is supplemented by a 50 percent stake in THS, which owns more than 70,000 residential units. These are also located predominantly in the federal state of NRW. As part of our alignment to specialty chemicals, we plan to amalgamate the real estate business of Evonik and THS and are examining the possibility of divesting shares in the mid-term.

### Divestment of Energy agreed

Our energy activities, which are bundled at Evonik Steag GmbH, are to be given the opportunity to develop their growth potential to the full with a new majority owner. At the end of 2010, we therefore signed an agreement with a consortium of

municipal utilities from Germany's Rhine-Ruhr region on the divestment of 51 percent of our shares in Evonik Steag GmbH. This transaction valued the company at €3.770 billion. After deducting liabilities, the provisional purchase price for the 51 percent stake is €644 million. Since the agreement was still contingent upon the approval of the relevant bodies on the reporting date, this stake will only be deconsolidated when the purchase agreement takes effect in 2011. From then on, the remaining 49 percent stake will be recognized at equity and will yield a fixed return. In addition, a contractual agreement was made that enables us to sell our entire stake in Evonik Steag GmbH to the consortium of municipal utilities in five years at the latest. At the same time, the consortium has a contractually agreed option to acquire the remaining 49 percent of shares from January 1, 2014. A range was set for the purchase price when the purchase agreement was signed in December 2010, and it will probably be €607 million.

In view of the agreement to divest this business, the Energy Business Area was reclassified to discontinued operations at year end. The prior-year figures have been restated accordingly<sup>1)</sup>. We report on the business performance of the Energy Business Area in a separate section<sup>2)</sup> and separately in the relevant chapters.



### INFORMATION

**Strategy:** Focus on specialty chemicals; attractive future prospects for the energy and real estate businesses

**Upswing:** Sales and earnings boosted significantly by high demand

**Earnings hike:** Earnings well above pre-recession level thanks to efficiency enhancement program and expansion of market position


**Growth course:** Key investment projects initiated

**Ratings:** Only just below investment grade

**Heading for the capital markets:** In 2011 Evonik will systematically pursue its goal of an IPO

<sup>1)</sup> See also Note (5.2) to the consolidated financial statements.

<sup>2)</sup> See performance of the business areas on page 56.



### **Evonik accepts its responsibility**

Evonik aims to be a fair, reliable and responsible business partner. We accept responsibility—for our business, our employees and society. That is how we define corporate responsibility (CR). As part of our corporate strategy, our CR strategy takes up economic megatrends as well as ecological and social challenges and supports the development of new business activities. We are systematically extending our CR activities on this strategic basis and inform the general public of our activities.

### **Program to raise efficiency is making very good progress**

As a response to the economic crisis, at the start of 2009 we introduced the On Track efficiency enhancement program, initially to cut costs in the short term to overcome the economic crisis, and additionally to make savings of €500 million from 2012. To bring a sustained improvement in our competitiveness, we are reviewing all major cost positions in the Group and analyzing our structures and processes. The measures identified by year-end 2010 mean that specific activities have been defined to achieve the full savings targeted by the On Track program. Over 75 percent of the measures had been implemented by the end of 2010.

### **Global activities**

Evonik operates worldwide and has production facilities in 28 countries. The largest sites such as Marl, Wesseling and Rheinfelden (Germany), Antwerp (Belgium), Mobile (Alabama, USA) and Shanghai (China) have integrated production structures used by various business units. That means, for example, that by-products or waste from one production facility can be used as starting materials for other products. This results in optimum utilization of resources and thus high added value. Moreover, the business units can share the site energy supply and infrastructure cost-effectively. For technical or logistics reasons, we operate some production facilities close to our customers or on their sites (fence-to-fence facilities). There are also many smaller sites around the world that are only used by one business unit.

### **Further optimization of procurement**

We aligned our responsibility along the supply chain more closely to risk aspects in 2010 and integrated quality, safety, health, environmental protection and corporate responsibility obligations as firm elements in the conclusion of new contracts. A critical review of established supply relationships was carried out to identify any need for action.

To improve efficiency, procurement activities are now bundled in centrally managed global units to allow better utilization of Group-wide pooling of demand. Interactive collaboration with the business units is regarded as a key factor for the success of procurement and enabled us to make further significant and sustained savings in 2010.

Evonik is playing an active role in an initiative by the German government and European Union to secure the supply of strategic raw materials to Europe. Potential supply bottlenecks are systematically identified and addressed by action to eliminate them, for example, by accessing additional sources of supply.

In 2010, Evonik spent more than €9 billion on raw materials, energy, technical equipment and services. Raw materials account for around half of total procurement volume. Of especial importance for the Chemicals Business Area are petrochemical feedstocks, particularly steam cracker products and their derivatives, which make up around 30 percent of procurement of raw materials. Mono alcohols, silicon compounds and renewable raw materials are also very important.

In 2010 the value of renewable raw materials used, especially fats, oils, saccharide and bioethanol, increased to over €300 million. By far the highest proportion of these raw materials is used in the production of high-quality starting products for the consumer goods industry and the fermentation of amino acids. Around 65 percent of the materials used by Evonik to produce skin protection products are already based on natural raw materials.

There was a substantial hike in raw material prices in the Chemicals Business Area during the year in both Europe and North America, but the highest price rises were registered in Asia. The price trend for petrochemical feedstocks reflected the sharp rise in the oil price in the second half of the year.



### Positive and far higher EVA®

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

Due to Evonik's structure, the indicators have to take account of the differences between the various operations yet be comparable across the Group. To sharpen our focus on the goal of profitable growth and enhance its transparency, at the start of 2010 the indicator used for value-oriented management at Evonik was altered to EVA® (economic value added). As the key indicator, EVA® is supported by relevant value drivers and additional indicators, which are used to manage the Group and create value. These are derived from uniformly defined performance indicators taken from the income statement, balance sheet and cash flow statement. In addition, specific value drivers are used to manage the individual businesses.

ROCE measures the return on capital employed based on the Group's cost of capital. If ROCE is above the cost of capital, EVA® is positive and the Group creates value. ROCE is calculated from the ratio of EBIT to average capital employed. EVA® is calculated by multiplying capital employed by the difference between ROCE and the cost of capital.

The cost of capital for the business areas is the risk-adjusted return target. It is calculated using the capital asset pricing model and WACC (weighted average cost of capital) based on peer groups for each business area. WACC reflects the internal mid-term management perspective. In the annual review for 2010, Evonik's cost of capital was adjusted to 9.5 percent (2009: 8.0 percent) to reflect market rates.

### Capital employed and ROCE

in € million	2010	2009
<b>EBIT (before non-operating result)</b>	<b>1,639</b>	<b>868</b>
Intangible assets	3,543	3,586
+ Property, plant and equipment/investment property	5,882	5,854
+ Investments	602	605
+ Inventories	1,480	1,486
+ Trade accounts receivable	1,781	1,463
+ Other non-interest-bearing assets	397	532
– Interest-free provisions	–1,080	–899
– Trade accounts payable	–929	–645
– Other interest-free liabilities	–749	–712
<b>= Capital employed<sup>1)2)</sup></b>	<b>10,927</b>	<b>11,270</b>
<b>ROCE (EBIT/capital employed) in %</b>	<b>15.0</b>	<b>7.7</b>

<sup>1)</sup> Annual averages.

<sup>2)</sup> Definition altered in 2010; prior-year figures restated.

## ROCE by business area

in %	2010	2009
Chemicals	18.4	9.9
Real Estate	7.7	7.3
<b>Evonik</b>	<b>15.0</b>	<b>7.7</b>
For information: Energy	13.1	9.7

In 2010 we lifted ROCE significantly year-on-year to 15.0 percent. This was attributable to a slight reduction in capital employed and, above all, the sharp hike in earnings. This indicator was well above the current cost of capital. In the Chemicals Business Area ROCE improved from 9.9 percent to 18.4 percent, principally because of the substantial rise in demand, improved margins and sustained increase in the efficiency of net working capital. The improvement in EBIT in the Real Estate Business Area increased ROCE to 7.7 percent.

In the Energy Business Area ROCE climbed to 13.1 percent as a result of the considerable improvement in earnings.

EVA® was €601 million in 2010, an improvement of €803 million compared with the previous year<sup>1)</sup>.

## Earnings position

### Substantial improvement in earnings from continuing operations

Sales advanced 26 percent in the Evonik Group to €13,300 million, chiefly due to volume and price trends. The cost of sales only rose by 22 percent. That was principally due to lower production costs as a result of higher capacity utilization, while the increase in raw material costs had a counter effect. The gross profit on sales increased by 38 percent to €3,860 million. Selling expenses were 16 percent higher at €1,174 million as a consequence of the upturn in business. To safeguard our future growth, we stepped up research and development. R&D spending was 13 percent higher than in the previous year at €338 million.

### Considerable improvement in margins

Since the EBITDA margin is a relative figure, it provides a key basis for internal and external comparison of cost structures and profitability. Depreciation, amortization and impairment losses are not included in EBITDA, so the EBITDA margin can be taken as an approximation of the return on sales-related cash flows.

The Group's EBITDA margin rose strongly from 15.3 percent to 17.8 percent as a result of the substantial improvement in EBITDA. In particular, the Chemicals Business Area lifted its EBITDA margin significantly to 18.3 percent.

### EBITDA margin by business area

in %	2010	2009
Chemicals	18.3	16.1
Real Estate	47.3	46.5
<b>Evonik</b>	<b>17.8</b>	<b>15.3</b>
For information: Energy	19.0	16.3

The other operating income of €968 million includes income from the valuation of derivatives (€374 million), currency translation of monetary items (€318 million) and income from non-core activities (€71 million). The €110 million rise compared with 2009 is principally due to higher income from currency translation. The other operating expenses of €1,347 million included, among other things, expenses for the valuation of derivatives (€451 million), currency translation of monetary items (€245 million), allocations to provisions (€146 million) and impairment losses on assets (€144 million). The increase of €56 million compared with 2009 was mainly due to higher expenses for currency translation. Income before the financial result and income taxes for the continuing operations improved 155 percent to €1,339 million.

<sup>1)</sup> Prior-year figure restated to reflect the current cost of capital.



**Income statement for the Evonik Group**

in € million	2010	2009
Sales	13,300	10,518
Cost of sales	-9,440	-7,730
<b>Gross profit on sales</b>	<b>3,860</b>	<b>2,788</b>
Selling expenses	-1,174	-1,013
Research and development expenses	-338	-298
General administrative expenses	-630	-519
Other operating income	968	858
Other operating expenses	-1,347	-1,291
<b>Income before the financial result and income taxes, continuing operations</b>	<b>1,339</b>	<b>525</b>
Financial result	-364	-336
<b>Income before income taxes, continuing operations</b>	<b>975</b>	<b>189</b>
Income taxes	-175	-54
<b>Income after taxes, continuing operations</b>	<b>800</b>	<b>135</b>
Income after taxes, discontinued operations	-7	177
<b>Income after taxes</b>	<b>793</b>	<b>312</b>
of which attributable to		
Non-controlling interests	59	72
Shareholders of Evonik Industries AG (net income)	734	240

Prior-year figures restated.

**Net income tripled**

The financial result decreased slightly by €28 million to minus €364 million, mainly due to higher interest expense for financing. Income before income taxes from the continuing operations increased fivefold to €975 million. Income tax expense was €175 million, giving a tax rate of 18 percent. The income tax rate was below the expected Group

tax rate of 30 percent, mainly as a result of income from the write-up of deferred tax assets and taxes for prior periods. In the previous year, the income tax rate of 29 percent was roughly in line with the Group tax rate. Overall, income after taxes for the continuing operations increased from €135 million to €800 million.

Income after taxes for the discontinued operations was minus €7 million and comprised operating income for the Energy Business Area (€249 million), one-off expenses of €251 million in connection with the divestment of this business and expenses of €5 million relating to the sale of non-core activities in previous years. The previous year's figure mainly comprises operating income for the Energy Business Area. Net income improved considerably from €240 million to €734 million.



# Financial condition

## Effective financial management

The central objectives of financial management are to safeguard the financial independence of the Evonik Group and limit refinancing risks. Funding for Group companies, including guarantee obligations and warranties, is therefore managed centrally by Evonik Industries AG. To reduce external borrowing, surplus liquidity is placed in a cash pool at Group level to cover financing requirements in other Group companies. Evonik has a flexible range of corporate financing instruments to meet capital requirements for day-to-day business, investments and the repayment of financial debt.

## Evonik rated for the first time by credit rating agencies

In September 2010, Evonik Industries AG received its first external rating from the credit rating agencies Standard & Poor's and Moody's. Standard & Poor's gave Evonik a BB+ rating with a positive outlook,

while the rating from Moody's was Ba1 with a stable outlook. At the same time, the outstanding €750 million bond (2009/2014) issued by Evonik Industries AG received the same ratings. In December 2010, Moody's raised the outlook for its Ba1 rating from stable to positive. Evonik Degussa GmbH and its €1.25 billion bond, which matures in 2013, have been rated by Standard & Poor's since 2003. In September 2010, this rating was raised from BB to BB+, positive outlook.

## Further reduction in net financial debt

Financial assets increased considerably to €1,567 million thanks to the very good business trend. Net financial debt declined substantially from €3,431 million at year-end 2009 to €1,655 million. This amount does not include the €1,025 million allocated to the Energy Business Area, which is classified as assets held for sale.

## Net financial debt

in € million	Dec. 31, 2010	Dec. 31, 2009
Non-current financial liabilities	-2,915	-4,040
Current financial liabilities	-307	-455
<b>Financial debt</b>	<b>-3,222</b>	<b>-4,495</b>
- Cash and cash equivalents	1,103	885
- Current securities	388	23
- Receivables from derivatives	66	128
- Other financial assets	10	28
<b>Financial assets</b>	<b>1,567</b>	<b>1,064</b>
<b>Net financial debt as stated on the balance sheet</b>	<b>-1,655</b>	<b>-3,431</b>
Net financial debt, discontinued operations	-1,025	
<b>Net financial debt (total)</b>	<b>-2,680</b>	

In connection with the closing of the sale of the Energy Business Area, the net financial debt shown on the balance sheet will be increased by the net effect of the Energy Business Area's cash pool receivables from Evonik Industries AG and a liability from Evonik Steag GmbH under the profit and loss transfer agreement. The net effect amounted to €359 million on the reporting date.

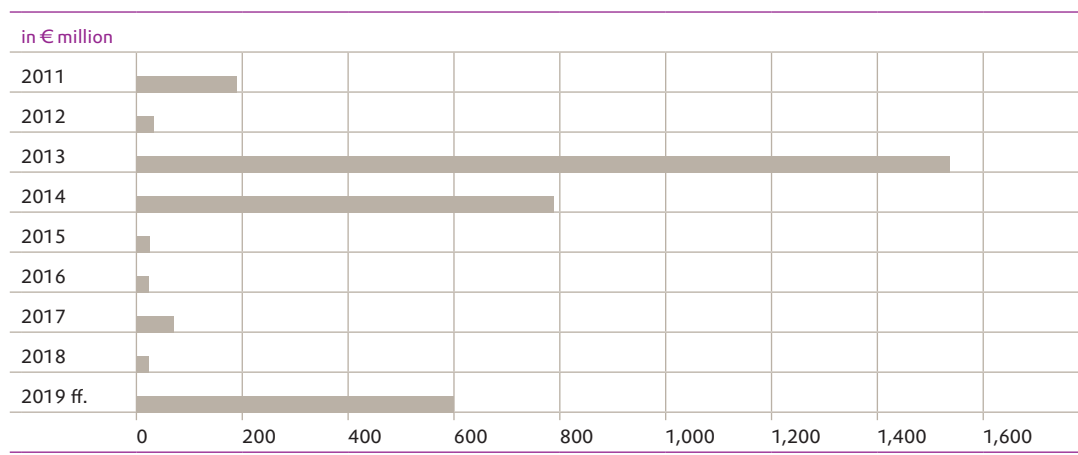
In addition to reducing financial debt, in 2010 Evonik started to transfer the financing of unfunded pension obligations relating to direct pension commitments given to employees. A contractual trust arrangement (CTA) was established for this purpose, and €200 million funding was allocated to it as a first step<sup>1)</sup>. There are plans to increase the funding of the CTA stepwise in subsequent years.

<sup>1)</sup> See also Note (7.10) to the consolidated financial statements.

**Corporate bond is a central financing instrument**

The financial debt of €3.2 billion comprises two corporate bonds totaling €2.0 billion, long-term real estate financing<sup>1)</sup> (€0.5 billion), decentralized borrowing (€0.3 billion), promissory notes (€0.2 billion), and other liabilities (€0.2 billion).

On the reporting date the Energy Business Area had project financing of over €1.1 billion, which is included in the balance sheet item “liabilities associated with assets held for sale”.

**Maturity profile of financial liabilities (continuing operations)**

As of December 31, 2010.

**Comfortable liquidity cushion**

Alongside cash and cash equivalents of €1,103 million and current securities totaling €388 million, the Group's central source of liquidity is a €1.5 billion revolving credit facility (RCF) from a syndicate of around two dozen national and international banks. This credit facility has been in place since June 2010 and comprises three tranches of €500 million each, with terms of two, three, and five years. If the RCF is drawn, interest is charged at the EURIBOR rate plus a margin. This credit facility was not drawn at any time in 2010.

Under the covenants for this RCF Evonik has given an undertaking that it will meet specific financial ratios. The most important of these relates to leverage, in other words, the ratio of net debt to EBITDA. There are two other covenants comprising interest cover (EBITDA relative to the net interest position) and the loan-to-value ratio, an asset-based indicator that looks at the net financial debt

of the Real Estate Business Area relative to the market value of its property. Timely monitoring of these ratios and forecasting of their development is ensured. We report quarterly to the banks in the syndicate on compliance with these covenants. In 2010 Evonik was able to demonstrate that it had met all contractually agreed minimum requirements by a wide margin on all reporting dates.

**Capital expenditures are still focused on profitable growth**

Evonik is expanding in business segments and markets where it already has—or intends to build—a strong competitive position. Selective capital expenditures secure the potential for profitable long-term growth and opportunities to generate high returns. Every project is subject to a detailed strategic and economic analysis, including sensitivity analyses and scenarios that simulate the main risks, and has to meet business-specific and risk-adjusted minimum return criteria which include covering the cost of central functions.

<sup>1)</sup> See also Note (7.12) to the consolidated financial statements.

In 2010 we increased investment in property, plant and equipment by 15 percent to €652 million (2009 excluding the Energy Business Area: €569 million). This rise was based on strategic growth projects and other major projects initiated before the crisis, which we continued as planned despite the situation. The first newly approved projects relating to the vision of value-enhancing growth of the Chemicals Business Area were added in 2010. These will result in higher capital expenditures in the coming years.

The largest individual project in 2010 was the construction of a combined monosilane and AEROSIL® facility at our site in Yokkaichi (Japan). Completion and start-up are scheduled for the first half of 2011.

The Chemicals Business Area once again received the largest proportion of capital expenditures—92 percent—and 6 percent was invested in the Real Estate Business Area. The regional focus of capital expenditures was Germany, which accounted for 48 percent of the total, followed by Asia, which accounted for 26 percent.

**Major projects completed or virtually completed in 2010**

Business Area	Location	Project
<b>Chemicals</b>	Antwerp (Belgium)	New production facility for agrochemical intermediates New production facility for isobutene
	Merano (Italy)	New production facility for chlorosilanes
	Nanning (China)	New production facility for pharmaceutical active ingredients
	Shanghai (China)	New synthesis facility for MTBE
	Worms (Germany) and Mobile (Alabama, USA)	Capacity expansion specialty polymers
	Marl (Germany)	Optimization of C <sub>12</sub> production
	Hanau (Germany)	New office building
<b>Real Estate</b>	Germany	Mainly selective modernization and improvement of energy efficiency, new developments in the Cologne region
<b>For information: Energy</b>	Herne (Germany)	Optimized separation of wastewater streams
	Gelsenkirchen (Germany)	Erection of wind turbines on a reclaimed overburden dump

For information on current capital expenditure projects, please see the sections on the business areas and regions.

€163 million was invested in the Energy Business Area. As in previous years, construction of a 790 MW hard-coal power plant in Duisburg-Walsum was the largest project. Start-up of this plant has been delayed due to technical problems.

Additions to financial assets in the continuing operations increased by €8 million year-on-year to €36 million.

**Strong cash flow**

The cash flow from operating activities reported by the continuing operations improved by €182 million to €1,571 million, mainly because of their very good operating performance. Net working capital increased €186 million, and thus by less than the considerable expansion of business. By contrast, in 2009 the cash flow was boosted by the successful

€524 million reduction in net working capital. The discontinued operations contributed a cash flow from operating activities of €504 million, compared with €703 million in the previous year. Overall, the cash flow from operating activities was €2,075 million and thus around the previous year's high level.

The outflow of funds for investing activities increased considerably to €1,272 million. With outflows for capital expenditures and financial investments virtually unchanged, the rise was mainly due to the purchase of current securities and amounts allocated to the contractual trust arrangement for pensions. The strong cash flow from operating activities enabled us to finance capital expenditures, the dividend payment for 2009 and the CTA, as well as considerably reducing net debt.

**Cash flow statement for the Evonik Group (excerpt)**

in € million	2010	2009
Cash flow from operating activities, continuing operations	1,571	1,389
Cash flow from operating activities, discontinued operations	504	703
<b>Cash flow from operating activities</b>	<b>2,075</b>	<b>2,092</b>
Cash flow from investing activities <sup>1)</sup>	-1,272	-632
Cash flow from financing activities <sup>1)</sup>	-377	-1,113
<b>Change in cash and cash equivalents<sup>1)</sup></b>	<b>426</b>	<b>347</b>

<sup>1)</sup> Including discontinued operations.

## Asset structure

### Increase in total assets

Total assets increased by €1.6 billion to €20.5 billion. Assets relating to the Energy Business Area amounting to €3.1 billion were reclassified from non-current assets to assets held for sale. Without this, non-current assets would have risen €0.4 billion to €10.7 billion. Within current assets, assets totaling €1.4 billion relating to the Energy Business Area were reclassified, so the current assets of €9.8 billion contained €4.5 billion relating to the discontinued operations. After adjustment for this reclassification, current assets increased by €1.3 billion to €5.3 billion. As a result of the significant upturn in business, there was an increase in inventories in particular, and also in trade accounts receivable, cash and cash equivalents and financial assets

(purchase of current securities). Non-current assets decreased to 52 percent of total assets as a result of the reclassification of the Energy Business Area to current assets. The assets are financed by liabilities with the same maturity structure.

Equity increased by €0.8 billion to €6.0 billion. The equity ratio improved from 27.6 percent to 29.1 percent. Non-current liabilities declined by €2.1 billion to €8.1 billion, mainly because liabilities totaling €1.9 billion relating to the Energy Business Area were reclassified to liabilities associated with assets held for sale. Current liabilities of €6.4 billion include €3.0 billion relating to the Energy Business Area.

**Evonik Group: Balance sheet structure**

in € million	2010 <sup>1)</sup>	2009 <sup>1)</sup>		2010 <sup>1)</sup>	2009 <sup>1)</sup>
Non-current assets	10,739 (52%)	13,469 (71%)	Equity	5,969 (29%)	5,214 (28%)
			Non-current liabilities	8,127 (40%)	10,192 (54%)
Current assets	9,804 (48%)	5,438 (29%)	Current liabilities	6,447 (31%)	3,501 (18%)
	<b>20,543</b>	<b>18,907</b>		<b>20,543</b>	<b>18,907</b>

<sup>1)</sup> As of December 31.

<sup>2)</sup> Assets held for sale (Energy Business Area).

<sup>3)</sup> Liabilities associated with assets held for sale (Energy Business Area).



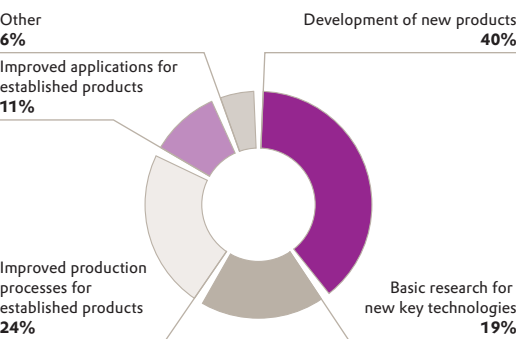
# Research and development

## Profitable growth driven by R&D

The strength of our research and development (R&D) is our recurrent ability to bring innovative new products onto the market. This is evidenced by the large number of new patent applications: On this count we have been among the leaders in the specialty chemicals sector for years. We selectively build on our good position through market-oriented R&D. In 2010 we increased our spending on R&D by 13 percent to €338 million. This high level of expenditure underscores the especial significance that we attach to R&D as the basis for profitable future growth.

In the specialty chemicals sector in particular a constant stream of demanding new products and applications is indispensable to ensure lasting success in the face of global competition. The development of new products accounts for 40 percent of R&D spending in the Chemicals Business Area, while 19 percent is allocated to the development of new technology platforms. The Chemicals Business Area's global R&D network comprises more than 35 locations with around 2,300 employees. Special attention is paid to Asia: Our R&D Center in Shanghai (China) has already been extended for the second time. In October 2010, we also embarked on preparations for a new project house which is scheduled to start operating in Taiwan in April 2011. This Advanced Project House for Light & Electronics will integrate business development as a key aspect of its activities. It will focus on the optoelectronics industry, and thus on a market with extremely fast innovation cycles. This is our first project house outside Germany and provides an additional hub for our customers in the fast-growing Asian region.

## Chemicals Business Area: R&D spending



## Year of Science 2010

In 2010, the Year of Science—an initiative of the Federal Ministry for Education and Research (BMBF)—was dedicated to the Future of Energy. The central themes were the search for efficient and environmentally compatible means of using various energy sources, and for new types of energy and energy resources. Other focal points included new solutions for the storage, management and transmission of energy. Evonik was the BMBF's partner for the Year of Science 2010. A fundamental aspect of shaping the future of energy and the related research is resource efficiency—a megatrend which has special significance for Evonik: It has been defined as one of our growth areas and is a field where we are engaged in wide-ranging research and the development of solutions.

At the fifth Evonik Meets Science forum held in Marl (Germany) in June 2010, more than 200 research scientists from Evonik and experts from Germany and abroad spent two days discussing the future of energy. Evonik's competence in energy efficiency and climate protection is bundled at the Eco<sup>2</sup> Science-to-Business Center (Eco<sup>2</sup> S2B Center) run by the strategic research unit Creavis Technologies & Innovation. At Evonik Meets Science, experts gave presentations on current research into topics such as carbon separation and use, energy generation, energy storage, solutions to raise energy efficiency for customers, and lifecycle assessments. Regular Evonik Meets Science forums are also held in the USA and in Asia.

## New energy efficiency projects initiated

Two new projects at the Eco<sup>2</sup> S2B Center also receive funding from the Federal Ministry of Education and Science. These are the OPHINA and EffiCO<sub>2</sub> projects, both of which are part of the S2B Center's CO<sub>2</sub> separation and use development line.

OPHINA (organophilic nanofiltration for energy-efficient processes) aims to reduce CO<sub>2</sub> emissions through the use of organic solvent nanofiltration (OSN) as an alternative to energy-intensive thermal separation processes. All industrial partners in this project (Evonik, Cognis GmbH, Bayer Technology Services) are evaluating OSN to optimize the energy efficiency of their own processes. RWTH University in Aachen (Germany) is the academic partner in this research consortium, which is led by Evonik.



The second research project is dedicated to carbon separation. Present technology for removing CO<sub>2</sub> from flue gases in power plants reduces efficiency by up to 12 percent. To prevent this, the EffiCO<sub>2</sub> project aims to develop new absorbents that enhance the efficiency of CO<sub>2</sub> separation, minimize consumption and require less energy for regeneration.

#### **Electromobility: systematically transferring research to practical applications**

The search for new, energy-efficient technologies to support individual mobility is still in full swing, but electromobility presently has an edge. The Chemicals Business Area is working on proprietary technology for serial production of cells for large-scale lithium-ion batteries. In recent years we have invested more than €100 million in this. In parallel with this manufacturing in Kamenz (Germany) has gradually been placed on an industrial scale in collaboration with our strategic partner Daimler AG, and we have raised production capacity for battery cells. To safeguard the supply of raw materials for the production of battery cells, we have initiated capacity increases for the production of ceramic

separators and electrodes. The new batteries will be built into electric cars for the first time from 2012. Our aim is to be Europe's no. 1 manufacturer of large-scale lithium-ion battery cells and components.

As part of the "Lithium-Ion Battery (LIB) 2015" research initiative, Evonik is driving forward the three-year LESSY (lithium electricity storage system) project funded by the Federal Ministry of Education and Research at its Eco<sup>2</sup> S2B Center. Evonik has gained two industrial partners for this project, its own subsidiary Li-Tec Battery GmbH, a joint venture with Daimler AG, and Digatron Industrie-Elektronik GmbH. The academic project partners are the University of Münster, EWE-Forschungszentrum für Energietechnologie (Next Energy), and the Power Engineering Institute at the HTW Saarland University of Applied Sciences. The development of large-scale batteries is initially focused on grid regulation, specifically primary regulation energy, which is currently provided by conventional power stations. The LESSY project is developing components for a lithium-ceramic battery specifically for primary regulation in the energy sector. It will then build and operate an initial installation with 1 MW regulation power and storage capacity of around 700 kWh at Evonik's Fenne power plant in Völklingen (Germany), which provides surplus energy as regulation energy for the German grid.

Alongside power supply, reducing vehicle weight is a key aspect of electromobility. Our lightweight construction studio, which we opened in Darmstadt (Germany) in June 2010, brings together research findings and examples of products. For example, we present components made of PLEXIGLAS®, ROHACELL® rigid foam and VESTAMID® high-performance plastic, which reduce vehicle weight and thus make a key contribution to fuel economy and reducing CO<sub>2</sub> emissions.



#### **INFORMATION**

##### **Science-to-Business Centers**

**Focus:** R&D in areas with a high specific risk that represent completely new territory for Evonik

**Duration:** At least five years

**Current:** Eco<sup>2</sup>, Nanotronics, Bio

##### **Project Houses**

**Focus:** Fundamental R&D centering on medium-risk interdisciplinary projects

**Duration:** Three years

**Current:** Systems Integration

**Upcoming:** Advanced Project House Light & Electronics in Taiwan

##### **Start-ups and spin-offs**

Commercialization of the results of strategic R&D

## R&D in the Chemicals Business Area

R&D employees	approx. 2,300
Locations	more than 35
Total R&D projects	approx. 500
R&D projects focusing on resource efficiency	approx. 100
Cooperation with universities and scientific institutes	approx. 300
Number of new patent applications	approx. 250
Patents (granted and pending)	more than 24,000
Registered trademarks (granted and pending)	more than 7,500

### Modern innovation structures and processes are a hallmark of Evonik

Key success factors for our Chemicals Business Area are excellent market insight, close relationships with customers and efficient R&D. This is based on our modern innovation structures and processes, which are designed to turn ideas into profit by translating them into marketable products as quickly as possible.

Strategic research geared to building new high-tech activities outside Evonik's present business portfolio is bundled at Creavis, which receives 15 percent of the R&D budget allocated to Chemicals. The Project Houses, S2B Centers and internal start-ups operated by Creavis are optimally aligned complementary approaches. Evonik's current S2B Centers are Nanotronics (development of system solutions based on nanomaterials for the electronics industry), Bio (development of new biotechnology products and processes based on renewable raw materials) and Eco<sup>2</sup>, which runs projects that bring together all of Evonik's business areas for the first time. We expect the activities bundled at Creavis to generate additional sales of around €600 million p.a. from

2015. That does not include the lithium-ion battery business, which was developed at Creavis and has since been spun off into separate legal entities.

To leverage further growth potential through our innovative developments, the Chemicals Business Area has defined six "Areas of Competence": Inorganic Particle Design, Coating & Bonding Technologies, Interfacial Technologies, Designing with Polymers, Biotechnology, and Catalytic Processes. These cover more than 80 percent of the markets in which we operate and pool our knowledge of future-oriented technologies.

Evonik has around 300 alliances with universities and scientific institutes. In 2010 we invested €7 million in joint research with universities, scientific and technical institutes and other companies. The aim is to ensure rapid transfer of the results of top-level research in the fields of chemistry, biology and physics to the company. Today, attractive areas of innovation are mainly found at the interfaces between traditional disciplines such as chemistry and biology or chemistry and engineering.



Evonik's innovative strength is not simply due to the right strategies, structures and priorities. Our highly qualified, creative and motivated R&D employees are a key factor in this success. To provide an incentive for excellent research work, we present the annual Evonik Innovation Award in two categories "New Product/New System Solution" and "New or Improved Process". A total of 20 teams applied for the €30,000 award in 2010. Following a multi-step selection process, the winners were announced in December: CreAMINO®, a new feed additive, and an innovative process to manufacture isobutene from MTBE (methyl tertiary butylether).

**INFORMATION****Winners of the Innovation Award****New Product/New System Solution**

**Project:** CreAMINO®, a new feed additive

**Business Unit:** Health & Nutrition

**New or Improved Process**

**Project:** New pathway for the production of ultrapure isobutene

**Business Lines/Service Unit:**

C4 Chemistry, Methacrylates, Catalysts and Process Technology & Engineering

**Market-oriented research and development**

About 85 percent of our chemicals research comprises projects undertaken by the business units, which are geared specifically to their core markets and technologies. In 2010, this further strengthened our technological edge and market leadership.

The **Industrial Chemicals** Business Unit won the Evonik Innovation Award in the category "New or Improved Processes" in collaboration with an interdisciplinary team for a new pathway for the production of ultrapure isobutene. This process has now been scaled up for industrial production in Shanghai (China) and Antwerp (Belgium). At both of these sites isobutene is produced using Evonik's new proprietary method of splitting MTBE which uses less energy than the established process and also generates fewer by-products. The isobutene produced in Antwerp is marketed directly in ultrapure form, while the output in Shanghai is used for the production of methylmethacrylate (MMA).

Modern communication technology is expected to store increasingly large amounts of information in an extremely small space. The **Inorganic Materials** Business Unit has developed a new key starting product for the production of the latest generation of memory chips: Siridion® HCDS 500E. This high-purity hexachlorodisilane allows components with increasingly complex structures to be produced for flash memories at far lower temperatures. That facilitates finer structures, so transistors can be more densely packed on the chip. The new product therefore supports ongoing miniaturization in the semiconductor sector, while allowing high production yields and the associated cost benefits. Siridion® HCDS 500 E was nominated for the Evonik Innovation Award 2010.



Production of environment-friendly, ultrapure glass lenses was also nominated for the Innovation Award. Marketed as SAVOSIL™, these lenses for light-emitting diodes are used, for example, in automobiles, traffic lights, scanners and backlighting of flat screens. They are manufactured using the SiVARA™ sol-gel technology developed and patented by Evonik, which allows the lenses to be produced in almost any shape. The SAVOSIL™ product family is also ideally suited for a new technology: concentrated photovoltaics. Sunlight is bundled by the lenses and focused on the solar cells, thus increasing the efficiency of solar modules.

The **Consumer Specialties** Business Unit once again launched a broad array of innovative products in 2010. Attention focused particularly on TEGO® Pep 4-Even, a novel peptide-based cosmetic raw material which visibly diminishes age spots, brightens the skin, and also has an anti-inflammatory effect.

Another significant innovation is the plastics additive TEGOMER® AntiScratch L, a new liquid system for the treatment of polymer compounds. Since it improves scratch resistance, it is used in a wide range of applications, for example in automotive interiors. Since the same performance is achieved with less filler, this innovative additive facilitates lightweight construction. Last but not least, reducing the weight of instrument panels impacts fuel consumption and emissions, and that is good for the carbon footprint of vehicles.

The **Health & Nutrition** Business Unit has developed CreAMINO®, a new component for sustainable nutrition of livestock. This guanidinoacetic acid (GAA) won the Evonik Innovation Award in the New Product category. The body uses GAA to produce creatine, which has to be obtained from external sources when requirements are high, for example in the growth phase. Ensuring an optimal supply of creatine, for example for poultry, requires just 600 g CreAMINO® per metric ton of purely vegetarian feed.

Health & Nutrition also increased its range of fermentation routes for amino acids for pharmaceuticals. The amino acid L-ornithine and its derivatives, especially LOLA (L-ornithine-L-aspartate), are used to treat patients with impaired liver function. While chemical and enzymatic production processes are complex and costly, in the fermentation process developed by Evonik L-ornithine is produced directly from sugar by bacteria. The amino acid can be converted into ultrapure derivatives from the fermentation broth without complex workup procedures. The market for these products is very attractive: Active ingredients based on L-ornithine are currently posting annual growth rates of between 5 and 10 percent.

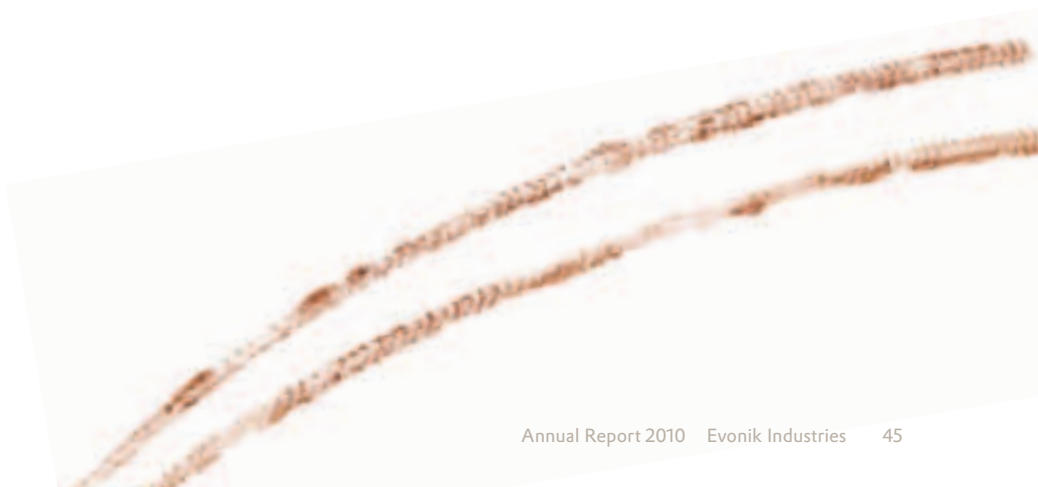
The **Coatings & Additives** Business Unit has developed novel high-performance viscosity improvers for engine lubricants, which are marketed as part of the VISCOPLEX® product portfolio. These highly efficient additives save fuel and significantly reduce CO<sub>2</sub> emissions thanks to custom-tailored polymer structures known as comb polymers produced by a combination of polyolefin and methacrylate chemistry. Comb polymers can reduce fuel consumption by up to 2 percent. This development was nominated for the Evonik Innovation Award 2010.

For the pharmaceuticals market Coatings & Additives has introduced PlasACRYL™ T20, a new additive system for functional tablet coatings, which raises efficiency by up to 30 percent at constant quality. This additive system combines a number of substances in a single product. It is compatible with all EUDRAGIT® types and minimizes the number of processing steps. This has been made possible through an exclusive distribution and development agreement with a US company.



Lightweight structures for vehicles are a focus of R&D in the **Performance Polymers** Business Unit. For example, PLEXIGLAS® glazing is 40 to 50 percent lighter than glass. Evonik is working on two development lines: monolithic and multilayer systems based on PLEXIGLAS®. Five millimeter thick coated sheets have already received ECE certification for use in rear and side windows and panoramic roofs. In collaboration with our Systems Integration Project House we are driving forward development for serial production: With technology partners from the automotive industry we are developing process and manufacturing technology that will allow economical use of PLEXIGLAS® glazing as a lightweight element in mass-produced vehicles.

We have developed solar barrier films for flexible thin-layer solar cells and modules for special applications. Their key benefit is their exceptionally low weight. Since they are two-thirds lighter than solar modules made of crystalline silicon, they can be used on flat roofs that are unsuitable for heavy, rigid modules. Moreover, these lightweight thin-layer modules can be integrated into car roofs and tarpaulins for vehicles. That reduces fuel consumption because some of the electric energy required for the vehicle can be provided by the module.



# Performance of the business areas



## Chemicals Business Area

**Specialty chemicals:** One of the world’s largest and most important specialty chemicals companies

**Expertise:** Evonik supplies custom-tailored products and solutions

**Balanced structure:** None of our end-markets accounts for more than 20 percent of sales

**Profitable:** EBITDA margin increased to over 18 percent

**Innovative:** Research pipeline contains around 500 promising projects

The Chemicals Business Area bundles Evonik’s global specialty chemicals activities. We are one of the world’s largest and most significant players in this sector. More than 80 percent of sales are generated by products where we rank among the market leaders and we are constantly working to raise that proportion and improve the quality of our portfolio. The spectrum of future-oriented activities and regional growth markets is very balanced: None of the end-markets for our products accounts for more than 20 percent of sales. Another of Evonik’s strengths is close collaboration with customers, to whom we supply optimal products and system solutions, often tailored to their specific needs.

### Substantial rise in business

The upturn in demand which started in the second half of 2009 continued with higher momentum in 2010. We registered a clear rise in volumes, especially in Asia and Europe, but demand also picked up in North America. Alongside economic growth, the significant 16 percent increase in volumes was driven by restocking by our customers. In most business units demand reached or even exceeded the pre-recession level seen in the first half of 2008, so many production facilities operated at full capacity. Prices were increased by 9 percent, enabling us to pass on the significant rise in raw material costs. Overall, the Chemicals Business Area grew sales 29 percent to €12,867 million.

### Chemicals Business Area: Change in sales

in %	
Volumes	16
Prices	9
Changes in scope of consolidation	1
Exchange rates	3
<b>Total</b>	<b>29</b>







### Excellent earnings performance

The Chemicals Business Area reported considerably higher earnings in 2010 than in previous years. Key drivers were the effective cost-cutting and efficiency enhancement measures implemented in 2009 and 2010, which have greatly increased our competitiveness. The improvement in our cost position, together with a substantial rise in demand, high capacity utilization, and increased margins boosted both EBITDA and EBIT to record levels. Earnings were well above the pre-crisis level in all six operating business units. EBITDA grew 47 percent year-on-year to €2,357 million while EBIT surged 83 percent to €1,702 million.

### Outstanding profitability indicators

The EBITDA margin rose considerably from 16.1 percent to 18.3 percent, a very good level by sector standards. Capital expenditures advanced 20 percent to €602 million and were therefore slightly below depreciation, which amounted to €627 million. The average capital employed decreased by €224 million to €9,228 million. ROCE increased significantly from 9.9 percent to 18.4 percent as a result of the substantial improvement in earnings and slightly lower capital employed.

### Focusing on the core business

Preparations to divest the Inorganic Materials Business Unit's carbon black activities started in the fourth quarter of 2010. In addition, our mid-term objective is to divest the Coatings & Additives Business Unit's colorants activities. The aim is to find a new ownership structure for each of these businesses that opens up new opportunities for them.

### Site services bundled in Germany

To raise productivity and provide a sustained basis for growth and employment, the eight formerly decentralized site services units in Germany have been amalgamated to form a single organizational unit. The new Site Services organization started operating on October 1, 2010 with around 5,800 employees. The aim is to optimize the cost, quality, availability, and reliability of infrastructure services for the chemicals business units in order to create measurable value in collaboration with internal and external customers.

### Chemicals Business Area: Key data<sup>1)</sup>

in € million	2010	2009	Change in %
External sales	12,867	9,978	29
EBITDA	2,357	1,602	47
EBIT	1,702	932	83
Capital expenditures <sup>2)</sup>	602	502	20
Depreciation and amortization <sup>2)</sup>	627	639	-2
Capital employed (annual average)	9,228	9,452	-2
ROCE in %	18.4	9.9	
EBITDA margin in %	18.3	16.1	
Employees	31,061	30,318	2

Prior-year figures restated.

<sup>1)</sup> In addition to the operating business units, the key data include strategic research, cross-unit site services and management expenses.

<sup>2)</sup> For intangible assets, property, plant and equipment and investment property.



Capacity utilization ahead of target: The new isobutene facility in Antwerp (Belgium), which produces starting products for the tire industry and fine chemicals.

### Industrial Chemicals

The Industrial Chemicals Business Unit supplies products that customers in the agrochemicals, chemicals, plastics and paper industries use for high-quality end-use applications. The olefins, alcohols and ether produced in our unique integrated C<sub>4</sub> production complexes are mainly used by the plastics industry and as fuel additives. Evonik is the technology leader in the production of hydrogen peroxide and has a global network of production facilities to ensure optimum supply of this environment-friendly bleaching agent to its customers. This business unit is also the global market leader in catalysts for the production of biodiesel. The product spectrum is rounded out by synthetic building blocks for the agrochemicals, colorants and plastics industries.

### Significant rise in sales and earnings

Sales advanced 22 percent to €2,460 million in the Industrial Chemicals Business Unit. Worldwide, demand rose strongly, especially for plasticizer alcohols, plastics additives and sodium methylates for biodiesel production. Hydrogen peroxide and cyanuric chloride also registered perceptible volume growth. In view of the significant drop in selling prices in 2009 and higher raw material costs, prices were increased substantially in 2010. EBIT improved, mainly as a result of volumes and prices.

### Investment to strengthen market positions

The new facility to produce isobutene by splitting MTBE in Antwerp (Belgium) came on stream as scheduled in December 2010. Through this investment in the mid-double-digit euro range Evonik has doubled its capacity for isobutene and increased its position as one of the leading European suppliers. The new plant is part of an integrated C<sub>4</sub> production complex for high-quality basic materials and intermediates from C<sub>4</sub> crack. Successful start-up of MTBE splitting in Antwerp has greatly reduced Industrial Chemicals' dependence on the fuels market and placed the C<sub>4</sub> business on a broader basis. The plant produced on-spec products from the first day and capacity utilization has been higher than planned from the start. Isobutene is used in the production of rubber for the tire industry and in plastics, anti-oxidants and fine chemicals. It is also used to produce polyisobutene, a starting product for lubricants, fuel additives, adhesives and sealants.

In November 2010 Evonik agreed to sell 45 percent of the shares in Evonik Degussa Peroxide Korea Co., Ltd., Ulsan (South Korea) to the South Korean company SKC, Seoul. This joint venture is the largest producer of hydrogen peroxide in South Korea and supplies SKC from an over-the-fence facility. SKC produces propylene oxide using the HPPO process developed by Evonik and its engineering partner Uhde. The process generates propylene oxide (PO) from propylene and hydrogen peroxide (H<sub>2</sub>O<sub>2</sub>) using a catalyst developed by Evonik. SKC's acquisition of a stake in the joint venture strengthens the established cooperation and lays the foundations for future growth. A comparable project is currently planned in collaboration with the Indian company Gujarat Alkalies and Chemicals Limited (GACL), Gujarat. This project centers on the construction of a new hydrogen peroxide production facility by Evonik and the erection of a new facility by GACL to produce propylene oxide using the HPPO process.



## Inorganic Materials

Core competencies in designing inorganic particles and their surface properties are the hallmarks of the Inorganic Materials Business Unit. It also operates integrated silicon-based facilities for the production of a unique range of chlorosilanes and organosilanes. Its filler systems based on carbon blacks, precipitated silica and rubber silanes are mainly sold to customers in the rubber and tire industries. Pigments are supplied to the coatings, colorants and printing industries. Ultra-fine-particle fumed silica is used as an additive to improve the surface and properties of a wide range of materials. Evonik's high-purity chlorosilanes are key components in the manufacture of optical fibers and polycrystalline silicon, which is in high demand for applications in the electronics and photovoltaics sectors.

### Higher global demand

The Inorganic Materials Business Unit registered strong volume growth for all product groups as a result of the positive economic trend in all regions. In particular, carbon blacks benefited from strong demand from the automotive and construction industries. Tire silicas also developed extremely well, outperforming the trend to environment-friendly tires, while specialty metal oxides received a strong boost from the boom in the electronics industry and the introduction of new energy-saving light bulbs. The higher selling prices mainly reflect higher raw material costs. Overall, sales advanced 33 percent to €2,400 million. EBIT improved considerably, principally as a result of the strong rise in volumes, high capacity utilization and systematic cost savings.

### New capacity for future growth

Good progress is being made with the erection of a combined production facility for monosilane and the fumed silica AEROSIL® at Yokkaichi in Japan at a total cost of around €150 million and start-up is scheduled for summer 2011 as planned. The Inorganic Materials Business Unit has signed a long-term supply agreement for monosilane from the new facility with Taiyo Nippon Sanso Corporation (TNSC). This new plant enables us to participate in the strong growth in applications in thin-layer photovoltaics, flat screens and semiconductors, especially in Asia.

The new chlorosilane plant in Merano (Italy) has now been completed and will come on stream early in 2011. This will deliver monosilane "over the fence" to MEMC Electronic Materials Inc., a leading supplier of electronic and solar wafers, with which Inorganic Materials has a long-term supply agreement.

To meet the continued rise in demand for precipitated silica and ensure we can match market growth, global capacity is to be raised by 25 percent by 2014. Expansion will mainly be concentrated at the present silica sites in Asia and Europe and investment will be in the mid-double-digit million euros range. In this way, Inorganic Materials will ensure the availability of precipitated silica in all regions.

In April 2010 Evonik acquired a controlling stake in the US silica producer Harris & Ford Silco LLC of Portland (Oregon, USA). This start-up was subsequently renamed Evonik Silco Materials (ESM). It produces high-purity colloidal silicas which are used, among other things, for polishing semiconductors. The acquisition strengthens Inorganic Materials' position as a key producer of specialty chemicals for fast-growing sectors such as semiconductors.



Polycrystalline silicon from Rheinfelden; Evonik is creating new capacity to meet rising demand from the photovoltaic sector. From 2011 the Group will produce monosilanes in Japan and chlorosilanes in Italy.



### Consumer Specialties

The Consumer Specialties Business Unit supplies a wide range of innovative products to the consumer goods industry for use in personal care and hygiene products and cleaning agents. Its technology platforms and extensive expertise in interfacial chemistry are also used for certain industrial applications such as the production of polyurethanes and scratch-free polyolefins. Even small amounts of its custom-tailored substances and system solutions—especially surfactants produced from renewable raw materials and organo-modified silicones, and superabsorbents produced from polyacrylic acid—give customers' products the additional benefits that often clinch a



Bottoms up: Evonik's superabsorbents keep babies dry—whichever way they choose to view the world.

sale. Strategic success factors include high innovative capability and intensive collaboration with leading manufacturers of consumer goods and industrial customers.

### High demand

The very positive business trend that started in the second half of 2009 continued through 2010. The Consumer Specialties Business Unit grew sales by 25 percent to €1,803 million. Superabsorbents and the industry-focused business lines Polyurethane Additives and Industrial Specialties benefited from the global economic upturn and registered strong volume growth. There was also higher demand for products for consumer-oriented applications such as cosmetics and detergents. Most of the perceptible rise in raw material costs during the year was recouped by raising selling prices. EBIT advanced considerably as a result of high capacity utilization and a more favorable product mix.

### Superabsorbents for Saudi Arabia

Consumer Specialties, the National Industrialization Company (Tasnee) and Sahara Petrochemicals are planning to establish a joint venture to produce superabsorbents in Saudi Arabia.

A state-of-the-art world-scale production facility with annual capacity of 80,000 metric tons is to be built in Jubail. Start-up is scheduled for the first quarter of 2013. The proposed joint venture will benefit from good access to starting products: The acrylic acid required to produce the superabsorbents will be sourced from a neighboring plant, a joint venture of Tasnee, Sahara and Dow Chemicals. Propylene, another starting product, will be sourced from a nearby plant operated jointly by Tasnee, Sahara and Lyondell Basell. The planned production facility for superabsorbents will thus be embedded in integrated production structures, making it the first downstream project of this type.



## Health & Nutrition

The Health & Nutrition Business Unit manufactures and markets essential amino acids for animal nutrition, active ingredients for the pharmaceuticals industry and catalysts. These have to meet top quality standards and registration requirements. Success factors include Evonik's long-standing technical experience of organic synthesis, catalysis and biotechnology. Evonik is the world's only producer of all four essential amino acids for healthy and environment-friendly animal nutrition. High-purity amino acids are also produced for the food, cosmetics and pharmaceuticals industries. This business unit often develops organic active ingredients and catalysts on an exclusive basis to meet the requirements of specific customers and markets.

### Further improvement in earnings

A further rise in volumes and higher market prices for some products lifted sales 23 percent to €1,967 million in the Health & Nutrition Business Unit. Business with the amino acids methionine, lysine, threonine and tryptophan for animal nutrition once again did well, benefiting from sustained growth in global consumption of meat. In Exclusive Synthesis, active ingredients and intermediates for pharmaceuticals posted a particularly positive trend. Within Catalysts, precious metal catalysts and products for the polyolefins industry recovered significantly. EBIT in the Health & Nutrition Business Unit topped the good level reported in the previous year.

### Global expansion of capacity

Evonik started up a facility to manufacture pharmaceutical active ingredients in Nanning in the Chinese province of Guangxi. This plant will supply products to the Chinese market and has been erected in collaboration with a European pharmaceutical company, for which Health & Nutrition will produce various active ingredients in conformance with cGMP (current good manufacturing practices), the key quality assurance guidelines for the pharmaceutical industry, under a long-term supply agreement.

Evonik plans to build a new production complex for the amino acid DL-methionine for animal nutrition in Singapore. As well as methionine this will produce all key strategic starting products. The integrated production complex with capacity of 150,000 metric tons p.a. is expected to come on stream in 2014. Evonik is already the global market leader in DL-methionine and the new facility will raise its total production capacity for this product



No. 1 for poultry: Evonik is the world's only supplier whose product range includes all four essential amino acids used in modern, environment-friendly animal nutrition.

to 580,000 metric tons p.a. To meet steadily rising demand for the product in the meantime, we are currently expanding capacity at our three sites in Antwerp (Belgium), Wesseling (Germany), and Mobile (Alabama, USA) stepwise to bring the total of 430,000 metric tons p.a. by 2013.

To supplement its business with precious metal powder catalysts, Health & Nutrition has acquired the know-how, technology and related customer portfolio of the Indian company Ravindra Heraeus Pvt. Limited, Udaipur (India) and started up a new production facility in Shanghai (China). Further, it has taken over the AMPERKAT® business with activated nickel catalysts from H.C. Starck, Goslar (Germany).

At the start of 2010 Exclusive Synthesis acquired Eli Lilly & Company's Tippecanoe site in Lafayette (Indiana, USA) and concluded an agreement to supply pharmaceutical active ingredients and intermediates to Eli Lilly for several years.



A speedy recovery: Our multi-functional polymer platform EUDRAGIT® helps pharmaceutical manufacturers design tablets.

### Coatings & Additives

The Coatings & Additives Business Unit produces functional polymers and high-quality monomer specialties for the paints and coatings, adhesives and sealants industries. Its products are based on integrated production structures for methylmethacrylate, isophorone and silicone and are used in crosslinkers, resins, binders and colorant systems. Functional polymers are also used as high-quality oil additives to improve the flow properties of lubricants over a wide temperature range, thus improving engine performance and helping to reduce fuel consumption. Pharmaceutical polymers ensure that active ingredients are released in the body at the right time and in the right place.

### Considerable improvement in sales and earnings

The Coatings & Additives Business Unit grew sales 28 percent to €1,701 million. Thanks to the perceptible economic growth there was a substantial rise in demand from key customer industries—the automotive, construction and coatings sectors—especially in the first half of the year. Demand from the pharmaceutical market remained at the previous year's high level. The business unit was able to raise selling prices slightly by passing on some of the higher raw material costs. EBIT increased considerably, principally due to the very positive volume trend and high capacity utilization.

### Investing in the future

To meet the continued rise in demand from many customer industries, Coatings & Additives is planning to build a new production facility for isophorone and isophorone diamine. The market for isophorone and its derivatives is growing steadily and has proven robust, even in the economic crisis. Evonik expects the capacity expansion to bring a sustained improvement in its market and technological leadership. A decision is currently being taken on the site for this state-of-the-art world-scale facility. The most likely locations are in south-east Asia, probably China. In Darmstadt (Germany) construction of a new EUDRAGIT® plant has started. Thanks to new technology this will provide access to the attractive nutraceuticals market.

In December 2010 Coatings & Additives signed an agreement to purchase the RESOMER® business from Boehringer Ingelheim Pharma GmbH & Co. KG. Evonik plans to acquire the entire range of standard and customer-specific polymers for medical applications and pharmaceutical formulations to strengthen its Pharma Polymers Business Line. RESOMER® monomers are based on lactic acid and glycol acid, which are obtained, for example, from renewable raw materials. The polymers are fully biodegradable in the body.





### Performance Polymers

The Performance Polymers Business Unit manufactures a wide range of advanced materials and its applications technology expertise is highly valued on the market. The heart of its business comprises methacrylate chemistry and integrated production facilities for polyamide-12. This business unit also produces special high-performance materials based on specialty polyamides, polyetherether ketone (PEEK) and polyimides (PI). Its polymers and semi-finished products are used in structural components, primarily for consumer durables and long-lasting capital goods. Focal areas of application are the automotive and construction sectors and a large number of high-end applications for aircraft construction, displays and lifestyle products. Standard and specialty monomers and molding compounds are marketed to the plastics, adhesives and colorants industries.

#### Strong improvement in sales and earnings

The Performance Polymers Business Unit benefited from a rapid rise in volumes, triggered by booming demand for almost all of its products, and especially for applications in LED screens and photovoltaics. Production facilities were operating at full capacity by mid-year, including the methacrylate complex in Shanghai (China) completed in 2009. Owing to the continued rise in demand, some products were in short supply on the market, and this had a positive impact on selling prices. Overall, sales advanced 48 percent to €1,657 million. EBIT was very significantly above the previous year's weak level thanks to high volumes and improved margins.

#### Expansion of market position

Performance Polymers expanded laurilactam capacity in Marl (Germany) in December 2010. Evonik produces laurilactam from butadiene in a multi-step process. It is subsequently polymerized and compounded to produce an extensive range of polyamide-12 products tailored precisely to the needs of processes and end-users. Optimization of capacity within the integrated production structure will ensure reliable supply to customers in the future, and also strengthens Performance Polymers' leading global position. Additional capacity for specialty monomers in Worms (Germany) and Mobile (Alabama, USA) is also nearing completion.

In Asia, Performance Polymers will be undertaking a massive increase in capacity for polymethylmethacrylate (PMMA) molding compounds in stages up to 2012. In particular, the boom in LED screens is increasing demand for PMMA molding compounds. The business unit is therefore planning to install a further extrusion line in Taichung (Taiwan). Together with the expansion of production capacity already under way in Taichung and in Shanghai (China), this will double PMMA capacity in Asia. Alongside rising demand for PMMA for LED technology, in 3 to 4 years time additional growth is expected to come from future technologies such as solar technology.



Spotlight on LED: We are raising capacity considerably in response to the boom in LED screens and other applications for this technology.



## Real Estate Business Area

**Business:** Letting residential real estate to private households

**Focused:** Around 60,000 residential units, mainly in North Rhine-Westphalia

**A sound investment:** 50 percent stake in THS, which has more than 70,000 residential units, principally in North Rhine-Westphalia

**Integration:** Framework for planned merger with THS defined

The Real Estate Business Area manages a portfolio of around 60,000 company-owned residential units concentrated in the federal state of North Rhine-Westphalia (NRW) in Germany. It also has a 50 percent stake in THS, which owns more than 70,000 residential units. These are also located predominantly in the federal state of NRW. Evonik is thus one of the Germany's leading privately owned residential real estate companies. Business focuses on letting homes to private households, which essentially generates regular and stable cash flows.

In addition, active portfolio management involving the selective sale and purchase of residential units is used. The business model is rounded out by property development activities on company-owned land to upgrade the portfolio.

Its regional focus is the key to outstanding market insight and brings considerable advantages in the management of the housing stock.

### An improvement in earnings

Sales increased by 2 percent to €402 million. EBITDA was €190 million, 3 percent above the prior-year figure, and the EBITDA margin rose from 46.5 percent to 47.3 percent. EBIT advanced 5 percent to €140 million, driven mainly by an improvement in the property management result and higher income from portfolio management. ROCE climbed 7.7 percent as a consequence of the improvement in EBIT and a slight decline in average capital employed to €1,810 million.

### High demand for housing

Property management focuses on high-quality residential units with good long-term marketability. Their quality will be upheld or increased by energy optimization measures. Earnings improved, mainly thanks to higher rental revenues: The average monthly rent (excluding utility charges) increased from €4.47 per square meter in 2009 to €4.58 per square meter in 2010. The demand-driven vacancy rate dropped further from 2.4 percent to 2.2 percent and was therefore once again very favorable by sector standards. Net maintenance expense was €11.89 per square meter, around the same level as in 2009 (€11.79 per square meter). The property development activities, which are run as a profitable



complement to the property management business and integrate neighborhood development aspects, focus on construction projects on company-owned sites. 113 new residential units were completed and earnings were on a par with the previous year.

Careful analysis of the entire housing stock is regularly undertaken for portfolio management purposes. Key criteria are the attractiveness of locations, the quality of the residential units and suitability for cost-efficient operation. The objective is to expand the portfolio in areas with good economic prospects. At the same time, the aim is to identify and sell off properties in unattractive locations and those requiring extensive modernization. The sale of residential properties focuses on sales to individuals. These increased 32 percent to 523 residential units in 2010. Overall, there was a significant improvement in the portfolio management result.

The result for THS, which is recognized at equity, was €28 million, below the prior-year figure of €36 million, which was boosted by the one-off effect of an increase in the shareholding.

#### Targeted investment

Capital expenditures amounted to €41 million and were thus below the year-back figure of €59 million. The focus was on modernizing the housing stock to improve energy efficiency and on the construction of new properties. The capital expenditures are

geared to the long-term objective of raising the value of the portfolio of residential properties: An increase in value through selective investment in modernization to secure or raise rental revenues and energy efficiency, and the purchase and construction of sustainable, future-oriented residential units at attractive locations in the federal state of North Rhine-Westphalia.

As well as investing directly in tomorrow's real estate, the Real Estate Business Area invests in companies in the sector which have outstanding prospects. It has therefore raised its stake in Wohnbau Dinslaken from 35 percent to 46 percent. This company owns and manages nearly 6,000 apartments and is involved in pioneering projects that take account of demographic trends.

#### Amalgamation with THS initiated

Evonik Immobilien GmbH is to be amalgamated with THS. In 2010 Evonik Industries AG and the German Mining, Chemical and Energy industrial union, which holds the other 50 percent of THS, reached agreement on the framework for a planned merger of these companies and initiated the first steps. Since the start of 2011 both companies have been managed by the same management team. During the upcoming integration process, attention will be paid to preserving the traditions and specific competences of each company.

#### Real Estate Business Area: Key data

in € million	2010	2009	Change in %
External sales	402	396	2
EBITDA	190	184	3
EBIT	140	134	5
Capital expenditures <sup>1)</sup>	41	59	-30
Depreciation and amortization <sup>1)</sup>	47	47	0
Capital employed (annual average)	1,810	1,834	-1
ROCE in %	7.7	7.3	
EBITDA margin in %	47.3	46.5	
Employees	1,098	1,056	4

Prior-year figures restated.

<sup>1)</sup> For intangible assets, property, plant and equipment and investment property.





For information

## Energy Business Area

**Business:** Power and heat generation and related services

**International presence:** Coal-fired power plants in Colombia, Turkey and the Philippines

**Powerful:** Total installed capacity worldwide is around 9,400 MW

**Divestment:** Agreement to sell a 51 percent stake to a consortium of municipal utilities in Germany's Rhine-Ruhr region

The power and heat generation business and services for power stations are grouped in the Energy Business Area. Its core competencies include planning, financing, building and operating highly efficient fossil-fueled power plants. As a grid-independent power generator, Evonik Steag GmbH operates coal-fired power plants at eight locations in Germany, refinery power plants at two locations and a variety of facilities to generate energy from renewable resources. This business area's international successes comprise coal-fired power plants in Colombia, Turkey and the Philippines. In each of these countries it works closely with local partners. Total installed power is around 9,400 Megawatts (MW) worldwide, including around 7,700 MW in Germany. Long-term supply and offtake agreements with key customers ensure a sustained return on investment and essentially stable revenues. Evonik Steag GmbH is well-positioned in the high-growth future market for renewable energies and is one of the German market leaders in the generation of electricity and heat from mine gas, biomass and geothermal energy. Its globally aligned engineering services also deepen its country-specific insight into the energy market, enabling it to develop new business ideas for power plant projects.

### Divestment agreed

Our energy activities are to be given the opportunity to develop their growth potential to the full with a new majority owner. In December 2010 Evonik Industries AG signed an agreement with a consortium of municipal utilities in Germany's Rhine-Ruhr region on the sale of 51 percent of its shares in this business. The company is to be divested in full to the majority partner in five years at the latest; a corresponding contractual arrangement for this has already been agreed. Accordingly, the Energy Business Area was reclassified to discontinued operations as of December 31, 2010.

### Far higher earnings

Sales increased by 8 percent to €2,762 million. This was due to higher volume sales, the stronger US dollar exchange rate, and the higher price of hard coal. In 2010 the price of hard coal was between US\$74 and US\$123 per metric ton, compared with a price range of US\$62–US\$81 per metric ton in 2009. EBITDA rose 26 percent to €525 million and EBIT rose 33 percent to €435 million. The Power Business Line increased its EBIT as it benefited from higher income from foreign power plants. EBIT in the Coal Business Line totaled €60 million, considerably above the previous year's level of minus €40 million which was impacted by the crisis-driven declines in volumes and prices and by impairment losses on inventories. By contrast, in the Renewable Energies Business Line EBIT was lower than in 2009.

**Far higher profitability**

The EBITDA margin increased from 16.3 percent to 19.0 percent. ROCE increased significantly to 13.1 percent as the improvement in earnings was accompanied by virtually unchanged average capital employed.

In January 2011 Evonik Steag GmbH sold its 51 percent stake in the project company Ayas Enerji Üretim ve Ticaret A.S., Ankara (Turkey), which was responsible for the AYAS power plant project in Iskenderun (Turkey), to its co-owner, the Turkish pension fund Ordu Yardımlaşma Kurumu (OYAK) through a buy-out.

**Lower capital expenditures**

Capital expenditures amounted to €163 million and thus fell short of the high year-back figure of €280 million. As in the previous year, the main focus was on the project in Duisburg-Walsum, where an innovative hard-coal power plant is currently under construction. Leaks in the steam boiler were identified in the second quarter of 2010 when power was fed to the high-voltage grid for the first time as part of a multi-step pre-operating trial. These are attributable to damaged welds. Commercial start-up has therefore been postponed by one year to summer 2011.

In the fields of renewable energies, the Energy Business Area successfully started up two wind turbines on a reclaimed overburden dump belonging to RAG Aktiengesellschaft in Gelsenkirchen (Germany).

**Energy Business Area: Key data**

in € million	2010	2009	Change in %
External sales	2,762	2,558	8
EBITDA	525	418	26
EBIT	435	326	33
Capital expenditures <sup>1)</sup>	163	280	-42
Depreciation and amortization <sup>1)</sup>	86	86	0
Capital employed (annual average)	3,333	3,348	0
ROCE in %	13.1	9.7	
EBITDA margin in %	19.0	16.3	
Employees	4,916	4,820	2

Prior-year figures restated.

<sup>1)</sup> For intangible assets, property, plant and equipment and investment property.

**Volume sales**

	2010	2009	Change in %
Power GWh	37,043	35,720	4
Renewable Energies (heat) GWh <sub>th</sub>	2,186	2,115	3
Renewable Energies (power) GWh <sub>el</sub>	1,622	1,592	2
Coal million metric tons coal	28.3	27.2	4

Volume sales of energy comprise electric power and thermal energy. Thermal energy is converted into the equivalent amount of electric power.

# Regional development<sup>1)</sup>

## A global presence

In 2010, 74 percent of our sales were generated outside Germany. Sales in **Germany** increased 15 percent to €3,445 million as a result of buoyant demand. Capital expenditures increased slightly to €315 million. In Marl (Germany) we expanded production capacity for laurilactam, a starting product for an extensive range of polyamide-12 products. Optimization of capacity within the integrated production structure will ensure reliable supply to customers in the future, and also strengthens our leading global position. In Weiterstadt (Germany) we started work on a new extrusion plant for PLEXIGLAS® sheeting. This is scheduled to come into service, together with the plant for scratch-free coating, in summer 2011.

Sales in the **other European countries** increased 26 percent to €3,713 million but this region's share of consolidated sales remained unchanged at 28 percent. Capital expenditures in this region rose 12 percent to €86 million. A new facility to produce isobutene by splitting MTBE came into service as scheduled in Antwerp (Belgium). Through this investment in the mid-double-digit euro range Evonik has doubled its capacity for isobutene and increased its position as one of the leading European suppliers. The new plant is part of an integrated C<sub>4</sub> production complex for high-quality-based materials and intermediates from C<sub>4</sub> crack. The new chlorosilane plant in Merano (Italy) has now been completed and will come on stream early in 2011. It will deliver monosilane "over the fence" to MEMC Electronic Materials Inc., a leading supplier of electronic and solar wafers, with which the business unit has a long-term supply agreement.

## Considerable growth in the Americas

Sales climbed 34 percent to €2,521 million in **North America** and this region's share of total sales increased one percentage point to 19 percent. Capital expenditures rose significantly to €69 million. In January 2010 we acquired the Tippecanoe site in Lafayette (Indiana, USA) from the US pharmaceuticals company Eli Lilly and Company. At the same time we concluded a multi-year agreement to supply pharmaceutical active ingredients and intermediates to Eli Lilly. In Mobile (Alabama, USA) we are expanding capacity for specialty polymers in response to rising demand. In April 2010 Evonik acquired a controlling stake in the US silica producer Harris & Ford Silco LLC of Portland (Oregon, USA).

This start-up was subsequently renamed Evonik Silco Materials (ESM). It produces high-purity colloidal silicas which are used, among other things, in the polishing of semiconductors. The acquisition strengthens Evonik's position as a key producer of specialty chemicals for fast-growing sectors such as semiconductors.

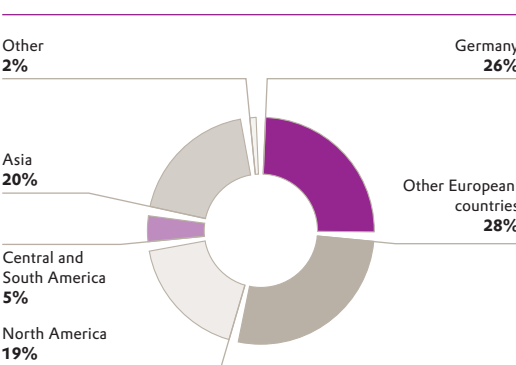
In **Central and South America** Evonik's sales totaled €657 million, which was 32 percent more than in 2009. This region accounted for an unchanged 5 percent of total sales. Capital expenditures amounted to €7 million.

## Strong commitment to the high-growth

### Asian region

Sales grew 35 percent to €2,670 million in **Asia** thanks to high demand, and raised this region's share of total sales by one percentage point to 20 percent. Capital expenditures advanced 23 percent to €169 million. Evonik started up a facility to manufacture pharmaceutical active ingredients in Nanning in the Chinese province of Guangxi. Good progress is being made with the erection of a combined production facility for monosilane and the fumed silica AEROSIL® at Yokkaichi in Japan at a total cost of around €150 million and start-up is scheduled for summer 2011 as planned. Evonik is substantially increasing production capacity for PMMA molding compounds at two locations in China by 2012. This will double its PMMA capacity in Asia. We are planning to build a new production complex for the amino acid DL-methionine for animal nutrition in Singapore. As well as methionine, this facility will produce all key strategic starting products. The integrated production complex with capacity of 150,000 metric tons p.a. is expected to come on stream in 2014.

## Sales by region<sup>1)</sup>



<sup>1)</sup> By point of sale.

<sup>1)</sup> Prior year figures restated.





## Performance of Evonik Industries AG

Evonik Industries AG, Essen (Germany) is the parent company of the Evonik Group. It holds direct and indirect stakes in all subsidiaries in the Group. RAG-Stiftung holds 74.99 percent of the shares in Evonik Industries AG.

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 the performance of its subsidiaries and income and expenses relating to corporate financing and portfolio adjustment activities.

### Income statement for Evonik Industries AG

in € million	2010	2009
Sales	168	220
Other operating income	929	774
Personnel expense	-62	-47
Depreciation of property, plant and equipment, amortization of intangible assets	-2	-2
Depreciation of current assets	-1	-11
Other operating expenses	-934	-749
<b>Operating result</b>	<b>98</b>	<b>185</b>
Net interest expense	-122	-59
Write-downs of financial assets	-440	0
Income from investments	848	620
<b>Income before taxes</b>	<b>384</b>	<b>746</b>
<b>Extraordinary loss</b>	<b>-16</b>	<b>0</b>
Income taxes	-237	-42
<b>Net income</b>	<b>131</b>	<b>704</b>
Allocation to revenue reserves	384	0
<b>Net profit</b>	<b>515</b>	<b>704</b>

Since January 1, 2008 Evonik Industries AG has charged its subsidiaries for services rendered. These expenses amounted to €168 million in 2010 and are reflected in sales. The other operating income of €929 million includes costs of €252 million passed through to other companies in the Group. €222 million of this comprised general allocations of Group costs while €30 million comprised project expenses, rental costs and the cost of IT licenses. In the gross view, currency translation gains (€646 million) are included in other operating income and the corresponding expenses (€679 million) are included in other operating expenses. The net effect is an expense of €33 million. Personnel expense totaled €62 million, above the previous year's low level of €47 million which was due to an agreed reduction in variable remuneration.

The net interest expense of €122 million mainly resulted from borrowing for the company's financing activities for the Group. The significant rise compared with the previous year was principally attributable to interest expense for the corporate bond issued in October 2009. This item also contains interest income and expense from the Group-wide cash pool, which is concentrated at Evonik Industries AG. Write-downs of financial assets amounting to €440 million mainly related to the divestment of Evonik Steag GmbH. Income from investments improved from €620 million in 2009 to €848 million in 2010. This was primarily due to higher profit transfers from Evonik Degussa GmbH and Evonik Steag GmbH. Income before taxes therefore improved 49 percent to €384 million. The extraordinary loss of €16 million related entirely to

differences in pension provisions under the old legislation and the new regulations resulting from first-time application of the German legislation on the modernization of accounting law (BilMoG) as of January 1, 2010. The income taxes total €237 million and seem high relative to income before income taxes. This is mainly due to the impact of applying the new German accounting legislation,

and to taxes relating to other periods. After deduction of income taxes, net income was €131 million. Together with the profit carryforward from the previous year, the net profit was €515 million. The Executive Board will propose to the Annual Shareholders' Meeting that €400 million of the net profit should be used to pay a dividend to the company's shareholders.

### Balance sheet for Evonik Industries AG

in € million	Dec. 31, 2010	Dec. 31, 2009
<b>Assets</b>		
Intangible assets, property, plant and equipment	8	7
Financial assets	8,870	9,274
<b>Non-current assets</b>	<b>8,878</b>	<b>9,281</b>
Receivables and other assets	3,423	2,497
Securities	373	6
Cash and cash equivalents	860	444
<b>Current assets</b>	<b>4,656</b>	<b>2,947</b>
<b>Prepaid expenses and deferred charges</b>	<b>2</b>	<b>3</b>
<b>Total assets</b>	<b>13,536</b>	<b>12,231</b>
<b>Equity and liabilities</b>		
Issued capital	466	466
Capital reserve	720	720
Revenue reserves	3,373	3,371
Net profit	515	704
<b>Equity</b>	<b>5,074</b>	<b>5,261</b>
<b>Provisions</b>	<b>382</b>	<b>240</b>
<b>Liabilities</b>	<b>8,080</b>	<b>6,730</b>
<b>Total equity and liabilities</b>	<b>13,536</b>	<b>12,231</b>

Evonik Industries AG's total assets increased by €1.3 billion to €13.5 billion. Financial assets mainly comprise shares in the parent companies of the three business areas. The receivables and liabilities reflect the financing activities of Evonik Industries AG in its role as the holding company for the Group. Equity decreased by €0.2 billion to €5.1 billion as net profit was lower. The equity ratio therefore declined from 43.0 percent to 37.5 percent. Liabilities include financial liabilities of €7.9 billion, including €6.9 billion due to affiliated companies, mainly in connection with cash pooling activities. A further €750 million relates to the corporate bond issued in October 2009. The counter-item comprises financial receivables of €3.3 billion due from affiliated companies.

A report on 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."



## Corporate responsibility

We define corporate responsibility (CR) as how we conduct our business and how we live up to our values. Our CR strategy helps us overcome the challenges of the future and ensure that we manage our business and act responsibly worldwide. It complements our corporate strategy and sets focuses for the three dimensions of CR, the business, employees and processes.

To translate our strategic CR goals into practice in our daily business, since mid-2010 an analysis and evaluation of the main challenges and central expectations of our stakeholders has been performed in all business units. The findings help us identify the risks and opportunities to our business arising from global challenges and take a more differentiated approach to evaluating and managing them.

Placing our dialogue with stakeholders on a more systematic basis is a key element in the ongoing development of our CR strategy. In fall 2010 we asked employees, customers, and representatives of politics, science and non-governmental organizations which challenges they consider particularly important for Evonik and how they rate our CR activities. The findings gave us a valuable insight into the areas in which we need to step up our CR endeavors in the future. The most pressing issue in our stakeholders' eyes is utilization of resources, followed by health and climate change.

A major milestone within the employees dimension was the successful completion of the pilot project on CR in vocational training. The results presented in August 2010 showed sub-projects in which trainees had adopted creative and very varied approaches to the concept of CR. The pilot project will be rolled out to all sites in Germany in 2011. In addition, modules are to be developed to integrate CR into continuing professional development.

To align our supplier management processes to rising demands, in July 2010 we adopted a Group-wide procurement policy. Furthermore, we have integrated CR into our general purchasing terms. In fall 2010, we conducted a Group-wide risk analysis to identify suppliers we wish to survey about compliance with sustainability standards.

In light of the strategic refocusing of the Group on specialty chemicals, from mid-2010 we aligned the ongoing development of CR strategy to this. Since the start of 2011, CR-related targets have only been mandatory for companies in the Chemicals Business Area.

## Employees

### HR activities support growth

In 2010, a year after the global economic and financial crisis, when priority was given to safeguarding employment, we refocused our HR activities. In view of the repositioning of Evonik as a leading global specialty chemicals company, HR management now places even greater emphasis on aspects related to growth. In response to this we revised our human resources strategy and initiated the “HR on Track” project to ensure that our HR activities are fit for the future. Focal aspects are a uniform HR philosophy for the Evonik Group, the development of binding quality standards and a common national and international process model, and last but not least, a measurable contribution to cost optimization.

### HR strategy—Contributing to corporate success

The HR strategy provides focus and content for the human resources goals of the business units, the Corporate Center, the service units and the regions. In 2010, an enhanced HR strategy was adopted on the basis of the Group’s new strategy, with its focus on specialty chemicals. Under the motto “Inspiring people. Shaping the future. Adding value”, four cornerstones will characterize our HR work in the future: Attract, Develop, Retain, and—as an internal target—HR Performance. These principles are the framework for the various fields of activity from that will form the basis of our work in the coming years. Central aspects will be talent and succession management, diversity, and health management.

The HR function provides solutions to the challenges that come from growth, ongoing internationalization and demographic change, thus making a valuable contribution to the overall success of Evonik as a specialty chemicals group.

### Addressing demographic challenges— Strategic HR planning

Between 2008 and 2010 Evonik introduced Plan@HR, a company-wide strategic personnel planning tool comprising extensive age structure analyses to help answer key HR policy issues. It addresses questions such as: Does the employee portfolio assure implementation of the corporate strategy? What is the timeframe for the realization of HR-related aspects of growth initiatives and restructuring? The focus is on the capacity and qualification risks associated with the age risk in certain regions such as Europe and the United States.

In 2010 the Plan@HR model covered around 80 percent of Evonik employees worldwide. Vocational training based on actual needs was a major focus at all our chemical sites in Germany to ensure the availability of junior staff for our future needs and help avoid over- and understaffing in the future. In China scenario-based HR planning was extended to further areas to enhance local development opportunities in order to significantly reduce employee turnover in the mid-term. In 2011 the systems used for Plan@HR will become a mandatory process for qualitative and strategic human resources planning.



#### INFORMATION

**Diversity:** Development of a company-specific diversity approach

**Safeguarding the future:** Strategic HR planning analyzes long-term age structures, capacity risks and training requirements

**Committed:** 78.8 percent participation in employee survey

**Responsibility:** Trainees account for 9 percent of the German workforce

**Tomorrow’s managers:** Talent and succession management optimize internal appointments to key positions



**Partial retirement—Actively addressing the effects of change**

We are leveraging the impact of partial retirement for employees in Germany born between 1955 and 1958, principally to respond to the impact of demographic, structural and technological change in the workplace and to achieve cost benefits by only partially filling the vacancies created. A maximum of 60 percent of employees in this age group in Germany will be offered the opportunity to conclude a contract for this program, but without giving individuals an automatic entitlement to sign such contracts. Corresponding agreements on details of this program have been concluded with employee representatives on the Group Works Council and Group Senior Staff Committee. Provisions of €78 million were established for this in fiscal 2010.

**Additional pension contributions—Providing for the future**

In accordance with the provisions of the collective bargaining agreement on working life and demographic change, which is applicable for the Chemicals Business Area, Corporate Center and Shared Service Center in Germany, Evonik made a contribution of €300 per employee to a special “demographic fund” in 2010. From January 1, 2011, this annual employer contribution will increase by the same percentage as the collectively agreed salary rise in the previous year. As agreed with the representatives of the workforce, until further notice it will be used as an additional endowment for the company pension plan. Alternatively, employees who have a long-term account can deposit the €300 contribution in this account.

**Vocational training—Contributing to future viability**

At Evonik, vocational training is not simply a component of sustainable human resources work and part of our social responsibility. Ongoing training and support for the development of young talent are essential factors for our long-term success. In 2010, Evonik took on 640 young people for vocational training courses for its continuing operations. In total we had around 2,060 apprentices across Germany on more than 40 recognized training courses geared to securing the future viability of the Group. There were also around 210 apprentices in the Energy Business Area. The high priority attached to vocational training can be seen from the fact that our training ratio remains well above

the German average at around 9 percent of the workforce. Another indicator is the fact that we invested €50.5 million in vocational training for our continuing operations in fiscal 2010. In Germany, we intend to counter the increasing competition for skilled workers resulting from the demographic trend by targeted marketing of vocational training programs. In other countries, by contrast, our activities are increasingly focused on enhancing qualifications. In China, for example, we train around 60 young people a year in collaboration with the Shanghai Petrochemical Academy (SPA) specifically to meet the requirements of our local production facilities.

**Scholarship program—From vocational training to university**

Attractive scholarships are offered to high-flying former apprentices whose achievements are above average and who would like to take a bachelor's degree after finishing their vocational training or obtain a master's degree after completing their first degree. The aim of this program is to retain able employees in the Evonik organization and to jointly shape their professional future from an early stage. The scholarship program is a module designed to help us address the human resources challenges of the future more effectively. In 2010 we granted the first eleven scholarships to young people with an excellent performance record.

**Setting standards—Through creativity and achievement**

Social networks are the virtual hub of almost all young people's lives and therefore represent a genuine challenge for employer branding. We want to systematically utilize the opportunities offered by this medium, especially for intensive, real-time dialogue with schoolchildren, students and graduates. We have therefore defined clear processes, guidelines and responsibilities for the use of such media, and made available the necessary human resources. Sustained success requires clear positioning and accurate management of our brand. Attractiveness rankings are not sufficient. In response to this, we have developed a scientifically-based procedure to assess the value of our employer brand, which gives us a clear picture of our own attractiveness with the relevant target groups.

**On course for success—Talent and succession management**

To support the growth strategy for our international business in the coming years it is important to ensure that key functions worldwide are filled by the most suitable candidates. We are convinced that this needs to be done primarily through internal employees. At our annual personnel planning meetings, we obtain an extensive overview of the potential of corporate executive talents. Depending on their experience and stage of development, talents are classified as emerging, developing or advanced leaders. Systematic development, on and off the job, has top priority. We cooperate with the renowned IMD Business School. Together we offer custom-tailored programs for the various talent groups. Innovative formats such as our TalentDays offer an opportunity for them to experience new, unconventional methods of working. On-the-job development is supported by our 2/2/2 rule: Evonik expects future executives to broaden their experience by working in at least two functions, two organizational units, and two countries. In this way we offer our corporate executive talents the opportunity to develop into all-round leaders. We also count on our talents to fill key functions below executive level. Management talents are identified and systematically developed using the same structured process used for executive talents.

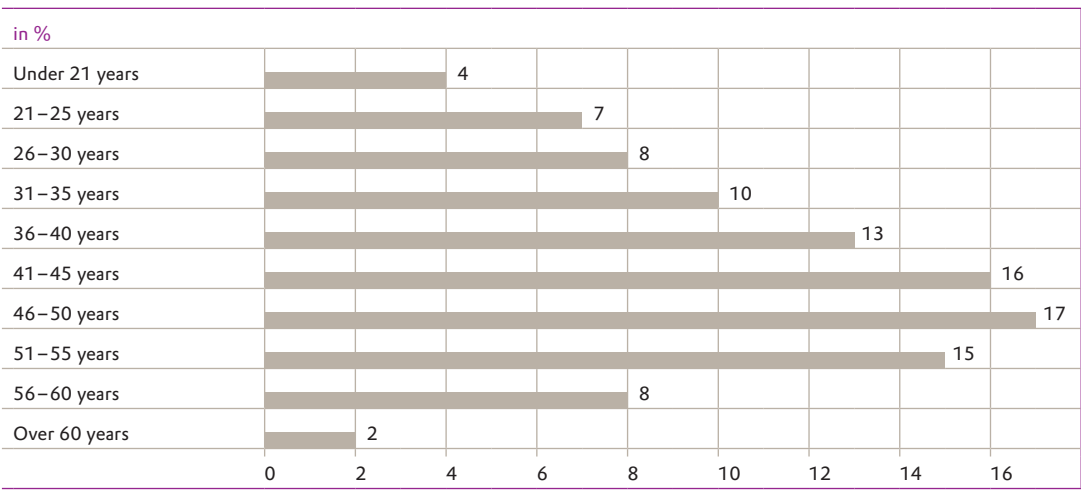
**Diversity—An enrichment for the Group**

Evonik greatly values the diversity of its employees, which is a source of ideas and innovation and thus enhances the Group’s competitiveness. For us, diversity goes beyond differences attributable to gender or nationality. The diversity of disciplines pursued during training, experience of several organizational units or functional areas, and mixed-age teams are equally important to us. We pushed ahead with the development of a company-specific diversity approach in 2010. This centers on three levels, measurement based on specific indicators, anchoring the diversity philosophy in HR processes and HR policies, and bundling development activities. We believe it is the task of every individual manager to recognize, value and foster the diversity of our employees. Our diversity approach will be rolled out worldwide in 2011 with the support of our executives.

**Employee participation plan**

The employee participation plan was offered for the third time in 2010. This plan rewards employees for their commitment by enabling them to share in the success of the Group by investing in participation rights that yield a return based on the Group’s return on capital employed (ROCE). Employees also benefit from attractive, tax-free subsidies. In 2010 more than 7,000 of the eligible employees showed their confidence in the company’s success by acquiring participation rights valued at around €12 million, almost triple the 2009 level.

**Age structure in the continuing operations**





### “Contribute, Communicate, Create”—The 2010 employee survey

Every two years Evonik asks employees around the world to play an active part in shaping the future of the Group. Thanks to their committed participation in the 2008 employee survey, initiatives were triggered in many parts of the company. Group-wide, 475 improvements were introduced and most have been successfully implemented. About 39,000 employees in 50 countries were invited to take part in the 2010 survey, with an increasing proportion responding online. The very good response rate of 78.8 percent provides a meaningful insight into our employees' opinions and sentiment on key issues. The findings will result in both Group-wide and, above all, specifically local improvements under the “from data to action” campaign. Moreover, transparent documentation of all improvement measures will enable managers and organizational units to adopt good ideas from other parts of the Group.

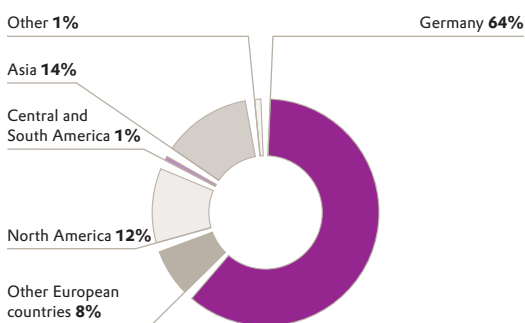
### Headcount in 2010

At year-end 2010 the Evonik Group had 39,323 employees, including around 4,916 in the discontinued operations.

The continuing operations had 34,407 employees, around 23 percent of whom were female. The

average age of the workforce was 41.5 and 36 percent were employed outside Germany. The headcount was 546 higher than at year-end 2009. Most of the increase (743 employees) was in the Chemicals Business Area and was mainly due to the acquisition of Tippecanoe Laboratories (around 650 employees). Further headcount rises resulted principally from the consolidation of Li-Tec Battery GmbH (around 120 employees) and new hires to fill vacancies in response to the economic recovery in 2010.

### Employees<sup>1)</sup> by region



<sup>1)</sup> Continuing operations.

### Employees by business area

	2010	2009
Chemicals	31,061	30,318
Real Estate	1,098	1,056
Other operations	2,248	2,487
<b>Continuing operations</b>	<b>34,407</b>	<b>33,861</b>
Discontinued operations (Energy)	4,916	4,820
<b>Evonik</b>	<b>39,323</b>	<b>38,681</b>

## Environment, safety and health

In the light of global challenges such as climate change, limited resources and demographic trends, we are firmly convinced that a sustainability-oriented long-term focus is vital for lasting corporate success. Our Group-wide strategy in the area of the environment, safety and health (ESH) is a central element of this. This strategy is supported by binding rules that have been audited externally, comprising overarching ESH values, more detailed policies and operating procedures.



### INFORMATION

**Audited:** Large number of internal audits confirm implementation of ESH rules

**Validated:** Over 95 percent of chemicals production conforms to ISO 14001

**Improvement:** Further reduction in accident frequency

**On schedule:** First REACH registration phase successfully completed

**Future-oriented:** Focus on climate protection and sustainability

### Audited internally, validated externally

A large number of internal audits were conducted in the business units, regions and at individual sites in 2010 to monitor implementation of the ESH regulations. In addition, the Corporate Center conducts cross-unit audits to check compliance with Group regulations. Building on the findings of internal and external monitoring processes, site inspections, reviews and incident analysis, talks are held on scope for improvement, and implementation of the agreed measures is monitored. We intend to utilize this potential systematically as part of our continuous improvement process.

In the Chemicals Business Area over 95 percent of our production has been validated externally as conforming to ISO 14001, the internationally recognized environmental management standard. Evonik is also a signatory to the chemical industry's Responsible Care Global Charter. This involves an undertaking to steadily improve our performance in the fields of environmental protection, safety and

health protection. We use long-term goals to monitor the development of key environmental indicators. As in previous years, progress towards these goals will be outlined in our Corporate Responsibility Report 2010, which will be published shortly.

In 2010, the Energy Business Area continued its policy of having occupational health and safety validated externally by the responsible Employers' Liability Insurance Associations. Following validation of all power plants in the Rhine, Ruhr and Saar regions and the Iskenderun power plant at year-end 2009, the District Heating Business Line has now been validated. Validation runs for three years and complies with the international standard OHSAS 18001:2007.

### Further improvement in occupational and plant safety

We once again improved our occupational safety performance. In the continuing operations accident frequency (the number of accidents involving company employees per million hours worked) declined from 2.3 to 2.1. While the Real Estate Business Area registered a slight decline in the frequency of accidents, there was a slight increase in the Chemicals Business Area. Nevertheless, the indicator for this business area remains low. There were no fatal accidents in the workplace involving Evonik employees or contractors in 2010.

In the Energy Business Area accident frequency declined considerably to 5.2

### Accident frequency by business area

	2010	2009
Chemicals	1.3	1.2
Real Estate	2.3	2.4
<b>Continuing operations<sup>1)</sup></b>	<b>2.1</b>	<b>2.3</b>
Discontinued operations (Energy)	5.2	6.6
<b>Total<sup>1)</sup></b>	<b>2.5</b>	<b>2.8</b>

<sup>1)</sup> Including other operations.

Plant safety is of special relevance in the Chemicals Business Area. An internal indicator introduced in 2008 tracks the unplanned release of substances from appliances, containers and pipes, and the impact of fires and explosions. This indicator allows timely identification of weaknesses so we can take action to optimize our workflows. The criteria used for the plant safety indicator are based on the recommendations of international associations and institutions and the German Chemical Industry Association (VCI).



**Selective investment in environmental protection**

Investment in efficient measures integrated into plants and processes is essential to improve environmental protection. The Chemicals Business Area invested €36 million in environmental protection in 2010 (2009: €43 million). The year-on-year decline was due to significant investment in infrastructure and production-specific environmental protection installations for the new integrated production complex in Shanghai (China) in 2009. In 2010 capital expenditures were divided among a large number of smaller measures. For example, a new process control system for the monitoring and treatment of wastewater was installed at the Wesseling site in Germany, while various clean air measures were undertaken at the sites in Lülldorf, Rheinfelden and Steinau (Germany).

Operating costs for environmental protection in the Chemicals Business Area were €264 million in 2010 (2009: €259 million). This increase was principally due to the inclusion of the site in Tippecanoe (Indiana, USA) acquired at the start of 2010, which produces active ingredients and intermediates for the pharmaceutical industry. Further, the large methylmethacrylate complex at our integrated production site in Shanghai, which came on stream in 2009, operated at full capacity in 2010, resulting in higher expenses for environmental protection.

**Cyclically-driven increase in CO<sub>2</sub> emissions based on EU-ETS**

Many facilities operated by Evonik fall directly within the remit of the European regulations on trading in CO<sub>2</sub> emissions allowances (EU-ETS). CO<sub>2</sub> emissions from the plants operated by the Chemicals Business Area for which emissions reporting is required were around 4.2 million metric tons (2009: 3.9 million metric tons). This increase was due to the substantial rise in capacity utilization in production facilities as a result of the economic upturn.

Plants operated by the Energy Business Area subject to the EU-ETS regulations emitted some 18.3 million metric tons of CO<sub>2</sub> (2009: 16.6 million metric tons).

A decision on the basic principles of EU-ETS for the period from 2013 should be taken at European level by the end of March 2011, but details of their implementation will have to be clarified subsequently. Since these details are not yet available, it is not currently possible to estimate their economic impact on individual production facilities. It is, however, clear that almost all chemical facilities that will be required to take part in the emissions trading program from 2013 are classed as belonging to an

“exposed sector”. They will be allocated emissions allowances on the basis of technical benchmarks. A significant reduction in the number of allowances allocated to heat generating plants is expected, regardless of the structure of their end-consumers. In addition, general reduction factors are likely to be applied. Their anticipated level can only be forecast once the Europe-wide application process has been completed (probably at the end of 2011).

**Focus on climate protection and sustainability**

The outcome of the Cancun conference on climate change has brought the international community a step closer to a global climate convention. It will be particularly important to ensure that the global 2 °C target is recognized as binding by all parties and that specific measures are taken to implement it. The risk of structural shifts in the economic system needs to be taken into account.

Evonik considers that the debate about climate change and possible strategies to reduce climate-relevant emissions impose a responsibility on the Group. A core element is increasing energy efficiency at all process levels, from the generation of power and heat in our power plants, through more efficient production processes in our chemical facilities, to the development of products that help our customers use resources more efficiently. A key aspect is balancing the CO<sub>2</sub> emissions from production processes against the benefits reaped by the customers in the use of our products (lower emissions). Life-cycle assessments provide assistance in the necessary quantification. They are used to analyze and illustrate the impact of specific products on the environment. This all-round approach covers the entire product lifecycle, including their “ecological backpack”, i.e. raw materials and the end-use phase.

In the future, we will also endeavor to expand the evaluation matrix for capital expenditures and portfolio management. Alongside strictly economic aspects, the ecological and social impact of products and businesses should be taken into account in the evaluation process. If we succeed in systematically developing value drivers aligned to sustainability, we will open up future-oriented growth opportunities, create value for the company, and make a contribution to the development of society.



### REACH: successful registration

Under the EU chemicals regulation REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) all substances produced, imported or placed on the market in the EU in quantities exceeding 1,000 metric tons p.a. had to be registered by November 30, 2010. In addition, there was an obligation to register all environmentally hazardous substances and substances classified as carcinogenic or mutagenic, or which adversely affect the reproductive organs. In this initial phase Evonik registered 167 pre-registered substances and further substances without pre-registration status. The registration obligation has not yet led to any significant changes in our portfolio. Key substances in the Chemicals Business Area that have already been registered include, for example, AEROSIL®, ULTRASIL®, SIPERNAT® and carbon black. For the Energy Business Area, ash from coal-powered electricity generation and the power plant by-product gypsum have been registered.

Preparation of the technical dossiers for the second registration phase started immediately after November 30, 2010. This covers substances in the 100 to 1,000 metric tons p.a. range. In this phase, around 350 substances have to be registered, about double the number registered in the first phase. By 2018 we will have registered almost 1,000 substances.

### Evonik supports the Global Product Strategy

The International Council of Chemical Associations (ICCA) has set up the Global Product Strategy (GPS) initiative to encourage safe and appropriate global chemicals management. Evonik explicitly supports and actively drives forward this strategy. The aim of the GPS is to improve and harmonize standards of product stewardship, in other words, responsibility for the entire lifecycle of a product, throughout the global chemical industry. We will be implementing GPS throughout the Evonik Group and have already published GPS Safety Summaries for around 100 chemicals on our website. In 2011 we will also be making available product information for the substances registered under REACH.

## Corporate governance

Good corporate governance, which Evonik defines as responsible and targeted corporate management and oversight, forms an integral part of our business processes. Evonik's Executive Board and Supervisory Board base their conduct on the German Corporate Governance Code. The rules for fair and responsible treatment of stakeholders are set out in our own Code of Conduct. This is binding for all employees worldwide. We provide extensive training, monitor compliance and impose sanctions if it is violated. The principles are supplemented by detailed policies, management systems and tools. Compliance with these regulations is monitored and assessed by internal audits and management self assessments.

The compliance issues identified as being of specific relevance to our company form the basis of compliance management and are bundled in a "House of Compliance". Alongside traditional compliance aspects such as antitrust law, export controls and corruption prevention, they include capital market compliance, data protection, the environment, safety, health, quality, the protection of intellectual property, and IT compliance. The relevant specialist departments bear responsibility for these aspects. The establishment and ongoing development of the "House of Compliance" is coordinated by the Chief Compliance Officer, who operates autonomously and reports directly to the Chairman of the Executive Board. He is supported in all major issues by a Compliance Committee, an internal advisory committee composed of the heads of the various specialist departments and Corporate Auditing. Compliance officers in the business units and regions ensure close integration of our business activities.

## Events after the end of the reporting period

No reportable events occurred after the end of the reporting period.



## Risk report

### Risk strategy

Evonik is exposed to a variety of risks in the course of its business activities. Risk management therefore forms a central element in the management of the company and is geared to targeted management of risk with a view to securing present and future potential for success and avoiding, preventing, countering and minimizing risk. We only enter into entrepreneurial risks if we are convinced that they can generate a sustained rise in the value of the company and that we are able to control any possible implications.

### Structure and organization of risk management

Evonik has an internal monitoring and control system in place across the Group. Alongside organizational measures and internal control systems, Corporate Auditing supports risk management as a process-unrelated controlling and consulting body.

Our risk management system is organized on a decentralized basis in line with Evonik's organizational structure. The business units, Corporate Center and service units bear prime responsibility for the early identification of risks, estimating their implications, introducing suitable preventive and control measures and for the related internal communication. Risk Coordinators within these organizational units are responsible for coordinating the relevant risk management activities. A central risk officer coordinates and oversees the processes and systems. He is the contact for all risk officers and is responsible for managing and coordinating the relevant risk management activities for the Group. Further responsibilities include ongoing development of the methodology used by the risk management system. A Risk Committee was established in 2010. It is chaired by the CFO and includes representatives of the business areas and business units. The role of the committee is to validate the Group-wide risk situation and to verify that it is adequately reflected in financial reporting.

Risk management is a central element in Evonik's controlling processes at all levels of the Group. That includes strategic and operational planning, preparations for investment decisions, monthly reporting and projections, and, from a certain level, immediate reporting of risks. The organizational units conduct an extensive risk inventory in connection with the annual mid-term planning process. This uses special risk management software introduced in 2010. All risks are systematically identified, entered and documented on the basis of a uniform risk catalogue for all units. This was revised in 2010 and takes account of the specific features of individual business areas. The probability of the risks occurring and the potential damage are also analyzed. The organizational units are required to provide details of action to be taken with regard to risks identified in the risk inventory and track their timely implementation. The annual risk inventory, which looks at risks over a period of one year and at least three years, is supplemented by monthly risk reports on changes in risk factors previously identified and newly identified risks. The Evonik Group has issued a binding policy on risk management.

In fiscal 2010 Corporate Auditing inspected aspects of the risk management system as part of its audits of the organizational units and established that they comply with statutory and in-house requirements. In addition, the system used to identify emerging risks is included in the annual audit in the same way as for listed companies. This showed that Evonik's risk detection system is suitable for timely identification of risks that could pose a threat to the company's survival.

### Overall risk assessment

Given the measures planned and implemented, no risks have been identified that—either individually or in conjunction with other risks—could jeopardize the continued existence of Evonik. In accordance with our risk catalogue, we monitor risks on the basis of the four categories defined by the COSO-ERM model: strategic, operational, compliance and financial.

Due to the fields in which it operates, the Evonik Group is exposed to constantly changing national and international political, societal, demographic, legal and economic operating conditions. To counter the resultant risks we monitor our business environment closely, anticipate market trends and consistently develop our portfolio in conformance with our corporate strategy.

In 2010 Evonik's markets recovered surprisingly quickly from the global economic crisis. Demand picked up particularly strongly in the Chemicals Business Area and production capacity, which had been scaled back during the crisis in 2009, was fully utilized again. As a result, earnings and cash flow risks were far lower in 2010 than in 2009. Extensive, sustainable cost savings also contributed to this.

### 1. Strategic risks

Plans to grow the Chemicals Business Area through investment in growing markets and acquisitions entails certain risks as regards the planned scope and timing of projects. These risks are addressed through established, structured processes, as outlined below.

#### Market and competition risks

One general risk factor is the intensive competition in some market segments. In the Chemicals Business Area, competitors in low-wage countries in particular increase competitive pressure through aggressive pricing policies. 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. The operating units affected also use various methods of increasing customer loyalty to reduce these risks. These include, in particular, strategic research alliances with customers, customer relationship management and an improvement in the services offered. We are constantly developing attractive and competitive new products to counter the risk that chemical products could be replaced by new, improved or less expensive materials or technologies. Alternatives also have to be found for certain raw materials subject

to the REACH Regulation which may no longer be available in the future. The Real Estate Business Area uses a strategic mixture of modernization, demolition and new construction, supplemented by selective acquisition of attractive residential properties, to avoid the risk of a possible deterioration in the value and earning power of its portfolio due to regional or demographic factors. At the same time, opportunities for further profitable expansion of this business area are used.

In the Energy Business Area, the energy policy framework could have a detrimental effect. Factors include, in particular, extending the operating life of nuclear power plants and future regulatory measures to reduce CO<sub>2</sub> emissions. We therefore have a clear focus on work geared to reducing the specific CO<sub>2</sub> emissions of power plants by increasing efficiency further and using innovative technologies. Moreover, plans to allocate all CO<sub>2</sub> allowances—even for new power plants—by auction from 2013 will hamper the economical and competitive construction of new power plants in Germany.

#### Acquisition and divestment risks

Active portfolio management as part of value-based controlling has high priority at Evonik. Our operating units are permanently screened for sustainable profitability and to ensure they fit the corporate strategy. The strategic development of Evonik may entail the expansion of specific operations, divestment or gaining a foothold in completely new fields of business. Evonik has defined structured processes for all of these alternatives.

Where it is not possible to strengthen business operations through organic growth, other companies or business operations are acquired. We have set out clear procedures for preparing, analyzing and undertaking acquisitions. In particular, these include clear rules on accountability and approval processes. For example, an intensive examination of potential acquisition targets (due diligence) is undertaken before they are acquired. This involves identification of all major risks and opportunities and an appropriate valuation. Key aspects of this process are strategic focus, management quality and development potential and any legal, financial and environmental risks. New companies are rapidly integrated into the Group and thus into our risk management and controlling processes.





Any restructuring or divestment requirements relating to the strategic management of the Evonik Group are also systematically implemented. Post-transaction management closely monitors any liability and guarantee risks resulting from divestments.

In 2011, Evonik will divest 51 percent of its shares in the energy business. The purchaser is a consortium of municipal utilities in Germany's Rhine-Ruhr region. This consortium has the option to obtain the approval of its governance bodies, by the end of May 2011 at the latest, to acquire the remaining 49 percent stake in Evonik Steag GmbH. Otherwise, Evonik has the right to divest the entire stake in this company to a different purchaser and thus to require the consortium to transfer the 51 percent stake already sold to it to the new buyer. In this case, a costly new sales process would have to be started.

## 2. Operational risks

In view of the typical business-related dependence on external parameters, especially in the chemicals business (for example economic cycles and raw material prices), action to reduce operational risks is of central importance.

### Sales and marketing risks

The customer base in the Chemicals and Real Estate Business Areas means they are only exposed to low cluster risks. However, some operational units have a certain dependence on key customers. A decline in demand from the industries served by the Chemicals Business Area or a deterioration in the competitive position of its customers could adversely affect the chemicals business. We respond to these risks by permanent monitoring of the market, acquiring new customers, and efforts to establish new applications and gain access to new markets as early as possible.

The Energy Business Area's business model centers on long-term contracts, which reduce the marketing and sales risk as they include clauses allowing changes in raw material prices to be passed on to customers to a large extent. Conditions have been established to allow alternative marketing of services that become available in the mid-term.

### Procurement risks

The availability of starting products and intermediates and dependence on commodity and energy prices are further potential risk factors. The Chemicals Business Area is particularly dependent on the development of the price of crude oil and petrochemical feedstocks derived directly or indirectly from oil. It is also dependent on exchange rates, which have a major influence on both commodity and energy costs. We counter these risks by optimizing global purchasing activities, entering into long-term supply contracts, agreeing price formulae where possible or finding alternative suppliers. We also investigate the possibility of using substitute raw materials for various production processes and are working to develop alternative production technologies. The renewed rise in procurement costs in 2010 compared with 2009 was partially recouped thanks to the ability to raise selling prices as a result of high demand and short supply of some products. The competitive situation means that cost rises cannot always be recouped through price rises either immediately or in full.

One challenge in the light of the Energy Business Area's portfolio of power plants is the reduction in mining of hard coal in Germany. We are addressing this through process and technology-based measures and alternative imports of fuels.

### Production risks

As an industrial corporation, Evonik is exposed to the risk of business interruptions, quality problems and unexpected technical difficulties. Group-wide policies on project and quality management effectively reduce these risks. Production stoppages due to plant failures are insured. Moreover, all facilities undergo thorough maintenance and employees receive appropriate initial and ongoing training.

### Human resources risks

The skills and knowledge of our highly qualified managers and employees are vital to achieve the strategic and operational objectives of the organizational units. To ensure that we can recruit and retain qualified staff to meet our future requirements we offer attractive remuneration systems and systematic personnel development, giving employees a wide range of opportunities to develop and enhance their personal and professional abilities. We also maintain close links to universities and professional associations to help us recruit talented youngsters.

### Information technology risks

Group-wide rules and regulations provide details of how to handle information and the secure use of information systems. Modern information security and data protection technologies are used throughout the Group to avoid such risks. Appropriate procedures and state-of-the-art technical protection are installed to counter the risk of potential unauthorized access and the loss of data. These are expanded and adapted to the constantly changing risk situation to ensure that we have adequate protection against potential risks in the future. Internal communication methods such as IT security campaigns are used to heighten employees' awareness of the need for security in the handling of information technology.

## 3. Compliance risks

Compliance risks in the strict sense of the term relate to compliance with regulations and ethically correct business conduct. The binding regulations on fair treatment of our stakeholders are set out in our Code of Conduct (for details of corporate governance see page 68). To minimize compliance risks, extensive training and sensitization of employees is undertaken at classroom-based training sessions, supported by e-learning programs. The legal and environmental risks outlined below are also part of compliance risk.

### Legal risks

Evonik is exposed to risks relating to legal disputes, administrative proceedings and fines. Similarly, guarantee claims against the company may result from divestments. In its operating business, the Group is exposed to liability risks, especially in connection with product liability, patent law, tax law, competition law, antitrust law and environmental law. We have developed a concept involving high quality and safety standards to ensure a controlled approach to such risks. Insurance cover has been purchased for the financial consequences of any damage that may nevertheless occur as a result of damage to property, product liability claims and other risks. Where necessary, provisions have been set up for such risks.

### Environmental risks

As an industrial corporation Evonik is exposed to risks in the fields of product safety, occupational safety and the environment. Group-wide guidelines on product safety, occupational safety and environmental protection are an effective way of reducing these risks. Furthermore, our production processes and workflows, which are validated as conforming to international standards, undergo constant development and improvement. In addition, especially when new production facilities are erected in countries like China, the Chemicals Business Area is exposed to a risk that intellectual property cannot be adequately protected, even through patents. Adequate provisions have been made for any necessary remediation of contaminated sites. As a responsible company with significant chemical activities, Evonik ensures that such processes are operated in accordance with the principles of the global Responsible Care initiative.

## 4. Financial risks

For financial risk management purposes, Evonik follows the principle of separation of trading, risk controlling and back office functions and takes as its guide the banking-specific "Minimum Requirements for Trading Activities of Credit Institutions" (MaRisk) and the requirements of the German legislation on corporate control and transparency (KonTraG). Binding trading limits, responsibilities and controls are thus set in accordance with recognized best practices, and Group-wide policies and principles are in place. All financial risk positions in the Group have to be identified and evaluated. This forms the basis for selective hedging to limit risks.



Credit risks relating to financial contracts are systematically examined when the contracts are concluded and monitored continuously afterwards. Ceilings are set for each counterparty on the basis of internal or rating-based creditworthiness analyses.

Details of the financial derivatives used and their recognition and valuation can be found in Note (10.2) to the consolidated financial statements.

#### Interest and exchange rate risks

In the course of its business, Evonik is exposed to the risk of changes in exchange rates and interest rates. A detailed overview of interest rate and foreign exchange management and the use of financial derivatives is given in Note (10.2) to the consolidated financial statements and Note (24) to the annual financial statements of Evonik Industries AG.

#### Liquidity risks

At the heart of Evonik's central liquidity risk management is a Group-wide cash pool. In addition, the Group's financial independence is secured through a broadly diversified financing structure. A detailed overview of liquidity risks and their management can be found in Note (10.2) to the consolidated financial statements.

Details of the financing of the Evonik Group and action to protect liquidity can be found on page 36 (Financial condition).

Overall, Evonik believes that adequate financing instruments are available to ensure sufficient liquidity at all times.

#### Internal control system for financial accounting

The main financial reporting risks are identified through the internal control and risk management system (ICS), which is based on a quantitative and qualitative analysis. Controls are defined for each risk area of the accounting process. Their efficacy is tested by Corporate Accounting at regular intervals and improved where necessary. All elements of the control process are verified by Internal Auditing of the basis of random samples.

To ensure the quality of financial statements we have a global 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 the Shared Service Center (SSC). Through systematic process orientation, standardization and the utilization of economies of scale, this leverages sustained cost benefits and can improve the quality of accounting. The SSC is validated annually in conformance with German audit standard IDW 951. An external audit is conducted on the annual financial statements of 95 percent of companies.

All data are consolidated centrally in the Corporate Center using SAP SEM-BCS. Group companies submit their financial statements via a web-based interface. A range of technical validations are 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 full quarterly reports allows us to gain experience with new accounting issues and provides a good basis for plausibilization of the year-end accounts. The Executive Board receives monthly reports and quarterly reports are submitted to the Audit Committee.

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

## Outlook

### Moderate growth in the world economy

Global economic trends in 2011 are likely to be as inhomogeneous as in 2010. Growth rates of 9.6 percent and 8.2 percent, well above the average, are forecast for the world's long-term growth drivers, China and India. More stable economic prospects are forecast for Russia, with growth of 4.2 percent, and for Germany which is expected to grow by around 2.6 percent. By contrast, growth of just 1.7 percent is anticipated for the euro zone. Subdued forecasts have also been made for Japan (1.6 percent) and for the USA, where the trend is expected to be virtually unchanged with a growth rate of 2.2 percent compared with 2.6 percent in 2010. Overall, the global economy is expected to post growth of a good 4.0 percent. The only moderate growth forecast for the established industrialized countries is attributable to a number of significant risk factors: extremely high public and private debt, for example in the USA, UK, Greece and Ireland, the expiry of government economic stimulus programs, and the stepwise consolidation of public-sector budgets in many countries. The associated reduction in public-sector spending, tax increases and the decline in public-sector employment, together with high structural unemployment, will dampen private demand. Consequently, it is not yet possible to forecast reliably whether the economic recovery seen in 2010 will prove sustainable.

### Corporate strategy: focus on specialty chemicals

Concentrating on specialty chemicals paves the way for further profitable growth. Within the specialty chemicals segment, we are aligning our operations systematically to high-margin business, especially with a view to the global megatrends: resource efficiency, health and nutrition, and globalization of technologies. We intend to expand our attractive business operations in the coming years, especially in the Asian growth region. At the same time, we are systematically entering new markets through innovative products and applications from our research pipeline. We are also examining selective acquisitions to strengthen our core business.

We will divest businesses that do not fit in with our strategic growth profile because their competitiveness is limited within the Evonik organization or they do not have growth opportunities within the Group. We are therefore looking for new owners which can provide better development opportunities for our carbon blacks and colorants businesses.

We will be withdrawing from the energy business in the mid-term. Having sold a majority stake in Evonik Steag AG, the remaining 49 percent will be recognized in our financial statements at equity. The remaining shares will be divested in five years at the latest. We will also be examining selling shares in the real estate business in the medium term.





**Improved competitiveness and profitable growth offer further opportunities**

The projects to cut costs, raise efficiency and optimize structures and processes initiated under the On Track program have greatly improved the basis for our future development. Thanks to the effective implementation of these measures, earnings increased considerably in 2010 and are expected to rise further. Our aim is still to achieve a sustained reduction in costs of around €500 million from 2012. All necessary measures for this have already been identified and most have now been implemented.

In 2010 we also initiated key investment projects to support profitable growth. These include building a new, backwardly integrated production complex for the amino acid DL-methionine in Singapore, which is scheduled to come into service in 2014. Production capacity for precipitated silicas in Asia and Europe is to be expanded by 25 percent by 2014. Construction of a new production plant for isophorone and isophorone diamine, preferably in Asia, is currently at the planning stage. These investments will enable us to participate in the expansion of the market and further strengthen our market position. Our innovative prowess, reflected by the introduction of new products, new applications for established products and new technologies, will generate considerable momentum for Evonik in the coming years.

**Outlook: another very good operating result expected**

In view of the renewed financial risks, the economic outlook for 2011 entails a number of uncertainties. We expect demand for our products to continue to rise, especially in the growth regions. Adverse factors could come from the continued rise in raw material costs. Overall, we assume that sales will rise slightly, while EBITDA and EBIT will be around the very good level achieved in 2010.

Based on our performance in 2011, we expect to see a further improvement in our operating business in 2012. This will be driven by the increase in production capacity and by sustained efficiency improvements and cost-savings.

Capital expenditures will rise considerably in the coming years as part of our growth strategy and the related investments. They will be fully financed out of our cash flow.

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.

# Consolidated financial statements

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Every new day brings an opportunity to come up with new ideas that broaden our economic horizons. We are looking forward to tomorrow.



# Income statement

## Evonik Group

in € million	Note	2010	2009
Sales	(6.1)	13,300	10,518
Cost of sales		-9,440	-7,730
<b>Gross profit on sales</b>		<b>3,860</b>	<b>2,788</b>
Selling expenses		-1,174	-1,013
Research and development expenses		-338	-298
General administrative expenses		-630	-519
Other operating income	(6.2)	968	858
Other operating expenses	(6.3)	-1,347	-1,291
<b>Income before financial result and income taxes, continuing operations</b>		<b>1,339</b>	<b>525</b>
Interest income	(6.4)	23	32
Interest expense	(6.4)	-451	-429
Result from investments recognized at equity	(6.5)	54	57
Other financial income	(6.6)	10	4
<b>Financial result</b>		<b>-364</b>	<b>-336</b>
<b>Income before income taxes, continuing operations</b>		<b>975</b>	<b>189</b>
Income taxes	(6.7)	-175	-54
<b>Income after taxes, continuing operations</b>		<b>800</b>	<b>135</b>
Income after taxes, discontinued operations	(5.2)	-7	177
<b>Income after taxes</b>		<b>793</b>	<b>312</b>
thereof attributable to			
Non-controlling interests		59	72
Shareholders of Evonik Industries AG (net income)		734	240
<b>Earnings per share in € (basic and diluted)</b>	(6.8)	<b>+1.58</b>	<b>+0.52</b>

Prior-year figures restated.



# Statement of comprehensive income

## Evonik Group

in € million	Note	2010	2009
<b>Income after taxes</b>		<b>793</b>	<b>312</b>
thereof attributable to			
Non-controlling interests		59	72
Shareholders of Evonik Industries AG (net income)		734	240
Unrealized gains/losses on available-for-sale-securities		-5	4
Gains/losses on hedging instruments		-25	81
Currency translation adjustment		284	6
Deferred taxes		7	-13
<b>Other comprehensive income after taxes</b>	(7.9)	<b>261</b>	<b>78</b>
thereof attributable to			
Non-controlling interests		31	-17
Shareholders of Evonik Industries AG		230	95
<b>Total comprehensive income</b>		<b>1,054</b>	<b>390</b>
thereof attributable to			
Non-controlling interests		90	55
Shareholders of Evonik Industries AG		964	335

# Balance sheet

## Evonik Group

in € million	Note	Dec. 31, 2010	Dec. 31, 2009
Intangible assets	(7.1)	3,486	3,950
Property, plant and equipment	(7.2)	4,455	5,711
Investment property	(7.3)	1,528	1,554
Investments recognized at equity	(7.4)	562	626
Financial assets	(7.5)	108	1,140
Deferred tax assets	(7.14)	518	392
Other income tax assets	(7.14)	23	40
Other receivables	(7.7)	59	56
<b>Non-current assets</b>		<b>10,739</b>	<b>13,469</b>
Inventories	(7.6)	1,585	1,590
Other income tax assets	(7.14)	47	159
Trade accounts receivable	(7.7)	1,826	2,148
Other receivables	(7.7)	257	356
Financial assets	(7.5)	484	300
Cash and cash equivalents	(7.8)	1,103	885
		<b>5,302</b>	<b>5,438</b>
Assets held for sale	(5.2)	4,502	–
<b>Current assets</b>		<b>9,804</b>	<b>5,438</b>
<b>Total assets</b>		<b>20,543</b>	<b>18,907</b>
Issued capital		466	466
Reserves		4,910	4,262
<b>Equity attributable to shareholders of Evonik Industries AG</b>		<b>5,376</b>	<b>4,728</b>
Equity attributable to non-controlling interests		593	486
<b>Total equity</b>	(7.9)	<b>5,969</b>	<b>5,214</b>
Provisions for pensions and other post-employment benefits	(7.10)	3,279	3,979
Other provisions	(7.11)	956	1,091
Deferred tax liabilities	(7.14)	502	626
Other income tax liabilities	(7.14)	70	61
Financial liabilities	(7.12)	2,915	4,040
Other payables	(7.13)	405	395
<b>Non-current liabilities</b>		<b>8,127</b>	<b>10,192</b>
Other provisions	(7.11)	1,467	1,061
Other income tax liabilities	(7.14)	345	251
Financial liabilities	(7.12)	307	455
Trade accounts payable	(7.13)	1,088	1,365
Other payables	(7.13)	273	369
		<b>3,480</b>	<b>3,501</b>
Liabilities associated with assets held for sale	(5.2)	2,967	–
<b>Current liabilities</b>		<b>6,447</b>	<b>3,501</b>
<b>Total equity and liabilities</b>		<b>20,543</b>	<b>18,907</b>

# Statement of changes in equity

## Evonik Group Note (7.9)

in € million	Issued capital	Reserves			Attributable to shareholders of Evonik Industries AG	Attributable to non-controlling interests	Total equity
		Capital reserve	Accumulated income/loss	Accumulated other comprehensive income			
<b>As of January 1, 2009</b>	<b>466</b>	<b>1,165</b>	<b>3,562</b>	<b>-519</b>	<b>4,674</b>	<b>481</b>	<b>5,155</b>
Capital increases/decreases						8	8
Dividend distribution			-280		-280	-61	-341
Income after taxes			240		240	72	312
Other comprehensive income after taxes				95	95	-17	78
Total comprehensive income			240	95	335	55	390
Other changes			3	-4	-1	3	2
<b>As of December 31, 2009</b>	<b>466</b>	<b>1,165</b>	<b>3,525</b>	<b>-428</b>	<b>4,728</b>	<b>486</b>	<b>5,214</b>
Capital increases/decreases						26	26
Dividend distribution			-320		-320	-24	-344
Income after taxes			734		734	59	793
Other comprehensive income after taxes				230	230	31	261
Total comprehensive income			734	230	964	90	1,054
Other changes			9	-5	4	15	19
<b>As of December 31, 2010</b>	<b>466</b>	<b>1,165</b>	<b>3,948</b>	<b>-203</b>	<b>5,376</b>	<b>593</b>	<b>5,969</b>

# Cash flow statement

## Evonik Group

in € million	Note	2010	2009
Income before financial result and income taxes, continuing operations		1,339	525
Depreciation, amortization, impairment losses/reversal of impairment losses on non-current assets		799	820
Gains/losses on disposal of non-current assets		-21	-15
Change in inventories		-179	443
Change in trade accounts receivable		-247	67
Change in trade accounts payable and current advance payments received from customers		240	14
Change in provisions for pensions and other post-employment benefits		-176	-197
Change in other provisions		241	-41
Change in miscellaneous assets/liabilities		-75	66
Cash outflows for interest		-199	-222
Cash inflows from interest		34	85
Cash inflows from dividends		55	50
Cash outflows for income taxes		-240	-206
<b>Cash flow from operating activities, continuing operations</b>		<b>1,571</b>	<b>1,389</b>
Cash flow from operating activities, discontinued operations		504	703
<b>Cash flow from operating activities</b>	(8.1)	<b>2,075</b>	<b>2,092</b>
Cash outflows for investments in intangible assets, property, plant and equipment, investment property		-769	-809
Cash outflows for investments in shareholdings		-55	-25
Cash inflows from divestments of intangible assets, property, plant and equipment, investment property		53	70
Cash inflows from divestments of shareholdings		63	126
Cash inflows/outflows relating to securities, deposits and loans		-364	6
Cash outflows to fund the contractual trust arrangement	(7.10)	-200	-
<b>Cash flow from investing activities</b>	(8.2)	<b>-1,272</b>	<b>-632</b>
thereof discontinued operations		(-161)	(-245)
Cash inflows/outflows relating to capital contributions		26	8
Cash outflows for dividends to shareholders of Evonik Industries AG		-320	-280
Cash outflows for dividends to non-controlling interests		-24	-61
Cash inflows from the addition of financial liabilities		355	1,226
Cash outflows for repayment of financial liabilities		-414	-2,006
<b>Cash flow from financing activities</b>		<b>-377</b>	<b>-1,113</b>
thereof discontinued operations		(-149)	(-86)
<b>Change in cash and cash equivalents</b>		<b>426</b>	<b>347</b>
<b>Cash and cash equivalents as of January 1</b>		<b>885</b>	<b>542</b>
Change in cash and cash equivalents		426	347
Changes in exchange rates and other changes in cash and cash equivalents		40	-4
<b>Cash and cash equivalents as of December 31</b>	(8.3)	<b>1,351</b>	<b>885</b>
Cash and cash equivalents included in assets held for sale		-248	-
<b>Cash and cash equivalents as reported on the balance sheet as of December 31</b>	(7.8)	<b>1,103</b>	<b>885</b>

Prior-year figures restated.





# Notes to the consolidated financial statements of the Evonik Group

## (1) Segment report

### Evonik Group by operating segments Note (9.1)

in € million	Chemicals		Real Estate	
	2010	2009	2010	2009
External sales	12,867	9,978	402	396
Internal sales	79	90	2	1
Total sales	12,946	10,068	404	397
EBITDA (before non-operating result)	2,357	1,602	190	184
EBITDA margin in %	18.3	16.1	47.3	46.5
Depreciation and amortization	–627	–639	–47	–47
Result from investments recognized at equity	25	14	28	36
EBIT (before non-operating result)	1,702	932	140	134
Capital employed (annual average)	9,228	9,452	1,810	1,834
ROCE in %	18.4	9.9	7.7	7.3
Capital expenditures	602	502	41	59
Additions to financial assets	11	17	20	–
Other significant non-cash income and expenses	–940	–868	–19	–17
Employees as of December 31	31,061	30,318	1,098	1,056

### Evonik Group by regions Note (9.2)

in € million	Germany		Rest of Europe		Asia	
	2010	2009	2010	2009	2010	2009
External sales	3,445	2,988	3,713	2,942	2,670	1,971
Goodwill as of December 31 <sup>1)</sup>	1,717	1,704	540	538	252	214
Other intangible assets, property, plant and equipment, investment property as of December 31 <sup>1)</sup>	4,457	4,651	568	565	845	651
Capital expenditures	315	307	86	77	169	137
Additions to financial assets	29	20	6	5	–	1
Employees as of December 31	21,894	21,686	3,010	3,159	4,865	5,000

Prior-year figures restated.  
<sup>1)</sup> Non-current assets according to IFRS 8.33 b.



## Segment report

Reportable segments (continuing operations)		Corporate, other operations, consolidation		Total Group (continuing operations)		Reportable segment: Energy (discontinued operations)	
2010	2009	2010	2009	2010	2009	2010	2009
13,269	10,374	31	144	13,300	10,518	2,762	2,558
81	91	-81	-91	-	-	47	57
13,350	10,465	-50	53	13,300	10,518	2,809	2,615
2,547	1,786	-182	-179	2,365	1,607	525	418
19.2	17.2			17.8	15.3	19.0	16.3
-674	-686	-20	-26	-694	-712	-86	-86
53	50	1	7	54	57	11	9
1,842	1,066	-203	-198	1,639	868	435	326
11,038	11,286	-111	-16	10,927	11,270	3,333	3,348
16.7	9.4			15.0	7.7	13.1	9.7
643	561	9	8	652	569	163	280
31	17	5	11	36	28	31	14
-959	-885	-219	-118	-1,178	-1,003	-124	-109
32,159	31,374	2,248	2,487	34,407	33,861	4,916	4,820

North America		Central and South America		Other		Total Group (continuing operations)	
2010	2009	2010	2009	2010	2009	2010	2009
2,521	1,886	657	499	294	232	13,300	10,518
308	286	26	24	21	20	2,864	2,786
587	545	107	95	41	24	6,605	6,531
69	40	7	3	6	5	652	569
1	2	-	-	-	-	36	28
4,064	3,442	336	336	238	238	34,407	33,861

## (2) General information

Evonik Industries AG is an international corporation based in Germany operating in the Chemicals, Energy and Real Estate Business Areas; see Notes (1) and (9). The company's registered office is Rellinghauser Straße 1–11, Essen (Germany), and it is registered in the Commercial Register at Essen District Court under HRB No. 19474. As a first step in the realization of its strategic focus on specialty chemicals, Evonik Industries AG is divesting its Energy Business Area. Until then the Energy Business Area will be classified as held for sale, see Note (5.2).

Evonik Industries AG is a subsidiary of RAG-Stiftung, Essen (Germany), which directly and indirectly holds 74.99 percent of the shares in Evonik Industries AG. As a subsidiary of RAG-Stiftung, Evonik Industries AG and its subsidiaries are included at equity in the annual consolidated financial statements prepared by RAG-Stiftung in accordance with the German Commercial Code (HGB). The consolidated financial statements of RAG-Stiftung are published in the electronic Federal Gazette ([www.ebundesanzeiger.de](http://www.ebundesanzeiger.de)). The remaining 25.01 percent of the shares are held by Gabriel Acquisitions GmbH (Gabriel Acquisitions), Cologne (Germany). Gabriel Acquisitions is an indirect subsidiary of funds established and advised by CVC Capital Partners (Luxembourg) S.à r.l., Luxembourg (Luxembourg).

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 21, 2011, approved for publication, and presented to the Supervisory Board by the Audit Committee for approval at its meeting on March 15, 2011. These consolidated financial statements are also published in the electronic Federal Gazette.

## (3) Basis of preparation of the financial statements

### (3.1) Compliance with IFRS

As permitted by Section 315 a Paragraph 3 of the German Commercial Code, the present consolidated financial statements have been prepared on the basis of the International Financial Reporting Standards (IFRS) and comply with these standards. The IFRS comprise the International Financial Reporting Standards and International Accounting Standards (IAS) adopted by the International Accounting Standards Board (IASB), London (UK) and the interpretations (IFRIC, SIC) of the IFRS Interpretations Committee (IFRSIC, formerly International Financial Reporting Interpretations Committee), as adopted by the European Union. Additional disclosures are made in accordance with national regulations pursuant to Section 315a Paragraph 1 of the German Commercial Code.

### (3.2) Presentation of the financial statements

The consolidated financial statements cover the period from January 1 to December 31, 2010 and are presented in euros. All amounts are stated in millions of euros (€ million) except where otherwise indicated.

The recognition and valuation principles and items presented in the consolidated financial statements are in principle consistent from one period to the next. Deviations from this principle are outlined in Notes (3.3) and (3.4). To enhance the clarity of presentation, some items are combined in the income statement, statement of comprehensive income, balance sheet and statement of changes in equity and explained in detail in the Notes.





The income statement has been prepared using the cost-of-sales method. Expenses are divided by function. The statement of comprehensive income is a reconciliation from income after taxes as shown in the income statement to the Group's total comprehensive income, taking into account other comprehensive income. On the balance sheet, assets and liabilities are classified by maturity. They are classified as current if they are due or expected to be realized within twelve months from the reporting date. The statement of changes in equity shows changes in the issued capital, reserves attributable to shareholders of Evonik Industries AG and changes in non-controlling interests in the reporting period. Transactions with shareholders in their capacity as owners are also shown separately here. The cash flow statement provides information on the Group's cash flows. The cash flow from operating activities is calculated using the indirect method. The Notes contain basic information on the financial statements, supplementary information on the above components of the financial statement and further information such as the segment report.

### (3.3) Newly issued IFRS

#### Accounting standards applied for the first time

The IASB has amended or issued a number of standards and interpretations. These have to be officially adopted into European law by the European Union before they can be applied. The consolidated financial statements were impacted by the following standards which became mandatory for the first time in fiscal 2010 or were applied by Evonik voluntarily before they became mandatory:

In January 2008 the IASB published the revised standards IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements. The principal amendments to IFRS 3 relate to the option for the recognition of goodwill relating to non-controlling interests, accounting for existing shares in a business combination in the case of acquisitions made in stages, the recognition in income of the ancillary costs of a business combination and the reflection of variable purchase price components. The amendments to IAS 27 address, among other things, the presentation of the divestment of shares in subsidiaries with no loss of control as equity transactions between owners and the recognition and valuation of the remaining shares in subsidiaries where the divestment of shares involves a loss of control. Further, there is now no limit on the attribution of losses to non-controlling interests. The changes are to be applied prospectively.

Other accounting standards that had to be applied for the first time in the reporting period and do not significantly impact Evonik's consolidated financial statements or are not relevant for the consolidated financial statements:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- Interpretation IFRIC 17 Distributions of Non-cash Assets to Owners
- Interpretation IFRIC 18 Transfers of Assets from Customers
- The standards amended as part of the second annual improvements project (2009)
- The amendments to IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions
- The amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards: Additional Exemptions for First-time Adopters.

#### Accounting standards that are not yet mandatory

The IASB adopted further accounting standards up to December 31, 2010 which did not become mandatory in the fiscal year or have not yet been officially endorsed by the European Union. These new accounting standards will probably be applied for the first time—insofar as they are relevant for the Group's consolidated financial statements—from the date on which they come into force.

In October 2009 the IASB published the amended standard IAS 32 Financial Instruments: Presentation. If a company issues subscription rights, options or warrants to acquire a fixed number of its shares in a currency other than its functional currency, such rights previously had to be accounted for as financial liabilities. In future such rights, insofar as they are issued for a fixed amount of any currency, will be recognized as equity instruments if the entity offers them pro rata to all existing holders of the same class of its equity. The amended standard is applicable retrospectively for fiscal years beginning on or after February 1, 2010. Earlier application is permitted. This amendment is not currently relevant for the consolidated financial statements.

In November 2009 the IASB published the revised standard IAS 24 Related Party Disclosures. This contains simplifications for government-related entities and improves the definition of a related party. The revised standard is applicable for fiscal years beginning on or after January 1, 2011. Earlier application is permitted. The impact on the consolidated financial statements is currently being examined.

In November 2009 the IASB published the new standard IFRS 9 Financial Instruments. This standard is part of a project for a new standard to replace IAS 39 Financial Instruments: Recognition and Measurement. In this first step it is concerned exclusively with the classification and measurement of financial assets. IFRS 9 replaces the former valuation categories with the categories "at amortized cost" or "at fair value". The decision on whether to carry an instrument "at amortized cost" depends on the one hand on the entity's business model and on the other on the contractually agreed cash flows from the financial instrument. Instruments that do not meet the criteria for measurement "at amortized cost" are recognized in income "at fair value". Recognition of assets at fair value in other comprehensive income is permitted for selected equity instruments. The new standard is applicable retrospectively for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. The impact on the consolidated financial statements is currently being examined.

Further, in November 2009 the IASB published the amended interpretation IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. This amendment addresses the measurement of prepayments of minimum funding requirements as assets. This amended interpretation is applicable for fiscal years beginning on or after December 31, 2010. Earlier application is permitted. This interpretation is not currently relevant for the consolidated financial statements.

In November 2009 the IASB also published IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, which explains the conditions permitting an entity to fully or partially extinguish a financial liability through the issuance of shares or other equity instruments. This interpretation is applicable for fiscal years beginning on or after July 1, 2010. Earlier application is permitted. This interpretation is not currently relevant for the consolidated financial statements.

In January 2010 the IASB published the amended standard IFRS 1 First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures. The amended standard permits first-time adopters to avoid publishing comparative data for certain new disclosure requirements under IFRS 7 Financial Instruments: Disclosures for comparative periods ending before December 31, 2009. The revised standard is applicable for fiscal years beginning on or after July 1, 2010. Earlier application is permitted. This amendment is not relevant for the consolidated financial statements.

As part of its third annual improvements project, in May 2010 the IASB published Improvements to IFRSs (2010) containing amendments to a variety of IFRSs. The project makes minor, non-urgent but necessary amendments to existing standards, which are not addressed in another, major project. The amended standards are generally applicable for fiscal years starting on or after January 1, 2011. Earlier application is permitted. The impact on the consolidated financial statements is currently being examined.

In October 2010 the IASB published amendments to IFRS 7 Financial Instruments: Disclosures. These comprise supplementary disclosure requirements for the transfer of financial assets to provide a better understanding of the nature of the risks associated with continuing involvement. The amended standard is applicable for fiscal years beginning on or after July 1, 2011. Earlier application is permitted. The impact on the consolidated financial statements is currently being examined.

Further, the IASB has extended standard IFRS 9 Financial Instruments and issued a new version in October 2010. Supplementary to IFRS 9 (2009), IFRS 9 (2010) contains rules on the classification and measurement of financial liabilities and derecognition of financial assets and liabilities. The main changes relating to financial liabilities refer to the fair value option. In future, changes in the fair value resulting from the company's credit risk must be recognized in the statement of comprehensive income, while all other changes in the fair value must be recognized in income after taxes in the income statement. It takes over the present ruling on derecognition. This standard must be applied for fiscal years beginning on or after January 1, 2013. The impact on the consolidated financial statements is currently being examined.



In December 2010 the IASB published amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards. The previous reference to January 1, 2004 is replaced by reference to the date of transition to the IFRS. It also contains new rules if a company is unable to apply all IFRS standards as a result of hyperinflation. The amended standard is applicable for fiscal years beginning on or after July 1, 2011. Earlier application is permitted. This amendment is not relevant for the consolidated financial statements.

In December 2010 the IASB also published amendments to IAS 12 Income Taxes. These clarify the treatment of temporary tax differences relating to application of the fair value model in IAS 40 Investment Property. In future, it will be presumed that such tax differences will be recovered entirely through sale and not through continued use of the investment property. The amended standard is applicable retrospectively for fiscal years beginning on or after January 1, 2012. Earlier application is permitted. This amendment is not relevant for the consolidated financial statements.

### **(3.4) Restatement of prior-year figures**

An enterprise may only change its recognition and valuation principles or the items stated in prior years if this is required due to a standard or interpretation or results in the disclosure of more relevant information in the financial statements. Such changes must generally also be presented retroactively for the prior period. For the present consolidated financial statements, the following prior-year figures have been restated:

#### **Restatement due to the classification of the Energy Business Area as held for sale**

In 2010, the Energy Business Area was classified for the first time as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. In view of its importance for Evonik it also meets the criteria for classification as a discontinued operation. Accordingly, it is recognized separately from the continuing operations, see Note (5.2). Similarly, the prior-year figures have to be restated on the income statement and cash flow statement. The prior-year figures on the balance sheet do not have to be restated.

#### **Further changes**

In the segment report, minor changes in the reporting structure, see Note (9.1), and modification of the definition of capital employed, see Note (9.3), resulted in restatement of the prior-year figures. Restatement of the prior-year figures in the income statement increased other operating income and expenses by €106 million.

### **(3.5) Consolidation methods and scope of consolidation**

#### **Scope of consolidation**

Alongside Evonik Industries AG, the consolidated financial statements include all material German and foreign subsidiaries directly or indirectly controlled by Evonik Industries AG. Material associated companies and joint ventures are recognized using the equity method if Evonik is able to exert a significant influence or exercises joint control. Initial consolidation or deconsolidation takes place as of the date on which the company gains or loses control.

Companies whose influence on the assets, financial position and earnings of the Group, both individually and in aggregate, is negligible are recognized at amortized cost in the consolidated financial statements in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Changes in the scope of consolidation are outlined in Note (5.1).

### **Consolidation methods**

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

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 no longer 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 expenses. 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.

The subsidiary must be deconsolidated as of the date on which control is lost. The assets and liabilities of the subsidiary and non-controlling interests (proportionate net assets of the subsidiary) are derecognized. For the purpose of deconsolidation, the gain or loss on the divestments must be calculated from the Group viewpoint. This is derived from the difference between the proceeds of the divestment (selling price less costs to sell) and the proportionate divested net assets of the subsidiary, i.e. including hidden reserves that have not yet been amortized and any goodwill recognized on the balance sheet. Further, the shares still held in the former subsidiary are revalued at fair value as of the date on which control is lost. All resulting amounts are recognized in the income statement as other operating income or other operating expense.

Intergroup income and expenses, profits, losses, receivables and liabilities between consolidated subsidiaries are eliminated. Write-downs on shares in such companies recognized in the separate financial statements are reversed.

The same consolidation principles apply for companies accounted for using the equity method and 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 and valuation principles, see Note (3.7) Investments recognized at equity.



### (3.6) Currency translation

Foreign currency transactions are measured at the exchange rate at the date of initial recognition. Any gains or losses resulting from the valuation of monetary assets and liabilities in foreign currencies as of the reporting date are recognized in other operating income or other operating expenses.

The functional currency method is used to translate the financial statements of foreign subsidiaries. In the consolidated financial statements, the balance sheets of all foreign subsidiaries are translated from the functional currency of the company into euros at closing rates on the reporting date since they conduct their business independently in their functional currency. The equity of foreign companies recognized at equity is translated in the same way. As an asset pertaining to an economically autonomous foreign operation, goodwill is translated at the closing rate. Income and expense items are translated at average exchange rates for the year. The average annual exchange rates comprise 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.

The following exchange rates were used for currency translation:

€1 corresponds to	Annual average rates		Closing rates	
	2010	2009	Dec. 31, 2010	Dec. 31, 2009
Brazilian real (BRL)	2.34	2.80	2.22	2.51
British pound (GBP)	0.86	0.89	0.86	0.89
Chinese renminbi yuan (CNY)	9.00	9.53	8.82	9.84
Japanese yen (JPY)	116.64	130.28	108.65	133.16
Swiss franc (CHF)	1.38	1.51	1.25	1.48
US dollar (USD)	1.33	1.40	1.34	1.44

### (3.7) Accounting policies

#### Revenue recognition

Revenues from the sale of goods and services that constitute part of the company's normal business activity and other revenues are recognized as follows:

##### (a) Sales

The Chemicals Business Area mainly generates sales by selling specialty chemicals to industrial customers for further processing.

The Real Estate Business Area's sales principally comprise revenues from the letting, administration and running of residential property, the construction of houses and apartment blocks for third parties and the sale of residential units. Properties held with a view to sale are reclassified to inventories. Utility charges and heating costs that can be charged to tenants are offset against prepayments received from tenants for such services and immediately recognized as sales.

The following comments on revenue recognition apply:

Prices are contractually agreed between the parties to a transaction. Sales revenues are measured as the fair value of the consideration received or to be received less value-added tax and any discounts or bulk rebates granted. The general principle for revenue recognition is that both the revenues and the related costs can be measured reliably. It must also be sufficiently probable that the economic benefit will flow to the company.

Revenues from the sale of goods are recognized, assuming that the general conditions for revenue recognition are met, when title and the associated risks pass to the customer. Provisions are established for general risks arising from such sales on the basis of previous experience.

Revenues from services are recognized, assuming that the general conditions for revenue recognition are met, when the percentage of completion can be reliably measured.

They are recognized in the year in which the service is rendered. Where the provision of services extends over more than one fiscal year, sales are recognized proportionately to the total service to be provided.

#### **(b) Other revenues**

Other revenues are only recognized if they can be determined reliably and it is sufficiently probable that the economic benefit will flow to the company.

Interest income is recognized on a pro rata temporis basis using the effective interest method. Income from royalties is accrued on the basis of the commercial terms of the underlying contract and recognized on a pro rata basis. Dividend income is recognized as of the date of the right to receipt of the payment.

#### **Intangible assets**

Intangible assets are capitalized at acquisition or production cost. Intangible assets with a finite useful life are amortized and an impairment test is conducted if there are indications of a possible impairment, see Note (3.7) "Impairment test". Intangible assets with an indefinite useful life are not amortized; instead they are tested for impairment at least once a year. The assumptions regarding their indefinite useful life are also reviewed annually.

##### **(a) Goodwill**

Goodwill has an indefinite useful life and is tested for impairment at least once a year.

##### **(b) Franchises, trademarks and licenses**

Franchises, trademarks and licenses are amortized over their estimated useful life of 5–25 years using the straight-line method. Some rights have an indefinite useful life. These are trademarks with no restrictions on their use. They are tested annually for impairment and to check that their useful life is still indefinite. If the assessment of the useful life of such trademarks has altered and is reclassified as finite, their carrying amounts are amortized over their estimated remaining useful life using the straight-line method.

##### **(c) Capitalized development costs**

Development costs are capitalized if they can be clearly assigned to a newly developed product or process that is technically feasible and is designated for captive use or commercialization. Capitalized development costs mainly relate to the development of new products and are amortized using the straight-line method over their estimated useful life of between 3 and 15 years.

##### **(d) Other intangible assets**

The majority of other intangible assets are acquired customer relationships. These are amortized over their expected useful life. This is estimated on the basis of contractual data and experience and is generally between 2 and 11 years. Amortization takes account of both useful life and probability of continuance of the customer relationship in the form of a "churn rate".

#### **Property, plant and equipment**

Property, plant and equipment are carried at acquisition or production cost and depreciated over their useful life using the straight-line method. If there are indications of a possible impairment, an impairment test is conducted as outlined in Note (3.7) "Impairment test".

The cost of acquisition includes expenses directly attributable to the acquisition. The cost of production of assets manufactured within the Group comprises the direct cost of materials and labor, plus the applicable proportion of material and manufacturing overheads, including depreciation. Costs relating to obligations to dismantle or remove non-current assets at the end of their useful life are capitalized as acquisition or production costs at the time of acquisition or production. Acquisition and production costs may also include transfers from gains and losses on cash flow hedges entered into in connection with the purchase of property, plant and equipment and previously recognized in other comprehensive income. Borrowing costs that can be allocated directly to the acquisition, construction or production of a qualifying asset are included in the cost of acquisition or production. A qualifying asset is an asset for which more than a year is required to get it ready for its intended use.

Property, plant and equipment are depreciated using the straight-line method over the expected useful life of the assets.

in years	
Buildings	5–50
Plant and machinery	
Chemical facilities	5–25
Power plants and the related components	12–40
Decentralized energy supply installations	8–15
Other technical plant and equipment	3–25
Other plant, office furniture and equipment	3–25

Expenses for overhauls and major servicing (major repairs) are generally capitalized if it is probable that they will result in future economic benefits from an existing asset. They are then depreciated over the period until the next major repair date. Routine repairs and other maintenance work are expensed in the period in which they are incurred.

If there is a high probability that the project will be realized, costs incurred for planning and pre-engineering work for capital expenditure projects are capitalized. Depreciation is recognized in line with the useful life of the project.

If major components of an asset have different useful lives, they are recognized and depreciated separately.

Gains and losses from the disposal of property, plant and equipment are calculated as the difference between the net proceeds of sale and the carrying amount and recognized in other operating income or other operating expenses.

### Investment property

Property held as a financial investment to generate rental revenues and/or for capital appreciation is valued at the cost of acquisition or production and depreciated over its useful life of 25–80 years using the straight-line method. If there are indications of a possible impairment, an impairment test is conducted as outlined in Note (3.7) "Impairment test".

The fair value of such properties is valued by internal appraisers using the discounted cash flow (DCF) method. The DCF model maps future cash flows, which determine the value of the property, and thus represents an income-based valuation of the property, as is customary for rented residential property.

**Impairment test**

If there are indications of possible impairment, an impairment test is conducted on intangible assets, property, plant and equipment and investment property in accordance with IAS 36: Impairment of Assets. The impairment test on such assets is generally conducted for a cash-generating unit (CGU), which is the smallest identifiable group of assets that generates independent cash flows, or for a group of CGUs. Goodwill is allocated to the business areas, in other words, to a group of CGUs. Goodwill and other intangible assets with an indefinite useful life are tested for impairment at least once a year. The impairment test is conducted on September 30.

The impairment test comprises comparing the recoverable amount of the CGU/group of CGUs with its carrying amount. The recoverable amount is determined as the higher of the fair value less costs to sell (market value) and the value in use of the CGU/group of CGUs. An impairment loss is recognized if the recoverable amount of a CGU/group of CGUs is below its 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 the goodwill is determined from the market value of the business area. This is determined from a five-year plan based on historical values, in keeping with the time horizon set by Evonik’s shareholders for achieving their goal of raising value. The mid-term planning is based on a mixture of experience and expectations of future market trends and future cash flows. The main economic data, such as growth in gross domestic product, the development of interest rates, exchange rates, raw material prices and the market price of CO<sub>2</sub> allowances, etc., used in the mid-term planning are derived from market expectations and set centrally by Evonik. The specific growth rates for individual business areas are derived from experience and future expectations. The average long-term growth rates for the markets in which the business areas operate are not exceeded.

The expected future cash flows are discounted using the weighted average cost of capital (WACC) after taxes. WACC is determined for each business area on the basis of capital market models and is the weighted average cost of debt and equity. The cost of equity is determined from the risk-free interest rate and a risk premium. The risk-free interest rate is identical for all business areas. The risk premium is derived by multiplying the beta factor by the market risk premium. The beta factor is obtained from the capital market by comparison with the values for comparable companies for the business area (peer group). A terminal growth rate is assumed for individual business areas. The cost of debt for the Chemicals and Energy Business Areas is derived from an analysis of the gearing of peer group companies and the resultant cost of debt. In the Real Estate Business Area the actual cost of debt is used.

The table shows the parameters used:

in %	Risk-free interest rate		Risk-adjusted discount rate		Growth rate	
	2010	2009	2010	2009	2010	2009
Chemicals	3.80	4.50	7.50	7.90	1.50	1.50
Energy	3.80	4.50	6.00	6.80	0.70	0.70
Real Estate	3.80	4.50	6.30	6.50	1.00	1.00





### Investments recognized at equity

Material associated companies and joint ventures are recognized using the equity method if Evonik is able to exert a significant influence or exercises joint control.

Initially they are measured at the cost of acquisition. The cost of acquisition also contains all ancillary acquisition costs directly attributable to the investment. As the basis for the measurement of the investment in subsequent periods, the difference between the cost of acquisition and the proportionate equity must be determined. This is then analyzed to see whether it contains hidden reserves or hidden liabilities. Any positive difference remaining after allocation of hidden reserves and liabilities is treated as goodwill and recognized in the carrying amount of the investment. Negative differences are immediately included in income by increasing the carrying amount of the investment.

Starting from the cost of acquisition of the investment, in subsequent periods its carrying amount is increased or reduced by the proportionate 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 hidden reserves identified at the time of initial consolidation and deducted from the proportionate net income. To avoid dual recognition, any dividends received must be deducted from the carrying amount.

If there are indications of a possible impairment, the investment must be tested for impairment, see Note (3.7) "Impairment test". No separate impairment test is performed for the proportionate goodwill. The impairment test is performed for the entire carrying amount of the investment. Accordingly, impairment losses are not allocated to the proportionate goodwill included in the carrying amount of the investment and can be reversed in full in subsequent periods.

### Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories of similar structure or for similar applications is determined uniformly as an average or using the first-in first-out method. The cost 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 (based on normal operating capacity). The cost of inventories may also contain gains and losses for qualifying cash flow hedges for the purchase of raw materials which have been reclassified from other comprehensive income and borrowing costs for qualifying assets. A qualifying asset is an asset for which more than a year is required to get it ready for sale and which does not comprise a large number of regularly produced inventories.

Purchased emissions allowances are recognized at the lower of cost or net realizable value. Analogously to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, a token amount is recognized for emissions allowances allocated free of charge. Provisions are recognized for the obligation to return emissions allowances insofar as such allowances are available, at the amount capitalized for such allowances. If the return obligation exceeds the allowances capitalized, the difference is recognized at the average price for the three months preceding the reporting date.

Impairment losses are reversed if the reason for them is no longer applicable; they may be written back at most to the historical cost of acquisition or production.

### Cash and cash equivalents

This item comprises checks, cash and cash equivalents and balances held at banks. It also contains highly liquid financial instruments with a maturity, calculated as of the date of purchase, of no more than three months that 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.

### **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 as well as pension obligations and accrued entitlements as of the reporting date. In Germany, valuation is based on the biometric data in the 2005 G mortality tables published by Klaus Heubeck. Pension obligations outside Germany are determined using country-specific parameters and measurement principles. The fair value of plan assets is deducted from the benefit obligation. Actuarial gains and losses 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. Actuarial gains and losses are only recognized if the balance of accumulated actuarial gains and losses not yet recognized in income exceeds the higher of one of the following at the end of the previous reporting period:

- 10 percent of the present value of the defined benefit obligation
- 10 percent of the fair value of plan assets.

Amounts exceeding this level must be allocated over the expected average remaining service life of the employees covered by the plan and recognized in income from the following year.

The benefit obligations at year end are compared with the fair value of the plan assets (funded status). Pension provisions are derived from the funded status by deducting unrecognized actuarial gains and losses and past service cost, taking the asset ceiling into account.

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).

### **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 an outflow of resources. It must also be possible to reliably estimate the level of the obligation. If there are several obligations of the same type, the probability of an outflow of resources is calculated for these obligations as an aggregate. 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.

Provisions are based on settlement obligations and take account of future cost increases. Non-current provisions are discounted. Current provisions and the current portion of non-current provisions are not discounted. Provisions are adjusted over time to take account of new findings.

The Long-Term Incentive Plans comprise performance-related remuneration plans for Evonik's executives. The resulting obligations are determined and expensed in accordance with IAS 19 Employee Benefits.

### **Deferred taxes, other income taxes**

In compliance with IAS 12 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. Deferred tax assets are recognized on the assumption that sufficient future taxable income is likely to be realized to cover these temporary differences. Where the realization of deferred tax assets is unlikely, they are written down.

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.



The tax rates used to calculate deferred taxes are those valid under current legislation or that have been announced as being applicable as of the date when the temporary differences will probably be settled. The overall tax rate used to calculate deferred taxes for companies in Germany is 30 percent. In addition to 15 percent German corporation tax, the overall tax rate includes a solidarity surcharge of 5.5 percent of the German corporation tax and average trade tax of around 14 percent. The tax rates used for foreign companies are their national tax rates. These vary between 10.0 percent (Hungary) and 41.0 percent (Japan).

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.

### Financial instruments

Financial instruments comprise contractually agreed rights and obligations resulting in an inflow or outflow of financial assets or the issue of equity instruments. They are classified as either primary or derivative financial instruments. On the balance sheet they are recognized as financial assets or financial liabilities or as trade accounts receivable or trade accounts payable.

Financial instruments are initially measured at fair value plus any directly attributable transaction costs. By contrast, transaction costs for financial instruments held at fair value through profit or loss are included in the income statement. Fair value measurement is based on a three-level hierarchy. The fair value is the quoted price on an active market (Level 1). If such price data are not available, either the quoted price on an active market for similar financial instruments should be used, or a different valuation method based on inputs from observable market data should be used (Level 2). In all other cases, valuation methods that are not based on observable market data are used (Level 3). Discounted cash flow analyses or option pricing models have been selected as established valuation methods. To measure non-current financial instruments that do not bear interest at market rates, the expected future cash flows are discounted to the date of acquisition using the effective interest rate (present value). The effective interest rate takes account of all directly attributable fees that are by nature interest. Subsequent measurement is based on the classification of the financial instruments.

#### (a) Primary financial instruments

Evonik classifies primary financial instruments as financial assets in the categories loans and receivables or available-for-sale. They are initially recognized at the settlement date. Financial assets are derecognized when the contractual rights to receive payments lapse or are transferred and the Group has transferred substantially all opportunities and risks associated with ownership. There were no instances where the Group sold financial assets through securitization or a repurchase agreement and the assets were still reported in full or in part in the financial statements (continuing involvement).

Primary financial instruments that constitute financial liabilities are recognized at amortized cost. Financial liabilities are derecognized when the obligation has been settled, canceled or expired.

The categories used by the Group are outlined below:

Loans and receivables principally comprise trade accounts receivable and loans. The assets assigned to this category are valued at amortized cost using the effective interest rate method. If there are objective indications based on historical empirical values that it will not be possible to collect the full amounts due under the customary conditions, an impairment loss is recognized. This is measured as the difference between the carrying amount of the asset and the present value of the estimated future payments calculated using the effective interest rate. Impairment losses are recognized in the income statement. If the original reason for the impairment loss no longer applies, it is reversed to income, but only up to the amortized cost.

Available-for-sale assets comprise equity instruments that are not consolidated or recognized at equity, and other securities. If no fair value is available for such assets or it cannot be determined reliably, for example, equity instruments that are not listed on a stock exchange, the assets are recognized at amortized cost. Changes in the fair value are recognized in other comprehensive income, taking into account deferred taxes. Financial assets are examined for objective indications of impairment on every reporting date. A material or lasting reduction in the fair value to below the carrying amount is regarded as an indication of impairment. In the case of shares, this is considered to be the case if the fair value is 20 percent below the carrying amount. In such cases, the corresponding losses are derecognized from other comprehensive income and recognized in the income statement. If the reason for the impairment loss no longer applies, the reversal is recognized in other comprehensive income and thus has no impact on income. Only debt instruments that are allocated to this category are written back up to the amount of the original impairment in the income statement. Impairment losses are not reversed if they apply to investments and other financial assets whose fair value cannot be reliably determined.

The category at amortized cost mainly refers to trade accounts payable and loans. The liabilities assigned to this category are valued at amortized cost using the effective interest rate method.

#### **b) Derivative financial instruments**

Derivative financial instruments are used to hedge the risk of changes in exchange rates, the price of goods and interest rates. Hedges in the form of interest rate swaps, options, forward exchange contracts and commodity futures are recognized on the balance sheet. Initial recognition is on the trading date. If no stock exchange or market price is available for the derivative from an active market, the fair value is determined using capital market pricing methods. For forward exchange contracts, the forward exchange rate as of the reporting date is used. The market price of options is determined using established option pricing models. Commodity derivatives are valued with the aid of spot prices and forward rates while interest rate derivatives are valued by discounting future cash flows. Stand-alone financial derivatives are assigned to the category at fair value through profit or loss and classified as held for trading. Financial instruments assigned to this category are measured at fair value on each reporting date. Any gain or loss resulting from a change in their fair value is recognized in the income statement.

Specific criteria have to be met to qualify for hedge accounting. In particular, hedge accounting requires extensive documentation of the hedge relationship, together with evidence that the expected and actual effectiveness of the hedge is between 80 and 125 percent. A derivative no longer qualifies for hedge accounting if these conditions are not fulfilled. In the case of cash flow hedges, hedge accounting must also be halted if the forecast transaction no longer appears probable. In such cases, the amount recognized in other comprehensive income is reclassified to the income statement.

Depending on the structure of the hedge, hedging instruments are valued as outlined below:

The purpose of fair value hedges is to hedge the fair value of assets or liabilities reflected on the balance sheet. Changes in the fair value of the hedging instrument are recognized in the income statement together with the change in the value of the hedged item. These changes must relate to the hedged risk. If off-balance-sheet firm commitments are hedged, changes in the fair value of the firm commitment resulting from changes in the hedged risk give rise to recognition of an asset or a liability which affects income. 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 purpose of cash flow hedges is to minimize the risk of volatility of future cash flows from a recognized asset or liability or a forecast transaction that is considered highly probable. Changes in the fair value of hedging instruments, calculated on the effective portion, are recognized in other comprehensive income. The ineffective portion of the change in value is recognized in the income statement. Amounts recognized in other 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 sales hedges they are included in the corresponding sales revenues and for procurement hedges directly in the cost of sales. If the hedged future transaction comprises a non-financial asset or liability, the profit 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.

The purpose of a hedge of a net investment is to reduce the foreign currency risk involved in an investment in a company whose functional currency is not the euro. Such hedges are treated as cash flow hedges. Gains and losses recognized in other comprehensive income are reclassified to the income statement when the foreign subsidiary is divested.

### Leasing

A lease comprises an agreement that transfers the right to use an asset for a certain period in return for one or more payments. The Group is party to various operating and finance leases as either lessor or lessee.

A lease is classified as a finance lease if, under the lease agreement, the lessee bears substantially all opportunities and risks associated with ownership of the asset. In addition to contractually agreed finance leases, lease agreements relating to the use of assets, for example, supply agreements in connection with power distribution, may be classified as finance leases if they meet certain cumulative criteria. Where Evonik is the lessee, the assets are included in property, plant and equipment at fair value or at the present value of the non-cancelable minimum lease payments, whichever is the lower. The payment obligations arising from future lease payments are recognized as a liability at the discounted settlement value. Where Evonik is the lessor, it recognizes a receivable equivalent to the net investment value rather than the property, plant and equipment.

Receivables and liabilities from finance leases are recognized on the balance sheet as financial assets or financial liabilities.

All leasing arrangements that are not finance leases are classified as operating leases. The related income and expenses are recognized in the income statement in the period in which they are received or incurred.

### Assets held for sale and the associated liabilities

Non-current assets are classified as held for sale if the corresponding carrying amount is to be realized principally through a sale transaction rather than through continued use. Such assets must be available for immediate sale in their present condition, on terms that are usual and customary for the sale of such assets, and sale must be highly probable. If the associated liabilities are to be sold with the asset as part of the transaction, these must also be presented separately.

The assets and liabilities must be measured in accordance with the relevant accounting standards immediately before initial classification as held for sale. They are subsequently valued at the lower of the carrying amount and fair value less costs to sell. Where the assets and liabilities do not fall within the scope of the measurement criteria set out in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, subsequent revaluation is performed in accordance with the relevant accounting standards. At Evonik these are mainly:

- IAS 2 Inventories
- IAS 12 Income Taxes
- IAS 19 Employee Benefits
- IAS 39 Financial Instruments: Recognition and Measurement.

Unless they are classified as discontinued operations, the results of the valuation and the sale of the assets are still included in income from continuing operations.

### **Discontinued operations**

A discontinued operation is either a major line of business or geographical area of the company that is to be sold or shut down on the basis of 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 and the measurement and divestment of discontinued operations is reported separately from the continuing operations on the income statement. Similarly the cash flows from the discontinued operations are reported separately from the continuing operations in the cash flow statement.

### **Government grants**

Government grants for the purchase or construction of property, plant and equipment reduce the cost of acquisition or construction of such assets. They are reflected in the income statement over the useful life of the assets through lower depreciation. Other grants are accrued and recognized as income over the same period as the expenses for which they are expected to compensate.

### **Contingent liabilities 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.

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 and that are of significance for an assessment of the company's financial position.



## (4) Discussion of assumptions and estimation uncertainties

The preparation of consolidated financial statements involves assumptions and estimates about the future. Evidently, the subsequent circumstances do not always match the estimates made. Adjustments to estimates are recognized in income as soon as better information is available. The estimates and assumptions that constitute a material risk that the carrying amounts of assets and liabilities may have to be adjusted within the next fiscal year are discussed below.

### (a) Impairment testing of goodwill

Testing intangible assets, especially goodwill, for impairment also involves assumptions and estimates regarding, for example, future cash flows, expected growth rates, exchange rates and discount rates. The relevant assumptions may change, leading to impairment losses in future periods.

A relative increase in the weighted cost of capital (WACC) of 10 percent as a result of changes in capital market interest rates would not result in any additional impairment losses.

### (b) Impairment testing of deferred tax assets

Deferred tax assets may only be recognized if it is probable that sufficient taxable income will be available in the future. Deferred taxes are calculated on the basis of the tax rates applicable on the date when temporary differences are likely to be reversed. If these expectations were not met, a write-down would have to be recognized in income for the deferred tax assets.

### (c) Valuation of provisions for pensions and other post-employment benefits

The valuation of provisions for pensions and other post-employment benefits is subject, among other things, to assumptions about discount rates, the expected long-term return on plan assets, expected future salary and pension increases, the cost trend for health care and mortality tables. The actual data may differ from these assumptions as a result of changes in economic or market conditions.

A reduction of a quarter of a percentage point in the discount rate would increase the present value of the defined benefit obligation by €266 million. Conversely, increasing the discount rate by a quarter of a percentage point would decrease the defined benefit obligation by about €245 million.

If the trend in health-care costs were to increase by one percentage point, the accumulated health-care benefit obligation would increase by €10 million and pension expense would increase by €1 million. Conversely, a reduction of one percentage point in the cost trend would reduce the accumulated health-care obligation by €9 million and personnel expense by €1 million.

### (d) Valuation of other provisions

Other provisions, especially provisions for recultivation and environmental protection, litigation risks and restructuring, are naturally exposed to significant forecasting uncertainties regarding the level and timing of the obligation. The company has to make assumptions about the probability of occurrence of an obligation or future trends, such as value of the costs, on the basis of experience. Non-current provisions in particular are exposed to forecasting uncertainties. In addition, the level of non-current provisions depends to a large extent on the selection and development of the market-oriented discount rate. The Group uses different interest rates for different currencies and terms to maturity.

## (5) Changes in the Group

### (5.1) Scope of consolidation and list of shareholdings

Alongside Evonik Industries AG, the consolidated financial statements include all material subsidiaries in Germany and abroad. Material associated companies and joint ventures are recognized at equity.

Companies whose influence on the assets, financial position and earnings of the Group, both individually and in aggregate, is negligible are recognized at amortized cost.

The scope of consolidation changed as follows:

Number of companies	Germany	Other countries	Total
<b>Evonik Industries AG and consolidated subsidiaries</b>			
<b>As of December 31, 2009</b>	<b>99</b>	<b>133</b>	<b>232</b>
Acquisitions	–	3	3
Other companies consolidated for the first time	3	11	14
Intragroup mergers	–4	–2	–6
Other companies deconsolidated	–	–6	–6
<b>As of December 31, 2010</b>	<b>98</b>	<b>139</b>	<b>237</b>
<b>Investments recognized at equity</b>			
<b>As of December 31, 2009</b>	<b>17</b>	<b>9</b>	<b>26</b>
Acquisitions	–	1	1
Other investments recognized at equity for the first time	1	–	1
Companies classified as held for sale pursuant to IFRS 5	–9	–2	–11
Other companies deconsolidated	–	–1	–1
<b>As of December 31, 2010</b>	<b>9</b>	<b>7</b>	<b>16</b>
	<b>107</b>	<b>146</b>	<b>253</b>

The impact on the balance sheet of acquisitions made in the fiscal year was negligible, both individually and in aggregate.

The following list shows Evonik's shareholdings in accordance with Section 313 Paragraph 2 of the German Commercial Code (HGB). The shareholdings are calculated in accordance with Section 16 of the German Stock Corporation Act (AktG). Accordingly, the calculation includes shares held by the parent company, a subsidiary included in the consolidated financial statements or a person acting on behalf of these companies.

German subsidiaries that made use of the provisions of Sections 264 Paragraph 3 and 264 b of the German Commercial Code on exemption from disclosure of annual financial statements and the preparation of notes to their financial statements and a management report are indicated.

Companies in which Evonik's shareholding amounts to more than 50 percent of the capital but which are recognized at equity as it does not have a majority of the voting rights are also indicated.



## Changes in the Group

The following subsidiaries are included in the consolidated annual financial statements:

Name of company	Registered office	Shareholding in %
<b>Consolidated subsidiaries</b>		
<b>Germany</b>		
Aachener Bergmannssiedlungsgesellschaft mbH	Hückelhoven	<sup>1)</sup> 100.00
Advanced Polymer Technologies Europe GmbH	Wörth am Main	100.00
AQura GmbH	Hanau	<sup>1)</sup> 100.00
Asikos Strahlmittel GmbH	Dinslaken	100.00
ASTA Medica GmbH	Essen	100.00
Bauverein Glückauf GmbH	Ahlen	<sup>1)</sup> 94.90
BHKW Flohr GmbH	Neuwied	51.00
BHS Liegenschaften GmbH & Co. KG	Peißenberg	100.00
BHS Liegenschaften Verwaltungs-GmbH	Peißenberg	100.00
BHS Projektentwicklungs-GmbH & Co. KG	Peißenberg	100.00
BioKraft Karstädt GmbH	Karstädt	100.00
Biomasse-Heizkraftwerk Ilmenau GmbH	Ilmenau	100.00
Biomasseheizkraftwerk Odenwald GmbH	Buchen	88.40
BK-Wolfgang-Wärme GmbH	Hanau	100.00
BMK Biomassekraftwerk Lünen GmbH	Lünen	50.90
CyPlus GmbH	Hanau	<sup>1)</sup> 100.00
EBV GmbH	Hückelhoven	<sup>1)</sup> 100.00
ELE-Scholven-Wind GmbH	Gelsenkirchen	70.00
ESI Energie-Service St. Ingbert GmbH	St. Ingbert	51.00
Evonik Carbon Black GmbH	Essen	100.00
Evonik Cordes Bioenergie GmbH	Kirchwalsede	90.00
Evonik Degussa GmbH	Essen	<sup>1)</sup> 100.00
Evonik Degussa Immobilien GmbH & Co. KG	Marl	<sup>1)</sup> 100.00
Evonik Degussa Immobilien Verwaltungs-GmbH	Marl	100.00
Evonik Energy Services GmbH	Essen	100.00
Evonik-EVN Walsum 10 Kraftwerksgesellschaft mbH	Essen	51.00
Evonik Fernwärme GmbH	Essen	100.00
Evonik Goldschmidt GmbH	Essen	<sup>1)</sup> 100.00
Evonik Goldschmidt Rewo GmbH	Steinau an der Straße	100.00
Evonik Gorapur GmbH	Wittenburg	<sup>1)</sup> 100.00
Evonik Grubengas-Holding NRW GmbH	Essen	100.00
Evonik Immobilien GmbH	Essen	<sup>1)</sup> 100.00
Evonik Litarion GmbH	Kamen	<sup>1)</sup> 100.00
Evonik New Energies GmbH	Saarbrücken	100.00
Evonik Oxeno GmbH	Marl	<sup>1)</sup> 100.00
Evonik Peroxygens GmbH	Essen	<sup>1)</sup> 100.00
Evonik Peroxygens Holding GmbH	Essen	100.00
Evonik Persalze GmbH	Essen	100.00
Evonik Power Minerals GmbH	Dinslaken	100.00

<sup>1)</sup> Utilizes the exemptions permitted under Sections 264 Paragraph 3 and 264 b of the German Commercial Code (HGB).



Name of company	Registered office	Shareholding in %
<b>Consolidated subsidiaries</b>		
Evonik Power Saar GmbH	Saarbrücken	100.00
Evonik Projekt-Beteiligung Verwaltungs-GmbH	Essen	100.00
Evonik Projekt-Beteiligungs-GmbH & Co. KG	Essen	99.00
Evonik Risk and Insurance Services GmbH	Essen	<sup>1)</sup> 100.00
Evonik Röhm GmbH	Darmstadt	<sup>1)</sup> 100.00
Evonik RohMax Additives GmbH	Darmstadt	<sup>1)</sup> 100.00
Evonik Services GmbH	Essen	<sup>1)</sup> 100.00
Evonik Steag GmbH	Essen	100.00
Evonik Steag International GmbH	Essen	100.00
Evonik Stockhausen GmbH	Krefeld	<sup>1)</sup> 100.00
Evonik Technochemie GmbH	Dossenheim	100.00
Evonik Tego Chemie GmbH	Essen	<sup>1)</sup> 100.00
Evonik Trading GmbH	Essen	100.00
Evonik Walsum 10 Kraftwerksbeteiligungsgesellschaft mbH	Essen	100.00
Evonik Wohnen GmbH	Essen	<sup>1)</sup> 100.00
Fernwärme-Verbund Saar GmbH	Völklingen	74.00
Goldschmidt ETB GmbH	Berlin	<sup>1)</sup> 100.00
Goldschmidt SKW Surfactants GmbH	Essen	100.00
Haus Vogelsang GmbH	Essen	100.00
HD Ceracat GmbH	Frankfurt am Main	100.00
Heinrich Schäfermeyer GmbH	Hückelhoven	<sup>1)</sup> 100.00
Hüls Service GmbH	Marl	<sup>1)</sup> 100.00
Industriepark Wolfgang GmbH	Hanau	<sup>1)</sup> 100.00
Infracor GmbH	Marl	<sup>1)</sup> 100.00
Infracor Lager- und Speditions-GmbH	Marl	<sup>1)</sup> 100.00
KMV Vermögensverwaltungs-GmbH	Marl	100.00
Li-Tec Battery GmbH	Kamen	50.10
Lünener Wohnungs- und Siedlungsgesellschaft mbH	Lünen	<sup>1)</sup> 100.00
Minegas GmbH	Essen	74.80
MINERALplus Gesellschaft für Mineralstoffaufbereitung und Verwertung mbH	Gladbeck	100.00
Mingas-Power GmbH	Essen	60.00
Modellkraftwerk Völklingen GmbH	Völklingen	70.00
Mönch-Kunststofftechnik GmbH	Bad König	<sup>1)</sup> 100.00
OPUS Personaldienstleistungen GmbH	Essen	100.00
R & B Industrieanlagenverwertung GmbH	Essen	100.00
RAG Saarberg GmbH	Saarbrücken	94.90
RBV Verwaltungs-GmbH	Essen	100.00
RCIV Vermögensverwaltungs-GmbH	Essen	100.00
Rhein Lippe Wohnen GmbH	Duisburg	<sup>1)</sup> 100.00
RHZ Handwerks-Zentrum GmbH	Gladbeck	100.00
RIAG Immobilienverwaltung GmbH	Essen	<sup>1)</sup> 100.00

<sup>1)</sup> Utilizes the exemptions permitted under Sections 264 Paragraph 3 and 264 b of the German Commercial Code (HGB).



Changes in the Group

Name of company	Registered office	Shareholding in %
<b>Consolidated subsidiaries</b>		
RKB Raffinerie-Kraftwerks-Betriebs GmbH	Essen	100.00
RÜTGERS Dienstleistungs-GmbH	Essen	100.00
RÜTGERS GmbH	Essen	100.00
RÜTGERS Rail Verwaltungs GmbH	Essen	100.00
RVG GmbH	Essen	51.00
Siedlung Niederrhein GmbH	Dinslaken	<sup>1)</sup> 100.00
STEAG Kraftwerks-Grundstücksgesellschaft mbH	Duisburg	94.80
STEAG-Raffinerie-Kraftwerk-Sachsen-Anhalt GmbH	Spergau	100.00
Stockhausen Unterstützung-Einrichtungen GmbH	Krefeld	100.00
Th. Goldschmidt-Fürsorge GmbH	Essen	100.00
Verwaltungsgesellschaft für Degussa-Beteiligungsanteile mbH	Frankfurt am Main	<sup>1)</sup> 100.00
Walsum Immobilien GmbH	Duisburg	<sup>1)</sup> 94.90
Westgas GmbH	Marl	100.00
Wohnbau Auguste Victoria GmbH	Marl	<sup>1)</sup> 100.00
Wohnbau Westfalen GmbH	Dortmund	<sup>1)</sup> 100.00
Wohnungsbaugesellschaft mbH „Glückauf“	Moers	<sup>1)</sup> 100.00
WSA GmbH	Essen	100.00
<b>Other countries</b>		
Aktivsauerstoff GmbH	Treibach-Althofen (Austria)	51.00
Algorax (Pty.) Limited	Port Elizabeth (South Africa)	80.00
Asian Bleaching Earth Company Ltd. (i.L.)	Kongmadue (Thailand)	100.00
Biomass Power Plant Ridham Limited	Richmond (UK)	100.00
Colortrend Australia Pty. Ltd.	Dandenong/Victoria (Australia)	100.00
Compania Electrica de Sochagota S.A.E.S.P.	Tunja (Colombia)	51.00
Cosmoferm B.V.	Delft (Netherlands)	100.00
Degussa Africa Holdings (Pty) Ltd.	Johannesburg (South Africa)	84.37
Degussa International Inc.	Wilmington (Delaware, USA)	100.00
Degussa Limited	Milton Keynes (UK)	100.00
Degussa Re S.A.	Luxembourg (Luxembourg)	100.00
Degussa SKW Co.	Milton Keynes (UK)	100.00
Egesil Kimya Sanayi ve Ticaret A.S.	Istanbul (Turkey)	51.00
EGL Ltd.	Milton Keynes (UK)	100.00
Elektrocieplownia Zdunska Wola Sp. z o.o.	Zdunska Wola (Poland)	100.00
Evonik Aerosil France S.A.R.L.	Salaise-sur-Sanne (France)	100.00
Evonik Agroferm Zrt.	Kaba (Hungary)	100.00
Evonik Amalgamation Ltd.	Milton Keynes (UK)	100.00
Evonik Australia Pty Ltd	Dandenong (Australia)	100.00
Evonik Biomass Energy Limited	Richmond (UK)	74.99
Evonik Carbogal S.A.	Lisbon (Portugal)	100.00
Evonik Carbon Black Brasil Ltda.	Paulínia (Brazil)	99.99
Evonik Carbon Black Italia s.r.l.	Milan (Italy)	100.00

<sup>1)</sup> Utilizes the exemptions permitted under Sections 264 Paragraph 3 and 264 b of the German Commercial Code (HGB).

Name of company	Registered office	Shareholding in %
<b>Consolidated subsidiaries</b>		
Evonik Carbon Black Korea Co., Ltd.	Incheon (South Korea)	100.00
Evonik Carbon Black, LLC	Parsippany (New Jersey, USA)	100.00
Evonik Carbon Black Nederland B.V.	Botlek (Netherlands)	100.00
Evonik Carbon Black Polska Sp. z o.o.	Jaslo (Poland)	100.00
Evonik COFRABLACK (Compagnie Française du Carbon Black S.A.S.)	Ambès (France)	100.00
Evonik Colortrend B.V.	Maastricht (Netherlands)	100.00
Evonik Cyro Canada Inc.	Etobicoke (Canada)	100.00
Evonik Cyro LLC	Parsippany (New Jersey, USA)	100.00
Evonik Degussa Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
Evonik Degussa Antwerpen N.V.	Antwerp (Belgium)	99.99
Evonik Degussa Argentina S.A.	Buenos Aires (Argentina)	100.00
Evonik Degussa Brasil Ltda.	São Paulo (Brazil)	100.00
Evonik Degussa Canada Inc.	Burlington (Canada)	100.00
Evonik Degussa Carbons, Inc.	Parsippany (New Jersey, USA)	100.00
Evonik Degussa Chile S.A.	Santiago (Chile)	99.99
Evonik Degussa (China) Co., Ltd.	Beijing (China)	100.00
Evonik Degussa Corporation	Parsippany (New Jersey, USA)	100.00
Evonik Degussa France Groupe S.A.S.	Ham (France)	100.00
Evonik Degussa Gulf FZE	Dubai (United Arab Emirates)	100.00
Evonik Degussa Hong Kong Ltd.	Hong Kong (Hong Kong)	100.00
Evonik Degussa Ibérica S.A.	Granollers (Spain)	100.00
Evonik Degussa India Pvt. Ltd.	Mumbai (India)	100.00
Evonik Degussa International AG	Zurich (Switzerland)	100.00
Evonik Degussa Iran AG	Teheran (Iran)	100.00
Evonik Degussa Italia S.p.A.	Milan (Italy)	100.00
Evonik Degussa Japan Co. Ltd.	Tokyo (Japan)	100.00
Evonik Degussa Korea Ltd.	Incheon (South Korea)	100.00
Evonik Degussa Mexico S.A. de C.V.	Mexico City (Mexico)	100.00
Evonik Degussa Mexico Servicios, S.A. de C.V.	Mexico City (Mexico)	100.00
Evonik Degussa Peroxid GmbH	Vienna (Austria)	100.00
Evonik Degussa Peroxide Korea Co., Ltd.	Ulsan (South Korea)	100.00
Evonik Degussa Peroxide Ltd.	Morrinsville (New Zealand)	100.00
Evonik Degussa Praha s.r.o.	Prague (Czech Republic)	100.00
Evonik Degussa Romania S.R.L. i.L.	Bucharest (Romania)	100.00
Evonik Degussa (SEA) Pte. Ltd.	Singapore (Singapore)	100.00
Evonik Degussa Services LLC	Wilmington (Delaware, USA)	100.00
Evonik Degussa (Shanghai) Co. Ltd.	Shanghai (China)	100.00
Evonik Degussa Specialty Chemicals (Shanghai) Co., Ltd.	Shanghai (China)	100.00
Evonik Degussa Taiwan Ltd.	Taipei (Taiwan)	100.00
Evonik Degussa (Thailand) Ltd.	Bangkok (Thailand)	100.00
Evonik Degussa Ticaret Ltd. Sirketi	Tuzla – Istanbul (Turkey)	100.00



## Changes in the Group

Name of company	Registered office	Shareholding in %
<b>Consolidated subsidiaries</b>		
Evonik Degussa UK Holdings Ltd.	Milton Keynes (UK)	100.00
Evonik Energy Services do Brasil Ltda.	São Paulo (Brazil)	100.00
Evonik Energy Services LLC	Kings Mountain (North Carolina, USA)	100.00
Evonik Fermas s.r.o.	Slovenská L'upča (Slovakia)	100.00
Evonik Fibres GmbH	Schörfling (Austria)	100.00
Evonik Finance B.V.	Amsterdam (Netherlands)	100.00
Evonik Foams Inc.	Magnolia (Arkansas, USA)	100.00
Evonik Forhouse Optical Polymers Corporation	Taichung (Taiwan)	51.00
Evonik Goldschmidt Corp.	Hopewell (Virginia, USA)	100.00
Evonik Goldschmidt UK Ltd.	Milton Keynes (UK)	100.00
Evonik International Holding B.V.	Amsterdam (Netherlands)	100.00
Evonik Jayhawk Fine Chemicals Corporation	Galena (Kansas, USA)	100.00
Evonik Lynchem Co. Ltd.	Dalian (China)	100.00
Evonik MedAvox SpA i.L.	Milan (Italy)	100.00
Evonik Membrane Extraction Technology Limited	Milton Keynes (UK)	100.00
Evonik Mexico S.A. de C.V.	Mexico City (Mexico)	100.00
Evonik Monosilane Japan Co. Ltd.	Tokyo (Japan)	100.00
Evonik New Energies UK Limited	Richmond (UK)	100.00
Evonik Norcarb AB	Malmö (Sweden)	100.00
Evonik Oxeno Antwerpen N.V.	Antwerp (Belgium)	100.00
Evonik Para-Chemie GmbH	Gramatneusiedl (Austria)	99.00
Evonik Pension Scheme Trustee Limited	Milton Keynes (UK)	100.00
Evonik Peroxide Africa (Pty) Ltd.	Umbogintwini (South Africa)	100.00
Evonik Rexim (Nanning) Pharmaceutical Co., Ltd.	Nanning (China)	100.00
Evonik Rexim S.A.S.	Ham (France)	100.00
Evonik RohMax Asia Pacific Pte. Ltd.	Singapore (Singapore)	100.00
Evonik RohMax Canada Inc.	Morrisburg (Canada)	100.00
Evonik RohMax France S.A.S.	Lauterbourg (France)	100.00
Evonik RohMax USA, Inc.	Horsham (Pennsylvania, USA)	100.00
Evonik Sanzheng (Yingkou) Fine Chemicals Co., Ltd.	Yingkou (China)	65.00
Evonik Sanzheng Chongqing Fine Chemical Co., Ltd.	Chongqing (China)	100.00
Evonik Silquímica S.A.	Zubillaga-Lantaron (Spain)	100.00
Evonik Speciality Organics Ltd.	Milton Keynes (UK)	100.00
Evonik Stockhausen LLC	Greensboro (North Carolina, USA)	100.00
Evonik Thai Aerosil Co. Ltd.	Bangkok (Thailand)	100.00
Evonik Tianda (Liaoyang) Chemical Additive Co. Ltd.	Liaoyang (China)	70.00
Evonik United Silica Industrial Ltd.	Taipei (Taiwan)	100.00
Evonik United Silica (Siam) Ltd.	Rayong (Thailand)	70.00
Evonik Wellink Silica (Nanping) Co., Ltd.	Nanping (China)	60.00
Insilco Ltd.	New Delhi (India)	73.11
Inspec Finance Ltd.	Milton Keynes (UK)	100.00

Name of company	Registered office	Shareholding in %
<b>Consolidated subsidiaries</b>		
Inspec Fine Chemicals Ltd.	Knottingley (UK)	100.00
Inspec Invesco	Milton Keynes (UK)	100.00
Iskenderun Enerji Üretim ve Ticaret A.S.	Ankara (Turkey)	51.00
JIDA Evonik High Performance Polymers (Changchun) Co., Ltd.	Changchun (China)	80.00
Laporte Chemicals Ltd.	Milton Keynes (UK)	100.00
Laporte do Brasil Ltda.	São Paulo (Brazil)	100.00
Laporte Group Pension Trustees Ltd.	London (UK)	100.00
Laporte Industries Ltd.	Milton Keynes (UK)	100.00
Laporte Invesco	Milton Keynes (UK)	100.00
Laporte Materials (Barrow) Ltd.	Milton Keynes (UK)	100.00
Laporte Nederland (Holding) B.V.	Amsterdam (Netherlands)	100.00
Laporte Organisation Ltd. (i.L.)	London (UK)	100.00
Laporte Properties Limited	Milton Keynes (UK)	100.00
Miejskie Przedsiębiorstwo Energetyki Ciepłej Sp.z o.o.	Piekary Śląskie (Poland)	97.58
Nilok Chemicals Inc. (i.L.)	Parsippany (New Jersey, USA)	100.00
Nippon Aerosil Co. Ltd.	Tokyo (Japan)	80.00
OOO Destek	Podolsk (Russian Federation)	59.00
OOO Evonik Chimia	Moscow (Russian Federation)	100.00
PE MEGAWAT Sp. z o.o.	Czerwionka-Leszczyń (Poland)	100.00
Peter Spence & Sons Limited	Milton Keynes (UK)	100.00
Power Minerals Ltd.	Drax (UK)	75.00
Power Minerals UK Holdings Limited	Durham (UK)	100.00
PT. Evonik Indonesia	Cikarang Bekasi (Indonesia)	100.00
PT. Evonik Sumi Asih	Bekasi Timur (Indonesia)	75.00
Qingdao Evonik Chemical Co. Ltd.	JiaoZhou (China)	52.00
R + J Garroway Limited	Glasgow (UK)	100.00
Roha B.V.	Tilburg (Netherlands)	100.00
RÜTGERS Organics Corporation	State College (Pennsylvania, USA)	100.00
Sarclear Ltd.	Milton Keynes (UK)	100.00
SFW Energia Sp. z o.o.	Gliwice (Poland)	100.00
STEAG State Power Inc.	Makati City (Philippines)	51.00
Synthetic Chemicals Pension Scheme Trustees Ltd.	Milton Keynes (UK)	100.00
The St. Bernard Insurance Company Ltd.	Douglas (Isle of Man)	100.00
ZPC Zory Sp. z o.o.	Zory (Poland)	100.00





## Changes in the Group

The following joint ventures and associated companies are included in the consolidated financial statements using the equity method:

Name of company	Registered office	Shareholding in %	
Joint ventures (recognized at equity)			
Germany			
EnD-I STEAG Bioenergie GmbH	Saarbrücken	2)	50.00
Netzleitung Lünen GmbH	Essen	2)	50.00
Powerment GmbH	Stuttgart	2)	50.00
REG Raffinerie-Energie GmbH & Co. oHG	Cologne	1) 2)	80.00
StoHaas Management GmbH	Marl		50.00
StoHaas Monomer GmbH & Co. KG	Marl		50.00
THS GmbH	Essen		50.00
Other countries			
Ayas Enerji Üretim ve Ticaret A.S.	Ankara (Turkey)	1) 2)	51.00
Daicel-Evonik Ltd.	Tokyo (Japan)		50.00
Evonik Cristal Materials Corporation	Taipei (Taiwan)	1)	52.00
Evonik Headwaters LLP	Milton Keynes (UK)		50.00
Evonik Lanxing (Rizhao) Chemical Industrial Co., Ltd.	Rizhao (China)		50.00
Perorsa – Peróxidos Orgánicos S.A. i.L.	Barcelona (Spain)		50.00
Associated companies (recognized at equity)			
Germany			
ARG mbH & Co. KG	Duisburg		20.28
Deutsche Industrieholz GmbH	Essen		45.00
Fernwärmeversorgung Niederrhein GmbH	Dinslaken	2)	26.00
Freiburger Wärmeversorgungs GmbH	Freiburg	2)	49.00
Gichtgaskraftwerk Dillingen GmbH & Co. KG	Dillingen	2)	49.90
JSSi GmbH	Freiberg	1)	51.00
Kommanditgesellschaft Deutsche Gasrußwerke GmbH & Co.	Dortmund	1)	54.35
Kraftwerk Bexbach Verwaltungsgesellschaft mbH	Bexbach	2)	33.33
TÜV Nord InfraChem GmbH & Co. KG	Marl		49.00
TÜV Nord InfraChem Verwaltungsgesellschaft mbH	Marl		49.00
Verwaltungsgesellschaft GKW Dillingen mbH	Dillingen	2)	49.90
Other countries			
ARKAD Deniz Tasimaciligi A.S.	Istanbul (Turkey)	2)	49.00
DSL. Japan Co., Ltd.	Tokyo (Japan)	1)	51.00
Evonik Silco Materials, LLC	Parsippany (New Jersey, USA)	1)	55.00

<sup>1)</sup> Recognized at equity as Evonik does not have a majority of the voting rights.

<sup>2)</sup> Reclassified to assets held for sale pursuant to IFRS 5.

The following companies are included in the consolidated financial statements at amortized cost:

Name of company	Registered office	Shareholding in %
<b>Non-consolidated subsidiaries (recognized at amortized cost)</b>		
<b>Germany</b>		
BF Technik GmbH	Hückelhoven	100.00
Biogasanlage Völklingen GmbH	Völklingen	51.00
Emtec GmbH	Völklingen	100.00
Evonik Bioenergy GmbH	Saarbrücken	51.00
Evonik Chempower GmbH	Essen	100.00
Evonik Degussa Anlagen-Betriebs GmbH & Co. KG	Essen	100.00
Evonik Degussa Anlagen-Betriebs Verwaltungs-GmbH	Essen	100.00
Felix Höltken GmbH	Cologne	100.00
Fiberdur-Vanck GmbH	Hückelhoven	100.00
GAL Fernwärmeschiene Saar-West Besitzgesellschaft mbH & Co. KG	Saarbrücken	49.00
GbR Gemeinschaftskraftwerk West	Essen	78.57
GSB Gesellschaft zur Sicherung von Bergmannswohnungen mbH	Essen	50.00
Günther Wiedenhausen, Isolierbaustoffe, GmbH	Hückelhoven	100.00
Jade 1111. GmbH	Berlin	100.00
Kraftwerksgesellschaft Völklingen Geschäftsführungs-GmbH	Völklingen	73.68
Kraftwerksgesellschaft Völklingen mbH & Co. KG	Völklingen	73.68
PKU Pulverkautschuk Union GmbH	Marl	100.00
Projektgesellschaft Radbod mbH	Hamm	33.33
RWS Wohnpark Sanssouci GmbH	Essen	67.10
SJ Brikett- und Extrazitfabriken GmbH	Hückelhoven	100.00
STEAG-Kraftwerksbetriebsgesellschaft mbH	Essen	78.57
Studiengesellschaft Kohle mbH	Mülheim	69.99
Trierer Tor, Aachen EBV Projekt GmbH & Co. KG	Hückelhoven	100.00
<b>Other countries</b>		
Ariens Steenfabriek I B.V.	Almelo (Netherlands)	100.00
Auxiliaire Minière S.A.	Liege (Belgium)	100.00
AYTET ELEKTRIK TOPTAN VE TICARET A.S.	Ankara (Turkey)	100.00
Bekool B.V.	Buchten (Netherlands)	100.00
Degussa Cathay Biotechnology Co., Ltd.	Jining (China)	51.00
Degussa International Trade (Shanghai) Co. Ltd.	Shanghai (China)	100.00
Degussa Knottingley Ltd. i.L.	Milton Keynes (UK)	100.00
Energoinvest, a.s.	Prague (Czech Republic)	100.00
Evonik Degussa Hungaria Kft. i.L.	Budapest (Hungary)	100.00
Evonik Degussa Stanlow Ltd. i.L.	Milton Keynes (UK)	100.00
Evonik Degussa UK Services Ltd.	Milton Keynes (UK)	100.00
Evonik ENERGO Mineral Sp. z o.o.	Kattowice (Poland)	100.00
Evonik Energy Services (India) Pvt. Ltd.	Noida (India)	100.00
GVT d.o.o. za mobilnu energiju	Vukowar (Croatia)	100.00
Renova Enerji Üretim ve Ticaret A.S.	Ankara (Turkey)	100.00



Name of company	Registered office	Shareholding in %
<b>Non-consolidated subsidiaries (recognized at amortized cost)</b>		
RÜTGERS S.r.L. i.L.	Milan (Italy)	99.99
SEC Energie-Contracting Sp. z o.o.	Kattowice (Poland)	100.00
SFW, s.r.o.	Prague (Czech Republic)	100.00
SKW Chemicals UK Ltd.	Milton Keynes (UK)	100.00
STEAG DO BRASIL LTDA. i.L.	Rio de Janeiro (Brazil)	100.00
<b>Joint ventures (recognized at amortized cost)</b>		
<b>Germany</b>		
Fernwärmeversorgung Gelsenkirchen GmbH	Gelsenkirchen	50.00
Kraftwerk Voerde oHG der Evonik Steag GmbH und RWE Power AG	Voerde	75.00
Kremer Baustoffe und Transporte GmbH & Co. KG	Zeil am Main	50.00
Kremer Baustoffe und Transporte Verwaltung-GmbH	Zeil am Main	50.00
MID-Cert Gesellschaft für Zertifizierung mbH	Essen	50.00
Minex GmbH	Staßfurt	50.00
Montanes Explorationsgesellschaft mbH	Karlsruhe	50.00
WSG Wärmezähler-Service GmbH	Essen	50.00
<b>Other countries</b>		
Babadag Elektrik Üretim Sanayi ve Ticaret A.S.	Narlidere-Izmir (Turkey)	40.00
BTU STEAG O & M Services, Ltd.	George Town (Grand Cayman, Cayman Islands)	50.00
Canoas Consortium - STEAG Encotec/Camargo Correa	Bairro São José (Brazil)	50.00
Euroment Benelux B.V.	Heemstede (Netherlands)	50.00
EZSE Rüzgar Elektrik Üretim Sanayi ve Ticaret Ltd. Sirketi	Narlidere-Izmir (Turkey)	40.00
<b>Associated companies (recognized at amortized cost)</b>		
<b>Germany</b>		
ARG Verwaltungs GmbH	Duisburg	20.00
BAV Aufbereitung Herne GmbH	Herne	49.00
Enagra Rohstoffe GmbH	Gräfeling	33.30
Energieversorgung Rochlitz GmbH	Rochlitz	49.00
Fernwärmeversorgung Neunkirchen GmbH	Neunkirchen	49.00
Fernwärmeversorgung Saarlouis-Steinrausch Geschäftsführungsgesellschaft mbH	Saarlouis	33.33
Fernwärmeversorgung Saarlouis-Steinrausch GmbH & Co. KG	Saarlouis	33.33
Fernwärmeversorgung Universitäts-Wohnstadt Bochum GmbH	Bochum	25.00
FWM Fernwärmeversorgung Mayen GmbH	Mayen	45.00
Gemeinschaftskraftwerk Bergkamen oHG der Evonik Steag GmbH und der RWE Power AG	Bergkamen	49.00
HKH Heizkraftwerk Homburg GmbH	Homburg	47.00
Ilmenauer Wärmeversorgung GmbH	Ilmenau	49.00
Interkommunale Entwicklungsgesellschaft Hückelhoven-Wassenberg mbH	Hückelhoven	25.00
PRINAS Assekuranz Service GmbH	Essen	25.00
Projektgesellschaft Industriepark Dorsten-Marl mbH	Dinslaken	49.04

Name of company	Registered office	Shareholding in %
<b>Associated companies (recognized at amortized cost)</b>		
Saarfilterasche-Vertriebs-Gesellschaft mbH	Baden-Baden	20.00
SAFA-Saarfilterasche-Vertriebs-GmbH & Co. KG	Baden-Baden	20.00
Sömmerdaer Energieversorgung GmbH	Sömmerda	49.00
Thermische Abfallbehandlung Lauta GmbH & Co. oHG	Berlin	25.10
Umschlagsterminal Marl GmbH & Co. KG	Marl	50.00
Umschlagsterminal Marl Verwaltungsgesellschaft mbH	Marl	50.00
Wärme-Service Zweibrücken GmbH	Zweibrücken	24.50
Wohnbau Dinslaken GmbH	Dinslaken	46.45
<b>Other countries</b>		
KE Dolna Odra Sp. z o.o.	Nowe Czarnewo (Poland)	31.43
<b>Other investments (recognized at amortized cost)</b>		
<b>Germany</b>		
Brennelement-Zwischenlager Ahaus GmbH	Ahaus	45.00
Deutsche Gasrußwerke GmbH	Dortmund	50.00
Faserwerke Hüls GmbH	Marl	50.00
Industriepark Münchsmünster GmbH & Co. KG	Münchsmünster	30.00
Industriepark Münchsmünster Verwaltungs-GmbH	Königstein	38.00
Li-Tec Verwaltungs-GmbH	Kamen	20.00
<b>Other countries</b>		
Aerosil Regional Representative Office Ltd.	Bangkok (Thailand)	49.00
Inxel-Evonik Advanced Pigment System S.a.g.l.	Lugano (Switzerland)	30.00

## (5.2) Assets held for sale and discontinued operations

In order to realize the strategic focus on specialty chemicals, the Executive Board of Evonik Industries AG, Essen (Germany), has decided to divest 51 percent of the shares in Evonik Steag GmbH, Essen (Germany), to KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG, Essen (Germany), a consortium of municipal utilities in the Rhine-Ruhr region, and to withdraw from the entire Energy Business Area.

Since the sale and purchase agreement, which was signed on December 18, 2010, is still contingent upon the approval of the relevant governance bodies and antitrust authorities, the deconsolidation of the business area is only expected to take place with the closing of the contract, probably by the end of March 2011. Until then, the assets and liabilities of the Energy Business Area will be classified as held for sale.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations sets out the valuation and accounting principles to be used for such operations, see Note (3.7), and their presentation in the consolidated financial statements:

Assets held for sale and the associated liabilities are stated separately from other assets and liabilities on the balance sheet. The amounts recognized for these assets and liabilities in the previous year do not have to be reclassified or restated.

Businesses whose assets and liabilities have been classified as held for sale may also meet the criteria for classification as discontinued operations, especially if a significant area of Evonik's business is to be sold.

The income and expenses of such discontinued operations have to be stated separately from those of continuing operations in the income statement. Cash flows must also be stated separately. The prior-period figures in the income statement have to be reclassified.



The divestment of the Energy Business Area scheduled for 2011 meets the criteria for classification as a discontinued operation. Further post-divestment income and expenses resulted from various past transactions (discontinued operations from previous years).

The table shows the main impact of the discontinued operations on the income statement, broken down into operating earnings and the gain or loss on divestment:

#### Income statement

in € million	Operating earnings		Divestment gains/losses		Income from discontinued operations	
	2010	2009	2010	2009	2010	2009
Energy Business Area	249	183	-251	-	-2	183
Discontinued operations from previous years	-	-	-5	-6	-5	-6
	<b>249</b>	<b>183</b>	<b>-256</b>	<b>-6</b>	<b>-7</b>	<b>177</b>

In connection with the reclassification of the Energy Business Area, impairment losses of €1 million and provisions of €4 million were recognized. The resulting expenses are included in the operating earnings of the discontinued operations. The strategic refocusing of Evonik on specialty chemicals represents a fundamental reorganization of the Group. In connection with the planned divestment of the Energy Business Area provisions of €251 million have been established under continuing operations. The resulting expense is included in full in the divestment gains/losses from discontinued operations.

The following income and expense items relate to the operating earnings of the Energy Business Area:

#### Income statement

in € million	2010	2009
Income	2,967	2,702
Expenses	-2,639	-2,479
<b>Operating earnings before income taxes, discontinued operations</b>	<b>328</b>	<b>223</b>
Income taxes	-79	-40
<b>Operating earnings after taxes, discontinued operations</b>	<b>249</b>	<b>183</b>

The divestment gains and losses for discontinued operations comprise the following:

#### Income statement

in € million	2010	2009
<b>Income before income taxes from the divestment of discontinued operations</b>	<b>-255</b>	<b>-</b>
Energy Business Area	-251	-
Discontinued operations from previous years	-4	-
<b>Income taxes</b>	<b>-1</b>	<b>-6</b>
Energy Business Area	-	-
Discontinued operations from previous years	-1	-6
<b>Income after taxes from the divestments of discontinued operations</b>	<b>-256</b>	<b>-6</b>
Energy Business Area	-251	-
Discontinued operations from previous years	-5	-6



The assets and liabilities reclassified in fiscal 2010 relate entirely to the planned divestment of the Energy Business Area. In the previous year no assets and liabilities were classified as held for sale.

### Balance sheet

in € million	Dec. 31, 2010
Intangible assets	442
Property, plant and equipment	1,534
Investment property	11
Investments recognized at equity	94
Financial assets	1,100
Deferred taxes/other income tax assets	121
Inventories	281
Trade accounts receivable	589
Other receivables	82
Cash and cash equivalents	248
<b>Assets held for sale</b>	<b>4,502</b>
Provisions for pensions and other post-employment benefits	555
Other provisions	335
Deferred taxes/other income tax liabilities	115
Financial liabilities	1,314
Trade accounts payable	507
Miscellaneous	141
<b>Liabilities associated with assets held for sale</b>	<b>2,967</b>

The Energy Business Area has long-term master agreements on the purchase and sale of imported coal, including ocean freight. The price risk relating to pending transactions where purchase and sale are not synchronized is hedged using coal and freight swaps designated as fair value hedges.

Interest payments relating to the financing of power plant projects were hedged using interest rate swaps and interest rate caps designated as cash flow hedges. In addition, commodity swaps were used to hedge coal and freight price risks relating to the planned supply to company-owned power stations, while currency risks relating to the planned procurement of raw materials were also hedged.

As of the balance sheet date equity included negligible gains (2009: losses of €26 million) attributable to the Energy Business Area, which are reflected in accumulated other comprehensive income.

On the cash flow statement, the cash flows from the operating, investing and financing activities of the discontinued operations only comprise cash flows generated through transactions with third parties. The net cash flows reflect the change in cash and cash equivalents and intra-Group cash pooling activities.



## (6) Notes to the income statement

### (6.1) Sales

in € million	2010	2009
Revenues from the sale of goods and services	12,950	10,172
Revenues from investment property	350	346
	<b>13,300</b>	<b>10,518</b>

### (6.2) Other operating income

in € million	2010	2009
Income from the disposal of assets	11	8
Income from the reversal of provisions	61	129
Income from the reversal of deferred items	4	3
Income from the reversal of impairment losses	32	25
Income from the measurement of derivatives (excluding interest rate derivatives)	374	346
Gains on currency translation of monetary assets and liabilities	318	207
Income from non-core operations	71	61
Income from insurance refunds	6	5
Income from research subsidies	7	8
Other income	84	66
	<b>968</b>	<b>858</b>

Income from the disposal of assets comprises €8 million (2009: €7 million) from the divestment of property, plant and equipment and investment property, and €3 million (2009: €1 million) from the sale of investments.

The income from reversals of impairment losses in accordance with IAS 39 Financial Instruments: Recognition and Measurement includes €4 million (2009: €17 million) relating to trade accounts receivable and loans. Further, pursuant to IAS 36 Impairment of Assets, €28 million (2009: €8 million) of the reversals relate to the following business areas:

in € million	Reversal of impairment losses	
	2010	2009
Chemicals	21	5
Real Estate	7	3
	<b>28</b>	<b>8</b>

### (6.3) Other operating expenses

in € million	2010	2009
Losses on the disposal of assets	16	17
Losses on measurement of derivatives (excluding interest rate derivatives)	451	307
Losses on currency translation of monetary assets and liabilities	245	268
Expenses for restructuring	31	59
Expenses for recultivation and environmental protection	22	6
Other additions to provisions	146	160
Impairment losses pursuant to IAS 36	128	68
Impairment losses pursuant to IAS 39	16	20
Impairment losses pursuant to IFRS 5	–	38
Expenses relating to the REACH Regulation	11	8
Miscellaneous tax expense	6	5
Other expense	275	335
	<b>1,347</b>	<b>1,291</b>

Losses on the disposal of assets mainly comprise €15 million (2009: €12 million) relating to the divestment of intangible assets, property, plant and equipment and investment property, and €1 million (2009: €3 million) relating to the sale of investments.

Impairment losses determined in accordance with IAS 36 Impairment of Assets in response to indications of a possible impairment were divided among the following business areas:

in € million	Impairment losses	
	2010	2009
Chemicals	117	65
Real Estate	6	3
Corporate, other operations	5	–
	<b>128</b>	<b>68</b>

Impairment losses in the Chemicals Business Area amounted to €117 million in 2010. €57 million of this amount related to intangible assets, almost all of which were recognized in connection with business combinations and were classed as not recoverable as of the reporting date. An impairment loss of €24 million was recognized on property, plant and equipment in the Industrial Chemicals Business Unit. This principally related to two plants whose value had to be written down as a result of the altered market situation. Impairment losses of €12 million were recognized for the Health & Nutrition Business Unit. €10 million of this was for a plant affected by declining prices. Impairment losses in the Coatings & Additives Business Unit totaled €13 million and were made necessary by higher raw material costs. Further impairment losses on property, plant and equipment amounting to €11 million relate to other business units in the Chemicals Business Area.



The impairment losses on financial instruments and other receivables determined in accordance with IAS 39 Financial Instruments: Recognition and Measurement comprise €11 million (2009: €17 million) on trade accounts receivable and €4 million (2009: €1 million) on other investments. An impairment loss of €1 million (2009: €2 million) was recognized for the other receivables.

The other expense mainly comprises expenses for outsourcing, IT, insurance contributions, M&A projects, energy and supplies, commission payments, and legal and consultancy fees.

#### (6.4) Net interest expense

in € million	2010	2009
Income from securities and loans	9	7
Interest and similar income from interest rate derivatives	–	14
Other interest-type income	14	11
<b>Interest income</b>	<b>23</b>	<b>32</b>
Interest expense on financial liabilities	–167	–133
Interest expense for finance leases	–	–1
Interest and similar expense for interest rate derivatives	–	–14
Other interest-type expense	–37	–28
Net interest expense for pensions	–207	–218
Interest expense on accrued interest on other provisions	–40	–35
<b>Interest expense</b>	<b>–451</b>	<b>–429</b>
	<b>–428</b>	<b>–397</b>

Borrowing costs of €4 million (2009: €27 million) are capitalized. The underlying cost of financing is 3.3 percent (2009: 3.6 percent).

#### (6.5) Result from investments recognized at equity

in € million	2010	2009
Income from measurement at equity	56	62
Expenses for measurement at equity	–2	–5
	<b>54</b>	<b>57</b>

#### (6.6) Other financial income

Other financial income includes income of €10 million (2009: €4 million) from other investments.

### (6.7) Income taxes

Income taxes comprise the following:

in € million	2010	2009
Other income taxes	400	142
(thereof relating to other periods)	(-5)	(-9)
Deferred taxes	-225	-88
(thereof relating to other periods)	(-31)	(2)
(thereof relating to temporary differences)	(-59)	(-133)
	<b>175</b>	<b>54</b>

The tax reconciliation shows the development of expected income taxes relative to the effective income taxes stated in the income statement. As in the previous year, the expected income taxes for 2010 are based on an overall tax rate of 30 percent, comprising German corporation tax of 15 percent, a solidarity surcharge of 5.5 percent and the average trade tax rate. The effective income taxes include other income taxes and deferred taxes.

in € million	2010	2009
<b>Income before income taxes, continuing operations</b>	<b>975</b>	<b>189</b>
Expected income taxes	293	57
Variances due to differences in the assessment base for trade tax	7	7
Deviation from the expected tax rate	32	27
Changes in valuation allowances on deferred taxes	70	-36
Losses not affecting deferred taxes and the use of loss carryforwards	-206	4
Changes in tax rates and tax legislation	4	-
Non-deductible expenses	13	65
Interest ceiling	2	-18
Tax-free income	-35	-28
Result from investments recognized at equity	-12	-17
Non-deductible impairment losses on goodwill	-2	-
Other	9	-7
<b>Effective income taxes (other income taxes and deferred taxes)</b>	<b>175</b>	<b>54</b>
Effective tax rate in %	17.9	28.6

The change in the valuation allowances on deferred taxes is principally due to the adjustment of deferred tax assets. The item "Losses not affecting deferred taxes and the use of loss carryforwards" mainly contains the change in the recognition of deferred tax assets for loss carryforwards not previously included in the valuation. Changes in tax rates and tax legislation principally relate to a reduction in the tax rate in Hungary. "Other" contains other income taxes and deferred taxes relating to different periods.



**(6.8) Earnings per share**

Basic earnings per share as shown in the income statement are calculated by dividing net income by the weighted average number of shares issued. 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.

Number of shares	2010	2009
Weighted average number of shares issued (basic)	466,000,000	466,000,000
Dilution by potential shares	–	–
Weighted average number of shares issued (diluted)	466,000,000	466,000,000

in € million	2010	2009
Income after taxes, continuing operations	800	135
Income after taxes, discontinued operations	–7	177
Less income after taxes attributable to non-controlling interests	–59	–72
<b>Income after taxes attributable to shareholders of Evonik Industries AG (net income)</b>	<b>734</b>	<b>240</b>
Earnings per share in € (basic and diluted)		
from continuing operations	+1.72	+0.29
from discontinued operations	–0.01	+0.38
less non-controlling interests	–0.13	–0.15
<b>Earnings per share in € (basic and diluted) attributable to shareholders of Evonik Industries AG</b>	<b>+1.58</b>	<b>+0.52</b>

## (7) Notes to the balance sheet

### (7.1) Intangible assets

in € million	Goodwill	Franchises, trademarks and licenses	Capitalized development costs	Other intangible assets	Total
<b>Cost of acquisition/production</b>					
<b>As of January 1, 2009</b>	<b>3,317</b>	<b>1,739</b>	<b>163</b>	<b>526</b>	<b>5,745</b>
Currency translation	-17	-2	-	-1	-20
Additions from business combinations	1	-	-	-	1
Other additions	-	13	4	5	22
Disposal	-	-3	-	-	-3
Reclassification	-	11	-	-6	5
<b>As of December 31, 2009</b>	<b>3,301</b>	<b>1,758</b>	<b>167</b>	<b>524</b>	<b>5,750</b>
Currency translation	60	10	-	3	73
Additions from business combinations	22	22	-	11	55
Other additions	-	21	-	9	30
Reclassification pursuant to IFRS 5	-407	-64	-	-63	-534
Disposal	-	-21	-	-2	-23
Reclassification	-	9	-	-2	7
<b>As of December 31, 2010</b>	<b>2,976</b>	<b>1,735</b>	<b>167</b>	<b>480</b>	<b>5,358</b>
<b>Amortization and impairment losses</b>					
<b>As of January 1, 2009</b>	<b>117</b>	<b>1,053</b>	<b>114</b>	<b>375</b>	<b>1,659</b>
Currency translation	-	-2	-	-	-2
Additions from business combinations	-	-	-	-	-
Amortization	-	95	9	31	135
Impairment losses	-	6	4	-	10
Reversals of impairment losses	-	-	-	-	-
Disposal	-	-3	-	-	-3
Reclassification	-	-	-	1	1
<b>As of December 31, 2009</b>	<b>117</b>	<b>1,149</b>	<b>127</b>	<b>407</b>	<b>1,800</b>
Currency translation	-	7	-	1	8
Additions from business combinations	-	2	-	-	2
Amortization	-	84	6	24	114
Impairment losses	-	57	3	1	61
Reversal of impairment losses	-	-	-	-	-
Reclassification pursuant to IFRS 5	-5	-53	-	-34	-92
Disposal	-	-21	-	-	-21
Reclassification	-	-	-	-	-
<b>As of December 31, 2010</b>	<b>112</b>	<b>1,225</b>	<b>136</b>	<b>399</b>	<b>1,872</b>
<b>Carrying amounts as of Dec. 31, 2009</b>	<b>3,184</b>	<b>609</b>	<b>40</b>	<b>117</b>	<b>3,950</b>
<b>Carrying amounts as of Dec. 31, 2010</b>	<b>2,864</b>	<b>510</b>	<b>31</b>	<b>81</b>	<b>3,486</b>



In 2010 intangible assets totaling €442 million were reclassified to assets held for sale in connection with the divestment of the Energy Business Area, see Note (5.2).

The carrying amounts of goodwill are divided among the business areas as follows:

in € million	Goodwill	
	Dec. 31, 2010	Dec. 31, 2009
Chemicals	2,812	2,734
Energy	–	398
Real Estate	40	40
Corporate, other operations	12	12
	<b>2,864</b>	<b>3,184</b>

As in the previous year, the goodwill allocated to the Chemicals Business Area principally relates to earlier acquisitions of shares in Evonik Degussa GmbH (Evonik Degussa), Essen (Germany). The goodwill allocated to the Energy Business Area in the previous year mainly related to the earlier acquisitions of shares in Evonik Steag GmbH, Essen (Germany).

Franchises, trademarks and licenses include trademarks with an indefinite useful life totaling €238 million (2009: €283 million). These relate exclusively to the Chemicals Business Area.

Capitalized development costs mainly relate to the purchase price allocation for former purchases of shares in Evonik Degussa and the related recognition of hidden reserves. They are allocated in full to the Chemicals Business Area.

As in the previous year, as of the reporting date there were no intangible assets to which title was restricted and no commitments to purchase intangible assets.

## (7.2) Property, plant and equipment

in € million	Land, land rights and buildings	Plant and machinery	Other plant, office furniture and equipment	Advance payments and construction in progress	Total
<b>Cost of acquisition/production</b>					
<b>As of January 1, 2009</b>	<b>3,299</b>	<b>12,469</b>	<b>1,066</b>	<b>1,220</b>	<b>18,054</b>
Currency translation	-4	-7	2	-	-9
Additions from business combinations	1	8	-	-	9
Other additions	27	214	38	491	770
Disposal	-25	-28	-29	-10	-92
Reclassification	60	489	16	-605	-40
<b>As of December 31, 2009</b>	<b>3,358</b>	<b>13,145</b>	<b>1,093</b>	<b>1,096</b>	<b>18,692</b>
Currency translation	74	255	15	28	372
Additions from business combinations	22	47	4	4	77
Other additions	38	164	43	501	746
Reclassification pursuant to IFRS 5	-480	-3,016	-116	-771	-4,383
Disposal	-136	-162	-43	-5	-346
Reclassification	39	218	4	-266	-5
<b>As of December 31, 2010</b>	<b>2,915</b>	<b>10,651</b>	<b>1,000</b>	<b>587</b>	<b>15,153</b>
<b>Depreciation and impairment losses</b>					
<b>As of January 1, 2009</b>	<b>1,772</b>	<b>9,706</b>	<b>856</b>	<b>24</b>	<b>12,358</b>
Currency translation	-4	-5	2	1	-6
Additions from business combinations	-	3	-	-	3
Depreciation	72	483	64	-	619
Impairment losses	20	45	2	5	72
Reversal of impairment losses	-5	-	-	-	-5
Disposal	-17	-14	-28	-	-59
Reclassification	2	10	-4	-9	-1
<b>As of December 31, 2009</b>	<b>1,840</b>	<b>10,228</b>	<b>892</b>	<b>21</b>	<b>12,981</b>
Currency translation	29	169	12	-	210
Additions from business combinations	1	16	2	-	19
Depreciation	72	485	62	-	619
Impairment losses	17	40	3	5	65
Reversal of impairment losses	-7	-7	-	-7	-21
Reclassification pursuant to IFRS 5	-246	-2,520	-81	-2	-2,849
Disposal	-131	-149	-42	-2	-324
Reclassification	-4	14	-10	-2	-2
<b>As of December 31, 2010</b>	<b>1,571</b>	<b>8,276</b>	<b>838</b>	<b>13</b>	<b>10,698</b>
<b>Carrying amounts as of Dec. 31, 2009</b>	<b>1,518</b>	<b>2,917</b>	<b>201</b>	<b>1,075</b>	<b>5,711</b>
<b>Carrying amounts as of Dec. 31, 2010</b>	<b>1,344</b>	<b>2,375</b>	<b>162</b>	<b>574</b>	<b>4,455</b>



Property, plant and equipment totaling €1,534 million was reclassified to assets held for sale in 2010 in connection with the divestment of the Energy Business Area, see Note (5.2).

The carrying amounts of assets from finance leases are €6 million (2009: €9 million) for land, land rights and buildings, €2 million (2009: €61 million) for plant and machinery and €1 million (2009: €3 million) for other plant, office furniture and equipment.

The carrying amounts of property, plant and equipment pledged as security for Group liabilities amounted to €63 million (2009: €159 million). No property, plant and equipment was subject to other restrictions on title (2009: €114 million).

The Group has commitments of €190 million (2009: €179 million) to purchase property, plant and equipment.



### (7.3) Investment property

in € million	Land, land rights	Buildings	Buildings under construction	Total
<b>Cost of acquisition/production</b>				
<b>As of January 1, 2009</b>	<b>325</b>	<b>2,180</b>	<b>–</b>	<b>2,505</b>
Currency translation	–	–1	–	–1
Additions from business combinations	–	–	–	–
Other additions	2	30	25	57
Disposal	–2	–5	–	–7
Reclassification	3	13	17	33
<b>As of December 31, 2009</b>	<b>328</b>	<b>2,217</b>	<b>42</b>	<b>2,587</b>
Currency translation	1	3	–	4
Additions from business combinations	–	–	–	–
Other additions	2	23	14	39
Reclassification pursuant to IFRS 5	–10	–4	–	–14
Disposal	–	–1	–	–1
Reclassification	–	21	–35	–14
<b>As of December 31, 2010</b>	<b>321</b>	<b>2,259</b>	<b>21</b>	<b>2,601</b>
<b>Depreciation and impairment losses</b>				
<b>As of January 1, 2009</b>	<b>8</b>	<b>995</b>	<b>–</b>	<b>1,003</b>
Currency translation	–	–1	–	–1
Additions from business combinations	–	–	–	–
Depreciation	–	44	–	44
Impairment losses	–	3	–	3
Reversal of impairment losses	–1	–2	–	–3
Disposal	–	–6	–	–6
Reclassification	–	–7	–	–7
<b>As of December 31, 2009</b>	<b>7</b>	<b>1,026</b>	<b>–</b>	<b>1,033</b>
Currency translation	–	2	–	2
Additions from business combinations	–	–	–	–
Depreciation	–	44	–	44
Impairment losses	2	7	–	9
Reversal of impairment losses	–	–7	–	–7
Reclassification pursuant to IFRS 5	–	–3	–	–3
Disposal	–1	–	–	–1
Reclassification	–	–4	–	–4
<b>As of December 31, 2010</b>	<b>8</b>	<b>1,065</b>	<b>–</b>	<b>1,073</b>
<b>Carrying amounts as of Dec. 31, 2009</b>	<b>321</b>	<b>1,191</b>	<b>42</b>	<b>1,554</b>
<b>Carrying amounts as of Dec. 31, 2010</b>	<b>313</b>	<b>1,194</b>	<b>21</b>	<b>1,528</b>



In 2010, investment property totaling €11 million was reclassified to assets held for sale in connection with the divestment of the Energy Business Area, see Note (5.2).

Other additions comprise retroactive acquisition costs of €22 million (2009: €23 million). The fair value of investment property was €2,839 million on the reporting date (2009: €2,850 million).

As in the previous year, the income statement comprises operating expenses totaling €225 million relating to investment property which generates rental revenues. Operating expenses for investment property which does not generate rental revenues comprised €9 million, as in the previous year.

The carrying amount of investment property with restrictions to title amounts to €1,045 million (2009: €1,039 million). This mainly comprises registered land charges for loans, which totaled €790 million on the reporting date (2009: €816 million).

Commitments to purchase real estate classified as investment property amounted to €19 million (2009: €13 million). Apart from this, there are only contractual commitments in respect of statutory obligations to undertake maintenance, repairs and improvements under rent contracts.

#### (7.4) Investments recognized at equity

This item comprises associated companies and joint ventures recognized using the equity method. The carrying amount of €562 million (2009: €626 million) mainly relates to the joint ventures THS GmbH, Essen (Germany), and StoHaas Monomer GmbH & Co. KG, Marl (Germany). A complete list of companies included at equity can be found in Note (5.1).

In 2010, 11 companies recognized at equity with carrying amounts totaling €94 million were reclassified to assets held for sale in connection with the divestment of the Energy Business Area, see Note (5.2).

The combined financial data from the last available financial statements of the associated companies included at equity, based on Evonik's stake, are as follows:

in € million	Associated companies		Joint ventures	
	2010	2009	2010	2009
Non-current assets as of December 31	33	115	1,396	1,479
Current assets as of December 31	25	31	93	165
Non-current liabilities as of December 31	-3	-51	-863	-938
Current liabilities as of December 31	-32	-37	-136	-169
Income	72	114	403	536
Expenses	-70	-104	-362	-483

There were no restricted ownership rights to companies included at equity in 2010 or 2009.

## (7.5) Financial assets

in € million	Dec. 31, 2010		Dec. 31, 2009	
	Total	thereof non-current	Total	thereof non-current
Other investments	45	45	117	117
Loans	41	19	97	33
Securities and similar claims	430	42	66	43
Receivables from finance leases	–	–	1,004	923
Receivables from derivatives	66	2	128	12
Other financial assets	10	–	28	12
	<b>592</b>	<b>108</b>	<b>1,440</b>	<b>1,140</b>

Financial assets totaling €1,100 million were reclassified to assets held for sale in 2010 in connection with the divestment of the Energy Business Area, see Note (5.2).

### (a) Other investments

Other investments comprise investments in unlisted equity instruments that are recognized at the cost of acquisition since the fair value cannot be determined reliably.

### (b) Loans

Loans are exposed to an interest-rate risk, which can affect their fair value or future cash flows. They are recognized at cost of acquisition.

The risk and maturity structure of loans is as follows:

in € million	Dec. 31, 2010	Dec. 31, 2009
<b>Impaired loans</b>	<b>1</b>	<b>8</b>
Gross amount	8	13
Impairment losses	–7	–5
<b>Non-impaired loans</b>	<b>40</b>	<b>89</b>
Not yet due	40	88
Overdue	–	1
up to 3 months	–	1
	<b>41</b>	<b>97</b>

Evonik did not renegotiate the terms and conditions of any long-term loans in either 2010 or 2009.

### (c) Securities and similar claims

Securities and similar claims are exposed to an interest-rate risk, which can affect their fair value or future cash flows. If no market price is available, they are valued at amortized cost. Securities listed on a stock exchange are exposed to a risk of changes in their market price.

As of the reporting date, the Group had current securities totaling €388 million (2009: €23 million). These had maturities of less than six months and the issuers had high credit standing. These securities were used for risk diversification and to diversify the investment of cash and cash equivalents.

**(d) Receivables from finance leases**

The reconciliation from gross investment in leasing arrangements to the present value of the minimum lease payments and their due dates is as follows:

in € million	Dec. 31, 2010	Dec. 31, 2009
<b>Gross investment</b>	–	<b>1,942</b>
(thereof non-guaranteed residual value)	–	(–)
due within 1 year	–	231
due in more than 1 and up to 5 years	–	857
due in more than 5 years	–	854
Interest included therein	–	–937
<b>Net investment</b>	–	<b>1,005</b>
Accumulated impairment losses	–	–1
<b>Carrying amount of receivables from finance leases</b>	–	<b>1,004</b>
Less present value of non-guaranteed residual values	–	–
<b>Present value of outstanding minimum lease payments</b>	–	<b>1,004</b>
due within 1 year	–	81
due in more than 1 and up to 5 years	–	408
due in more than 5 years	–	515

All receivables from finance leases were reclassified to assets held for sale, see Note (5.2). In 2009 this item mainly comprised the following:

Receivables of €577 million related to a contract for the supply of electricity by the Iskenderun power plant near Adana (Turkey). This contract runs for 20 years and ends in November 2019.

A further €156 million resulted from a supply contract for power from the Mindanao power station near Cagayan de Oro (Philippines). This contract with STEAG State Power Inc., Makati City (Philippines) runs for 25 years and ends in November 2031. The leased assets will be transferred to the lessee when the contract ends.

Moreover, receivables from finance leases included €165 million relating to the lease agreement for STEAG-Raffinerie-Kraftwerk-Sachsen-Anhalt, Leuna (Germany). This lease dates from November 1996 and had an original terms of twelve years. In 2006 it was extended for another eight years to November 2016.

**(e) Receivables from derivatives**

The breakdown of receivables from derivatives is as follows:

in € million	Dec. 31, 2010	Dec. 31, 2009
Receivables from currency derivatives	65	79
Receivables from interest derivatives	–	3
Receivables from commodity derivatives	1	46
	<b>66</b>	<b>128</b>

In 2009, the receivables from interest derivatives related exclusively to interest caps.

#### (f) Security pledged

Financial assets pledged as security for Group liabilities amounted to €28 million (2009: €528 million). A further €6 million (2008: €402 million) were subject to other restrictions on title.

In the previous year, the majority of the assets pledged as collateral were receivables from finance leases of the project companies involved in the Energy Business Area's Iskenderun and Mindanao power plants.

### (7.6) Inventories

in € million	Dec. 31, 2010	Dec. 31, 2009
Raw materials and supplies	484	571
Work in progress	105	147
Finished goods	996	872
	<b>1,585</b>	<b>1,590</b>

Inventories totaling €281 million were reclassified to assets held for sale in 2010 in connection with the divestment of the Energy Business Area, see Note (5.2).

Impairment losses on raw materials, supplies and other goods totaling €21 million were recognized in income in 2010 (2009: €23 million) while reversals of impairment losses amounted to €11 million (2009: only negligible reversals).

The carrying amounts of inventories pledged as security for Group liabilities in the previous year amounted to €42 million.

### (7.7) Trade accounts receivable and other receivables

in € million	Dec. 31, 2010		Dec. 31, 2009	
	Total	thereof non-current	Total	thereof non-current
Trade accounts receivable	1,826	–	2,148	–
Advance payments made	50	8	43	–
Miscellaneous other receivables	229	37	293	31
Deferred expenses	37	14	76	25
	<b>2,142</b>	<b>59</b>	<b>2,560</b>	<b>56</b>

In 2010, trade accounts receivable totaling €589 million and other receivables totaling €82 million were reclassified to assets held for sale in connection with the divestment of the Energy Business Area, see Note (5.2).



**(a) Trade accounts receivable**

The risk and maturity structure of trade accounts receivable is as follows:

in € million	Dec. 31, 2010	Dec. 31, 2009
<b>Impaired receivables</b>	<b>10</b>	<b>21</b>
Gross amount	17	41
Impairment losses	-7	-20
<b>Non-impaired receivables</b>	<b>1,816</b>	<b>2,127</b>
Not yet due	1,626	1,974
Overdue	190	153
up to 3 months	174	142
more than 3 and up to 6 months	6	6
more than 6 and up to 9 months	-	3
more than 9 and up to 12 months	7	-
more than 1 year	3	2
	<b>1,826</b>	<b>2,148</b>

The terms for trade accounts receivable that are not yet due totaling €1 million (2009: €1 million) were renegotiated and would otherwise have been impaired or overdue.

**(b) Security pledged**

The carrying amounts of receivables pledged as security for Group liabilities in the previous year amounted to €5 million, while a further €3 million were subject to other restrictions on title.

**(7.8) Cash and cash equivalents**

The cash and cash equivalents totaling €1,103 million (2009: €885 million) include balances with banks, checks and cash. This item also includes financial securities with high liquidity and terms of no more than three months on the date of acquisition.

Cash and cash equivalents totaling €248 million were reclassified to assets held for sale in 2010 in connection with the divestment of the Energy Business Area, see Note (5.2).

The carrying amounts of cash and cash equivalents pledged as security in the previous year amounted to €240 million. The majority of the pledged cash and cash equivalents were deposited in tied project accounts in connection with the Energy Business Area's power plant projects in Iskenderun and Mindanao.

## (7.9) Equity

### (a) Issued capital

As in the previous year, the company's fully paid-up capital stock was €466,000,000 on the reporting date and is divided into 466,000,000 no-par bearer shares.

On December 3, 2007, RAG-Stiftung notified Evonik Industries AG that, pursuant to Section 20, Paragraphs 4 and 1 and Section 16 Paragraph 4 of the German Stock Corporation Act (AktG), it holds a majority of the capital stock of Evonik Industries AG through its majority stake in RAG Aktiengesellschaft, Essen (Germany). On January 8, 2008 RAG-Stiftung submitted notification pursuant to Section 20 Paragraph 4 of the German Stock Corporation Act that it directly holds a majority of the capital stock of Evonik Industries AG.

Gabriel Acquisitions notified Evonik Industries AG on September 15, 2008 pursuant to Section 20 Paragraph 1 and Paragraph 3 of the German Stock Corporation Act that it directly holds more than a quarter of the shares in Evonik Industries AG.

Further, on September 15, 2008 the following companies submitted notification that they indirectly hold more than a quarter of the shares in Evonik Industries AG pursuant to Section 20 Paragraph 1 of the German Stock Corporation Act through their investment in Gabriel Acquisitions:

Gabriel Investments S.à r.l., Gabriel Holdings S.à r.l., Clear Vision Capital Fund SICAV-FIS S.A., all of Luxembourg (Luxembourg) and CVC European Equity Partners Tandem (A) L.P., CVC European Equity Partners Tandem (B) L.P., CVC European Equity Partners Tandem (C) L.P., CVC European Equity Partners V (A) L.P., CVC European Equity Partners V (B) L.P., CVC European Equity Partners V (C) L.P., CVC European Equity Partners V (D) L.P., CVC European Equity Partners V (E) L.P., all of George Town (Grand Cayman, Cayman Islands) and CVC Nominees Ltd., CVC European Equity V Ltd., CVC European Equity Tandem GP Ltd., CVC Capital Partners Finance Ltd., CVC Capital Partners Advisory Company Ltd., all of St. Helier (Jersey, Channel Islands).

### (b) Capital reserve

The capital reserve contains all other payments received from shareholders pursuant to Section 272 Paragraph 2 No. 4 of the German Commercial Code.

### (c) Accumulated income/loss

The accumulated income of €3,948 million (2009: €3,525 million) comprises Group earnings received in fiscal 2010 and previous years. Income after taxes corresponds to the net income attributable to shareholders of Evonik Industries AG, as stated in the income statement for fiscal 2010. However, under German Stock Corporation law, only profit reserves from the separate financial statements drawn up by Evonik Industries AG which are not subject to any restrictions are available for distribution. As of December 31, 2010, Evonik Industries AG's profit reserves totaled €3,373 million (2009: €3,371 million). €47 million of this comprises the statutory reserve that is not available for distribution.

A proposal will be submitted to the Shareholders' Meeting that €400 million should be distributed for 2010. That corresponds to a dividend of around €0.86 per no-par share.

### (d) Accumulated other comprehensive income

Accumulated other comprehensive income contains gains and losses that are not included in the income statement. The reserve for unrealized gains and losses on available-for-sale securities contains remeasurement amounts resulting from changes in the value of financial instruments that are expected to be temporary and thus not charged to income. The reserve for gains and losses on hedging instruments comprises changes in the fair value of the effective portion of hedging instruments that are accounted for as cash flow or net investment hedges. The reserve for revaluation surplus for acquisitions made in stages contains 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 reserve for currency translation adjustment comprises differences arising from the translation of foreign financial statements.



The changes in accumulated other comprehensive income (OCI) were as follows:

in € million	Unrealized gains/losses on available-for-sale securities	Gains/losses on hedging instruments	Revaluation surplus for acquisitions in stages	Currency translation adjustment	Total
<b>As of January 1, 2009</b>	<b>2</b>	<b>-</b>	<b>51</b>	<b>-572</b>	<b>-519</b>
<b>Other comprehensive income as in the statement of comprehensive income</b>	<b>3</b>	<b>72</b>	<b>-</b>	<b>20</b>	<b>95</b>
Gains/losses included in OCI	5	-2	-	-	3
Deferred taxes thereon	-2	-	-	-	-2
Amounts reclassified to the income statement	-	80	-	-	80
Deferred taxes thereon	-	-11	-	-	-11
Amounts reclassified to assets and liabilities	-	5	-	-	5
Deferred taxes thereon	-	-	-	-	-
Currency translation adjustment	-	-	-	20	20
<b>Other changes</b>	<b>-</b>	<b>-</b>	<b>-5</b>	<b>1</b>	<b>-4</b>
<b>As of December 31, 2009</b>	<b>5</b>	<b>72</b>	<b>46</b>	<b>-551</b>	<b>-428</b>
<b>Other comprehensive income as in the statement of comprehensive income</b>	<b>-5</b>	<b>-14</b>	<b>-</b>	<b>249</b>	<b>230</b>
Gains/losses included in OCI	2	-59	-	-	-57
Deferred taxes thereon	-	11	-	-	11
Amounts reclassified to the income statement	-7	30	-	-	23
Deferred taxes thereon	-	-3	-	-	-3
Amounts reclassified to assets and liabilities	-	10	-	-	10
Deferred taxes thereon	-	-3	-	-	-3
Currency translation adjustment	-	-	-	249	249
<b>Other changes</b>	<b>-</b>	<b>-</b>	<b>-5</b>	<b>-</b>	<b>-5</b>
<b>As of December 31, 2010</b>	<b>-</b>	<b>58</b>	<b>41</b>	<b>-302</b>	<b>-203</b>

In 2010, a negative overall hedging result of €30 million (2009: €80 million) was reclassified from the reserve for gains/losses on hedging instruments to the income statement. Losses of €35 million (2009: €1 million) were recognized in sales, losses of €1 million (2009: €3 million) were recognized in other operating expenses and gains of €6 million (2009: losses of €14 million) were recognized in income after taxes from the discontinued operations. In 2009 losses amounting to a further €68 million were recognized in the cost of sales and gains of €6 million were recognized in other operating income.

(e) Non-controlling interests

Non-controlling interests comprise shares in the issued capital and reserves of consolidated subsidiaries that are not attributable to the shareholders of Evonik Industries AG.

The changes in accumulated other comprehensive income (OCI) relating to non-controlling interests were as follows:

in € million	Unrealized gains/losses on available-for-sale securities	Gains/losses on hedging instruments	Currency translation adjustment	Total
<b>As of January 1, 2009</b>	<b>1</b>	<b>-10</b>	<b>-73</b>	<b>-82</b>
<b>Other comprehensive income as in the statement of comprehensive income</b>	<b>-1</b>	<b>-2</b>	<b>-14</b>	<b>-17</b>
Gains/losses included in OCI	-1	-6	-	-7
Deferred taxes thereon	-	1	-	1
Amounts reclassified to the income statement	-	4	-	4
Deferred taxes thereon	-	-1	-	-1
Currency translation adjustment	-	-	-14	-14
<b>Other changes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>As of December 31, 2009</b>	<b>-</b>	<b>-12</b>	<b>-87</b>	<b>-99</b>
<b>Other comprehensive income as in the statement of comprehensive income</b>	<b>-</b>	<b>-4</b>	<b>35</b>	<b>31</b>
Gains/losses included in OCI	-	-15	-	-15
Deferred taxes thereon	-	4	-	4
Amounts reclassified to the income statement	-	9	-	9
Deferred taxes thereon	-	-2	-	-2
Currency translation adjustment	-	-	35	35
<b>Other changes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>As of December 31, 2010</b>	<b>-</b>	<b>-16</b>	<b>-52</b>	<b>-68</b>

**(7.10) Provisions for pensions and other post-employment benefits**

Provisions for pensions are established to cover benefit plans for retirement, disability and surviving dependents' pensions. The benefit obligations vary depending 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.

Germany accounted for around 93.2 percent (2009: 94.3 percent) and thus the vast majority of provisions for pensions on the reporting date.

At the German companies, occupational pension plans are predominantly defined benefit plans. They are primarily funded by provisions and pension fund assets. In addition, in 2010, for the first time, financing of some pension obligations was transferred to a contractual trust arrangement.

The pension plans at foreign companies may be either defined contribution or defined benefit plans.



The table shows the weighted average assumptions used for the actuarial valuation of the obligations and for the expected return on plan assets:

in %	Group		Germany	
	2010	2009	2010	2009
Discount rate as of December 31	5.03	5.54	5.00	5.50
Future salary increases	2.62	2.63	2.54	2.53
Future pension increases	2.06	2.07	2.00	2.00
Expected return on plan assets as of December 31	5.35	5.35	4.93	5.00
Health-care cost trend	7.72	7.28	–	–

The expected return on plan assets is derived from published capital market reports and forecasts and in-house experience for each class of assets.

The present value of the defined benefit obligation changed as follows in fiscal 2010:

in € million	2010	2009
<b>Present value of the defined benefit obligation as of January 1</b>	<b>7,430</b>	<b>6,815</b>
Current service cost	102	92
Interest cost	403	400
Employee contributions	31	34
Actuarial gains (–) and losses (+)	468	482
Benefits paid	–416	–407
Past service cost	11	1
Additions from business combinations	–3	–
Reclassification pursuant to IFRS 5	–608	–
Curtailments	–1	–1
Settlements	1	–
Currency translation	54	14
<b>Present value of the defined benefit obligation as of December 31</b>	<b>7,472</b>	<b>7,430</b>

The fair value of the plan assets changed as follows in fiscal 2010:

in € million	2010	2009
<b>Fair value of plan assets as of January 1</b>	<b>3,161</b>	<b>2,910</b>
Expected return on plan assets	167	155
Employer contributions	344	94
Employee contributions	13	14
Actuarial gains (+) and losses (–)	–15	116
Benefits paid	–154	–151
Outflows due to disposals	–2	–
Reclassification pursuant to IFRS 5	–3	–
Currency translation	40	23
<b>Fair value of plan assets as of December 31</b>	<b>3,551</b>	<b>3,161</b>



In 2010, the plan assets were split as follows: €2,478 million at Pensionskasse Degussa VVaG, Marl (Germany) and €200 million at Evonik Pensionstreuhand e.V. , Essen (Germany). The remaining plan assets mainly comprise €508 million in the UK and €287 million in the USA.

The actual return on plan assets was €152 million in fiscal 2010 (2009: €271 million).

Employer contributions of €80 million are expected to be incurred for 2011.

The next table shows the present value of all defined benefit obligations, the fair value of plan assets, the funded status and experience adjustments to actuarial gains (+) and losses (-) for the defined benefit obligation and plan assets over time:

in € million	2010	2009	2008	2007	2006
Present value of the defined benefit obligation as of December 31	7,472	7,430	6,815	7,078	8,034
Fair value of plan assets as of December 31	3,551	3,161	2,910	3,058	3,138
<b>Funded status as of December 31</b>	<b>3,921</b>	<b>4,269</b>	<b>3,905</b>	<b>4,020</b>	<b>4,896</b>
Experience adjustments to the defined benefit obligation	37	-37	-21	-39	-47
Experience adjustments to plan assets	-15	116	-152	-129	-14

The funded status, which is defined as the difference between the present value of the defined benefit obligation and the fair value of the plan assets, is reconciled with the pension provisions shown in the balance sheet as follows:

in € million	Dec. 31, 2010	Dec. 31, 2009
Present value of the defined benefit obligation	7,472	7,430
Fair value of plan assets	3,551	3,161
<b>Funded status</b>	<b>3,921</b>	<b>4,269</b>
Unrecognized past service cost	2	-1
Unrecognized actuarial loss	-721	-481
Other changes (including asset ceiling and IFRIC 14)	77	192
<b>Pension provisions recognized on the balance sheet</b>	<b>3,279</b>	<b>3,979</b>

In 2010, pension provisions of €555 million were reclassified to liabilities associated with assets held for sale in connection with the divestment of the Energy Business Area, see Note (5.2).

As of the reporting date, €494 million (2009: €4,169 million) of the present value of all defined benefit obligations was unfunded and €6,889 million (2009: €3,185 million) was fully or partially funded. The introduction of the contractual trust arrangement in Germany in 2010 resulted in transfer of the related obligations from unfunded to fully or partially funded obligations. In addition, there were health-care obligations totaling €89 million (2009: €76 million). For an explanation of the impact of changes in the cost trends in the health-care sector, see Note (4).



The fair value of plan assets totaling €3,551 million on the reporting date (2009: €3,161 million) was split as follows: 9.9 percent (2009: 12.8 percent) in shares, 79.7 percent (2009: 81.1 percent) in debt instruments, 0.5 percent (2009: 0.4 percent) in real estate and 9.9 percent (2009: 5.7 percent) in other assets. Shares amounting to €93 million (2009: €119 million) were hedged. On the reporting date, €28 million (2009: €23 million) was invested in real estate used by the company.

The pension provisions include concessionary coal and power allowances in Germany and the entitlements of retirees of US companies to receive health-care benefits.

The actuarial loss was €721 million (2009: €481 million) and thus outside the permitted corridor in some cases. The corridor and amortization are calculated separately for each plan recognized.

The total expense for the defined benefit obligation is broken down as follows:

in € million	2010	2009
Current service cost	93	85
Interest cost	374	375
Expected return on plan assets	-167	-157
Amortization of actuarial gains and losses	199	95
Amortization of past service cost	9	-
Effect of asset ceiling	-115	-73
<b>Net pension expense</b>	<b>393</b>	<b>325</b>

Preventive health-care benefits accounted for €5 million of the total expense in the previous year.

Interest cost and the expected return on plan assets are included in net interest expense, see Note (6.4), while the other amounts are allocated to the functional areas as personnel expense (pension expenses). A breakdown of overall personnel expense is given in Note (11.2).

A total of €12 million (2009: €10 million) was paid into foreign defined-contribution plans, which are also included in personnel expense (pension expenses).

Further, €140 million (2009: €130 million) was paid into defined-contribution state plans (statutory pension insurance). This is reported in personnel expense (expenses for social security contributions).

### (7.11) Other provisions

in € million	Dec. 31, 2010		Dec. 31, 2009	
	Total	thereof non-current	Total	thereof non-current
Personnel-related	1,092	563	895	481
Recultivation and environmental protection	248	218	238	203
Restructuring	331	33	189	115
Sales and procurement	152	12	145	9
Other taxes and interest on taxes	45	22	76	36
Dismantling obligations	4	3	71	69
Other obligations	551	105	538	178
	<b>2,423</b>	<b>956</b>	<b>2,152</b>	<b>1,091</b>

In 2010, other provisions of €335 million were reclassified to liabilities associated with assets held for sale in connection with the divestment of the Energy Business Area, see Note (5.2).

Personnel-related provisions are established for a number of different reasons and include provisions for bonuses and other variable remuneration, statutory and other early retirement arrangements, unused vacation entitlements, lifetime working arrangements and anniversary bonuses. The vast majority of these provisions will be due for payment within five years.

Provisions are established for recultivation and environmental protection on the basis of laws, contracts and regulatory requirements. They cover soil reclamation obligations, water protection, the recultivation of landfills and site decontamination obligations. Only a small proportion of these provisions will result in payments in the short term; the majority will result in longer term payments in the period up to 2015.

Provisions for restructuring are based on defined restructuring measures. Such measures comprise programs which 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. In 2010 provisions of €251 million were established in connection with the planned divestment of the Energy Business Area in 2011. Almost all of the provisions will be utilized within five years.

The provisions for sales and procurement relate principally to guarantee obligations, outstanding commission payments, price discounts and rebates, impending losses and goods and services procured for which no invoice has yet been received. Almost all of these provisions will be utilized within one year.

Provisions for other taxes and interest on taxes mainly comprise property tax, value-added tax and interest obligations relating to all types of taxes. About half of these provisions will be utilized in the short term and the other half will be utilized in the period 2012 to 2015.

Provisions for dismantling obligations relate to dismantling that is not part of a restructuring program. Most of these provisions are long-term and will be utilized in the period up to 2015.

Provisions for other obligations include risks relating to legal disputes, administrative proceedings or fines, especially in the areas of product liability, patent, tax, cartel and environmental law, legal and consultancy expenses and audit expenses. Similarly, guarantee claims against the company may result from divestments. Adequate provisions have been established in case such risks should materialize. Most of them will give rise to payments within one year.

Other provisions changed as follows in fiscal 2010:

in € million	Person- nel- related	Reclamation, environ- mental protection	Restruc- turing	Sales, procurement	Other taxes, interest on taxes	Dismantling obligations	Other obligations	Total
<b>As of Jan. 1, 2010</b>	<b>895</b>	<b>238</b>	<b>189</b>	<b>145</b>	<b>76</b>	<b>71</b>	<b>538</b>	<b>2,152</b>
Additions	621	46	256	120	14	6	250	1,313
Utilization	-390	-20	-44	-68	-34	-1	-92	-649
Reversal	-20	-15	-10	-36	-8	-6	-51	-146
Addition of accrued interest/interest rate adjustments	37	3	4	1	-	4	-	49
Reclassification pursuant to IFRS 5	-95	-18	-25	-39	-6	-70	-82	-335
Other	44	14	-39	29	3	-	-12	39
<b>As of Dec. 31, 2010</b>	<b>1,092</b>	<b>248</b>	<b>331</b>	<b>152</b>	<b>45</b>	<b>4</b>	<b>551</b>	<b>2,423</b>

## (7.12) Financial liabilities

in € million	Dec. 31, 2010		Dec. 31, 2009	
	Total	thereof non-current	Total	thereof non-current
Bonds	2,030	2,030	2,040	2,040
Liabilities to banks	999	789	2,047	1,762
Loans from non-banks	58	42	71	53
Liabilities from finance leases	9	6	114	93
Liabilities from derivatives	49	2	102	54
Other financial liabilities	77	46	121	38
	<b>3,222</b>	<b>2,915</b>	<b>4,495</b>	<b>4,040</b>

In 2010, financial liabilities of €1,314 million were reclassified to liabilities associated with assets held for sale in connection with the divestment of the Energy Business Area, see Note (5.2).

### (a) Bonds

The amount stated under bonds includes a bond issued by Evonik Industries AG with a nominal value of €750 million. This matures in 2014 and has an annual coupon of 7.000 percent. It is recognized at the issue price of 99.489 percent and the discount is credited over the maturity of the bond using the effective interest rate method.

This item also includes a corporate bond issued by Evonik Degussa GmbH with a nominal value of €1,250 million. This bond matures in 2013 and has an annual coupon of 5.125 percent. It is recognized at the issue price of 98.99 percent and the discount is credited over the maturity of the bond using the effective interest rate method.

The accrual of €15 million (2009: €16 million) for payment of the coupon on these bonds is reflected in current loans from non-banks.

Fixed-interest bonds are exposed to a risk of price fluctuations while variable-rate liabilities are exposed to a risk of changes in interest rates. These risks may affect their fair value or future cash flows. The stock market price of the bond issued by Evonik Industries AG was 111.0 percent on the reporting date, valuing it at €833 million (2009: €809 million). The stock market price of the bond issued by Evonik Degussa GmbH was 105.4 percent on the reporting date, valuing it at €1,318 million (2009: €1,288 million).

**(b) Liabilities to banks, loans from non-banks**

The liabilities to banks include low-interest loans from public-sector banks to finance subsidized residential properties. These are reported at fair value. The difference between the fair value and the amount disbursed is shown as deferred income, see Note (7.13).

Further, in 2009 Evonik Industries AG issued a promissory note, with a nominal value of around €184 million. This matures in 2013 and is recognized mainly in liabilities to banks.

**(c) Liabilities from finance leases**

Liabilities from finance leases are recognized if the leased assets are capitalized under property, plant and equipment as economic assets belonging to the Group. The reconciliation from the future minimum lease payments to their present values and their due dates is as follows:

in € million	Dec. 31, 2010	Dec. 31, 2009
<b>Future minimum lease payments</b>	<b>9</b>	<b>167</b>
due within 1 year	2	30
due in more than 1 and up to 5 years	6	78
due in more than 5 years	1	59
Interest included therein	–	–53
<b>Present value of future minimum lease payments (liabilities from finance leases)</b>	<b>9</b>	<b>114</b>
due within 1 year	2	21
due in more than 1 and up to 5 years	6	52
due in more than 5 years	1	41

**(d) Liabilities from derivatives**

The breakdown of liabilities from derivatives is as follows:

in € million	Dec. 31, 2010	Dec. 31, 2009
Liabilities from currency derivatives	43	30
Liabilities from interest derivatives	–	33
Liabilities from commodity derivatives	6	39
	<b>49</b>	<b>102</b>



**(7.13) Trade accounts payable and other payables**

in € million	Dec. 31, 2010		Dec. 31, 2009	
	Total	thereof non-current	Total	thereof non-current
Trade accounts payable	1,088	–	1,365	–
Advance payments received	35	–	109	3
Miscellaneous other payables	259	65	244	33
Deferred income	384	340	411	359
	<b>1,766</b>	<b>405</b>	<b>2,129</b>	<b>395</b>

In 2010 trade accounts payable totaling €507 million and other payables totaling €141 million were reclassified to liabilities associated with assets held for sale in connection with the divestment of the Energy Business Area, see Note (5.2).

The Real Estate Business Area offset €86 million (2009: €79 million) in utility charges and heating costs that can be allocated to tenants against prepayments from tenants for these costs.

Deferred income includes accrued government grants amounting €246 million (2009: €257 million) which represents the benefit arising from low-interest loans from public-sector banks to finance subsidized residential properties, see Note (7.12). The deferred income is released over the term of the loans in the same amount as the interest on the loans. The amount is recognized in sales if the low-interest loan was granted as compensation for rental revenues foregone as a result of rent caps. If the interest benefit was granted in connection with an investment, the amount released from deferred income over the period in which the benefit is granted is recognized in other operating income.

**(7.14) Deferred taxes and other income taxes**

The breakdown of deferred taxes and current income taxes reported on the balance sheet by due date is shown in the table:

in € million	Dec. 31, 2010		Dec. 31, 2009	
	Total	thereof non-current	Total	thereof non-current
Deferred tax assets	518	289	392	268
Other income tax assets	70	23	199	40
Deferred tax liabilities	–502	–457	–626	–581
Other income tax liabilities	–415	–70	–312	–61

In 2010 deferred tax assets and other income tax assets totaling €121 million were reclassified to assets held for sale, while deferred tax liabilities and other income tax liabilities amounting to €115 million were reclassified to liabilities associated with assets held for sale. These relate to the divestment of the Energy Business Area, see Note (5.2).

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 relate to the following balance sheet items:

in € million	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
<b>Assets</b>				
Intangible assets	14	8	190	234
Property, plant and equipment, investment property	57	321	492	629
Financial assets	68	19	61	285
Inventories	66	135	13	28
Receivables and other assets	85	10	15	29
<b>Liabilities</b>				
Provisions	447	435	54	54
Payables	91	145	159	105
Special tax allowance reserves (based on local law)	–	–	15	43
Loss carryforwards	270	196	–	–
Tax credits	–	2	–	–
Other	7	16	3	15
<b>Deferred taxes (gross)</b>	<b>1,105</b>	<b>1,287</b>	<b>1,002</b>	<b>1,422</b>
Write-downs	–87	–99	–	–
Netting	–500	–796	–500	–796
<b>Deferred taxes (net)</b>	<b>518</b>	<b>392</b>	<b>502</b>	<b>626</b>

No deferred tax assets were recognized on temporary differences of €1,119 million (2009: €912 million) because it is not probable that future taxable income will enable them to be realized. €37 million of this (2009: €29 million) relates to the interest ceiling pursuant to Section 8 a of the German Corporate Income Tax Act (KStG) in conjunction with Section 4 h of the German Income Tax Act (EStG). Deferred tax assets of €11 million (2009: €17 million) were recognized for companies that made a loss as sufficient taxable income is expected in the future to enable them to be realized.

In addition to tax loss carryforwards for which deferred taxes were recognized, there are tax loss carryforwards that are not utilizable and for which no deferred taxes are recognized. These are shown in the table, together with their expiration dates:

in € million	Corporation taxes (German and foreign)		Local taxes (German and foreign)		Tax credits (foreign)	
	2010	2009	2010	2009	2010	2009
<b>Tax loss carryforwards by expiration date</b>						
up to 1 year	6	7	1	2	–	–
more than 1 and up to 5 years	128	79	3	1	–	–
more than 5 and up to 10 years	–	–	–	–	–	–
unlimited	241	531	213	1,333	152	155
	<b>375</b>	<b>617</b>	<b>217</b>	<b>1,336</b>	<b>152</b>	<b>155</b>



## (8) Notes to the cash flow statement

The cash flow statement shows the changes in cash and cash equivalents of the Group in the reporting period. It is broken down into cash flows from operating, investing and financing activities and reflects cash flows from continuing and discontinued operations. The impact of changes in the scope of consolidation has been eliminated.

Interest paid and interest and dividends received are included in operating activities while dividends paid are assigned to financing activities.

### (8.1) Cash flow from operating activities

The cash flow from operating activities is calculated using the indirect method. Income before the financial result and income taxes from the continuing operations is adjusted for the effects on 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. The net cash flow generated by the discontinued operations with external counterparties is shown as an aggregate.

### (8.2) Cash flow from investing activities

The cash inflows from divestments and outflows from investments in shareholdings include the following:

The total purchase price for shares in subsidiaries consolidated for the first time was €26 million in 2010 (2009: negligible). In 2010, as in 2009, the entire purchase price for such transactions resulted in cash outflows. The cash and cash equivalents acquired in 2010 amounted to €6 million (2009: negligible).

No subsidiaries were divested in 2010. The total selling prices of subsidiaries divested in 2009 was €73 million, all of which was settled in cash and cash equivalents. Divestments included outflows of cash and cash equivalents totaling €15 million.

Cash inflows from divestments in 2010 included €52 million (2009: €42 million) relating to divestments made in previous years.

### (8.3) Cash and cash equivalents

The cash and cash equivalents of €1,351 million (2009: €885 million) comprise the liquid assets of the continuing operations as well as liquid assets relating to assets held for sale. Since the cash and cash equivalents assigned to the assets held for sale have to be reclassified in the balance sheet in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, see Note (5.2), a reconciliation is provided from the cash and cash equivalents shown in the cash flow statement to the balance sheet, see Note (7.8).

## (9) Notes on the segment report

### (9.1) Reporting based on operating segments

The reporting based on operating segments reflects the Group's internal organizational and reporting structure (management approach). The three business areas—Chemicals, Energy and Real Estate—are classified as reportable segments in compliance with IFRS 8 Operating Segments. The operating activities are bundled in business units within these business areas. To reflect the transition to a specialty chemicals group, the Energy Business Area, which is classified as held for sale, see Note (5.2), is presented separately from the Group's continuing operations in the segment report.

The Executive Board of Evonik Industries AG made a number of small adjustments to the organizational structure in 2010. These resulted in the transfer of some activities from other operations to the Chemicals and Real Estate Business Areas. The prior-year figures have been restated accordingly.

The Group's business areas are outlined below:

#### (a) Chemicals

This business area bundles Evonik's global chemicals activities, which are now focused entirely on specialty chemicals following extensive acquisitions and divestments in recent years.

The portfolio now comprises products that Evonik supplies to customers in the agrochemicals, chemicals, plastics and paper industries for high-quality end-applications. The company also has extensive competencies in the design of inorganic particles and their surface properties, and integrated silicon complexes for the production of a unique range of chlorosilanes and organosilanes. The consumer goods industry uses custom-tailored substances and systems solutions from Evonik in products for personal care, hygiene and cleaning. Evonik produces essential amino acids for animal nutrition, active ingredients for the pharmaceuticals industry, and catalysts, which are required to meet high quality and registration standards. For this, it uses its long-standing experience of organic synthesis, catalysis and biotechnology. Functional polymers and high-quality monomers for the paints and coatings industry, adhesives and sealants are other key aspects of Evonik's specialty chemicals business. The business area's portfolio is rounded out by a broad spectrum of high-performance materials at the heart of which are methylmethacrylate chemistry, integrated production facilities for polyamide 12 and other specialized materials.

Close collaboration with industrial customers—often through long-term development alliances—is another of Evonik's strengths. Many of the chemical specialties developed, produced and commercialized by the Chemicals Business Area are tailored to customers' individual needs through additional application technology services.

Pronounced innovative strength is a key success factor in the field of specialty chemicals. Evonik provides substantial funding for its efficient, market-oriented research and thus lastingly strengthens the development of new products, processes and applications.

#### (b) Energy

Evonik's power and heat generation business and related services for power stations are grouped in the Energy Business Area. Its core competencies include planning, financing, building and operating highly efficient fossil-fueled power plants.

As a grid-independent power generator, Evonik operates coal-fired power plants at eight locations in Germany, refinery power plants at two locations and a variety of facilities to generate energy from renewable resources. The business area's international operations comprise coal-fired power stations in Colombia, Turkey and the Philippines. In each of these countries it works closely with local partners. Total installed power is around 9,400 Megawatts (MW) worldwide, including around 7,700 MW in Germany. The main agreements with key customers are based on long-term supply and offtake contracts.

Evonik is well-positioned in the high-growth future market for renewable energies and is one of the German market leaders in the generation of electricity and heat from mine gas, biomass and geothermal energy. Its globally aligned engineering services also deepen its country-specific insight into the energy market, enabling it to develop new business ideas for power plant projects.



### (c) Real Estate

The Real Estate Business Area manages a portfolio of around 60,000 company-owned residential units concentrated in the federal state of North Rhine-Westphalia (NRW) in Germany. It also has a 50 percent stake in THS, Essen (Germany), which owns around 70,000 residential units. These are also located predominantly in the federal state of NRW. Evonik is thus one of Germany's leading privately owned residential real estate companies. Business focuses on letting homes to private households.

In addition, active portfolio management involving the selective sale and purchase of residential units is used. The business model is rounded out by property development activities on company-owned land to upgrade the portfolio.

The business area's regional focus is the key to above-average market insight and brings advantages in the management of the housing stock.

### (d) Corporate, other operations, consolidation

The Corporate Center, which supports the Executive Board of Evonik Industries AG in the management of the Group, the Shared Service Center, which provides services for the Group and a small amount of services for third parties, and operations that are not assigned to any of the reportable segments, are reflected here, together with intersegment consolidation effects.

## (9.2) Reporting based on regions

The regional breakdown of the segments is based on geographical criteria, which are outlined in more detail in Note (9.3).

## (9.3) Notes to the segment data

The segment data are derived from the consolidated data for the subsidiaries and the consolidation effects that arise at Group level, and are allocated to the segments. These relate primarily to goodwill, hidden reserves and charges and the resultant impact on earnings. The segment data are explained below.

External sales reflect the segments' sales with parties outside the Group. Sales generated between the reportable segments are internal sales.

The following table shows a reconciliation from the sales of all reporting segments to Group sales.

in € million	2010	2009
<b>Sales, reportable segments</b>	<b>16,159</b>	<b>13,080</b>
less sales, discontinued reportable segments	-2,809	-2,615
<b>Sales, continuing reportable segments</b>	<b>13,350</b>	<b>10,465</b>
Sales, other operations	313	463
Consolidation	-363	-410
<b>Sales, corporate, other operations, consolidation</b>	<b>-50</b>	<b>53</b>
<b>Group sales</b>	<b>13,300</b>	<b>10,518</b>

The total sales reported for the other operations mainly relate to services provided by the Shared Service Center for the business units and the Corporate Center.

External sales by region are divided by point of sale. They comprise:

in € million	2010	2009
Germany	3,445	2,988
USA	2,167	1,587
China	736	609
Netherlands	513	442
France	463	375
Switzerland	456	341
Japan	395	306
Italy	380	326
Other countries	4,745	3,544
<b>External sales of the Group</b>	<b>13,300</b>	<b>10,518</b>

At the beginning of 2010, the Executive Board of Evonik Industries AG introduced EVA® (economic value added) as the key financial indicator for internal management purposes. EVA® shows the value created with capital employed after covering the cost of capital. Since EBIT (before non-operating result) is the operating earnings parameter used to calculate EVA®, it is the central earnings indicator used for internal management purposes. The operating income, which was previously the reportable earnings indicator pursuant to IFRS 8 Operating Segments, and the earnings components it contains, are thus no longer included in the segment report.

The other internal management indicator used to measure operational performance, EBITDA (before non-operating result), is reported to the Executive Board of Evonik Industries AG.

EBIT (before non-operating result) is the main earnings parameter that can be influenced by the segment management. It comprises earnings before interest, taxes and the non-operating result (subsequently referred to as EBIT).

To calculate EBITDA (before non-operating result), EBIT is adjusted for depreciation and amortization, impairment losses and reversals of impairment losses which are not included in the non-operating result. This is subsequently referred to as EBITDA. The EBITDA margin is the ratio of EBITDA to external sales.

Depreciation and amortization relate to the depletion in the value of intangible assets, property, plant and equipment and investment property over their estimated useful life.

The result from investments recognized at equity corresponds to the result for these investments as reported in the income statement; see Note (6.5).

The following table shows the relationship between the internal management parameters EBITDA and EBIT and the external earnings parameter income before income taxes from the continuing operations.

in € million	2010	2009
<b>EBITDA</b>	<b>2,365</b>	<b>1,607</b>
Depreciation, amortization, impairment losses/reversal of impairment losses	-809	-820
Impairment losses/reversal of impairment losses (non-operating result)	83	81
<b>EBIT</b>	<b>1,639</b>	<b>868</b>
Non-operating result	-236	-282
Net interest expense	-428	-397
<b>Income before income taxes, continuing operations</b>	<b>975</b>	<b>189</b>





The non-operating result reflects business transactions that are defined for purposes of internal management as occurring once or rarely and are significant for an assessment of the company's earnings position. In fiscal 2010 the non-operating loss amounted to €236 million compared with a non-operating loss of €282 million in 2009. In 2010, non-operating income came to €43 million (2009: €35 million) and non-operating expenses were €279 million (2009: €317 million).

In 2010 the non-operating income principally resulted from reversals of impairment losses on assets, reversals of provisions, and realization in income of negative goodwill relating to a business combination. The main non-operating expenses were expenses for pensions in the UK, impairment losses on assets, the On Track efficiency enhancement program, and restructuring.

The reconciliation from the EBIT of all reportable segments to income before income taxes from the continuing operations is as follows:

in € million	2010	2009
<b>EBIT, reportable segments</b>	<b>2,277</b>	<b>1,392</b>
less EBIT, discontinued reportable segments	-435	-326
<b>EBIT, continuing reportable segments</b>	<b>1,842</b>	<b>1,066</b>
EBIT, other operations	-1	14
EBIT, Corporate Center and corporate activities	-204	-209
Consolidation	2	-3
<b>EBIT, corporate, other operations, consolidation</b>	<b>-203</b>	<b>-198</b>
<b>Group EBIT</b>	<b>1,639</b>	<b>868</b>
Non-operating result	-236	-282
Net interest expense	-428	-397
<b>Income before income taxes, continuing operations</b>	<b>975</b>	<b>189</b>

The Executive Board of Evonik Industries AG adjusted the definition of capital employed in fiscal 2010. It comprises the net assets required by the reportable segments for their operations. Capital employed is calculated by determining the total of intangible assets, property, plant and equipment, investment property, investments, inventories, trade accounts receivable, financial assets required for operations, certain amounts relating to assets held for sale and other non-interest-bearing current assets. The sum of interest-free provisions, trade accounts payable, and other interest-free liabilities is then deducted from this.

Other income taxes, deferred taxes and intergroup receivables and payables are no longer included. The prior-year figures have been restated accordingly.

Another major internal management parameter used by the Group is the return on capital employed (ROCE). ROCE is calculated from the ratio of EBIT to capital employed. To smooth the closing date effect, the calculation uses average capital employed.

Capital expenditures comprise additions to intangible assets (excluding goodwill from capital consolidation), property, plant and equipment and investment property. 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 security-type 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). Financial investments by region are based on the location of the subsidiaries.

Other material income and expense items that do not impact cash flows mainly comprise impairment losses, reversals of impairment losses, additions to and reversals of provisions and the reversal of deferred income and expenses.

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 and other intangible assets, property, plant and equipment and investment property are segmented by the location of the subsidiaries. Together, these assets comprise the non-current assets in accordance with IFRS 8 Operating Segments (c.f. IFRS 8.33 b). The following table provides a breakdown of the Group's non-current assets by country:

in € million	Dec. 31, 2010	Dec. 31, 2009
Germany	6,174	6,355
USA	816	757
China	543	535
Belgium	506	514
Other countries	1,430	1,156
<b>Non-current assets</b>	<b>9,469</b>	<b>9,317</b>

## (10) Other disclosures

### (10.1) Performance-related remuneration

Evonik's remuneration system comprises a basic salary, short-term incentives and long-term components, the Long-Term Incentive Plan for executives of the Evonik Group (Evonik LTI Plan) and a Long-Term Incentive Plan for executives of the former Evonik Degussa Group (Evonik Degussa LTI Plan). The value of these LTI Plans is not linked to the development of shares in the company. Instead it is calculated on the basis of defined business indicators. Both LTI Plans are long-term compensation plans and are therefore accounted for in accordance with IAS 19 Employee Benefits and recognized in other provisions.

#### (a) Evonik LTI Plan

Evonik Industries AG granted the Evonik LTI Plan to executives nominated by the Executive Board for the first time in 2008. This LTI Plan comprises a three-year performance period, starting on May 1 of the year in which it is granted. The intrinsic value of the plan depends on how the fictitious equity value of Evonik derived from EBITDA develops over the performance period. From 2010 attainment of the mid-term EVA® budget was added as an additional target.

The reference base for calculating the increase in value is the fictitious equity value as of December 31 of the year prior to its granting. The actual increase compared with this reference base will be compared with the mid-term plan approved by the Supervisory Board of Evonik Industries AG in the year in which the plan is granted. Assuming that the fictitious equity value after three years is above the reference value set in the mid-term planning, a cash payment is made under the LTI Plan. The level of this payment is based on an individual target and the relationship between the actual and planned target attainment.

As of the reporting date, a provision of €24 million (2009: €1 million) had been established for the Evonik LTI Plans.

in € million	Dec. 31, 2010	Dec. 31, 2009
LTI Plan 2008	11	–
LTI Plan 2009	7	1
LTI Plan 2010	6	–
	<b>24</b>	<b>1</b>

#### (b) Evonik Degussa LTI Plan

Under the Evonik Degussa LTI Plan, performance options were granted to the members of the Board of Management of Evonik Degussa GmbH and around 190 executives at the former Evonik Degussa Group for 2003 through 2006. The indicators for this LTI Plan were the ROCE and EBITDA of Evonik Degussa. Since consolidated financial statements for Evonik Degussa were last prepared for fiscal 2007, these indicators are now determined by approximation.

A five-year period was defined as the term of each tranche of the LTI Plan from 2003 through 2006. This five-year period is divided into an initial lock-up period of two years, during which the performance options may not be exercised, followed by a three-year exercise period with four exercise windows. The LTI Plans for 2003 through 2005 have now expired.

The table shows the development of the performance options allocated under the Evonik Degussa LTI Plans:

Number of performance options	LTI Plan 2006	LTI Plan 2005
<b>As of January 1, 2010</b>	<b>101,147</b>	<b>720,551</b>
Granted	–	–
Exercised	–238	–412,887
Lapsed	–5,222	–307,664
<b>As of December 31, 2010</b>	<b>95,687</b>	<b>–</b>

Exercise of the performance options is contingent upon achievement of a specific ROCE target for Evonik Degussa. If ROCE exceeds this hurdle, the number of options that can be exercised rises in line with ROCE. The formula used to calculate this is based on the weighted average cost of capital (WACC) of Evonik Degussa and was defined separately for each tranche of the LTI Plan.

EBITDA is used to calculate the value of the options eligible for exercise. The performance options only have an intrinsic value if the increase in EBITDA at Evonik Degussa is at least in line with the average EBITDA performance of the defined peer group companies. If EBITDA exceeds this level, the value of the options rises in line with the amount by which Evonik Degussa outperforms the peer group.

Provisions for the LTI Plan totaled €7 million on the reporting date (2009: €15 million). The last exercise window for the 2005 LTI Plan resulted in substantial exercise of rights amounting to €17 million. As in the previous year, the 2006 LTI Plan could only result in marginal exercise as extensive exercise of rights by eligible participants was recorded in the past.

## (10.2) Additional information on financial instruments

### Net result from financial instruments

The income and expenses, gains and losses from financial instruments reflected in the income statement are reported as the net result for each of the valuation categories defined in IAS 39 Financial Instruments: Recognition and Measurement.

in € million	Net result by valuation category					2010
	Available-for-sale assets	Loans and receivables	Assets held for trading	Liabilities held for trading	Liabilities at amortized cost	
Proceeds from disposals	-1	-	-	-	-	-1
Income from the measurement of derivatives	-	-	374	-451	-	-77
Impairment losses/reversals of impairment losses	-4	-15	-	-	-	-19
Net interest expense	-2	-7	-	-	-171	-180
Income from other investments	5	-	-	-	-	5
	<b>-2</b>	<b>-22</b>	<b>374</b>	<b>-451</b>	<b>-171</b>	<b>-272</b>

in € million	Net result by valuation category					2009
	Available-for-sale assets	Loans and receivables	Assets held for trading	Liabilities held for trading	Liabilities at amortized cost	
Proceeds from disposals	-	-2	-	-	-	-2
Income from the measurement of derivatives	-	-	346	-307	-	39
Impairment losses/reversals of impairment losses	-1	-33	-	-	-	-34
Net interest expense	-	-7	-	-	-139	-146
Income from other investments	3	-	-	-	-	3
	<b>2</b>	<b>-42</b>	<b>346</b>	<b>-307</b>	<b>-139</b>	<b>-140</b>

Income from the measurement of derivatives does not include income from derivative financial instruments for which hedge accounting is applied.

Interest income of €9 million (2009: €7 million) relates to financial instruments not allocated to the category held for trading, while interest expense, including interest expense for finance leases, was €171 million (2009: €140 million). Further, net interest expense does not include any interest income on the impaired portion of financial assets or trade accounts receivable.

### Carrying amounts and fair values of financial instruments

Financial instruments that fall within the scope of IFRS 7 Financial Instruments: Disclosures are to be disclosed by classes that take into account the characteristics of the financial instruments. At Evonik, the classification is based on the presentation on the balance sheet. The carrying amounts of each class are presented on the basis of the valuation categories defined in IAS 39 Financial Instruments: Recognition and Measurement are reconciled to the carrying amounts of the balance sheet items. Financial instruments not assigned to a valuation category are presented separately. Further, the fair value of each class as of the balance sheet date is disclosed.

The following tables provide a reconciliation of the financial assets:

in € million	Carrying amount by valuation category				Dec. 31, 2010	
	Available- for-sale assets	Loans and receivables	Assets held for trading	Not allocated to any category	Carrying amount	Fair value
<b>Financial assets</b>	<b>475</b>	<b>51</b>	<b>39</b>	<b>27</b>	<b>592</b>	<b>592</b>
Other investments	45	–	–	–	45	45
Loans	–	41	–	–	41	41
Securities and similar claims	430	–	–	–	430	430
Receivables from finance leases	–	–	–	–	–	–
Receivables from derivatives	–	–	39	27	66	66
Other financial assets	–	10	–	–	10	10
<b>Trade accounts receivable</b>	<b>–</b>	<b>1,826</b>	<b>–</b>	<b>–</b>	<b>1,826</b>	<b>1,826</b>
<b>Cash and cash equivalents</b>	<b>–</b>	<b>1,103</b>	<b>–</b>	<b>–</b>	<b>1,103</b>	<b>1,103</b>
	<b>475</b>	<b>2,980</b>	<b>39</b>	<b>27</b>	<b>3,521</b>	<b>3,521</b>

in € million	Carrying amount by valuation category				Dec. 31, 2009	
	Available- for-sale assets	Loans and receivables	Assets held for trading	Not allocated to any category	Carrying amount	Fair value
<b>Financial assets</b>	<b>183</b>	<b>106</b>	<b>52</b>	<b>1,099</b>	<b>1,440</b>	<b>1,910</b>
Other investments	117	–	–	–	117	117
Loans	–	97	–	–	97	97
Securities and similar claims	66	–	–	–	66	66
Receivables from finance leases	–	–	–	1,004	1,004	1,474
Receivables from derivatives	–	–	52	76	128	128
Other financial assets	–	9	–	19	28	28
<b>Trade accounts receivable</b>	<b>–</b>	<b>2,148</b>	<b>–</b>	<b>–</b>	<b>2,148</b>	<b>2,148</b>
<b>Cash and cash equivalents</b>	<b>–</b>	<b>885</b>	<b>–</b>	<b>–</b>	<b>885</b>	<b>885</b>
	<b>183</b>	<b>3,139</b>	<b>52</b>	<b>1,099</b>	<b>4,473</b>	<b>4,943</b>



The following tables provide a reconciliation of the financial liabilities:

in € million	Carrying amount by valuation category			Dec. 31, 2010	
	Liabilities held for trading	Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
<b>Financial liabilities</b>	<b>33</b>	<b>3,164</b>	<b>25</b>	<b>3,222</b>	<b>3,520</b>
Bonds	–	2,030	–	2,030	2,151
Liabilities to banks	–	999	–	999	1,171
Loans from non-banks	–	58	–	58	63
Liabilities from finance leases	–	–	9	9	9
Liabilities from derivatives	33	–	16	49	49
Other financial liabilities	–	77	–	77	77
<b>Trade accounts payable</b>	<b>–</b>	<b>1,088</b>	<b>–</b>	<b>1,088</b>	<b>1,088</b>
	<b>33</b>	<b>4,252</b>	<b>25</b>	<b>4,310</b>	<b>4,608</b>

in € million	Carrying amount by valuation category			Dec. 31, 2009	
	Liabilities held for trading	Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
<b>Financial liabilities</b>	<b>30</b>	<b>4,248</b>	<b>217</b>	<b>4,495</b>	<b>4,740</b>
Bonds	–	2,040	–	2,040	2,097
Liabilities to banks	–	2,047	–	2,047	2,199
Loans from non-banks	–	71	–	71	73
Liabilities from finance leases	–	–	114	114	148
Liabilities from derivatives	30	–	72	102	102
Other financial liabilities	–	90	31	121	121
<b>Trade accounts payable</b>	<b>–</b>	<b>1,365</b>	<b>–</b>	<b>1,365</b>	<b>1,365</b>
	<b>30</b>	<b>5,613</b>	<b>217</b>	<b>5,860</b>	<b>6,105</b>

That part of derivative financial instruments, of the bond issued by Evonik Degussa GmbH and of other financial assets and liabilities for which hedge accounting is applied is not allocated to any of the categories defined in IAS 39 Financial Instruments: Recognition and Measurement.

The fair value determination of those financial instruments that are carried on the balance sheet at fair value is based on a three-level hierarchy:

- Level 1: Quoted price in an active market
- Level 2: Quoted price in an active market for similar financial instruments or valuation methods based on observable market data
- Level 3: Valuation methods not based on observable market data

The table shows the allocation of financial instruments measured at fair value to the three levels of the hierarchy:

in € million	Fair value based on			Dec. 31, 2010
	Level 1	Level 2	Level 3	
<b>Financial assets</b>	<b>430</b>	<b>66</b>	<b>–</b>	<b>496</b>
Securities and similar claims	430	–	–	430
Receivables from derivatives	–	66	–	66
<b>Financial liabilities</b>	<b>–</b>	<b>–49</b>	<b>–</b>	<b>–49</b>
Liabilities from derivatives	–	–49	–	–49

in € million	Fair value based on			Dec. 31, 2009
	Level 1	Level 2	Level 3	
<b>Financial assets</b>	<b>66</b>	<b>128</b>	<b>–</b>	<b>194</b>
Securities and similar claims	66	–	–	66
Receivables from derivatives	–	128	–	128
<b>Financial liabilities</b>	<b>–</b>	<b>–102</b>	<b>–</b>	<b>–102</b>
Liabilities from derivatives	–	–102	–	–102

Fair value measurement of financial instruments that are not included in the balance sheet at fair value is based on the following method:

Non-current receivables are valued using a variety of parameters. Impairment losses are recognized for any expected defaults on receivables. Accordingly, the net carrying amount of these receivables basically corresponds to their fair value. The assumption used to calculate the fair value of loans, receivables from finance leases, liabilities to banks, loans from non-banks and liabilities from finance leases is a risk-free interest rate. The fair value of the bond is its stock market price on the reporting date. In all other cases the fair value of the financial instruments recognized on the balance sheet is their carrying amount on the reporting date.

#### Notional value of derivatives

The notional value of currency derivatives is the hedged foreign exchange amount converted into euros. The notional value of interest derivatives is the sum of the hedged items during their term to maturity while the notional value of commodity derivatives is the hedged procurement cost translated into euros. The notional value of embedded derivatives corresponds to one of the above definitions of notional value, depending on the type of derivative.

Notional value of derivative financial instruments:

in € million	Dec. 31, 2010			Dec. 31, 2009		
	Total	thereof current	thereof non-current	Total	thereof current	thereof non-current
Currency derivatives	3,785	3,702	83	3,931	3,746	185
Interest derivatives	–	–	–	989	–	989
Commodity derivatives	33	24	9	522	299	223
	<b>3,818</b>	<b>3,726</b>	<b>92</b>	<b>5,442</b>	<b>4,045</b>	<b>1,397</b>

Where the criteria for hedge accounting are fulfilled, currency, interest and commodity derivatives are accounted for as fair value hedges, cash flow hedges or hedges of a net investment.

### Hedge accounting

For the following major hedging transactions hedge accounting was applied in fiscal 2010:

#### (a) Fair value hedges

Until August 2009, the €1,250 million bond issued by Evonik Degussa GmbH in November 2003 was hedged by receiver swaps with a notional value of €750 million and an expiration date of 2013. When the hedge was closed out, the accumulated income from the effective portion of the hedge amounted to €60 million and was recognized on the balance sheet in the hedged item. This will be released to net interest expense over the remaining maturity of the bond using the effective interest method. €13 million of this amount was released in 2010 (2009: €5 million).

#### (b) Cash flow hedges

In the Chemicals Business Area, forward exchange contracts are used to hedge forecast foreign currency sales amounting to around €997 million (2009: €526 million) up to the end of 2011 against exchange rate movements. The fair value of hedging instruments included in hedge accounting was €11 million (2009: €3 million). In addition, commodity swaps with a negative fair value of €5 million (2009: positive fair value of €3 million) were used to hedge forecast purchases of raw materials against price fluctuations up to 2012.

Further, at Evonik Industries AG currency derivatives with a fair value of €4 million (2009: none) were included in the balance sheet as cash flow hedges used to hedge highly probable forecast transactions in the Energy Business Area. These derivatives expire by March 2012 at the latest.

Evidence of the effectiveness of hedging relations is provided using the dollar offset method, critical term match, the hypothetical derivatives method, regression analysis and sensitivity analyses. Since 2009, only the spot components of forward exchange contracts used to hedge currency risks relating to highly probable forecast transactions have been designated as hedges. As in 2009, only a negligible amount was recognized in income as the ineffective portion of the valuation of cash flow hedges.

#### (c) Hedge of a net investment

Since March 2010 the investment in UK subsidiaries has been hedged against foreign currency risks on a rolling basis. As of December 31, 2010, the notional value of the hedges was £76 million. Their fair value was €1 million and they had expiration dates up to April 2011. By year end, hedge expenses totaling €4 million had been transferred to the results for gains/losses on hedging instruments.

Further, Evonik Industries AG's investment in the Energy Business Area's foreign power plants is hedged against currency risks on a rolling basis using currency derivatives. As of December 31, 2010, the outstanding forward contracts had a notional value of US\$183 million and expiration dates up to March 2015. Their fair value was close to zero (2009: €22 million). The reserve for gains/losses on hedging instruments contains €73 million (2009: €78 million) from this net investment hedge.

### 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 both on the value of the company and on 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 at Evonik. Commodity risks are identified by the business units and hedged with the aid of futures in compliance with corporate guidelines.

Financial derivatives are used to reduce financial risks. They are entered into exclusively in connection with the 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 to manage exchange rate and interest rate risks are customary products found on the market such as forward exchange contracts and currency options, interest rate and currency swaps and interest rate caps. Commodity risks relating to coal, gas, electricity and oil are hedged through futures. The procurement of emissions allowances to meet obligations pursuant to Section 6 of the German Emissions Trading Act (TEHG) is optimized through the use of EUA-CER swaps, EUA or CER futures and securities lending transactions.

**(a) Market risk**

Market risk can basically be subdivided into exchange rate, interest rate and commodity risks.

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. The aim of currency management is to protect the company's operating business from fluctuations in earnings and cash flows resulting from changes in exchange rates. Account is taken of the opposite effects arising from procurement and sales activities. The remaining currency risks to the Group chiefly relate to changes in the exchange rate of the euro versus the US dollar (USD) and are generally hedged by Evonik Industries AG through a portfolio approach.

The aim of interest rate management is to protect net income from the negative effects of fluctuations in market interest rates. Interest rate risk is managed by using primary and 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. As of the reporting date, excluding the Energy Business Area, 97 percent of primary financial instruments were hedged by fixed-interest contracts. Moreover, there were no derivative instruments used to hedge interest rates.

Several scenario analyses were carried out to measure exchange rate and interest rate risk as of December 31, 2010.

A change of 5 percent and 10 percent in the exchange rates of the USD, which is the most important currency for Evonik, was modeled, together with the standard deviation for each of these changes to simulate the possible loss of value of primary and derivative financial instruments. In view of the portfolio approach, it does not make sense to factor out hedging of the Energy Business Area from these analyses. Therefore, net hedges of the Energy Business Area's operating business are included in the simulation, resulting in the following scenarios:

in € million	Dec. 31, 2010		Dec. 31, 2009	
	Impact on income	Impact on equity	Impact on income	Impact on equity
+5%	-27	-43	-28	-25
-5%	27	43	28	25
+10%	-54	-85	-56	-50
-10%	54	86	56	50
+ standard deviation	-5	-9	-5	-5
- standard deviation	5	9	5	5



Several scenarios were also simulated for interest rates. These analyzed shifts of 50, 100 and 150 basis points in interest rates or the interest rate curve. The changes modeled relate to the interest rate curves for all foreign currencies and for the euro to simulate the possible loss of value of primary and derivative financial instruments. These scenarios are shown in the table, excluding the Energy Business Area:

in € million	Dec. 31, 2010		Dec. 31, 2009	
	Impact on income	Impact on equity	Impact on income	Impact on equity
+50 basis points	–	–	1	20
–50 basis points	–	–	–1	–21
+100 basis points	–1	–	1	39
–100 basis points	1	–	–	–44
+150 basis points	–1	–	2	57
–150 basis points	1	–	–	–68

Commodity risks result from changes in the market prices for the purchase and sale of raw materials and the sale of electricity. Raw materials are purchased principally to meet in-house requirements, but steam coal is also purchased for resale to third parties via the market. Commodity management is the responsibility of the business units. They identify procurement risks and take effective measures to minimize them. For example, price escalation clauses and swaps are used to reduce price volatility. Other factors of importance for Evonik's risk position are the availability and price of 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. Pricing and procurement risks are reduced through worldwide procurement and optimized processes to ensure immediate sourcing of additional raw material requirements. Similarly, 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 used to hedge procurement price risks. If the price of crude oil or natural gas had increased or decreased by 10 percent on the reporting date, the equity impact of the fluctuation in the value of these derivatives would have been +€3 million or –€3 million (2009: +€7 million or –€7 million). The earnings impact in 2010 and 2009 would have been negligible.

#### (b) 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 in all Group companies 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. On the reporting date Evonik had financial assets amounting to €1,567 million.

In June 2010 Evonik refinanced the €2,250 million syndicated credit facility, which originally ran to March 2011, by a new facility. The new €1,500 million syndicated credit facility also serves to secure the Group's liquidity. It comprises three €500 million tranches, running for two, three and five years respectively. This credit facility was not drawn at any time in 2010. There are also agreed bilateral credit facilities amounting to €369 million (2009: €224 million) to cover short-term funding requirements, and more than €447 million (2009: €365 million) for letters of credit. Drawings at year end 2010 were €179 million and €258 million respectively (2009: €67 million and €265 million).

The table shows the remaining maturity of the primary financial instruments based on the agreed dates for payment of the sum of the interest and repayment installments.

in € million	Payments due in				Dec. 31, 2010
	up to 1 year	more than 1 and up to 3 years	more than 3 and up to 5 years	more than 5 years	
<b>Financial liabilities</b>	<b>390</b>	<b>1,816</b>	<b>898</b>	<b>641</b>	<b>3,745</b>
Bonds	117	1,483	803	–	2,403
Liabilities to banks	221	297	78	587	1,183
Loans from non-banks	18	15	4	32	69
Liabilities from finance leases	2	4	2	1	9
Other financial liabilities	32	17	11	21	81
<b>Trade accounts payable</b>	<b>1,088</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,088</b>

in € million	Payments due in				Dec. 31, 2009
	up to 1 year	more than 1 and up to 3 years	more than 3 and up to 5 years	more than 5 years	
<b>Financial liabilities</b>	<b>576</b>	<b>757</b>	<b>2,811</b>	<b>1,640</b>	<b>5,784</b>
Bonds	117	233	2,169	–	2,519
Liabilities to banks	334	461	584	1,522	2,901
Loans from non-banks	5	15	16	38	74
Liabilities from finance leases	30	44	34	59	167
Other financial liabilities	90	4	8	21	123
<b>Trade accounts payable</b>	<b>1,365</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,365</b>

The Group has not infringed the payment terms agreed for its financial liabilities.





The breakdown of the sum of interest and installment 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 currency derivatives, they are presented as gross amounts:

in € million	Payments due in				Dec. 31, 2010
	up to 1 year	more than 1 and up to 3 years	more than 3 and up to 5 years	more than 5 years	
<b>Receivables from derivatives</b>	<b>68</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>70</b>
Currency derivatives	67	2	-	-	69
Cash inflows	1,745	52	-	-	1,797
Cash outflows	-1,678	-50	-	-	-1,728
Interest derivatives	-	-	-	-	-
Commodity derivatives	1	-	-	-	1
<b>Liabilities from derivatives</b>	<b>-44</b>	<b>-2</b>	<b>-</b>	<b>-</b>	<b>-46</b>
Currency derivatives	-39	-1	-	-	-40
Cash inflows	1,960	14	13	-	1,987
Cash outflows	-1,999	-15	-13	-	-2,027
Interest derivatives	-	-	-	-	-
Commodity derivatives	-5	-1	-	-	-6

in € million	Payments due in				Dec. 31, 2009
	up to 1 year	more than 1 and up to 3 years	more than 3 and up to 5 years	more than 5 years	
<b>Receivables from derivatives</b>	<b>174</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>191</b>
Currency derivatives	127	12	-	-	139
Cash inflows	2,349	74	3	-	2,426
Cash outflows	-2,222	-62	-3	-	-2,287
Interest derivatives	-	-	-	-	-
Commodity derivatives	47	5	-	-	52
<b>Liabilities from derivatives</b>	<b>-111</b>	<b>-49</b>	<b>-6</b>	<b>12</b>	<b>-154</b>
Currency derivatives	-70	-6	-	-	-76
Cash inflows	1,388	104	3	-	1,495
Cash outflows	-1,458	-110	-3	-	-1,571
Interest derivatives	-21	-18	-6	12	-33
Commodity derivatives	-20	-25	-	-	-45

### (c) Risk of default

Credit risk management divides default risk into three categories, which are analyzed separately on the basis of their specific features. The three categories are debtor and creditor risk, country risk and the risk of default by financial counterparties.

The debtor and creditor default risks are analyzed and monitored continuously with the aid of an internal limit system. 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. On the basis of the analysis, a maximum risk exposure limit is set for the contracting party. The credit standing of contracting parties is updated constantly via ratings or scoring processes.

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 normally based on the ratings issued by international rating agencies and our own internal analysis of credit standing. In the case of banks, the level of deposits covered by the deposit insurance system and liable capital are also taken into account.

Credit management also covers derivative financial instruments, where the risk of default is equivalent to the 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. As for primary financial instruments, there is also a default risk amounting to the positive fair value. This can be minimized by regular creditworthiness reviews. We do not anticipate any material risk of default here either.

Owing to the diversity of business and large number of customers, there are no significant cluster risks.

### (10.3) Related parties

In addition to the subsidiaries included in the consolidated financial statements, the Group maintains relationships with related parties.

Related parties with which the Group maintains business relationships comprise RAG-Stiftung and Gabriel Acquisitions as shareholders of Evonik Industries AG, fellow subsidiaries of Evonik owned by RAG-Stiftung and associated companies and joint ventures of Evonik, which are recognized at equity.

The transactions between the Group and these companies are shown in the table:

in € million	RAG-Stiftung		Fellow subsidiaries		Evonik Group	
	2010	2009	2010	2009	2010	2009
Goods and services supplied	1	1	8	4	64	67
Goods and services received	–	–	–26	–20	–42	–28
Other income	–	–	–	–	6	6
Receivables as of December 31	–	–	1	38	8	17
Liabilities as of December 31	–	–	–24	–466	–	–34

The receivables and liabilities in 2009 principally result from the supply of coal and electricity.

Further, as of the balance sheet date, €24 million (2009: €25 million) comprised security pledged to a fellow subsidiary for the liabilities of the Real Estate Business Area in connection with the financing of property.

Related parties also 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 the Executive Board and Supervisory Board of Evonik Industries AG, the Executive Board and Board of Trustees of RAG-Stiftung and other members of the Group's management. The other management members comprise the Boards of Management of the companies at the head of the business areas.



The remuneration paid to such related parties is shown in the table:

in € thousand	Executive Board of Evonik Industries AG		Supervisory Board of Evonik Industries AG		Other management members	
	2010	2009	2010	2009	2010	2009
Short-term remuneration	8,321	3,447	2,399	2,075	10,362	6,101
Current service cost for pension and other post-employment benefits	773	262	–	–	801	511
Termination benefits	–	672	–	–	4,454	–

Short-term remuneration comprises both amounts not related to performance and short-term performance-related payments.

The present value of pension obligations (defined benefit obligation) was €12,373 thousand for the Executive Board (2009: €10,148 thousand) and €14,043 thousand (2010: €9,292 thousand) for other management members.

Apart from the relationships stated above, Evonik did not have any other significant business relationships with related parties.

#### (10.4) Contingent liabilities and other financial commitments

Contingent liabilities were as follows on the reporting date:

in € million	Dec. 31, 2010	Dec. 31, 2009
Guarantee obligations	25	43
Obligations under warranties and indemnity guarantees	33	125
	<b>58</b>	<b>168</b>

In the previous year, obligations under warranties and indemnity agreements included letters of comfort, some of which were issued in conjunction with third parties.

Evonik has a legal liability in respect of investments in partnerships, collectively owned enterprises and as the general partner of limited liability partnerships.

Other financial commitments are outlined below.

The table shows the nominal value of obligations from future minimum lease payments for assets leased under operating leases with the following payment terms:

in € million	2010	2009
Due within 1 year	62	57
Due in more than 1 and up to 5 years	160	147
Due in more than 5 years	135	112
	<b>357</b>	<b>316</b>

There were no contingent rental payments in 2010 (2009: €3 million).

## (11) Disclosures in compliance with German legislation

### (11.1) Information on shareholdings pursuant to Section 313 Paragraph 2 of the German Commercial Code

The Group's shareholdings are listed in Note (5.1). The list indicates which companies have made use of the provisions in Sections 264 Paragraph 3 and 264 b of the German Commercial Code on exemption from disclosure of annual financial statements and the preparation of notes to their financial statements and a management report.

### (11.2) Personnel expense and number of employees pursuant to Section 314 Paragraph 1 No. 4 of the German Commercial Code

The personnel expense for the continuing operations in the reporting period comprised the following items:

in € million	2010	2009
Wages and salaries	2,207	1,912
Social security contributions	309	286
Pension expenses	198	117
Other personnel expense	18	50
	<b>2,732</b>	<b>2,365</b>

Interest expense on accrued interest on pensions and the expected return on plan assets are included in net interest expense, see Note (6.4).

The table shows the annual average headcount for the continuing operations:

Number of employees	2010	2009
Chemicals	30,840	31,362
Real Estate	1,070	993
Corporate, other operations	2,313	2,650
	<b>34,223</b>	<b>35,005</b>

In addition, in 2010 an average of 4,899 employees (2009: 4,763 employees) worked for the discontinued operations, which relate to the divestment of the Energy Business Area, see Note (5.2).

### (11.3) Remuneration of Board of Management and Supervisory Board pursuant to Section 314 Paragraph 1 No. 6 of the German Commercial Code

Remuneration paid to the members of the Executive Board of Evonik Industries AG for their work in 2010 amounted to €8,321 thousand (2009: €3,447 thousand). In 2010 this included bonus payments of €1,322 thousand for the previous year, which were not included in the provision for fiscal 2009.

Total remuneration of former members of the Executive Board was €5,501 thousand in 2010 (2009: €1,391 thousand).

Provisions for bonuses due to members who left the Executive Board in 2008 amounting to €590 thousand were reversed in 2009.

As of the balance sheet date, the present value of pension obligations (defined benefit obligations) to former members of the Executive Board amounted to €18,613 thousand (2009: €15,457 thousand).

The remuneration of the Supervisory Board for 2010 totaled €2,399 thousand (2009: €2,075 thousand).

### (11.4) Auditors' fees pursuant to Section 314 Paragraph 1 No. 9 of the German Commercial Code

The auditor for the consolidated financial statements of the Evonik Group is PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf (Germany). PwC rendered the following services to the Group:

in € million	2010	2009
Auditing of annual financial statements	4	4
Other audit-related services	1	1
Tax consultation services	–	–
Other services	1	1
	<b>6</b>	<b>6</b>

The fees for auditing annual financial statements include expenses for the audit of the consolidated financial statements and of the separate annual financial statements of Evonik Industries AG and its German subsidiaries.

Other audit-related services comprise services apart from the auditing of annual financial statements, especially the review of interim financial statements.

Essen, February 21, 2011

**Evonik Industries AG**  
**The Executive Board**

Dr. Engel

Blauth

Dr. Colberg

# Supplementary information

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The Evonik Wind Explorer passed many gas stations on its trip but gasoline was one thing it never needed. All the team ever filled up on were drinking water and candy bars.





# Auditor's report

We have audited the consolidated financial statements prepared by Evonik Industries AG, Essen, comprising the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of Evonik Industries AG for the business year from January 1, to December 31, 2010. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315 a Abs. (paragraph) 1 HGB ("Handels-gesetzbuch": German Commercial Code) are the responsibility of the parent Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 23, 2011

**PricewaterhouseCoopers**  
**Aktiengesellschaft**  
**Wirtschaftsprüfungsgesellschaft**

Dr. Norbert Vogelpoth, Wirtschaftsprüfer  
(German Public Auditor)

Eckhard Sprinkmeier, Wirtschaftsprüfer  
(German Public Auditor)



# Report of the Supervisory Board

## Ladies and gentlemen:

During the past fiscal year, the Supervisory Board of Evonik Industries AG (Evonik) performed the obligations imposed on it by law and the Articles of Incorporation. We continuously monitored the work of Evonik's Executive Board and provided regular advice on the management of the company. We received full and timely information on the implementation of business policy and corporate strategy, earnings trends and business performance.

We discussed all major issues relating to the company at five meetings on March 24, May 27, June 16, September 16, and December 16, 2010. Outside of these meetings, the Executive Board provided us with written reports on business trends and processes of particular importance for Evonik. The Chairman of the Supervisory Board was kept constantly informed of all significant business developments.

Contrary to the original expectations, 2010 was a year of upswing. It was dominated by a strong economic recovery from which the German economy derived particular benefit. Evonik has emerged from the crisis stronger, and has achieved that faster and better than many other chemical companies, mainly thanks to the dedication of its employees and the support received from representatives of the workforce and from the German Mining, Chemical and Energy industrial union (IG BCE).

Significant issues discussed were the divestment of Evonik Steag GmbH to a consortium of municipal utilities in the federal state of North Rhine-Westphalia, the first step of which was completed in March 2011 with the acquisition of 51 percent of the shares, and the stepwise amalgamation of Evonik Immobilien GmbH and THS GmbH.

In keeping with the resolutions passed on December 16, 2009, Evonik is being positioned as one of the world's leading specialty chemicals companies. The Group is aligning its growth to areas that will benefit especially from the global megatrends: resource efficiency, health and nutrition, and the globalization of technologies.

Other key issues discussed included:

- Construction of a facility for the production of butene-1 (Singapore)
- The erection of a monosilane/AEROSIL® complex (Japan)
- Ramp-up of production of lithium-ion battery cells (Kamenz, Germany)
- Exiting the "AYAS" project for the development and construction of a hard-coal power plant (Turkey)
- Problems with the start-up of the Walsum 10 hard-coal power plant (Germany)
- The "On Track" efficiency improvement program

The work of the Supervisory Board was prepared and supported by ten meetings of the Executive Committee, six meetings of the Finance and Investment Committee, and four meetings of the Audit Committee.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf (Germany) has audited the financial statements of Evonik Industries AG as of December 31, 2010 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 315 a Paragraph 3 of the German Commercial Code (HGB), and the combined management report for Evonik and the Evonik Group, and has endorsed them with an unqualified opinion pursuant to Section 322 of the German Commercial Code (HGB). The auditors also included the company's risk management in the annual audit on the basis of a discretionary request from the Supervisory Board.

The auditors outlined the main findings of their audit at the meeting of the Audit Committee on March 7, 2011 and the full meeting of the Supervisory Board on March 15, 2011. Following a thorough examination of the annual financial statements for the company, consolidated financial statements for the Group and the combined management report, the Supervisory Board raises no objections to the financial statements for Evonik and the Evonik Group and the combined management report and concurs with the auditors' findings. The Supervisory Board therefore endorses the annual financial statements for Evonik and the consolidated financial statements for the Evonik Group. The annual financial statements for 2010 are thus ratified.

The Board of Management has prepared a report on relations with affiliated companies. This was examined by the auditors, who have 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
2. the company's expenditures in connection with the legal transactions contained in the report were not unreasonably high and compensation was received for any disadvantages."

The auditors reported on the main findings of their examination of the report on affiliated companies at the meeting of the Audit Committee on March 7, 2011 and the full meeting of the Supervisory Board on March 15, 2011.



In its examination of the transactions outlined in the report, the Supervisory Board established that, under the circumstances known at the time they were undertaken, the company's expenditures in connection with these transactions were not unreasonably high. It obtained an explanation of how the relevant activities and the remuneration therefor were determined, particularly in the case of transactions of material significance.

The Audit Committee discussed the report and gave the Supervisory Board a detailed overview of the outcome of its meeting. The Supervisory Board has no objections to raise to the final declaration made by the Executive Board in its report on relations with affiliated companies and concurs with the auditors' findings.

Ms. Ursel Gelhorn stepped down from the Supervisory Board as of March 31, 2010. We would like to thank her for her dedicated and constructive collaboration. Mr. Horst Rohde was appointed a member of the Supervisory Board in her place effective April 1, 2010.

The Supervisory Board would like to thank the Executive Board, Works Councils and Executive Committees representing the workforce, and all employees of Evonik Industries AG and its affiliated companies for their performance over the past year.

The Supervisory Board explicitly thanks all employees for their hard work and commitment. It would also like to express its thanks to the Executive Board, especially for driving forward the strategic refocusing of the Group.

Essen, March 2011

#### The Supervisory Board

Wilhelm Bonse-Geuking, Chairman

# Further information on corporate officers

## Supervisory Board of Evonik Industries AG

### Wilhelm Bonse-Geuking, Essen

Chairman

Chairman of the Executive Board of RAG-Stiftung

- a) Deutsche BP AG (Chair)  
RAG Aktiengesellschaft (Chair)  
RAG Deutsche Steinkohle AG (Chair)
- b) HDI-Gerling AG  
NRW Commerzbank AG

### Werner Bischoff, Monheim

Deputy Chairman

Former member of the National Executive of the Mining, Chemical and Energy Industrial Union (IG BCE)

- a) Continental AG  
Evonik Degussa GmbH  
RWE AG  
RWE Dea AG  
RWE Power AG

### Günter Adam, Freigericht

Deputy Chairman of the Group Works Council of Evonik Industries AG

Chairman of the Central Works Council of Evonik Degussa GmbH

- a) Evonik Degussa GmbH

### Dr. Peter Bettermann, Weinheim

Spokesman for the management of Freudenberg & Co. KG

- a) BATIG Gesellschaft für Beteiligungen GmbH (Chair)  
British American Tobacco (Germany) GmbH (Chair)  
TAKKT AG
- b) Wilh. Werhahn KG

### Dr. Hans Michael Gaul, Düsseldorf

- a) EWE Aktiengesellschaft  
HSBC Trinkaus & Burkhardt AG  
IVG Immobilien AG  
Siemens AG  
VNG – Verbundnetz Gas AG  
Volkswagen AG

### Stephan Gemkow, Overath

Member of the Board of Management of Deutsche Lufthansa AG

- a) Delvag Luftfahrtversicherungs-AG (Chair)  
GfK SE  
LSG Lufthansa Service Holding AG (Chair)  
Lufthansa AirPlus Servicekarten GmbH (Chair)  
Lufthansa Cargo AG (Chair)  
Lufthansa Systems AG (Chair)  
Lufthansa Technik AG (Chair)
- b) Amadeus IT Group S.A.  
Amadeus IT Holding S.A.  
JetBlue Airways Corporation

### Ralf Giesen, Hanover

Secretary to the Board of the Mining, Chemical and Energy Industrial Union (IG BCE)

- a) Altana AG

### Ralf Hermann, Herten

Chairman of the Group Works Council of Evonik Industries AG

Chairman of the Group Works Council of Evonik Degussa GmbH

- a) Evonik Degussa GmbH
- b) RAG-Stiftung

### Prof. Wolfgang A. Herrmann, Freising

President of Munich Technical University

- a) E.ON Bayern AG
- b) Bayerische Forschungsallianz GmbH

### Steve Koltes, St. Moritz

Managing Director of CVC Capital Partners Luxembourg, S.à r.l.

- b) Elster Group S.à r.l.  
Flint Group Holdings S.à r.l.

### Rainer Kumlehn, Hochheim

District Secretary of the Hesse-Thuringia Section of the Mining, Chemical and Energy Industrial Union (IG BCE) (until December 31, 2010)

- a) Evonik Degussa GmbH  
Goodyear Dunlop Tires Germany GmbH  
Hoechst GmbH



**Dr. Siegfried Luther, Gütersloh**

Former CFO of Bertelsmann AG

- a) Schaeffler GmbH  
Sparkasse Gütersloh  
WestLB AG
- b) Compagnie Nationale à Portefeuille S.A.  
RTL S.A.

**Jürgen Nöding, Duisburg**Chairman of the Central Works Council  
of Evonik Services GmbH

- a) Evonik Services GmbH

**Konrad Oelze, Essen**Deputy Chairman of the Group Works Council  
of Evonik Degussa GmbH

- a) Evonik Goldschmidt GmbH
- b) Die Vorsorge Sterbekasse der Werks-  
angehörigen der Degussa AG VVaG

**Dr. Wilfried Robers, Gescher**Chairman of the Group Senior Staff Committee  
of Evonik Industries AG

- Chairman of the Group Senior Staff Committee  
of Evonik Degussa GmbH
- b) Pensionskasse Degussa VVaG

**Horst Rohde, Datteln**

from April 1, 2010

Deputy Chairman of the Group Works Council  
of Evonik Industries AG

- Chairman of the Group Works Council  
of Evonik Steag GmbH
- a) Evonik Steag GmbH

**Rainer Schankweiler, Essen**Chairman of the Working Group of the Works  
Councils of Evonik Immobilien GmbH**Christian Strenger, Frankfurt am Main**Former spokesperson for the management  
of DWS Investment GmbH

- a) DWS Investment GmbH  
Fraport AG
- b) The Germany Funds (Chair)

**Dr. Volker Trautz, Rotterdam**Former Chairman of the Management Board  
of LyondellBasell Holdings B.V.

- a) Citigroup Global Markets Deutschland AG
- b) CERONA Companhia de Energia Renovável  
La Seda de Barcelona

**Dr. Christian Wildmoser, Savigny**Managing Director of CVC Capital Partners  
Switzerland GmbH

- b) Flint Group Holdings S.à r.l.

**Members who left the Supervisory Board  
during 2010:****Ursel Gelhorn, Essen**

until March 31, 2010

**Executive Board of Evonik Industries AG****Dr. Klaus Engel, Mülheim a. d. Ruhr**

Chairman

- a) Evonik Degussa GmbH (Chair)  
Evonik Steag GmbH (Chair)
- b) Evonik Immobilien GmbH  
Evonik Wohnen GmbH

**Ralf Blauth, Marl**

- a) Evonik Degussa GmbH  
Evonik Services GmbH  
Evonik Steag GmbH
- b) Evonik Immobilien GmbH (Chair)  
Evonik Wohnen GmbH (Chair)  
Pensionskasse Degussa VVaG (Chair)  
THS GmbH

**Dr. Wolfgang Colberg, Ratingen**

- a) Evonik Degussa GmbH  
Evonik Services GmbH (Chair)  
Evonik Steag GmbH  
Roto Frank AG
- b) Evonik Immobilien GmbH  
Evonik Wohnen GmbH  
Pernod Ricard SA  
THS GmbH

a) Membership of other statutory supervisory boards.

b) Membership of comparable German and foreign supervisory bodies of business enterprises.

# Market positions

## Chemicals Business Area

Product	Application	Global ranking	Capacity in metric tons p.a.
<b>Industrial Chemicals</b>			
Alcoholates	Catalysts for biodiesel, pharmaceuticals, agrochemicals and other applications	1	>150,000
Cyanuric chloride	Crop protection and industrial applications (e.g. optical brighteners)	1	115,000
Hydrogen peroxide	Bleaching of pulp and textiles, oxidation agent for the chemical industry	2	600,000
Percarbonate	Bleaching of pulp and textiles	2	110,000
2-propylheptanol	Plasticizers	2	60,000
Butene-1	Co-monomer for polyolefins	1 <sup>1)</sup>	200,000
Isononanol	Plasticizers	2	340,000
DINP	Flexible PVC	2	220,000
<b>Inorganic Materials</b>			
Organosilanes, chlorosilanes	Rubber, silicone rubber, paints and coatings, adhesives and sealants, building protection materials, pharmaceuticals, cosmetics, optical fibers, photovoltaics	1 <sup>2)</sup>	270,000
Fumed silicas, fumed metal oxides	Silicone rubber, paints and coatings, adhesives, sealants and plastics, pharmaceuticals, cosmetics, high-temperature insulation, electronics	1	500,000
Precipitated silicas	Reinforcement of rubber, consumer products	1	
Matting agents	Additives for the coatings and printing inks industry	2 <sup>3)</sup>	
Carbon blacks	Tires, rubber goods, pigments	2	1,300,000 <sup>4)</sup>
<b>Health &amp; Nutrition</b>			
Exclusive synthesis of fine chemicals	Intermediates and active substances for pharmaceutical and specialty applications	3	<sup>5)</sup>
Precious metal powder catalysts	Life sciences and fine chemicals	1	<sup>5)</sup>
Activated nickel catalysts	Life sciences and fine chemicals, industrial chemicals	3	<sup>5)</sup>
Amino acids and amino acid derivatives	Pharmaceutical intermediates and infusion solutions	3	<sup>5)</sup>
DL-methionine	Animal nutrition	1	360,000
Threonine	Animal nutrition	2	30,000
Tryptophan	Animal nutrition	2	<sup>5)</sup>
<b>Consumer Specialties</b>			
Superabsorbents	Diapers, feminine hygiene products, incontinence products, technical applications	1	460,000
Organically modified silicones	Additives for polyurethane foams, coatings and inks, cosmetics; radiation-cured separation coatings	1–2	80,000
Fat chemistry, quaternary derivatives	Fabric softeners	1	<sup>5)</sup>
Amphoteric surfactants	Shampoos, shower gels	1	<sup>5)</sup>
Ceramides, phytosphingosines	Cosmetics	1	<sup>5)</sup>
Skin cremes	Professional skin protection	2–3	<sup>5)</sup>



Chemicals Business Area

Product	Application	Global ranking	Capacity in metric tons p.a.
Coatings & Additives			
Colorants (pigment dispersions)	Decorative and industrial colorants	1–2	<sup>5)</sup>
Polyester resins	Can and coil coating	1	31,000
Isophorone chemistry	Environment-friendly coating systems, high-performance composites	1	<sup>5)</sup>
Pharmaceutical polymers	Coatings for drugs	2	<sup>5)</sup>
Oil additives	Viscosity index improvers	2	<sup>5)</sup>
Thermoplastic and reactive methacrylate resins	Binders for paints and coatings	1	<sup>5)</sup>
Performance Polymers			
Polyamide 12	High-performance specialty polymer applications (e.g. automotive, medical, sport)	1	<sup>5)</sup>
Methylmethacrylate (MMA)	Dispersions, coatings, plastics	2	580,000
Methacrylate specialty monomers	Dispersions, coatings, additives, adhesives, optical lenses	1	<sup>5)</sup>
Methacrylate polymers (PMMA molding compounds)	Construction materials for the automotive and electrical/electronics industries, medical technology	1	240,000
Acrylic glass	Construction industry, illuminated signboards, aviation/aerospace applications	2	150,000

<sup>1)</sup> Freely traded volumes.  
<sup>2)</sup> Chlorosilanes: freely traded volumes. Overall assessment—market position differs depending on application.  
<sup>3)</sup> Ranked 1 by volume and 2 by sales.  
<sup>4)</sup> Slight decline due to shutdown of the facilities in Botlek (Netherlands).  
<sup>5)</sup> No data available.

# Glossary

## Technical terms

### Amino acids

Amino acids are building blocks for proteins. They are used in animal nutrition (e.g. methionine, lysine) and medical treatment (e.g. in infusion solutions and as starting products for medicines).

### Comb polymers

Comb polymers are branched macromolecules comprising a linear main chain with side chains of almost equal length branching off at more or less regular intervals. Comb polymers may be produced from linear chains or by coupling macro monomers. They may contain functional groups, which produce customized structures, for example, to optimize the properties of viscosity modifiers.

### Fermentation

From the Latin: fermentare. The conversion of substances with the aid of microorganisms is referred to as fermentation. Fermentation has traditionally been used to produce dairy products, wine, beer and bread. Fermentation processes allow cost-effective production of vitamins, enzymes and amino acids.

### Geothermal energy

Geothermal energy is the heat stored beneath the Earth's surface. In order to use this source of energy it has to be transported to the Earth's surface. Sources close to the surface can be used directly to heat buildings or fed into the district heating grid. Power plants also utilize heat from several thousand meters below the Earth's surface to generate electricity.

### Isophorone/isophorone diamine

Isophorone is used as a solvent in the coatings, colorants and adhesives industries. It is also used to produce isophorone diamine, which is mainly used as a hardener for epoxy resin systems for industrial floor coatings and composites.

### Lifecycle assessment

A lifecycle assessment (LCA) comprises a systematic evaluation of the environmental impact of products, processes or activities over their entire lifecycle, i.e. from production through use to disposal. A lifecycle assessment also includes related processes such as the production and transportation of raw materials and supplies.

### Monomers

Monomers are low-molecular-weight molecules of similar structure that can react with each other to form polymers.

### MTBE

Methyl tertiary butylether (MTBE) has completely replaced lead additives as an anti-knock agent in combustion fuels since 1976. An alternative is ethyl tertiary butylether (ETPE), whose properties are similar to those of MTBE. It is produced by reacting ethanol (from biomass) with isobutene, a by-product from oil refining, and contains nearly 50 percent bioethanol.

### Organophilic nanofiltration

Organophilic nanofiltration is an energy-efficient method of separating solvents required for chemical processes from the end-product.

### PEEK

Polyetheretherketones (PEEK) are partially crystalline high-performance polymers with outstanding mechanical properties and very good temperature resistance. In view of their exceptional mechanical, thermal and chemical properties, they are mainly used as in functional components and assemblies in automotive engineering, aviation, electronics and medical appliances.

### Peptides

Peptides are small proteins produced by linking together several amino acids. The difference between peptides and proteins results entirely from the number of linked amino acids. The mode of action of peptides is now well-researched. Some can act as hormones, while others have anti-inflammatory, antibiotic or anti-viral properties.

**PMMA**

Abbreviation for polymethylmethacrylate. The properties of this colorless acrylic glass, which can be colored in a range of shades, include high light permeability, good moldability, and exceptionally good weathering resistance. Areas of application: construction, automotive engineering, optics, optoelectronics, design, household goods, exhibition stands, illuminated signs, lighting. Best-known brand: PLEXIGLAS®. Form supplied: thermoplastic molding compounds, cast or extruded semi-finished goods (sheet, film, tubes, rods).

**Polymers/oligomers**

Long-chain, short-chain or crosslinked molecules (macromolecules) produced from smaller molecules (monomers).

**Polyurethane (PUR)**

Polymers with excellent thermal and sound insulating properties and a very broad spectrum of applications. Flexible, foamed PUR is used for cushions, mattresses and interior trims. Rigid PUR is used in automotive engineering, construction and furniture.

**Power plant efficiency**

The efficiency of a power plant is indicated by the proportion of the energy input that is converted into power. When coal is converted into electricity in coal-fired power plants, some of the energy contained in coal is lost, for example through exhaust heat. If a power plant has efficiency of 45 percent, this means that 45 percent of the energy contained in the coal is turned into electricity at the end of the process.

**Silanes**

The term silanes refers to a group of chemical compounds comprising silicon and hydrogen. Silanes are used to produce ultrapure silicon for integrated circuits and solar panels and as raw materials for ultrapure silicon dioxide for fiber optics. Fumed silicas can be produced from chlorosilanes and chloroalkylsilanes. Special silanes known as functional organosilanes are used to functionalize surfaces, for example, to protect surfaces in the construction sector.

**Superabsorbents**

Crosslinked polymers that are insoluble in water and can absorb and store large quantities of liquid through a mechanism that causes them to swell and form hydrogen gels. The liquid is not released even under pressure.

**Vacancy rate**

The vacancy rate shows the ratio of unlet to let space in a property. It is a particularly important indicator for investment properties. The higher the vacancy rate, the lower the rental income per square meter usable area.

**World-scale facility**

These large-scale production plants are used where large-scale production is more economical because higher production volumes reduces fixed costs per metric ton.

**Financial and economic terms****BRIC**

The term BRIC is derived from the initial letters of Brazil, Russia, India and China. These four emerging economies report GDP growth of between 5 percent and more than 10 percent a year.

**Compliance**

Compliance refers to all activities designed to ensure that the conduct of the company, members of its governance bodies and its employees respect all statutory regulations. Further, corporate conduct should ensure compliance with all in-house policies and values and with moral and ethical principles.

### **Corporate governance**

Corporate governance comprises all principles underlying the correct and responsible management and oversight of a company. It is therefore a key element in our management philosophy. The principles of corporate governance relate, in particular, to collaboration between the Executive Board, Supervisory Board and the company's owners, and the relationship between our company and other persons and organizations with which we have a business relationship. The Supervisory Board and Executive Board of Evonik Industries AG are explicitly committed to responsible corporate governance.

### **Diversity**

For us, diversity goes beyond differences attributable to gender or nationality. The diversity of disciplines pursued during training, experience of several organizational units or functional areas, and mixed-age teams are equally important to us.

### **EBIT (Earnings before interest and taxes)**

An earnings parameter showing the operating performance of an enterprise irrespective of the structure of its assets.

### **EBITDA (Earnings before interest, taxes, depreciation and amortization)**

An earnings parameter showing the operating earnings performance of an enterprise irrespective of the structure of its assets and its investment profile. EBITDA is a cash flow-related parameter used in comparisons with competitors, especially through the EBITDA margin, which shows operating performance relative to sales.

### **EURIBOR**

EURIBOR is an abbreviation for Euro Interbank Offered Rate. This is the interest rate for fixed-term interbank lending in euros for terms of up to 12 months. It is taken as a reference interest rate for borrowing and investment products.

### **EVA®**

Abbreviation for economic value added. This is the main indicator used for value-oriented management of the Evonik Group. EVA® is calculated by multiplying average capital employed by the difference between the return on capital employed (ROCE) and the weighted average cost of capital (WACC). If ROCE exceeds WACC, EVA® is positive and value is created.

### **GPS**

GPS stands for Global Product Strategy, an initiative of the International Council of Chemical Associations (ICCA). The objective of GPS is to improve and harmonize standards of product responsibility in the global chemical industry. A central focus is providing transparent information on safe handling and use of chemical substances.

### **Hedge accounting**

This refers to accounting for hedging transactions and the associated hedged items as a single valuation unit. The purpose of hedge accounting is to synchronize the otherwise different periods in which the hedged item and hedge impact on earnings.

### **Hedging**

Hedging is the strategy used to offset the exposure of business transactions to risks such as changes in exchange rates, interest rates and raw material prices. The company enters into an additional transaction whose profile is exactly opposite to the profile of the hedged transaction. Derivative financial instruments such as forward contracts, swaps and options are used as hedging tools.

### **ICCA**

International Council of Chemical Associations

### **IFRS**

International Financial Reporting Standards. Since 2005 all companies listed on stock exchanges in the European Union have been required to prepare consolidated financial statements in accordance with IFRS.



**Macro hedge**

A transaction used to hedge aggregated risks.

**Micro hedge**

The transaction used to hedge an individual risk position.

**NAFTA**

North American Free Trade Agreement between the United States, Canada and Mexico, which came into effect on January 1, 1994.

**Non-operating result**

The non-operating result comprises items that are outside of normal operations, relate to other reporting periods or are classified as exceptional. They are generally infrequent or one-off events, for example, book gains and losses resulting from major divestments, impairment losses and restructuring expenses.

**OECD**

Organisation for Economic Co-operation and Development

**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 allocated to rating classes indicated by 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.

**REACH**

REACH stands for the European Chemicals Regulation "Registration, Evaluation, Authorisation, and Restriction of Chemicals", which came into force in 2007. Its purpose is to improve protection of health and the environment in the handling of chemicals. Evonik has pre-registered around 13,600 substances and nearly 170 had been successfully registered with the European Chemicals Agency in Helsinki by the first registration deadline.

**ROCE**

The return on capital employed is a measure of the profitability of capital employed. It is calculated by dividing EBIT by the average capital employed in the reporting period.

**Stakeholders**

In a corporate context, the term stakeholders refers to all natural or legal persons with an interest in the development of enterprise. Stakeholders range from owners and employees through customers and suppliers to the state and general public.

**Swaps, currency swaps and interest swaps**

Derivative financial instruments used to hedge currency or interest rate risks by swapping cash flows. Currency swaps entail swapping payments in different currencies, while interest swaps comprise swapping fixed interest rates for variable rates.

**Volatility**

Volatility is a measure of the fluctuation in the price of traded goods, e.g. shares, currencies, interest rates, in a given period. It expresses the standard deviation of relative changes in prices over a given period (e.g. a year). The term is often used to denote the fluctuation in prices or interest rates on entire markets.

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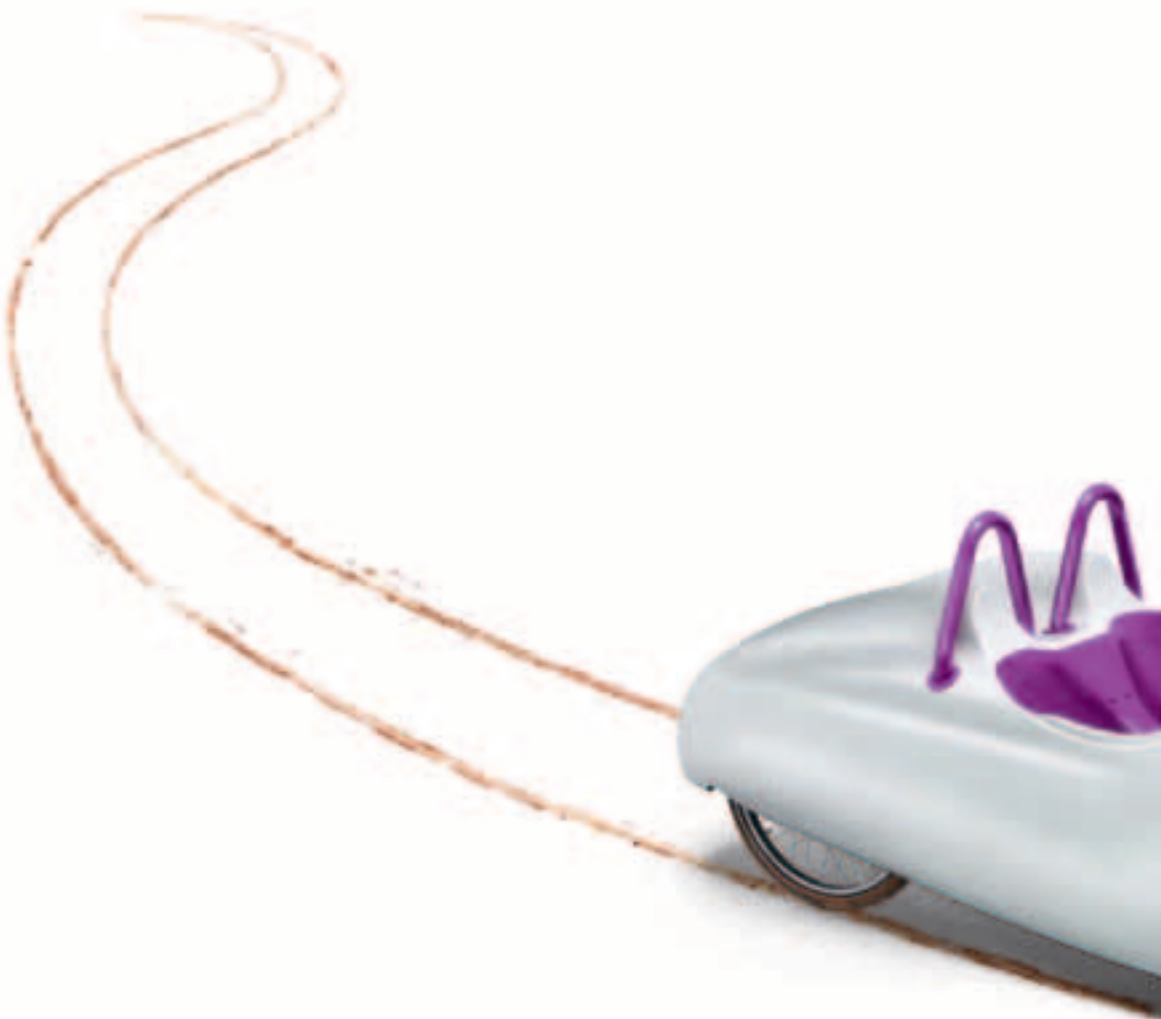
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