Annual Report 2008

The World Needs Ideas.

Preprint of Annual Report 2008

Final version available soon.

EVONIK INDUSTRIES

Overview of our business areas

Chemicals

Evonik Industries is one of the world leaders in specialty chemicals. The six business units in the Chemicals Business Area have a diversified product portfolio ranging from high-performance plastics to amino acids for animal feeds, and from synthetic building blocks for the pharmaceuticals industry to products for the growing photovoltaics market. Evonik has some 32,000 employees at more than 100 sites around the world and operates chemical production facilities in 28 countries. More than 80 percent of sales are generated with products where we are positioned among the market leaders and roughly 20 percent of sales come from products, processes and applications developed in the past five years.

Energy

Our Energy Business Area is the second largest German generator of power from hard coal and has around 10,000 Megawatt (MW) installed capacity worldwide, including about 8,000 MW in Germany. We rank among the world leaders in the construction of state-of-the-art coal-fired power plants—for instance in Duisburg-Walsum (Germany), which will have over 45 percent efficiency. We are also well-positioned in renewable energies, a promising global growth market. As a full-service supplier, we bundle our engineering and consulting services so we can use the technical expertise and know-how of our roughly 4,700 employees to provide convincing all-round solutions for customers in Germany and abroad.

Real Estate

Evonik Industries is one of the largest private-sector housing companies in Germany with around 60,000 residential units and a 50 percent stake in THS GmbH, which has about 75,000 residential units. The regional focus of our Real Estate Business Area, which has more than 400 employees, is the Ruhr District and the "Rhine corridor" comprising the cities of Düsseldorf, Cologne and Bonn. Key indicators such as occupancy rates and tenant turnover are better than the sector average. Because we use smart housing concepts to improve the quality of life for our tenants, while active management of operating costs minimizes their ancillary costs.

Chemicals Business Area: Key figures

in € million	**2008**	2007
External sales	11,512	10,571
EBITDA	1,600	1,610
EBIT	927	930
Capital employed (annual average)	9,336	9,205
ROCE in %	9.9	10.1
EBITDA margin in %	13.9	15.2

Figures for 2007 restated.

Energy Business Area: Key figures

in € million	**2008**	2007
External sales	3,649	3,024
EBITDA	545	581
EBIT	430	479
Capital employed (annual average)	3,292	3,128
ROCE in %	13.1	15.3
EBITDA margin in %	14.9	19.2

Figures for 2007 restated.

Real Estate Business Area: Key figures

in € million	**2008**	2007
External sales	375	423
EBITDA	217	188
EBIT	162	132
Capital employed (annual average)	1,762	1,596
ROCE in %	9.2	8.3
EBITDA margin in %	57.9	44.4

Figures for 2007 restated.

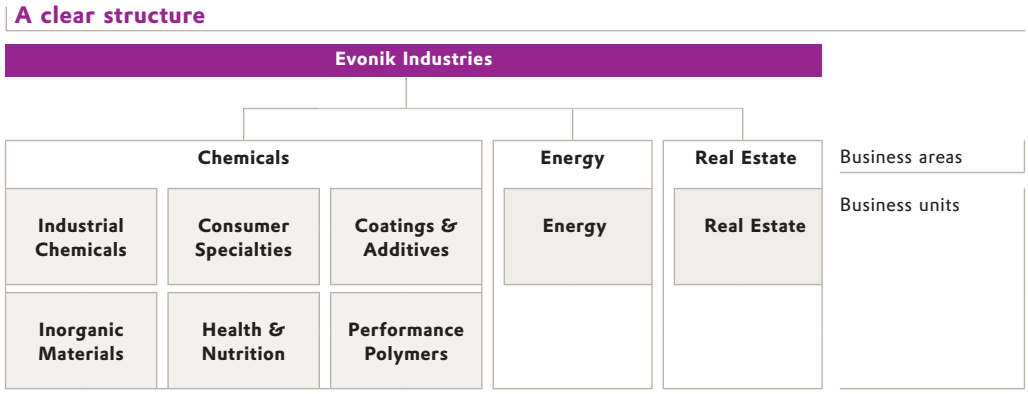
Overview

Evonik Group: Key figures

		2006	2007	**2008**
Sales	in € million	14,125	14,444	15,873
EBITDA[1)]	in € million	2,157	2,236	2,171
EBITDA margin	in %	15.3	15.5	13.7
EBIT[2)]	in € million	1,179	1,363	1,304
ROCE[3)]	in %	8.4	9.7	9.1
Net income	in € million	1,046	876	285
Total assets as of December 31	in € million	20,953	19,800	20,099
Equity ratio as of December 31	in %	20.6	25.7	25.8
Cash flow from operating activities	in € million	1,142	1,215	388
Capital expenditures[4)]	in € million	935	1,032	1,160
Depreciation and amortization[4)]	in € million	943	862	842
Net financial debt as of December 31	in € million	5,434	3,924	4,583
Employees as of December 31		46,430	43,057	40,767

Figures for 2006 as reported; figures for 2007 restated.
[1)] Earnings before interest, taxes, depreciation, amortization and non-operating result.
[2)] Earnings before interest, taxes and non-operating result.
[3)] Return on capital employed.
[4)] Intangible assets, property, plant, equipment and investment property.

A clear structure



Evonik is the creative industrial group with an idea of the future.

That opens up good prospects for Evonik's Chemicals, Energy and Real Estate Business Areas to build on their market leadership in the coming years—and generate substantial growth. After all, one thing is certain: The world needs ideas. That means new approaches to unresolved problems. A different perspective to envision new solutions. Pioneering ideas powered by concentrated creativity. Evonik's ideas are geared to providing tomorrow's solutions to today's challenges. That means ideas for tomorrow's chemicals. And tomorrow's energy. And the lifestyle of the future.

Evonik. Power to create.

Contents

Evonik Industries AG

Ladies and gentlemen:

2008 was a watershed in the history of the global economy. The repercussions of the financial crisis broadened into a global economic crisis at a speed that had been hardly considered possible and it is not yet possible to predict when it will end. Uncertainty is dominating the conduct of many investors, businesses and consumers. Against this background, Evonik Industries held up well last year and we essentially achieved our objectives. The road ahead is strewn with major challenges. Nevertheless, I am confident that the company can come through this difficult phase. Because we actively shape our own future: We take action and have the courage and determination to drive forward the expansion of our business. And because we are positioning ourselves foresightedly in tomorrow's key markets.

One reason for our confidence is Evonik's broadly based innovation pipeline. We have earmarked over €300 million for this in 2009. In the past five years alone we have invested more than €1.5 billion in research and development. The strategic alliance we concluded with Daimler AG last December on industrial development of lithium-ion technology is further impressive evidence of the wealth of opportunity contained in our portfolio. This alliance between the technology leader Evonik and one of the world leaders in the automotive industry to produce alternative drives paves the way for serial manufacturing of electric vehicles, with Evonik's lithium-ion technology at their heart. That opens up a multi-billion market, where we will play a leading role, especially in Europe.

Evonik has an idea of the future. Our products, technologies and solutions provide answers to many significant societal issues. Megatrends like energy efficiency, health & wellness and globalization & demographic change are key drivers of our business. That is why we are systematically strengthening our position on the photovoltaic market, where we achieved some important milestones in 2008. Our joint venture with SolarWorld, which uses innovative technology to produce solar silicon, is a pioneer in this sector. Another pioneering role is played by our energy efficiency research center, which opened in October. We will be investing some €50 million here in the period up to 2013.

The Evonik Group's second fiscal year confirmed its strong position as an industrial group with three business areas. Although the economy started to cool early on, especially in North America, we retained our ambitious targets and can be satisfied overall, despite the particularly harsh economic headwind in the final quarter of the year. The Energy and Real Estate Business Areas exceeded our expectations. Even in the specialty chemicals business our diversified portfolio supported our business. Major end-markets such as the automotive, construction and plastics industries were increasingly affected by the deteriorating global economic conditions. However, this was offset by an unchanged good business performance by our Health & Nutrition Business Unit. The Evonik Group grew sales by roughly 10 percent to around

"Our goal is to create value for our customers, employees and stakeholders and provide jobs with a future. By developing Evonik we aim to remain true to our motto of continual self-renewal."

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

€15.9 billion. EBITDA (operating profit before depreciation, amortization and the non-operating result) was virtually unchanged year-on-year at approximately €2.2 billion. Capital expenditures were about €1.2 billion, above both the previous year's level of €1 billion and depreciation, which amounted to €842 million.

The key financial data for the Evonik Group in 2008 highlight our sound, future-oriented position. That was rewarded by the capital markets. Last summer, CVC Capital Partners joined RAG-Stiftung as a second major investor that supports the growth strategy of our company. Like RAG-Stiftung and Evonik's management CVC is convinced of Evonik's potential. We want to use this as a basis for sustained profitable growth in the coming years.

The restructuring of the Executive Board was a first important step towards this. In future, Evonik's Executive Board will comprise the Chairman and two members responsible for human resources and finance. It will focus on the strategic management of the Group. That will be clearly separated from the operational management of the three business areas by the next management level. This clear separation of strategic and operational functions and responsibility provides the basis for a sustained improvement in our good market position and is the bedrock that will enable us to emerge stronger at the end of the global financial and economic crisis. It increases the efficiency and transparency of our structures and paves the way for us to speed up our response, delegate more entrepreneurial responsibility to the business units and move closer to our markets. As the next step, we are now aligning the Corporate Center to the newly defined areas of responsibility of the Executive Board. Ultimately, Evonik's management will be focused even more systematically on sustainable value creation.

Strategically, we aim to develop Evonik as a global company and strengthen and expand its present position as one of the leading players in many areas of business. We have a good starting point: We further streamlined our portfolio by divesting the initiators group, cyanide activities, RÜTGERS Chemicals and the mining real estate company, and also did the groundwork for further growth. In the Chemicals Business Area we initiated the expansion of production capacities for key products in Brazil, North America, Western Europe and Asia. In Shanghai (China), the first plant in our €250 million investment project came on stream to supply molding compounds for acrylic sheet to the Asian market. As a supplier to the photovoltaic sector, we will be stepping up our commitment in both Western Europe and Asia. The Energy Business Area is making good progress with the construction of Europe's most advanced power plant fueled by hard coal. The Walsum 10 power plant is scheduled to start operating next year. In addition, our plans for a further power plant in Turkey are moving ahead.

Although our businesses are very different, their fundamental characteristics are similar: They are dependent on Evonik's core competencies such as creativity and specialization, and the ability to respond fast and flexibly to customers' requirements. Moreover, they open up profitable growth prospects for Evonik. That nurtures our mid- to long-term confidence. In the near term, we are resolutely tackling the enormous challenges. Throughout industry, the global economic crisis has made it difficult and in some cases impossible to plan orders, sales and earnings. Against this background we expect our policy of business diversification and stable areas of operation to receive increasing recognition. I am convinced that industrial groups like Evonik with strong innovative capabilities will gain in significance in these difficult times—to the benefit of our investors and customers. And that will also benefit our employees. I would especially like to thank them because it is their steady and untiring dedication that has made Evonik a first-class address in the past few years. And that is precisely why I am optimistic that Evonik can successfully master the challenges ahead.

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

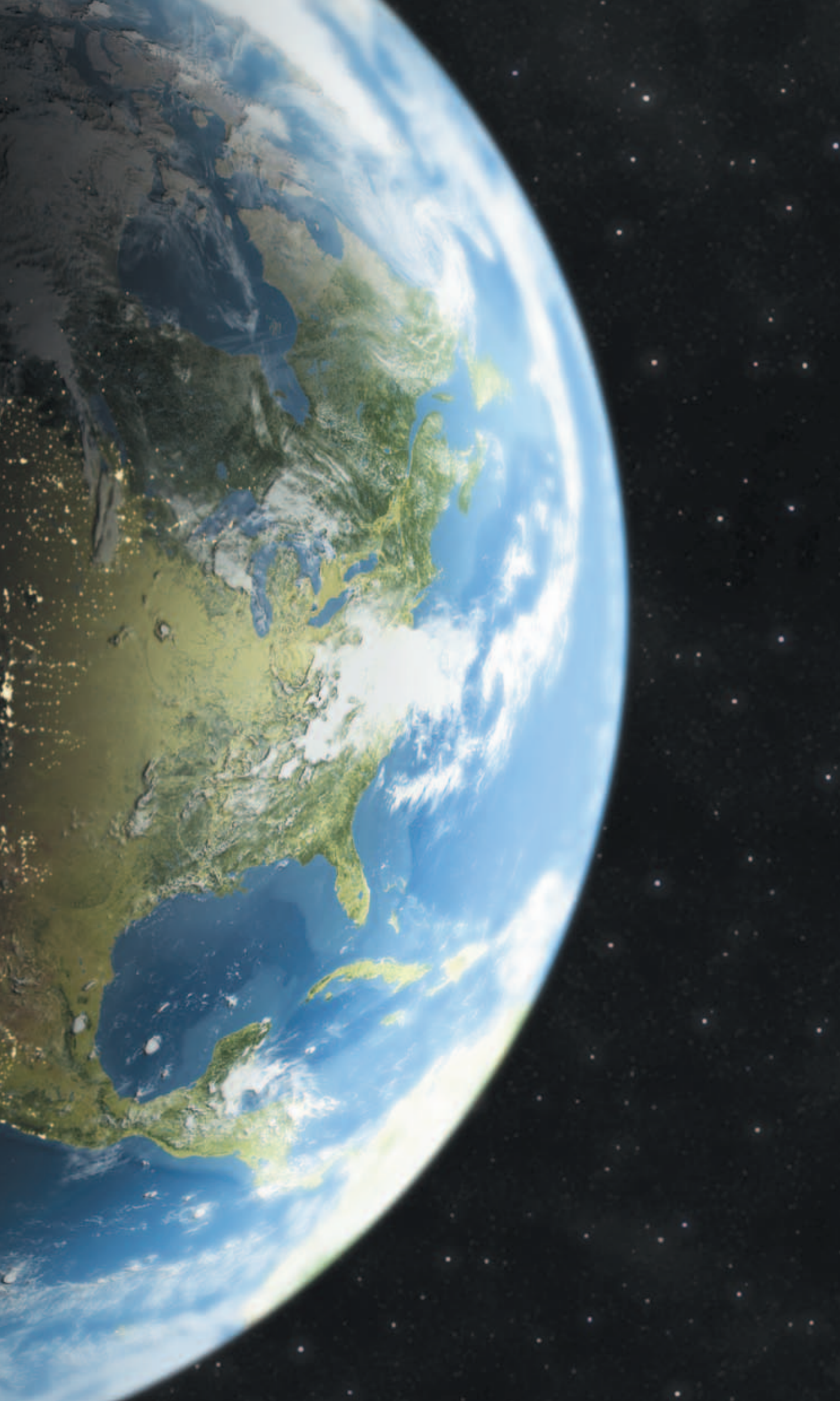
Executive Board. From left to right: Ulrich Weber (Human Resources), Dr. Klaus Engel (Chairman), Heinz-Joachim Wagner (CFO)

What will the future be like?

The world is facing enormous challenges: climate change, environmental destruction, scarce resources, globalization, population growth, demographic change. The list is long. And time is short. Evonik sees problems as a source of potential. For us, unresolved questions represent an opportunity. And challenges are an incentive to think in new ways. We are convinced there is a solution to every problem. What is needed is the will to seek it out.

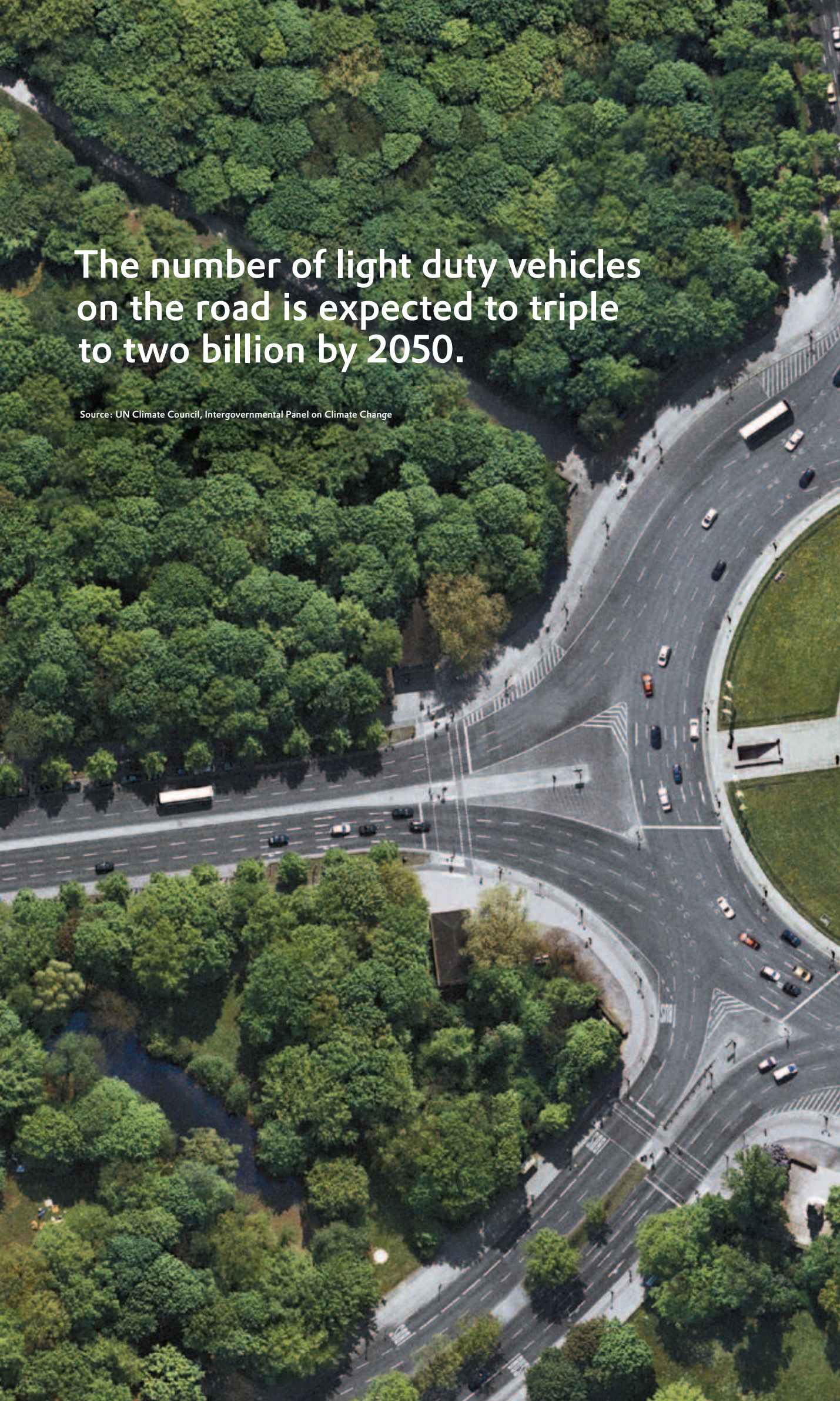
The world uses more prehistoric plant matter in a day than it produces in a year.

From: "Burning Buried Sunshine", Jeff Dukes, Stanford University, USA



The UN estimates the damage caused to the global economy by deforestation at €1.5 trillion a year.

Source: Greenpeace



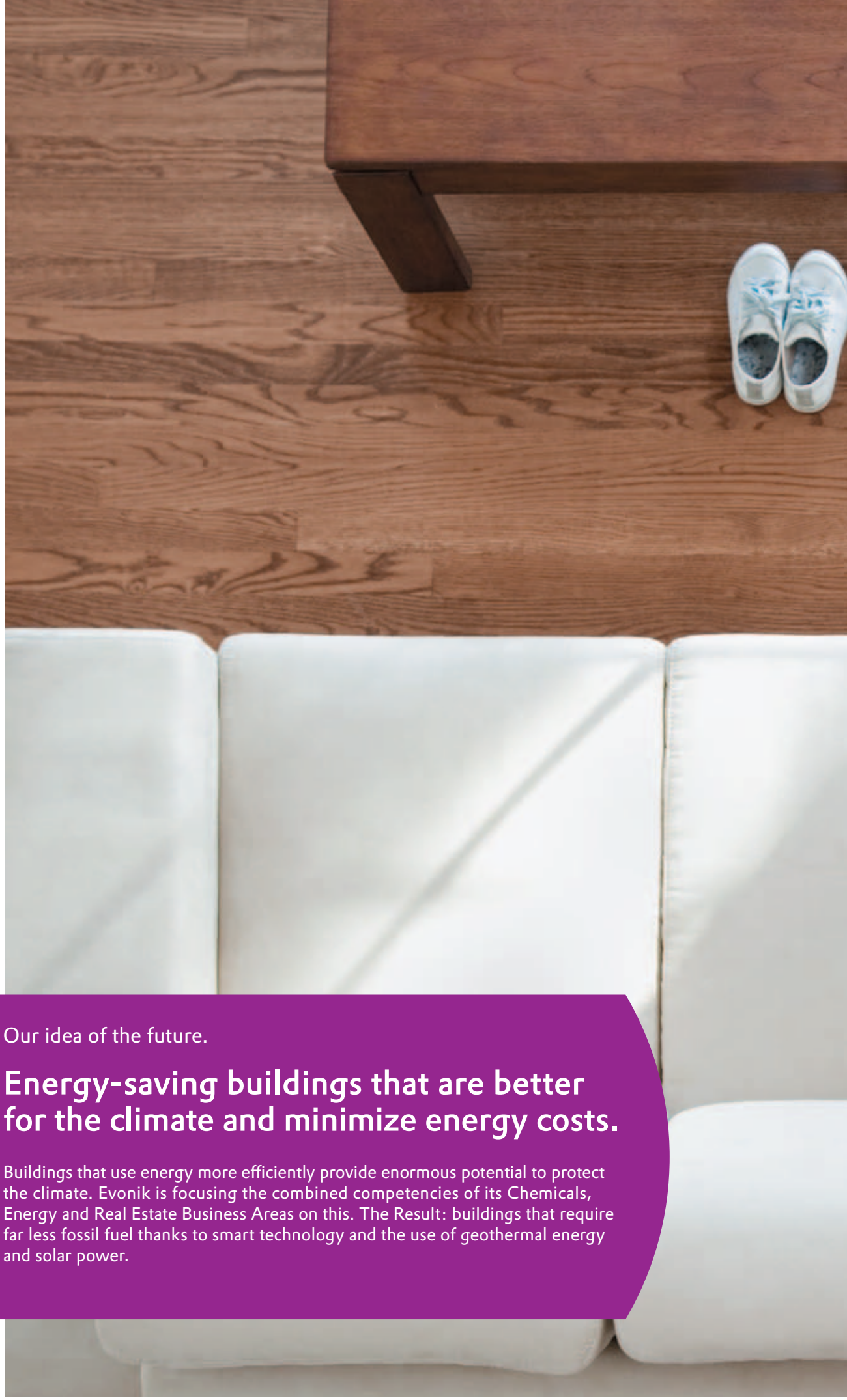
The number of light duty vehicles on the road is expected to triple to two billion by 2050.

Source: UN Climate Council, Intergovernmental Panel on Climate Change

Mankind's ecological footprint virtually doubled between 1960 and 2000.

Source: Report "Zukunftsfähiges Deutschland in einer globalisierten Welt"

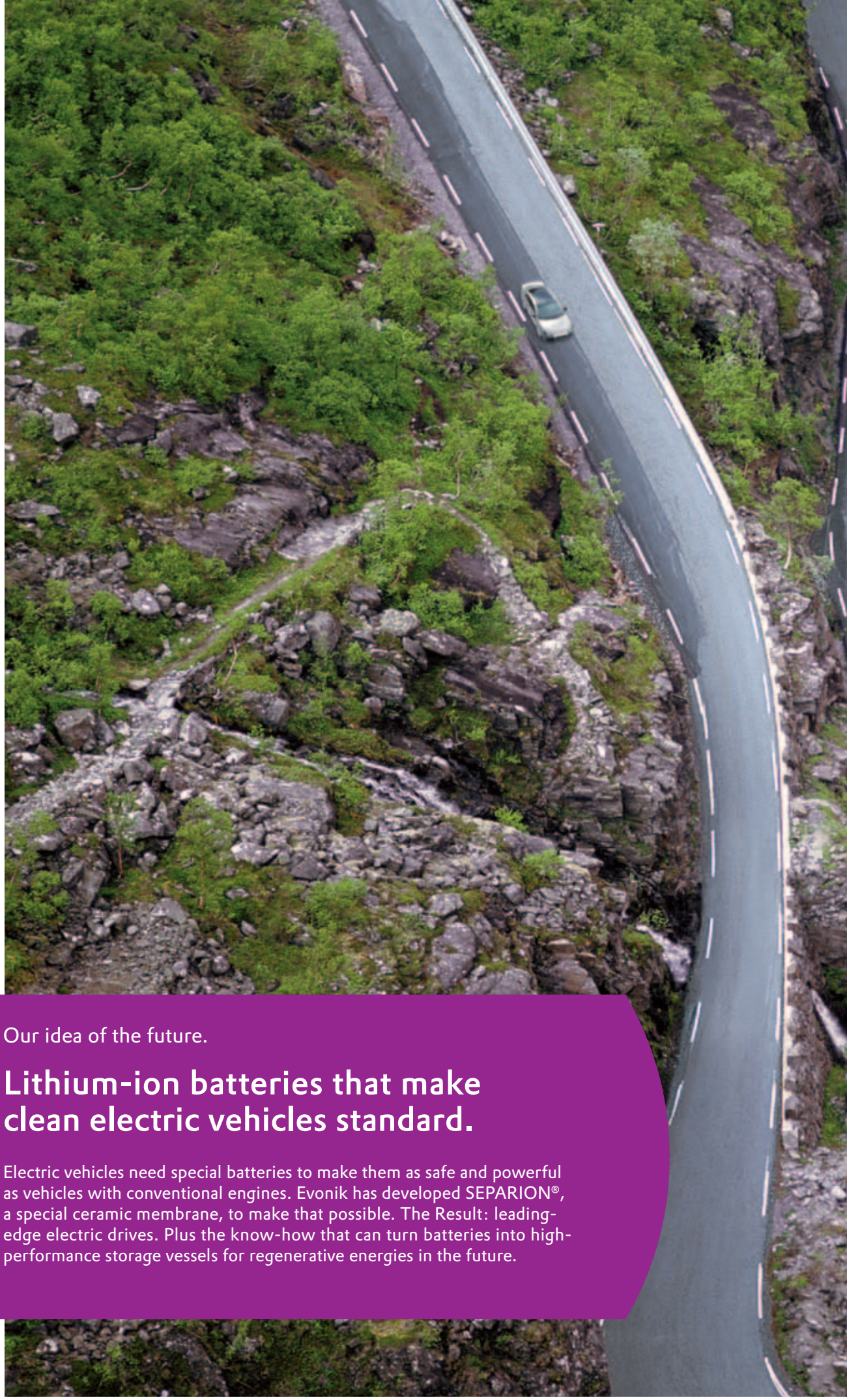
The World Needs Ideas.



Our idea of the future.

Energy-saving buildings that are better for the climate and minimize energy costs.

Buildings that use energy more efficiently provide enormous potential to protect the climate. Evonik is focusing the combined competencies of its Chemicals, Energy and Real Estate Business Areas on this. The Result: buildings that require far less fossil fuel thanks to smart technology and the use of geothermal energy and solar power.



Our idea of the future.

Lithium-ion batteries that make clean electric vehicles standard.

Electric vehicles need special batteries to make them as safe and powerful as vehicles with conventional engines. Evonik has developed SEPARION®, a special ceramic membrane, to make that possible. The Result: leading-edge electric drives. Plus the know-how that can turn batteries into high-performance storage vessels for regenerative energies in the future.

Our idea of the future.

A process to produce plastics from sugar cane.

Without oil, there would be no plastics. Yet oil is a limited resource. Wouldn't it be fantastic if we could produce plastics from biomass? Evonik is applying its creative energy to that. The Result: a biotechnical method of converting sugar into basic chemicals like polyamide.

Our idea of the future.

Films that revolutionize the use of solar power.

The sun is a plentiful source of energy for mankind's needs But we have to know how to use it. That's something Evonik can do. The Result: a leading role in ultra-pure silanes for photovoltaics. And research into new films that could make the use of solar energy simpler, more flexible and above all, cheaper.

Combined power for tomorrow's ideas: Evonik's Science-to-Business Centers.

Tomorrow's ideas—born and developed into commercial products and services in our three Science-to-Business (S2B) Centers, Eco^2 (energy efficiency), Nanotronics and Bio. These research centers are based on a clear principle: We want to translate scientific findings into commercial success quickly and efficiently.
We see today's high investment—€50 million for each S2B Center—as tomorrow's returns. That's why we give our S2B Centers every freedom and their working methods deliberately move beyond conventional methods of R&D. The concept provides scope for collaboration with internal and external partners so fundamental research from universities and practical industrial expertise can be combined with the momentum and high-tech of start-up companies.
To make sure the future is profitable, projects are selected by a stringent screening process and their chances of success are regularly reviewed. That is how we understand science-to-business.

Combined management report for 2008

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).

An eventful year—Paving the way for the future

Performance and business conditions

Overview

Evonik made considerable progress both operationally and strategically in 2008 and paved the way for the future in many respects.

In June, our former sole shareholder RAG-Stiftung (RAG Foundation) sold 25.01 percent of its shares in Evonik to funds of the British financial investor CVC Capital Partners. Our owners support our strategy and aim to work with us on the successful development of Evonik. Their declared objective is to place a total of 74.9 percent of Evonik on the stock market in the medium term. We will be using the interim period to become even more competitive and sharpen our profile on the capital markets.

Together with our owners, we aim to raise Evonik's equity value significantly in the coming years. To achieve this we have embarked on a "Value x 2" growth and performance program. This prioritizes three aspects: speeding up internal processes, increasing entrepreneurship and closeness to markets, and sustained value-based growth to raise the value of the company.

The Supervisory Board approved a new structure for the Executive Board in December 2008 and reduced it from seven members to three. In future, the Executive Board will focus on major strategic management functions. This separation of strategic and operational functions is part of the Group's systematic alignment to profitable growth and sustained value creation. At the same time, the entrepreneurial responsibility of the business units has been strengthened still further, so we can respond faster to market and customer requirements.

Research, development and innovation are the key drivers of profitable growth at Evonik. Two pioneering innovations originating from our research pipeline came on stream in 2008. Our joint venture Joint SolarSilicon (JSSI; Evonik's stake: 51 percent, SolarWorld AG: 49 percent) started production of solar silicon at a facility in Rheinfelden (Germany) using a novel production process developed in collaboration with SolarWorld. We supply monosilane, the strategic starting product for this plant. This underscores our role as a leading innovator on the photovoltaic market. Through successful process innovations, Evonik has also gained access to completely new applications and promising future markets for hydrogen peroxide. Hydrogen peroxide is one of Evonik's oldest business activities and also one of its most innovative. Industrial-scale use of hydrogen peroxide in the chemical synthesis of propylene oxide is another major milestone.

Our biggest investment project at present—the construction of a 750 Megawatt (MW) coal-fired power plant in Duisburg-Walsum (Germany)—is progressing on schedule. We expect this plant to start operating in 2010 with leading-edge technology that allows more than 45 percent net efficiency.

The Real Estate Business Area introduced a far leaner organizational structure and strengthened its cooperation with THS, in which we now have a 50 percent stake.

Operationally too, Evonik made a successful start to 2008. Despite increasingly difficult global business conditions, the adverse impact of the continued rise in raw material costs and the weakness of the US dollar, all business areas reported better results in the first ten months of the year. However, from November 2008 the repercussions of the financial markets crisis led to a massive drop in demand from major end-markets. Thanks to its successful performance in the first ten months, the Evonik Group was nevertheless able to report an only slight year-on-year deterioration in EBITDA (earnings before interest, taxes, depreciation, amortization and non-operating result).

At the start of 2009 the economic downswing spread to virtually all sectors. The global financial and economic crisis presents Evonik with major challenges. While the Energy and Real Estate Business Areas have been less seriously affected, the situation is having a significant impact on the Chemicals Business Area, which generates 75 percent of consolidated sales. In view of the continued low capacity utilization in our chemicals production plants, some of our sites in Germany have introduced short-time working. Around 2,600 employees were affected by this at the start of March 2009. In addition, we are planning to make savings of €500 million over the next three years, partly in response to the present economic crisis but mainly to achieve our mid-term value creation targets.

Our good market position, broadly diversified portfolio and extensive action to cut costs makes us confident that we have a suitable basis to overcome the crisis.

Operating profit slightly lower than in the previous year
The Group's operating business developed well in the first ten months of 2008 but the economic crisis led to a substantial downturn from November. Overall, the Evonik Group grew sales by 10 percent to €15.9 billion. Sales increased 9 percent to €11.5 billion in the Chemicals Business Area, driven mainly by a rise in selling prices to recoup some of the hike in raw material costs. However, volumes declined slightly as a result of the sharp drop in demand in the last two months of the year. In the Energy Business Area sales advanced 21 percent to €3.6 billion, principally because contractual provisions enabled it to pass on the considerable rise in coal prices to its customers. By contrast, sales were down year-on-year at €375 million in the Real Estate Business Area as a result of lower sales of residential units.

EBITDA declined by 3 percent to €2,171 million. The rise in earnings after ten months was more than eliminated by low earnings in November and December 2008. The Chemicals Business Area responded to the unexpectedly sharp volume downturn by scaling back production significantly and took some production facilities out of service. Since raw material prices fell significantly at the end of 2008, we also had to write down inventories in the Chemicals and Energy Business Areas. Our operational units took immediate counteraction in the face of the economic crisis. This included, in particular, a widespread recruitment freeze, inventory reductions, intensive fixed-cost management and renegotiating raw material, energy and freight agreements. Other measures included utilization of vacation and time on overtime accounts and a review of investment projects.

At year end, the Chemicals Business Area reported EBITDA of €1,600 million, a decline of 1 percent compared with 2007. Earnings were impacted principally by the hike in raw material and energy costs, which large parts of the business area were unable to pass on to customers in full. The strong average exchange rate for the euro during 2008, especially versus the US dollar, was another downside factor. The Energy Business Area achieved EBITDA of €545 million, below the year-back figure of €581 million, which had been boosted by a gain from the sale of a 34 percent stake in the Mindanao power plant in the Philippines. In the Real Estate Business Area EBITDA improved from €188 million in 2007 to €217 million in 2008 thanks to the first-time consolidation of THS.

Sales and reconciliation from EBITDA to net income

in € million	2008	2007	Change in %
Sales[1]	**15,873**	**14,444**	**10**
EBITDA (before non-operating result)[1]	**2,171**	**2,236**	**–3**
Depreciation and amortization	–867	–873	
EBIT (before non-operating result)[1]	**1,304**	**1,363**	**–4**
Non-operating result, continuing operations	–406	–370	
Operating income[1]	**898**	**993**	**–10**
Net interest expense[1]	–530	–466	
Income before income taxes, continuing operations	**368**	**527**	**–30**
Income before income taxes, discontinued operations	134	630	
Income before income taxes (total)	**502**	**1,157**	**–57**
Income taxes, continuing operations	–130	–158	
Income taxes, discontinued operations	–17	–28	
Income after taxes	**355**	**971**	**–63**
Minority interests	–70	–95	
Net income	**285**	**876**	**–67**

[1] Prior-year figures restated to reflect the change in accounting for low-interest loans in the Real Estate Business Area (see Note (3.4) to the consolidated financial statements).

EBIT (before non-operating result) slipped 4 percent to €1,304 million. The non-operating loss of €406 million is the net balance of **non-operating expense** and non-operating income items which are by nature one-off or rare. The principal non-operating expenses comprised impairment losses in the Chemicals Business Area, expenses for the restructuring of the Group and strengthening the Evonik brand, provisions for the planned shutdown of smaller chemicals locations, and expenses for antitrust proceedings and the planned relocation of the administrative activities in Frankfurt. Income mainly came from the sale of non-core operations. The previous year's figures were primarily impacted by impairment losses for the Degussa brand following the introduction of the new Evonik brand and expenses for the restructuring of the Group.

Operating income was €898 million, 10 percent lower than in the previous year. Net interest expense increased to €530 million, principally because of an increase in interest expense for pension provisions and retroactive tax payments and the interest portion of non-current provisions. **Income before income taxes** from the continuing operations was 30 percent lower at €368 million. The income before income taxes from the discontinued operations was €134 million. This mainly contained the proceeds of divestments and the ongoing earnings of the tar refining and initiators businesses until their divestment. The previous year's high level of €630 million chiefly comprised the proceeds from the sale of the mining technology and gas distribution activities.

In all, **income before income taxes** was €502 million, 57 percent below the high year-back level, which contained significant gains from the sale of discontinued operations. The income tax rate of 29 percent was almost the same as the current tax rate for the Group, which is 30 percent (2007: 39 percent). In 2007, the tax rate was reduced significantly by considerable tax-free gains on divestments and tax income from the reversal of deferred tax liabilities following the reform of the German corporation tax system. **Net income** (after income taxes and minority interests) declined 67 percent to €285 million.

Forecasts partially achieved

We predicted a slight rise in sales in 2008. At the start of the year, we assumed we would not be able to match the previous year's EBITDA and EBIT, but raised our guidance during the year to reflect the good business performance. After the first nine months, we assumed that full-year sales would increase in the high single-digit range while EBITDA and EBIT would be slightly higher than in the previous year. In fact, we grew sales by 10 percent. Despite the unforeseeable scale of the earnings downturn at year end, EBITDA slipped just 3 percent compared with the previous year and EBIT was down 4 percent.

We had expected an improvement in income before income taxes from the continuing operations due to lower non-operating expenses. In fact, the economic crisis and the resultant far weaker business expectations for some chemicals business units led to additional impairment write-downs on their assets. Non-operating expenses were therefore higher than in the previous year and income before income taxes for the continuing operations dropped 30 percent. We had anticipated a reduction in net income as the 2007 reference base contained gains from the divestment of the gas distribution and mining technology operations.

In view of the expected development of the operating profit and planned capital expenditures, we assumed that we would also exceed our cost of capital of 8 percent and thus create value in 2008. We achieved that: The return on capital employed (ROCE) was 9.1 percent and thus above the cost of capital. In 2008 economic value added—defined as the positive difference between ROCE and the cost of capital, based on average capital employed—was €153 million.

Expenditures on property, plant and equipment amounted to €1.2 billion in 2008, below the budget of around €1.5 billion, principally due to the postponement of some investment projects.

Economic background

Global financial markets crisis halts growth in world economy and raises fears of recession

The global financial markets crisis gave another downward jolt to growth in the world economy, which had started to slow in the previous year. According to the latest OECD data, global growth virtually halved. With growth rates of between 1.4 percent and 0.5 percent in the USA, Japan and the major European economies (Germany, France, UK) and an abrupt reduction in the pace of expansion in some emerging markets, the overall global growth rate was 2.5 percent, compared with 4.9 percent in 2007. Even China, India and Russia, which had previously reported high growth rates, fell short of earlier expectations and registered significantly slower growth. Another downside factor was the renewed rise in energy and raw material prices, which only dropped back towards the end of the year in the wake of plummeting global demand.

Economic growth in **Germany** was 1.4 percent, only just below the forecast given a year earlier despite considerably lower domestic and foreign demand in the second half of the year. The positive outlook at the start of the year, accompanied by high capacity utilization, boosted employment, bringing the unemployment rate down further to 7.2 percent. Although Germany maintained its role as the leading export nation in 2008, the reduction in global growth momentum brought a considerable drop in consumer spending and output, which cut foreign demand significantly in the fourth quarter. The country's strong export focus could therefore become a structural drawback if domestic consumption remains sluggish and the global economy does not rapidly return to a sustained growth track.

In the remaining countries in the **euro zone** economic growth came to a virtual standstill, halving year-on-year to 1.0 percent. This downward trend was triggered principally by France, the Netherlands and Spain, where growth was down by between 1.3 and 2.4 percentage points year-on-year, and by Italy and Ireland which posted drops of 0.4 percent and 1.8 percent respectively. In the **Scandinavian countries** the previous year's economic stagnation continued. The overall growth rate for the **EU** therefore dropped from 3.0 percent to 1.4 percent, mainly due to plummeting growth rates in the new member states, which had previously registered growth well above the average.

Russia also suffered significantly from the global crisis. Although growth was still well above the global average, it declined by 1.6 percentage points to 6.5 percent. As a major producer, Russia benefited from a further rise in energy prices as well as strong domestic demand. The downside of the expansionary monetary policy designed to boost consumption was high inflation, which increased to an annual average of 15 percent in 2008.

No positive impetus for the world economy came from **Japan** either. Growth was 0.5 percent, indicating that the Japanese economy stagnated.

The **US** economy moved into recession in 2008. The subprime mortgage and real estate crises triggered a meltdown of the world's financial markets. Consumer spending nosedived and economic growth dropped by a further 0.6 percentage points to 1.4 percent, so the growth rate declined for the fifth consecutive year. This negative trend was accompanied by an increase in unemployment to 7.2 percent.

Even the global growth drivers lost the momentum of previous years. Growth declined by 2 percentage points year-on-year in both **China** and **India** to 10 percent and 7 percent respectively. Chinese exports declined especially fast in the second half of the year. Lower foreign demand has also affected employment and thus domestic consumption, the second buttress of China's economic upswing. The pace of growth in India had already slowed in the previous year. However, its lower export exposure suggests that the global economic downturn will have a less negative impact than in China.

Brazil was the only significant emerging market where there was no discernible drop in growth. Its growth rate was 5.3 percent, once again well above the global average and only 0.1 percentage points less than in the year before.

Trends in the chemical sector

While demand for chemical products had previously been driven by the sustained expansion of the global economy, the mounting global crisis started to have an impact very early on and the sector was one of the hardest hit from the second half of the year. Demand plummeted in the final months of the year. As a result, total output of the German chemical industry contracted by an average of 2.2 percent over the year. Only the pharmaceuticals segment reported growth. Export sales rose by a further 8 percent, partly due to price increases to pass on higher raw material prices. However, virtually no growth was registered in Western Europe, which is the sector's main market. Here, demand declined continuously from mid-year. A positive countertrend and general support for the sector once again came from orders from the twelve new EU members states, which rose by a good 13 percent. The good export performance was again due to Russia, the Middle East and, above all, the emerging economies in Latin America (+26 percent) and East Asia (+12 percent). By contrast, deliveries to Japan were unchanged from the previous year.

One reason for the poor overall performance by the German chemical industry was the decline in domestic orders. Alongside lower consumer demand, production cut-backs in the main industries served—the automotive, construction, rubber and plastics sectors—reduced orders by 0.7 percent in real terms.

The chemical industry worldwide suffered from the effects of the economic crisis. In the European Union the industry dropped 1.4 percent while in Asia growth contracted by nearly 3 percentage points to 5.3 percent. Latin America also posted a more subdued performance, with growth of only 2.1 percent. Growth rates only remained well above the average at nearly 10 percent in the Middle East and Africa. By contrast, chemical production contracted noticeably in the USA, dropping 3.5 percent year-on-year.

Trends in the energy sector

Despite high prices, primary energy consumption in Germany was 2 percent higher than in 2007. Total consumption was around 480 million metric tons hard coal equivalents. There was an appreciable rise in demand for heating (oil and natural gas). Gas consumption increased 3 percent year-on-year but the use of coal dropped. Consumption of hard coal was 6.1 percent lower while demand for lignite dropped by 3.3 percent. The proportion of renewable resources in the energy mix rose from 6.6 percent in 2007 to 7.3 percent in 2008. German power consumption was only slightly lower than in 2007, slipping 0.3 percent to 616.6 Terawatt hours (TWh)[1], while gross power generation was around 639 TWh. Nuclear power generation increased by 6 percent to 149 TWh because some power plants that had been out of service for all or part of 2007 fed power into the grid again. Power generation from natural gas increased 9.4 percent to 83 TWh. By contrast, power generation from hard coal decreased by 9.5 percent to 128.5 TWh and power generation from lignite dropped by 3.3 percent to 150 TWh. Renewables raised their share of power generation by 5.8 percent to 93 TWh.

In 2008, the market for electricity and heating was dominated by the price rally on the international commodity markets, especially the rising price of crude oil and coal, and the price of CO_2 emissions allowances. Prices on the international oil and coal markets skyrocketed until mid-year: At the start of July 2008 both crude oil and hard coal were trading at record levels. This was mainly due to high demand from emerging markets such as India and China, combined with a shortage of production and freight capacity. Oil prices (OPEC basket) rose steadily from US$89 per barrel in January 2008 to over US$131 per barrel in July 2008. The price of steam coal (API2) in Rotterdam rose 60 percent within seven months from an average of US$130 per metric ton in January 2008 to an average of US$210 per metric ton in July 2008. Freight rates followed this trend and by July they were two-thirds above the January level. The commodity markets dropped massively from the third quarter on. Fears of recession triggered by the financial markets crisis and the related sharp drop in demand for raw materials led to a significant downward price correction. By year-end 2008 commodity prices were far lower than at the end of 2007. The oil price dropped to US$39 per barrel in December 2008 (compared with US$87 per barrel in December 2007) and coal cost only US$81 per metric ton in December 2007 (versus US$128 per metric ton in December 2007). Freight rates dropped to a low for the year in December 2008.

[1] The power generation data are provisional data published by AG Energiebilanzen e.V.

For technical reasons there was no spot trading in European Union Allowances (EUAs) for five months. Trading was thus confined to futures. This was because EUAs could not be issued as no connection was available between the European register (CITL) and the international register (ITL). After issue, the price of EUAs essentially mirrored the trend on the commodities markets, hitting a high at the end of June 2008 and then declining sharply in the third and fourth quarters. Average prices for base and peak load power were considerably higher than in 2007. The price trend for fuel and EUAs, combined with a sharp drop in demand, especially from industry, impacted the German wholesale markets, pushing electricity prices at year-end 2008 down well below the highs registered earlier in the year.

The second European emissions trading period, which runs until 2012, began on January 1, 2008. Conditions for utilities have deteriorated compared with the first trading period (2005 through 2007). Alongside a sharp reduction in the allowances allocated, they have to bid for some of their allowances. It is assumed that the allocation mechanism for the power sector will be tightened further from 2013. At their summit in Brussels on December 11-12, 2008, the EU's heads of state and heads of government agreed that as from 2013 utilities would have to bid for all emissions allowances required to generate power. Exceptions will be made for Eastern European countries, where the proportion of allowances to be obtained by auction will be increased successively from 30 percent in 2013 to 100 percent by 2020. The EU member states can use some of the proceeds of their allowance auctions for the period 2013 through 2016 to support the construction of new and more efficient power plants. A precondition for such subsidies, which may not exceed 15 percent of the investment costs, is that the power plant site should be CCS-ready, in other words prepared for carbon capture and storage. On December 17, 2008 the European Parliament approved the resolutions adopted by the EU heads of state and heads of government. Since the conditions for trading in European emissions allowances after 2012 were unclear, the energy sector postponed many investment projects in 2008. As a result of the EU resolutions, the construction of new coal-fired power plants, in particular, is expected to drop.

Trends in the residential real estate sector

The German housing market is dominated by owner-occupiers and private landlords. Foreign institutional investors have increased their position on the market in recent years by acquiring property portfolios and real estate companies from public-sector housing corporations and other owners. Activity by foreign investors on the German residential real estate market has declined considerably as a result of the financial markets crisis.

General demand for housing is directly linked to the number of private households and their disposable incomes. The number of households is rising steadily as the average size of households is declining, although there is a clear divergence between the trend in different towns and communities. There were enormous regional differences in the development of net rents for residential property (excluding utility charges). Overall net rents increased by 1.1 percent in 2008, continuing the moderate upward trend observed in previous years. Utility charges are becoming an increasingly important factor in rental decisions.

Spending on residential construction is declining. Investments brought forward to counter the abolition of subsidies for owner-occupiers at the start of 2006 and the rise in value-added tax at the start of 2007 resulted in a further drop in the number of construction permits issued in 2008. It is estimated that only about 200,000 residential units were completed in 2008 (2007: around 225,000). Construction of new apartments and owner-occupied properties is thus currently below the forecast requirement of almost 300,000 units.

Business activities

A clear strategy and an efficient structure

Evonik is a modern industrial group based in Germany with operations throughout the world. Our Chemicals, Energy and Real Estate Business Areas are positioned at the forefront of the markets in which they operate. We gain a foothold in future markets by providing key answers to economic megatrends. In particular, we see opportunities in the areas of energy efficiency, health & wellness and globalization & demographic change. That enables us to offer our owners—RAG-Stiftung (74.99 percent) and CVC Capital Partners (25.01 percent)—a high degree of stability and good prospects.

Our operations are grouped in eight business units, which act as entrepreneurs within the enterprise. The Corporate Center supports the Executive Board in the strategic management of the Evonik Group, while a Shared Service Center efficiently bundles internal services for our sites.

Evonik is managed in accordance with the clear principles of state-of-the-art value management, focusing on profitable growth and sustained value creation. Active portfolio management, accompanied by efficient capital allocation, has high priority for the Evonik Group: We only invest in businesses with sustained and profitable growth prospects. Businesses that no longer fit our strategy or fail to meet our profitability requirements are divested.

For many years, the **Chemicals** Business Area has ranked among the global leaders at the heart of the specialty chemicals sector. Our size gives us the critical mass and global presence required to leverage synergies in research, production and distribution and to gain access to new growth markets—without jeopardizing the stability and prospects of established business activities. More than 80 percent of sales come from activities where we are among the market leaders and we are systematically improving our position. The spectrum of our operations is very balanced: None of our end-markets accounts for more than 20 percent of sales and the five largest customers together only account for 10 percent. We are steadily stepping up our commitment to attractive regions and high-growth emerging markets. The Chemicals Business Area already generates more than 40 percent of its sales outside Europe. The strength of our specialty chemicals comprises unique process and applications technology platforms. Moreover, integrated structures allow excellent management of material flows, giving us an advantageous cost position. Close collaboration with customers is another key strategic factor. To improve still further, we are focusing on operational excellence, increasing our presence in attractive growth regions and the impetus provided by our innovations. In the Chemicals Business Area market-focused research and development (R&D) is a key driver of profitable growth for the future. Our innovative strength is illustrated impressively at 35 sites around the world, where we have around 2,300 R&D employees. Products, processes and applications developed in the past five years account for over 20 percent of sales.

The core competencies of the **Energy** Business Area are planning, financing, building and operating highly efficient fossil-fueled power plants. As a grid-independent power generator, we operate coal-fired power plants at nine locations in Germany and refinery power plants at two locations. Evonik's international successes comprise large coal-fired power plants in Colombia, Turkey and the Philippines. In all of these countries we work closely with local partners. Installed capacity is roughly 10,000 Megawatts (MW) worldwide, including around 8,000 MW in Germany. Long-term supply and offtake agreements with key customers ensure a sustained return on investment and essentially stable revenues. As the first company in Europe, we are currently building a 750 MW power station fueled by hard coal, which will have net efficiency of over 45 percent—around 5 percentage points above the best performance currently achieved in Germany and at the forefront of international efficiency on a comparable basis. Providing Clean Competitive Energy from Coal (CCEC), this power station in Duisburg-Walsum (Germany) will use 15 percent less fuel and emit 15 percent less carbon dioxide than the average coal-fired power station in Germany. Evonik also ranks at the forefront of the German market in the disposal and reprocessing of power plant residues. We are well-positioned in the fast-growing market for renewable energies and one of the German market leaders in mine gas, biomass and geothermal energy. Our global engineering services deepen our country-specific market know-how, enabling us to develop new business ideas for power plant projects.

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 around 75,000 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, which essentially generates regular and stable cash flows. We place great store by sustained development of our housing stock. Smart concepts are used to address the entire lifecycle of our properties, including modernization to create low-energy homes. Together with carefully planned, cost-saving running cost strategies, this minimizes the utility charges paid by tenants. Our business model is rounded out by selected property development activities on company-owned land to upgrade our properties.

Changes on the Executive Board

The previous Chairman of the Executive Board, Dr. Werner Müller, stepped down from the Executive Board of Evonik Industries AG as of December 31, 2008. In September 2008, the Supervisory Board appointed Dr. Klaus Engel of Evonik's Executive Board to succeed him as Chairman of the Executive Board effective January 1, 2009.

The Supervisory Board restructured the management in December 2008 and reduced the number of Executive Board members from seven to three. Effective January 1, 2009, Evonik's Executive Board comprises Dr. Klaus Engel, Ulrich Weber, who is responsible for human resources, and Heinz-Joachim Wagner as Chief Financial Officer (CFO). In future, the Executive Board will focus on major strategic management functions. In addition, the Supervisory Board appointed Dr. Wolfgang Colberg, currently a member of the managing board of BSH Bosch und Siemens Hausgeräte GmbH, Munich (Germany), as CFO effective April 1, 2009. He succeeds Heinz-Joachim Wagner who is retiring on age grounds. Dr. Alfred Oberholz and Dr. Alfred Tacke left the Group as of December 31, 2008. Dr. Peter Schörner has resigned from the Group's Executive Board but retains his seat on the Board of Management of Evonik Immobilien GmbH.

The separation of strategic and operational functions is part of the Group's systematic alignment to profitable growth and sustained value creation. At the same time, it further strengthens the entrepreneurial responsibility of the business units, so this lean management structure enables us to respond faster to market and customer requirements. The new management structure is important to ensure a sustained improvement in our strong market position and enable us to emerge stronger from the global financial and economic crisis.

Further organizational changes

As of January 1, 2008 Evonik Steag GmbH acquired 50 percent of the shares in Infracor GmbH, Marl (Germany), a service company which operates the Marl site for the chemical industry, from Evonik Degussa GmbH. Marl is one of the largest integrated chemicals sites in Europe. One major activity at Infracor is the supply of energy to the companies at the site from the company-owned industrial power plant. The transfer of the shares is designed to realize synergy potential for the Group, especially in the fields of steam and power management, refrigeration, water, gases, waste management and wastewater treatment. Since the start of 2008 Infracor has thus been allocated in equal parts to the Energy and Chemicals Business Areas. The prior-year figures have been restated accordingly.

Effective January 1, 2008, the twelve business units in the Chemicals Business Area were merged to form six new business units. The new structure was already adopted in last year's reporting.

Global activities

Evonik operates worldwide and has production sites in more than 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. Moreover, the business units can share the site energy supply and infrastructure cost-effectively. For technical or logistics reasons, some production facilities are located 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.

Effective procurement

The main Group-wide procurement activities are bundled at the Shared Service Center. This has enabled us to align the organizational structure to procurement markets, internationalize structures and step up cooperation with the business units.

Performance of the procurement function is measured using an internal basket of goods, whose price trends are monitored against indexed market price trends. The savings made are documented in a database and checked. In addition, indicators are used to improve productivity.

Evonik spent over €7 billion on raw materials, technical equipment and services in 2008. Raw materials account for around 60 percent of total procurement volume. In keeping with the structure of the Group, different raw materials are of strategic importance for different business units. Of particular importance for the Group as a whole are petrochemical feedstocks, especially steam cracker products and their derivatives, which comprise the largest single group, making up around 30 percent of procurement volume. Silicon and silicone compounds and renewable raw materials are also very important. The price of petrochemical feedstocks continued to rise in the first three quarters of 2008 as a direct result of raw material price trends, but declined considerably in the fourth quarter. The average year-on-year price increase for petrochemical feedstocks in 2008 was 10 percent. The price of silicon and silicon derivatives also rose until the third quarter but declined in the fourth quarter due to falling energy costs. On average, the year-on-year price rise was over 30 percent. Prices of renewable raw materials also rose.

In response to the sudden drop in demand from November 2008, altered volume requirements were agreed with suppliers and price adjustments were negotiated. Procurement has stepped up market monitoring in the wake of the economic crisis. A risk profile has been drawn up for strategic suppliers, together with alternative courses of action in case suppliers should cease trading. So far, the supply chain has been upheld in full, despite some supply bottlenecks.

In response to the EU's Chemicals Regulation REACH, which requires companies to register all chemical substances, an electronic supplier portal was introduced to enable suppliers to obtain information on how Evonik utilizes their products in compliance with the registration requirements and to facilitate completion of the pre-registration phase by the deadline of December 1, 2008.

Further divestments[1]

To optimize our business portfolio, we divested further operations in 2008. In December 2007 we signed an agreement to divest RÜTGERS Chemicals GmbH, Castrop-Rauxel (Germany), a **tar refining** company, to two companies owned by the financial investor TRITON, St. Helier, Jersey (UK). Closure of the transaction was delayed until April 2008 due to fire damage which caused a temporary shutdown of production at RÜTGERS Chemicals. In May 2008 we closed the divestment of our **initiators** business, comprising organic peroxides and persulfates used by the polymer industry to manufacture plastics and in other applications such as electronics and cosmetics. These activities were acquired by two companies of the US financial investor Speyside Equity. Both businesses were classified as discontinued operations.

Further non-core businesses were also divested. In January 2008 we sold our remaining stake in **SOTEC** GmbH, Saarbrücken (Germany) to the previous minority shareholder, E.ON Energy from Waste Aktiengesellschaft, Helmstedt (Germany). SOTEC generates energy from the incineration of waste. In October 2008 we divested our **mining chemicals** business in the USA and Canada to a company of the financial investor Oaktree Capital Management. This transaction comprised the North American operations of the CyPlus Group, which focused on gold mining. It principally comprised a 50 percent stake in the US joint venture Cyanco. The operations of CyPlus GmbH in Hanau and Wesseling (Germany) and Antwerp (Belgium) remain part of the Evonik Group and are continuing with a focus on new growth markets. In December 2008 we sold our minority stake of 34.55 percent in **ThyssenKrupp Röhm Kunststoffe GmbH**, Düsseldorf (Germany) to ThyssenKrupp Services AG, Düsseldorf.

Financial investor CVC acquires 25.01 percent of the shares in Evonik

At the start of June 2008 our previous sole owner RAG-Stiftung sold 25.01 percent of its shares in Evonik Industries AG to Gabriel Acquisitions GmbH, Cologne (Germany). Gabriel Acquisitions is an indirect subsidiary of funds established and advised by CVC Capital Partners Luxembourg S.à r.l., Luxembourg (Luxembourg). This transaction was closed in September 2008. RAG-Stiftung now directly and indirectly holds 74.99 percent of the shares in Evonik Industries AG. The purchase by financial investor CVC is a clear commitment to an intensive and trusting partnership based on defined criteria: together with our owners we plan to continue our strategic course and double the equity value of

[1] For further details, see Note (5.2) to the consolidated financial statements.

Evonik within the next few years. In agreement with our shareholders, RAG-Stiftung and CVC, the target period for this was originally set at five years, but we have withdrawn this timeline in the light of the financial and economic crisis. Nevertheless, our goal is still to double the equity value of our company.

Return on capital again above capital costs—€153 million economic value added

Evonik is managed on the basis of a consistent system of value-oriented indicators. These are used to assess the business performance of the operational units and the Group. Through systematic alignment to these indicators, the Group endeavors to generate cash flows to create value and ensure 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 business areas. This is ensured through a mixture of standardized financial targets and key performance indicators which are defined uniformly for all reporting levels in the Group. Business-specific indicators—known as value drivers—take account of the success factors of the individual businesses.

The value-driven performance indicator system is therefore divided into three different levels. Starting from the goals of creating value and generating positive cash flows, cash flow parameters and profitability form the apex of the pyramid. These indicators are derived from uniformly defined performance indicators taken from the income statement, balance sheet and cash flow statement. The central parameters are EBITDA (earnings before interest, taxes, depreciation, amortization, impairment losses, reversals of impairment losses and non-operating result), EBIT (earnings before interest, taxes and non-operating result) and operating income (EBIT after non-operating result). In the value-driver tree, these indicators are supported by key performance indicators (KPI) which are used for operational management. They are the main factors that the operational units can leverage to secure Evonik's success.

ROCE measures the return on capital employed based on the Group's cost of capital. If ROCE is above the cost of capital, the company makes a positive contribution to economic value added. ROCE is calculated from the ratio of EBIT to average capital employed. Economic value added 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. The annual review for 2008 did not reveal any need to adjust this figure compared with 2007. Evonik's overall cost of capital is thus still 8.0 percent before taxes.

Cost of capital (WACC) in 2008

in %	before taxes	after taxes
Chemicals	9.0	5.4
Energy	7.5	4.5
Real Estate	5.3	4.2
Evonik	**8.0**	**5.1**

In fiscal 2008 Evonik achieved an ROCE of 9.1 percent, which was above the cost of capital but below the previous year's ROCE of 9.7 percent. Economic value added was €153 million in 2008 (2007: €243 million). All three business areas earned a return above their cost of capital and thus made a positive contribution to economic value added in 2008. In the Chemicals Business Area, ROCE decreased slightly year-on-year as a result of a slight reduction in EBIT and an investment-related rise in capital employed. For the same reasons, the Energy Business Area's ROCE was also lower than in the previous year. By contrast, the Real Estate Business Area improved its ROCE considerably.

Capital employed and ROCE

in € million	2008	2007
EBIT	**1,304**	**1,363**
Intangible assets	4,109	4,294
Property, plant and equipment/investment property	7,111	7,032
+ Investments	686	443
+ Inventories	2,004	1,768
+ Trade accounts receivable	2,563	2,290
+ Other non-interest-bearing assets	2,391	2,575
– Interest-free provisions	–2,078	–2,305
– Trade accounts payable	–1,375	–1,178
– Other interest-free liabilities	–999	–893
– Liabilities held for sale	–26	–38
= Capital employed[1)]	**14,386**	**13,988**
ROCE (EBIT/capital employed)	**9.1**	**9.7**

[1)] Annual averages.

ROCE by business area

in %	2008	2007	WACC
Chemicals	9.9	10.1	9.0
Energy	13.1	15.3	7.5
Real Estate	9.2	8.3	5.3
Evonik	**9.1**	**9.7**	**8.0**

Higher raw material costs reduce EBITDA margin

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 write-downs are not included in EBITDA, so the EBITDA margin can be taken as an approximation of the return on sales-related cash flow.

The Group's EBITDA margin declined from 15.5 percent to 13.7 percent due to slightly lower EBITDA and a considerable rise in sales as prices were raised to recoup the higher cost of raw materials. While the Chemicals and Energy Business Areas fell short of the previous year's margins, the Real Estate Business Area reported a substantial improvement in its EBITDA margin.

EBITDA margin by business area

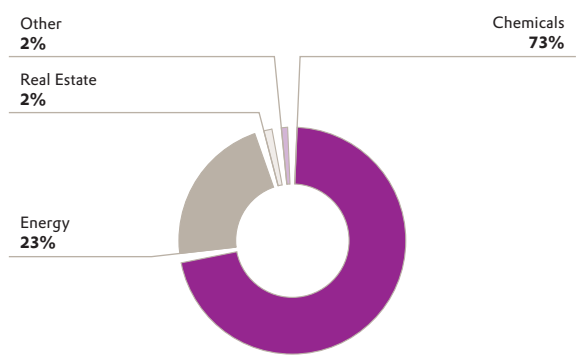
in %	2008	2007
Chemicals	13.9	15.2
Energy	14.9	19.2
Real Estate	57.9	44.4
Evonik	**13.7**	**15.5**

Earnings position

Higher demand

The Evonik Group grew sales by 10 percent to €15,873 million. The Chemicals Business Area lifted sales 9 percent to €11,512 million, mainly by raising selling prices to recoup some of the renewed dramatic hike in raw material costs. Sales volume declined slightly as a result of the sharp drop in demand in the last two months of the year. In the Energy Business Area sales advanced 21 percent to €3,649 million, driven principally by far higher coal prices. The Real Estate Business Area reported a year-on-year drop in sales to €375 million due to lower property sales.

Sales by business area



Income statement for the Evonik Group

in € million	2008	2007
Sales	15,873	14,444
Change in inventories of finished goods and work in progress	109	32
Other own work capitalized	102	81
Other operating income	1,297	956
Cost of materials	–9,379	–7,988
Personnel expense	–2,810	–2,773
Depreciation, amortization and impairment losses	–1,160	–1,119
Other operating expenses	–3,214	–2,690
Income before the financial result and income taxes, continuing operations	**818**	**943**
Financial result	–450	–416
Income before income taxes, continuing operations	**368**	**527**
Income taxes	–130	–158
Income after taxes, continuing operations	**238**	**369**
Income after taxes, discontinued operations	117	602
Income after taxes	**355**	**971**
of which attributable to		
Minority interests	70	95
Equity holders of Evonik Industries AG (net income)	285	876

Prior-year figures restated.

The other operating income of €1,297 million (2007: €956 million) includes income from the valuation of derivatives (€445 million), currency translation of monetary items (€288 million) and the reversal of provisions (€112 million). It also includes the proceeds of the divestment of non-core business activities. The 17 percent increase in the cost of materials to €9,379 million is mainly attributable to higher coal prices in the Energy Business Area and the increase in raw material costs in the Chemicals Business Area. The internal raw material cost index, which shows the change in the price of major raw materials used in the Chemicals Business Area rose by an annual average of 19 percent. Substantial rises were registered in the price of key petrochemical feedstocks, silicon and silicon derivatives, especially in the first nine months of 2008. In the fourth quarter there was a clear reduction in the market prices of both groups of raw materials, which are particularly important for our portfolio. However, there was a time lag before this filtered through the supply chain and was reflected in our raw material cost index. Personnel expenses increased slightly to €2,810 million. Depreciation, amortization and impairment losses amounting to €1,160 million (2007: €1,119 million) includes impairment write-downs on assets in the Inorganic Materials, Health & Nutrition and Performance Polymers Business Units in the Chemicals Business Area. The other operating expenses of €3,214 million include expenses relating to the valuation of derivatives (€676 million), expenses for the restructuring of the Group and strengthening the Evonik brand, provisions for the shutdown of smaller chemicals sites, antitrust proceedings and the planned relocation of the Frankfurt premises.

Net income below previous year's high level

Income before the financial result and income taxes declined 13 percent to €818 million. The financial result decreased by €34 million to minus €450 million principally as a result of higher interest expense for pension provisions and retroactive tax payments and the interest portion of long-term provisions. By contrast, income from companies accounted for at equity increased significantly.

Income before income taxes from the continuing operations declined 30 percent to €368 million. Income tax expense of €130 million includes one-off tax effects of €20 million, mainly due to translation effects and non-period taxes. In the previous year, the tax expense was reduced substantially by income from the reversal of deferred tax liabilities in connection with the reform of the German corporation tax system. The continuing operations reported a 36 percent drop in after-tax income to €238 million.

The income before income taxes from the discontinued operations was €117 million. This mainly contains the proceeds of divestments and the ongoing earnings of the tar refining and initiators businesses until their divestment. The previous year's high level of €602 million chiefly comprised the proceeds from the sale of the mining technology and gas distribution activities. **Net income** (after income taxes and minority interests) declined 67 percent to €285 million.

Financial condition

Efficient financial risk management

Evonik is exposed to financial risks in the course of its normal business and the related financial activities. The aim of our financial risk management is to guarantee transparency and flexibility and provide a reliable basis for planning in order to limit the market, liquidity and default risks affecting both the value of the company and its profitability. The top priority is to ensure that the Group has sufficient liquidity at all times. In this way, we can largely check negative fluctuations in cash flows and earnings without having to forego the opportunities offered by positive market trends.

For this purpose we have established a systematic central financial risk management system. We follow the principle of separation of trading, risk controlling and back office functions and take as our 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. Action is then defined to limit the risk potential.

All financial instruments used by the Group are exposed to a possible loss of value due to price fluctuations. Scenario analyses are used as a realistic basis for simulating possible (negative) changes in the market value of derivatives and a reduction in the value of primary financial instruments. These simulate the risks arising from a change in the underlying parameters in order to calculate their potential impact on interest rates, exchange rates and commodity prices.

Financial risk management is based on a Group-wide treasury management system. Hedging is used to reduce risk. This mainly comprises the use of derivative financial instruments to hedge underlying transactions. Financial derivatives are used for hedging purposes only, in other words, they are only used in connection with transactions originated by business operations that have a risk profile exactly opposite to that of the financial derivatives. The financial derivatives used are common market products such as forward exchange transactions, currency options, interest rate swaps and interest rate caps.

Commodity risks result from changes in the market prices of raw materials. At Evonik, commodity management is the responsibility of the business units. They identify procurement risks and define measures to minimize them. For example, price volatility is smoothed through price escalation clauses and swap transactions. In 2008 we also increased our use of futures, predominantly on coal, oil, gas, freight and electricity.

Credit risks relating to financial contracts are systematically examined when the contracts are concluded and monitored continuously afterwards. Following an analysis of creditworthiness, we set maximum limits for transactions with each financial counterparty. These are normally based on the ratings issued by international rating agencies and internal credit analysis. Credit risk management also covers financial derivatives, where the risk of default is equivalent to the positive fair value of the instrument. This risk is minimized by setting high standards for the creditworthiness of counterparties.

Details of the financial derivatives used and their recognition and valuation can be found in Note (10.3) to the consolidated financial statements.

Broadly diversified financing structure

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 financing support such as guarantees and sureties, is therefore managed centrally by Evonik Industries AG. Within the Evonik Group, cash and cash equivalents are concentrated in a cash pool at Evonik Industries AG. Evonik has a flexible range of corporate financing instruments to provide the funds required for day-to-day business, investments and the repayment of financial debt.

A key element in our long-term financing is a corporate bond issued by Evonik Degussa GmbH with a nominal value of €1.25 billion, which matures in December 2013. Other pillars of the Group's long-term financing are long-term bilateral credit agreements for real estate totaling some €0.5 billion which were drawn at year end and drawings of around €1.1 billion on long-term project financing in the Energy Business Area. Included in the amount drawn as of December 31, 2008 is €372 million of the €615 million project financing arranged by Evonik-EVN Walsum 10 Kraftwerksgesellschaft mbH in 2006 to fund the "Walsum 10" power plant project. Utilization of this financing facility will increase as the project proceeds.

To cover its short- and mid-term financing requirements, Evonik has access to syndicated and bilateral credit facilities. As of December 31, 2008 it had an unsecured syndicated credit facility of €2,929 million provided by a group of more than 60 German and international banks. This is divided into two tranches: a €679 million term loan with contractually defined repayment dates which has been drawn in full and—as the central liquidity source for the Group—a €2.25 billion revolving credit facility (RCF), €800 million of which was drawn at year-end 2008. The agreements on this credit facility contain clauses (financial covenants) under which we give an undertaking to meet specific financial ratios. The most important of these relates to leverage, in other words, the ratio of net financial debt to EBITDA. The other financial covenants are 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.

Compliance with these financial covenants has to be reported quarterly to the banking syndicate that provides the credit facility. In 2008 we were able to demonstrate that we had met all contractually agreed minimum requirements by a wide margin on all reporting dates. However, the increase in net financial debt and the substantial drop in EBITDA in the fourth quarter of 2008 in the wake of the economic crisis negatively affected the leverage ratio. The credit facility runs until March 2011 and interest on amounts drawn is calculated at the EURIBOR rate plus a margin.
There are also agreed bilateral credit facilities (especially money market lines) amounting to €180 million to cover short-term funding requirements, and €450 million for letters of credit. Drawings at the end of 2008 were €5 million and €268 million respectively.
Net financial debt increased by €659 million from year-end 2007 to €4,583 million, mainly because of a considerable increase in working capital and high outflows for capital expenditures.

Evonik has no off-balance-sheet financing that could have a material impact on its present or future earnings, financial position, liquidity or other balance sheet items.

As a result of the global banking and financial markets crisis, the risk premiums on new loans increased considerably in 2008. Since the vast majority of mid- and long-term credit facilities used by the company involve fixed interest and/or margin commitments, there was no significant increase in Evonik's financing costs in 2008. Some substantial increases in bank margins were, however, registered, especially when extending bilateral money market lines, but these were largely offset by declining market interest rates during the year.

The global economic crisis brought a substantial deterioration in Evonik's business trends from November 2008. While our operating profit dropped considerably, working capital increased. In view of the considerable uncertainty inherent in the economic situation and the development of the corporate financing market, we have analyzed various scenarios for the future development of the Group. These use different parameters and probabilities to determine the main risk factors affecting corporate financing and liquidity. Compliance with the financial covenants set in the agreements on our syndicated credit facility has special significance for Evonik because this is a key pillar in our corporate financing and the RCF is a central element in our liquidity management. We therefore ensure timely monitoring and forecasting of developments in the financial ratios we are required to meet. In response to the economic crisis we have introduced operational measures to stabilize our earnings and cash flow. We are also preparing financial countermeasures.

Net financial debt

in € million	**Dec. 31, 2008**	Dec. 31, 2007[1)]
Non-current financial liabilities	4,394	3,752
Current financial liabilities	1,008	942
Financial debt	**5,402**	**4,694**
– Cash and cash equivalents	536	319
– Short-term securities	7	303
– Receivables from derivatives	218	134
– Other financial assets	58	14
Net financial debt	**4,583**	**3,924**

[1)] Prior-year figures restated to reflect the change in accounting for low-interest loans in the Real Estate Business Area (see Note (3.4) to the consolidated financial statements) and a change of definition.

Capital expenditures[1)]

in € million	2008	2007	Change in %
Chemicals	703	599	17
Energy	351	309	14
Real Estate	87	103	–16
Other	19	21	–10
Evonik	**1,160**	**1,032**	**12**

[1)] For intangible assets, property, plant and equipment and investment property.

Further increase in capital expenditures in 2008—investment plans for 2009 under review

We use selective investment to improve our strong competitive position and expand into business activities and markets where we see potential for profitable long-term growth and an opportunity to generate high returns. All investments undergo detailed strategic and economic analysis, including sensitivity analyses and scenarios that simulate the main risks, and have to meet business-specific and risk-adjusted minimum return criteria which include covering the cost of central functions. Structured investment budgets are used to manage the allocation of funds. Alongside the funds required to uphold the business, these take account of the strategic classification of operations and the profitability, earnings and financial condition of the company. Major strategic projects are accorded special significance and undergo an extended comparative analysis with other businesses in the Group. This is designed to ensure the prioritization of major investments that meet top return expectations—after taking account of the specific risk factors—and are aligned to the strategic focus of Evonik and the relevant operational unit.

In view of the challenging global economic situation since November 2008, we have stepped up examination of our present and planned investments. Specific scenarios are developed for each business area. On the basis of the current forecast, Evonik can therefore respond on a case-by-case basis to short-term opportunities or a deterioration in economic conditions. The turmoil on the financial markets and the economic crisis did not have a discernible impact on capital expenditures in 2008. However, in view of the situation we have significantly reduced our investment plans for 2009. Capital expenditures on property, plant and equipment increased 12 percent to €1,160 million in 2008. The Chemicals Business Area once again received the largest proportion of this—61 percent. 30 percent was invested in the Energy Business Area. Regionally, the focus was on Germany, which accounted for 66 percent of the total. The largest single project is the erection of a 750 MW coal-fired power plant in Duisburg-Walsum (Germany). 7 percent of capital spending was allocated to other European countries and 8 percent to North America. We invested 19 percent of the total in Asia. Our most important single project here is the construction of an integrated production complex for methacrylates and their derivatives in Shanghai (China).

Major projects completed or virtually completed in 2008

Business area	Location	Project
Chemicals	Chongqing (China)	New cyanuric chloride plant
	Barra do Riacho (Brazil)	Expansion of hydrogen peroxide capacity
	Rheinfelden (Germany)	Construction of a monosilane production plant and a plant to precipitate polycrystalline silicon
	Rheinmünster (Germany)	Modernization of a superabsorbents plant
	Singapore	New oil additives plant
	Shanghai (China)	Partial start-up of PMMA complex
Energy	Iskenderun (Turkey)	Construction of a protected harbor for unloading coal
Real Estate	Essen, Recklinghausen (Germany)	Purchase of residential units
	NRW (Germany)	Modernization to improve energy efficiency and construction of new residential units

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

Financial investments increased by 3 percent to €149 million. They principally comprised acquisition of the remaining 49 percent stake in our former joint venture Degussa Lynchem Co. Ltd., Dalian (China) from our Chinese partner and an increase in our stake in Li-Tec Vermögensverwaltungs-GmbH, Kamenz (Germany) to 50.1 percent.

Significant reduction in cash flow

The cash flow from operating activities of the continuing operations decreased from €1,098 million to €381 million because of higher income tax payments and, above all, a sharp increase in current assets. This reflects the significant rise in raw material prices, increased inventories resulting from the drop in demand as from November 2008 and higher trade accounts receivable. Including the discontinued operations, the cash flow from operating activities was €388 million, well below the year-back figure of €1,215 million. Cash outflows for investing activities increased to €555 million, up from €329 million in the previous year. Outflows for investment were higher, while gains from the divestment of non-core operations were lower than in 2007. Owing to the reduction in the cash flow from operating activities, at year-end 2008 net financial debt was €659 million higher than at year-end 2007. This contrasts with a reduction in net financial debt in 2007. Overall, the cash inflow from financing activities was €356 million compared with an outflow of €1,007 million in 2007.

Cash flow statement for the Evonik Group (excerpt)

in € million	**2008**	2007
Cash flow from operating activities	388	1,215
Cash flow from investing activities	–555	–329
Cash flow from financing activities	356	–1,007
Cash and cash equivalents as of December 31	536	319

Asset structure

Increase in total assets

Total assets increased by €0.3 billion to €20.1 billion. Non-current assets increased by €0.1 billion to €13.7 billion, mainly as a result of investments. The €0.2 billion rise in current assets to €6.4 billion was attributable to a significant rise of €0.4 billion in inventories and a €0.2 billion rise in trade accounts receivable, while divestments reduced current assets. The change in inventories mainly reflects higher raw material costs and the increase in inventories following the drop in demand from November 2008. Non-current assets decreased slightly to 68 percent of total assets and are financed by liabilities with the same maturity structure.

Equity increased by €0.1 billion to €5.2 billion. The equity ratio improved slightly from 25.7 percent to 25.8 percent. Non-current liabilities increased by €0.5 billion to €10.5 billion. This was mainly due to a €0.6 billion rise in non-current financial liabilities to €4.4 billion. Current liabilities decreased by €0.3 billion to €4.4 billion, principally due to the divestment of business operations.

Evonik Group: Balance sheet structure

in € million	**2008**[1]	2007[1]		**2008**[1]	2007[1]
Non-current assets	13,730 (68%)	13,633 (69%)	Equity	5,192 (26%)	5,081 (26%)
			Non-current liabilities	10,549 (52%)	10,094 (51%)
Current assets	6,369 (32%)	6,167 (31%)	Current liabilities	4,358 (22%)	4,625 (23%)
	20,099	**19,800**		**20,099**	**19,800**

[1] As of December 31.

Research and development

Evonik—a highly innovative company
Research, development and innovation are key elements in Evonik's strategy of profitable growth and sustained value creation. We aim to maintain and strengthen our good position in specialty chemicals and power plant engineering through market-focused research and development (R&D). In the specialty chemicals business, where we rank among the world's leading players, it is particularly important to come up with a constant stream of new products and applications that meet top technical standards in order to stay ahead in the global marketplace. The basic preconditions are excellent market insight, close relationships with customers and efficient R&D. Today attractive areas of innovation are mainly found at the interfaces between traditional disciplines such as chemistry and biology or chemistry and engineering.

The Evonik Group spent €311 million on R&D in 2008. The vast majority was allocated to the Chemicals Business Area. 85 percent of Evonik's chemicals research comprises projects undertaken by the business units, which are geared specifically to their core markets and technologies. The remaining 15 percent is invested in strategic research to build new high-tech activities outside the Group's established business portfolio. This strategic chemicals research is bundled at Creavis Technologies & Innovation. Research in the Energy Business Area focuses on safe, economical and environmentally compatible energy supply. Raising the efficiency of hard-coal power plants and reducing CO_2 emissions are at the heart of the COORETEC program established by the German Ministry of Economics and Technology and of the COMTES 700 project conducted by a European research consortium. Evonik is involved in both of these projects. Alongside conventional power plant technology, Evonik's research extends to thermal utilization of biomass and biogas, geothermal energy and energy storage using compressed air. Other R&D projects include optimizing the day-to-day operating efficiency of power plants and identifying potential faults.

The efficiency and strategic importance of our chemicals R&D is illustrated by the following key points:

- Evonik's exceptionally large number of new patent applications positions it among the leading specialty chemicals companies and provides a sound basis for sustained innovation.
- Every €1.00 we invest in R&D generates annual sales of around €1.50.
- Products, processes and applications developed in the past five years account for over 20 percent of sales in our Chemicals Business Area.

Worldwide, our Chemicals Business Area has around 2,300 R&D staff at over thirty-five sites. Our latest showcase is the R&D Center in Shanghai (China), which is increasingly becoming a hub in our global R&D network. It is already being extended for the second time since it was opened in 2004.

The Chemical Business Area's modern innovation-oriented structures and processes are a hallmark of Evonik. Their purpose is to ensure that ideas are translated rapidly into marketable products and commercial success, in other words, turning ideas into profit.

In our project houses we develop promising cross-disciplinary technologies and technology platforms to application readiness. These are then commercialized by one of Evonik's business units or an internal start-up. The distinctive feature of all project houses is that work is performed by interdisciplinary teams. Moreover, each project house is established for a set three-year period. There are currently two project houses:

- The Functional Films & Surfaces Project House is working on nano and micro-scale surface coatings for polymer films and semi-finished products, for example for the photovoltaic industry.
- The Systems Integration Project House takes an all-round approach to developing new chemical specialties in conjunction with the necessary process and manufacturing technology. Systems solutions that are focused on how customers could use the product should open up new markets for Evonik.

In our Science-to-Business (S2B) Centers, scientists from a variety of disciplines, customers and suppliers from the entire supply chain work together. These projects receive funding from the federal state of North Rhine-Westphalia and are co-financed by the European Union. We are investing around €50 million in each of our S2B Centers over a five-year period. Altogether, we expect them to generate additional annual sales of around €1 billion in 2015. Evonik currently has three S2B Centers:

- Nanotronics: development of system solutions for the electronics industry based on nanomaterials
- Bio: development of new biotechnological products and processes based on renewable resources.
- Eco^2: development of innovative products and services to improve energy efficiency and climate protection. This S2B Center brings together projects from all three of Evonik's business areas—Chemicals, Energy and Real Estate—for the first time.

To leverage further synergies in the development of innovative products and generate additional growth potential, we have defined six interdisciplinary Areas of Competence for our Chemicals Business Area. These cover more than 80 percent of the markets in which this business area operates and pool our knowledge in the following future-oriented technologies: Inorganic Particle Design, Coating & Bonding Technologies, Interfacial Technologies, Designing with Polymers, Biotechnology and Catalytic Processes.

We have around 350 cooperation agreements with universities and invest more than €15 million a year in these. 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. Since 2008 Evonik has been part of an industry consortium working with the German Ministry of Education and Research (BMBF) on the MaDriX project to drive forward the development of low-cost printable radio frequency identification (RFID) tags. This technology could replace barcodes on inexpensive consumer goods in the future. In addition, in 2008 Evonik entered into a research alliance with other industrial companies and Paderborn University (Germany) on layered fabrication of components by laser on the basis of computerized datasets (Direct Manufacturing Research Center).

Another key area of research in the Chemicals Business Area comprises issues relating to future energy supply. Evonik thus sponsors a chair at Westfälische Wilhelms-University in Münster (Germany) dedicated to research in the field of energy storage by large-volume lithium-ion batteries. This is an area of fundamental importance for use of these products in electric and hybrid vehicles. Together with BASF, Bosch, Volkswagen and Li-Tec (Evonik's stake: 50.1 percent) we established a three-year innovation alliance "LIB 2015" in 2007 with total investment of €360 million. This is supplemented by funding of around €60 million from the German Ministry of Education and Research.

The ceramic membrane SEPARION® developed by Evonik makes lithium-ion batteries safer, more efficient and more durable. At the end of 2008 we set up a strategic alliance with Daimler AG to develop and produce lithium-ion batteries on the basis of our technology. This is a very attractive growth market that is expected to be worth US$10-15 billion in the next decade.

Evonik steadily improves its chemical production processes. In addition to optimizing process technology, we see especial potential in broadening our raw material base to include renewable resources alongside petrochemical feedstocks. In 2008, nearly 800,000 metric tons of renewable resources were used in our production processes—mainly dextrose, saccharose, fats, oils and bioethanol. That was around 8 percent of our total consumption of raw materials. About 80 percent of Evonik's products for the cosmetic industry are already based on natural raw materials.

Patented products accounted for around a third of sales in our Chemicals Business Area in 2008. Evonik holds over 20,000 patents and pending patents, and more than 7,500 trademarks and pending trademarks. We submitted around 350 new patent applications in 2008.

Innovation Award
The Chemicals Business Area has presented an internal Innovation Award since 2001. This award, which carries prize money of €40,000, is presented for outstanding innovative solutions in the categories "New Products", "New Processes" and "New Systems Solutions". The main selection criteria are originality, creativity, innovation, economic and ecological advantages and benefits for society. The 2008 awards singled out pioneering applications to save energy and resources and a new systems solution that simplifies computer operation.

Winner in the "New Products" category
Optimum tire pressure on automobiles and trucks improves safety, increases the lifetime of tires and cuts fuel consumption. Every tire loses about 0.1 bar of air pressure a month. If the air is not refilled, rolling resistance increases. And that increases fuel consumption and wear and tear on tires. The winning team from the Inorganic Materials Business Unit therefore looked for a way of minimizing the natural loss of tire pressure. The solution they came up with is ECORAX® S 206, a new carbon black that is added to inner liners—a rubber layer on the inner side of the tire—to reduce air permeability. Trucks fitted with such tires have been on the road around the world for the past year and practical experience shows that tire pressure remains at the optimal level for up to 50 percent longer. As well as lower fuel consumption, truck owners benefit from a further advantage: The inner section of the tires has less contact with aggressive oxygen molecules so they can be retreaded more often.

Winner in the "New Processes" category
Methylmethacrylate (MMA) is used in paints, inks and antirust coatings, soft contact lenses and dental implants. The polymer is just as versatile. Polymethylmethacrylate—better known as PLEXIGLAS®[1]—is the basis for transparent or colored sheets and rods, canopies, noise barriers, and pressure-resistant cast sheeting for large aquariums. It is also used in lightweight yet extremely tough components for automotive applications and flat-screen displays. Several million metric tons are produced globally, normally using the established ACH process. However, this method requires large amounts of concentrated sulfuric acid, a disadvantage that chemists and technicians from the Performance Polymers Business Unit have overcome with their new development: AVENEER®. This pioneering new method of producing MMA eliminates the use of sulfuric acid and thus the time-consuming regeneration process. And that considerably reduces costs and saves resources.

Winner in the "New Systems Solutions" category
Touch screens normally allow intuitive use without a keyboard or mouse, so they are generally regarded as particularly user-friendly. The winning team from the Performance Polymers Business Unit made a major contribution to the development of new multi-touch technology. Through a strategic cooperation with Microsoft, Evonik supplies the projection surface for Microsoft Surface™, the first computer display from Microsoft that allows users to interact with digital content by touch, gesture or placing objects on a tabletop. The surface comprises several optical functional coatings based on PLEXIGLAS®[1]. It is integrated into a "tabletop" and controlled entirely by movements on the surface.

Evonik awards European research prize
Evonik's Chemicals Business Area introduced the €100,000 Science-to-Business Award in 2005 to build a further bridge between science and business. Last year's award was presented in conjunction with the University of St. Gallen (Switzerland) and the Financial Times Deutschland newspaper. The award encourages young researchers to move from their laboratory into the world of business. The 2008 award focused on industrial biotechnology. This rapidly growing field is generating new types of production processes, mostly based on natural and renewable resources. Experts already expect that between 10 and 20 percent of chemical substances will be produced by such methods by 2010.

The international jury gave the 2008 award to Dr. Paul Dalby of University College London for his project "Biocatalysis for chiral amino diols". He has developed a biocatalytic process that allows enzymes to be combined and customized for new applications. This makes the use of biotechnology to produce chemicals more attractive and opens up to access to new medicines with the help of eco-friendly, energy-efficient processes.

[1] Evonik Industries is a worldwide manufacturer of PMMA products sold under the PLEXIGLAS® trademark on the European, Asian, African and Australian continents and under the trademark ACRYLITE® in the Americas.

Performance of the business areas

Chemicals Business Area

The Chemicals Business Area bundles Evonik's global specialty chemicals activities. Evonik is one of the world's largest and most significant companies in this sector. More than 80 percent of sales are generated by products where we rank among the market leaders. Evonik has operated at the heart of the specialty chemicals industry for many years and systematically strives to extend its market leadership and continuously improve the quality of its portfolio. The aim is to achieve organic growth above GDP, earn a premium on capital costs and achieve above-average operational profitability compared with its best-in-class peers. Evonik's success in specialty chemicals is based on unique technology platforms for processes and applications. Moreover, integrated structures allow excellent management of material flows, giving it an advantageous cost position. Close cooperation with customers, often through long-term development alliances, is another key strategic factor of considerable importance. Such alliances lead to optimum products and system solutions, often tailored specifically to customers and their market needs.

The spectrum of promising areas of business and regional growth markets where Evonik's specialty chemicals operations are present is very balanced: No single end-market accounts for more than 20 percent of sales. Moreover, the five largest customers account for just 10 percent of business volume. The Chemicals Business Area is consistently increasing its presence in attractive regions and high-growth emerging markets and already generates more than 40 percent of sales outside Europe. Market-oriented research and development is used to strengthen Evonik's innovative ability. Products, processes and applications developed in the past five years account for over 20 percent of sales. Evonik thus has key drivers for profitable growth in the future.

Sales and earnings

Sales rose 9 percent to €11,512 million, principally as a result of increases in selling prices to recoup some of the sharp hike in raw material costs. A comparable trend was reported in 2007. By contrast, the rise in volumes in the first ten months of 2008 was more than negated by the massive drop in volumes due to cyclical factors in November and December. The effects of changes in the scope of consolidation and exchange rate movements canceled each other out.

EBITDA was virtually unchanged year-on-year at €1,600 million. An improvement of around €100 million was achieved by the end of October but lost in the last two months of the year.
Earnings performance throughout 2008 was held back mainly by the sharp rise in energy and raw material costs. The perceptible decline in the price of oil starting in the fourth quarter had little impact as many procurement contracts for raw materials are quarterly or include price formulae that take effect with a time lag. The internal raw material cost index, which shows the change in the price of major raw materials used in the Chemicals Business Area, rose by an annual average of 19 percent. Energy costs were 24 percent higher than in the previous year. In large sections of the chemicals business it was only possible to pass on part of the increase in raw material costs by raising prices. EBITDA was also reduced by inventory write-downs in some areas to reflect the sharp drop in the price of oil at the end of 2008. Earnings were held back additionally by the lower annual average exchange rate for the US dollar (1.4726 EUR/USD in 2008 compared with 1.3749 EUR/USD in 2007).

The EBITDA margin fell from 15.2 percent to 13.9 percent, mainly because of the substantial rise in the cost of materials. Capital spending rose 17 percent to €703 million as a result of capacity expansions in Germany and abroad. Depreciation was €661 million and thus slightly lower than in 2007. Capital spending and a rise in current assets increased capital employed by 1 percent to €9,336 million. ROCE slipped from 10.1 percent to 9.9 percent owing to the slight rise in capital employed.

The drop in volumes triggered by the economic crisis from November 2008 was far sharper than had been anticipated. The operational units took early action to counter the substantially lower demand, especially from the automotive and construction industries and the coatings market. This included a widespread recruitment freeze, destocking, intensive fixed cost management, renegotiation of raw material, energy and freight contracts and more stringent overall cost management. At the same time, use was made of vacation and scope to reduce balances on overtime accounts and some investments were postponed. Since the downward pressure on volumes continued at the start of 2009 and has spread to almost all end-markets, reducing utilization of production capacity, some sites registered short-time working for their employees in Germany at the beginning of the year. 2,600 employees were affected by this at the start of March 2009.

Chemicals Business Area: Change in sales

in %	
Volumes	–1
Prices	10
Changes in scope of consolidation	2
Exchange rates	–2
Total	**9**

Chemicals Business Area: Key data[1)]

in € million	**2008**	2007[2)]	Change in %
External sales	11,512	10,571	9
EBITDA	1,600	1,610	–1
EBIT	927	930	0
Capital expenditures[3)]	703	599	17
Depreciation and amortization[3)]	661	676	–2
Capital employed (annual average)	9,336	9,205	1
ROCE in %	9.9	10.1	
EBITDA margin in %	13.9	15.2	
Employees	31,728	32,285	–2

[1)] In addition to the operational business units, the key data include strategic research, cross-unit site services and management expenses.
[2)] Prior-year figures adjusted for transfer of 50 percent stake in Infracor.
[3)] For intangible assets, property, plant and equipment and investment property.

The world needs ideas. Discovered in the early 19th century, hydrogen peroxide is now used mainly as an environment-friendly bleaching agent for paper and pulp. Evonik is the world's second-largest producer of this substance and our innovative process technologies give us a foothold in new markets. As a result long-term growth rates of 200,000 metric tons p. a. are forecast. We have prepared for that—for example, by extending capacity at our facilities in Brazil to 70,000 metric tons p. a.

Industrial Chemicals

The Industrial Chemicals Business Unit supplies products to customers in the agrochemicals, chemicals, plastics and paper industries for high-quality end-use applications. This business unit's success in industrial chemicals and advanced specialties is based on a wide range of outstanding processes.

The butene-1 and butadiene produced in our unique integrated C_4 production complexes in Marl (Germany) and Antwerp (Belgium) are mainly used as (co-)monomers in the plastics industry. The plasticizer specialties isononanol (INA) and diisononylphthalate (DINP) open up scope for a wide range of high-quality applications for the commodity plastic PVC. Another major product family comprises the anti-knock agents methyl tertiary butylether (MTBE) and ethyl tertiary butylether (ETBE), which are marketed to the fuel industry. 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 customers in the paper and pulp industry. Through innovative process technologies, this business unit has successfully gained a foothold in new markets. For example, the Hydrogen Peroxide for Propylene Oxide (HPPO) process has made it possible for the first time to use hydrogen peroxide in the industrial synthesis of propylene oxide, a starting product for polyurethanes. Together with a partner, it is currently working on a further innovation: low-cost Direct Synthesis of Hydrogen Peroxide (DSHP) from oxygen and water with the aid of a novel nano catalyst. Evonik's sodium methylate-based catalysts, which are used in the production of biodiesel, also make it a global leader in this attractive market. The product spectrum is rounded out by cyanuric chloride, triacetone amine and various alkyl chlorides, which are key synthetic building blocks for the agrochemicals, colorants and plastics industries.

Sales and earnings

Higher volumes and improved selling prices to reflect the increase in raw material costs lifted sales 12 percent to €2,737 million. EBITDA was virtually unchanged year-on-year at €363 million. The improvement in earnings in the first ten months of the year was eliminated by a considerable drop in monthly earnings in November and December. This cyclical drop in demand mainly affected plasticizers, which had previously shown strong volume growth. There was also high demand for products for the agricultural industry and alcoholates, which are used as catalysts in the production of biodiesel. Overall, the extremely sharp hike in the price of some raw materials was offset by raising the prices charged to customers. Ongoing savings drives supported this business unit's performance.

Capital expenditures

The hydrogen peroxide facility in Barra do Riacho (Brazil) was extended to 70,000 metric tons p. a. in 2008 to meet rising demand on the South American market. This capacity expansion was achieved by installing high-performance technology developed by Evonik, which allows efficient and economical expansion of production capacity without the need to build new plants. Good headway is being made with the construction of the production plant for cyanuric chloride in Chongqing (China) and start-up is scheduled for the first quarter of 2009. This €24 million investment will double current capacity in China to 60,000 metric tons p. a. and strengthen Evonik's global market position. Cyanuric chloride is an intermediate for applications in the agrochemicals, textile, paper and plastics industries.

Start-up of the 2-PH (2-propyl heptanol) plant in Marl (Germany), which is currently under construction, is planned for the fourth quarter of 2009. This will further optimize integrated C_4 production capacity, round out the portfolio of oxo alcohol products and increase production capacity for oxo alcohols by 60,000 metric tons p. a. to 400,000 metric tons p. a. Oxo alcohols are starting products for the production of plasticizers for PVC, for which there is rising demand around the world. The construction phase of another major project started in 2008: a new production facility for alcoholates with capacity of 60,000 metric tons p. a. in Mobile (Alabama, USA). Specific advantages of this catalyst produced by Evonik are its consistently high yield and the purity of the raw glycerine by-product. This project increases Evonik's commitment to the production of alternative forms of energy from renewable raw materials.

Research and development

Successful start-up by the Korean company SKC, Seoul, of the world's first industrial-scale propylene oxide plant using the innovative HPPO process was the highlight of this business unit's innovation activities in 2008. The HPPO process was developed jointly by Evonik and its engineering partner Uhde and licensed to SKC in 2006. The process generates propylene oxide (PO) from propylene and hydrogen peroxide (H_2O_2) using a catalyst developed by Evonik. The Evonik Headwaters joint venture supplies the H_2O_2 directly to the HPPO plant in Ulsan from an over-the-fence facility. The start-up of this plant brings Evonik a significant step closer to achieving its goal of the bulk supply of hydrogen peroxide for chemical production methods such as the HPPO process. Following this pioneering industrial-scale use of hydrogen peroxide for chemical synthesis of propylene oxide, the H_2O_2 market is expected to grow by 200,000 metric tons p. a. in the next ten years. Propylene oxide is a chemical with above-average growth rates: Demand exceeds six million metric tons p. a. It is mainly used to produce preproducts for polyurethane, which is used, for example, for cushioning for automobile seats and furniture. The advantages of the HPPO process include far lower capital investment requirements, accompanied by an improved environmental profile.

Innovation focuses on developing new and improved processes for core products. The alcoholate sodium methylate maximizes yields in the production of biodiesel from vegetable oil. Its use for second-generation biodiesel is currently being tested. This includes a new, alternative raw material: jatropha oil. Jatropha cannot be used as food and even grows in arid climates. It also has a good CO_2 profile: Unlike rapeseed, producing biodiesel from jatropha requires little fossil fuel. However, industrial utilization of the jatropha plant is only just starting. Industrial Chemicals is well-prepared for it to take off because Evonik's alcoholates work perfectly with oil from this plant.

Industrial Chemicals Business Unit

in € million	**2008**	2007	Change in %
External sales	2,737	2,451	12
EBITDA	363	363	0
EBIT	291	293	–1

The world needs ideas. Demand for solar power is set to rise rapidly in the next few years. And that will boost demand for polycrystalline silicon for solar cells. Our SIRIDION® chlorosilanes are key starting materials. As the market leader, our goal is to expand this business considerably and benefit from the attractive opportunities offered by this market. That's why started work on a new chlorosilanes facility in Merano (Italy) in early 2009.

Inorganic Materials

Core competencies in designing inorganic particles and their surface properties are the hallmarks of the Inorganic Materials Business Unit. It also has integrated silicon-based facilities for the production of a unique range of chlorosilanes and organosilanes. Key customers include the rubber and tire industry, producers of polycrystalline silicon and the coatings, printing and colorants industries, to which it supplies pigments.

Inorganic Materials supplies filler systems based on carbon blacks, precipitated silica and rubber silanes to the rubber and tire industry. It is the only supplier in the world offering all of these three substances. Carbon black is an inorganic specialty marketed as a black pigment for the production of coatings, inks and plastics. Fumed silicas are used in various special applications such as toothpaste, pharmaceutical products and battery separators, as matting agents and to coat high-quality paper for printing, including ink-jet printing. The ultrafine-particle fumed silica AEROSIL® is used to modify and improve the surface and properties of a wide range of materials. For instance, AEROSIL® increases the scratch-resistance of lacquers, improves the UV-protection of sunscreens and is an efficient polishing agent for silicon wafers for the microchip industry. Functional silanes are used in adhesives and sealant compounds, casting resins, insulating materials, as additives in coatings and colorants and in the electronics industry.

Another major area of application is the protection of buildings, for example, with high-performance anti-graffiti systems. The SIRIDION® chlorosilanes marketed by this business unit are key components in the manufacture of optical fibers and polycrystalline silicon, which is in high demand in the electronics and photovoltaic industries.

Sales and earnings

Sales rose 19 percent to €2,208 million, chiefly due to the first full-year consolidation of DEC (Degussa Engineered Carbons), which was first consolidated in November 2007, and price rises to counter the substantial rise in raw materials up to mid-year. Demand for carbon black, silicas and AEROSIL® declined year-on-year, while volume sales of functional silanes and chlorosilanes increased. Earnings were held back by rising energy and raw material costs, the weakness of the US market throughout the year and the sharp cyclical drop in demand from November 2008, which affected this business unit's main customers. EBITDA dropped 13 percent to €315 million.

Production at a carbon black plant in North America was shut down in December 2008 because of the low demand in the region. Similarly, due to a sharp decline in demand for precipitated silicas in India and China, production in these countries has been concentrated at one plant in India and two in China.

Inorganic Materials promptly introduced a wide range of measures to respond to the economic crisis. The central focus is on simplifying the complex customer, product and production base and reducing net working capital.

Capital expenditures

Evonik successfully started up its first monosilane plant at its site in Rheinfelden (Germany) in the second half of 2008. Another plant completed at the same time uses innovative technology to produce ultra-pure polycrystalline silicon (PCS) from monosilane. This plant is operated by the Joint Solar Silicon (JSSI) joint venture, in which Evonik holds a 51 percent stake and SolarWorld AG the remaining 49 percent. Initially, output in Rheinfelden will be 850 metric tons of solar silicon a year. Given the sustained strong growth in international demand for solar power, Evonik and SolarWorld see good opportunities for this new technology, which uses far less energy than other production processes. This technology was developed by JSSI in collaboration with leading universities. The new facility brings JSSI far closer to its goal of supplying high-quality, affordable solar silicon to the solar industry.

Evonik is driving forward its extensive program to expand chlorosilane capacity by building several new production facilities around the world. Construction of a new fence-to-fence chlorosilane plant has started in Merano (Italy). This plant will supply chlorosilanes for the production of polysilicon for the solar industry under a long-term agreement with the US company MEMC Electronic Materials Inc., which is one of the leading players on the PCS market.

Research and development

Inorganic Materials received Evonik's internal Innovation Award 2008[1] in the category "New Products" for the development of its new carbon black ECORAX® S 206.

In the field of custom-tailored particles, a new generation of reinforcing additives has been developed for the silicone industry. The new AEROSIL® SP grades feature improved properties such as better transparency and higher tenacity of the silicone formulation. They also offer clear advantages to customers in further processing because they require lower processing temperatures and thus help improve energy efficiency. Titanium dioxide particles with an SiO_2 shell (core/shell principle) have been commercialized for the toner market. These new toner additives ensure exceptionally even and stable charging of the toner powder and also give it excellent flow properties. AEROXIDE® STX grades thus play a role in the trend to high-resolution printing at higher speed.

The innovative adhesive additive MAGSILICA® ensures far faster curing of the components, so far higher bonding is achieved than in the past. MAGSILICA® is made of iron oxide crystals embedded in a silicon dioxide matrix, giving them superparamagnetic properties. If an adhesive with these additives is exposed to a high-frequency magnetic field, it is heated and cures in seconds. This permits extremely high bonding and far shorter curing times. Another advantage is that bonding achieved with MAGSILICA® can be reversed without problem, offering innovative approaches, especially for the automotive industry.

Inorganic Materials Business Unit

in € million	**2008**	2007	Change in %
External sales	2,208	1,859	19
EBITDA	315	361	–13
EBIT	190	253	–25

[1] See page 51 (Innovation Award).

The world needs ideas. Plastics tend to get scratched in everyday use in vehicles and the home. That's why we have developed TEGOMER® Antiscratch 100, an additive that improves the scratch resistance of plastic parts and makes sure plastic surfaces go on looking good for longer. And a lifetime of good looks maintains value, which is a key criterion for their use in vehicles and thermoplastic components.

Consumer Specialties

The Consumer Specialties Business Unit supplies chemicals to the consumer goods industry for use in cleaning agents, the personal care sector and hygiene products. Even small amounts of Evonik's custom-tailored substances and system solutions give customers' products the additional benefits that often clinch a sale. Strategic success factors include high innovative capability and intensive collaboration with leading manufacturers of consumer goods. This business unit's extensive knowledge of interfacial chemistry is also useful for industrial applications.

This business unit produces specialty surfactants, mainly from renewable raw materials or by processing or modifying silicones. These surface active substances are used by the cosmetics industry to impart special properties to cremes and lotions, sunscreens and hair conditioners: They make hair smoother and glossier, improve the skin's elasticity, enhance the effectiveness of sunscreens and make cremes easier to apply. The business unit also manufactures textile care specialties such as sodium percarbonate, which is used as a bleaching additive in detergents, and cationic surfactants for fabric softeners. The STOKO® Skin Care range of end-products is used to protect, clean and condition skin in industrial environments. Superabsorbents are cross-linked polymers produced from acrylic acid which form a gel that can absorb up to 300 times their weight in liquid and retain it even under pressure. Evonik's FAVOR® brand of superabsorbents is used in babies' diapers and in feminine hygiene and incontinence products. Consumer Specialties' products for industrial applications include surface-active additives for the manufacture of polyurethane foam. These specialty silicones are also used in rubber, metal and plastics processing, in the paper and textile industries, and in agriculture and construction.

Sales and earnings

Sales advanced 3 percent to €1,682 million. The uptrend was driven principally by price rises to offset the considerable rise in the cost of some raw materials. The volume growth in the first ten months was negated by the sharp drop in volumes due to the economic situation at the end of the year. EBITDA declined by 24 percent to €144 million. Volume sales of superabsorbents were high but earnings were adversely affected by the spiraling cost of raw materials, especially propylene and caustic soda, which were only partially recouped from customers and then with a time lag. This was offset to some extent by successful cost-savings and restructuring. Business with care specialties for cosmetics and household products increased but also suffered from the higher raw material costs. Polyurethane additives and industry specialties, which have a stronger industrial focus, were particularly badly affected by plummeting demand from November 2008 and posted lower earnings than in the previous year.

Capital expenditures
The superabsorbents plant in Rheinmünster (Germany), which has capacity of 60,000 metric tons p. a., was upgraded to the latest state-of-the-art. Fabric softener capacity was increased in Steinau (Germany), paving the way to improve our service to markets in Eastern Europe. In Shanghai (China) we are investing in the equilibration step for the production of stabilizers for PU rigid foam, which is scheduled to come into operation in March 2009. Together with the existing facilities at this site and Chinese starting products, this will allow autonomous production of stabilizers for PU rigid foam in China.

Research and development
Consumer Specialties' research in 2008 focused on developing innovative sustainable products and concepts for target Industries. Highlights include novel active substance systems produced from natural peptides which are particularly effective in cosmetic products and can be fine-tuned to handle the main skin problems, for example, aging, wrinkles and stressed skin. It imitates a peptide present in the skin, which is used to heal wounds and for the natural repair of skin damage caused by sunlight. The peptide triggers the production of collagen in the skin, making it appear smoother and younger.

For the cosmetics industry, this business unit also markets emollient esters (for example, myristyl myristate and cetyl ricinoleate) produced using biotechnological methods. Biotechnological production routes have better selectivity than chemical processes and the purity of the products is superior. This eliminates the inherent odor of conventionally produced esters, so they can also be used in low-scent cosmetic products. An ecological audit in accordance with DIN ISO 14040 analyzed and evaluated the benefits of biocatalysis. This showed that the lower-temperature reaction route used in enzymatic synthesis requires far less energy for production (savings of 62 percent of primary energy requirements) and also has ecologically quantifiable benefits in the processing of the raw product because bleaching and washing are unnecessary. Moreover, the enzyme catalyst is recycled.

The trend to natural raw materials is also playing an increasing role in the development of new polyurethane-based foams for household applications, for example, in mattresses. These foams are used in nature-based polyols for which a special foam stabilizer has been developed. Together with particularly environment-friendly catalysts, this ensures high quality.

A new anti-scratch additive improves sustainability by enhancing the wear profile and lifetime of products. This additive greatly reduces scratching of plastics in daily use, so plastic products used in the home and vehicles stay looking good for longer. TEGOMER® AntiScratch 100 is an organically modified siloxane without the drawbacks of conventional additives. Moreover, it offers better value for money. Scratch-free polypropylene produced with this additive is odorless and components should retain their anti-scratch properties through their lifecycle. That meets a key requirements of manufacturers of instrument panels, door trims and central consoles for the automotive industry. Moreover, TEGOMER® AntiScratch 100 could be used in many promising applications in the thermoplastic market.

Consumer Specialties Business Unit

in € million	**2008**	2007	Change in %
External sales	1,682	1,640	3
EBITDA	144	190	–24
EBIT	81	125	–35

The world needs ideas. Patients' expectations of new medicines are constantly rising. Our powdered precious metal catalysts allow highly selective production of ultra-pure active ingredients for pharmaceuticals so they can meet stringent quality and registration standards. To maximize cost-effectiveness and make more efficient use of raw materials, we also recycle the precious metals.

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. More than 60 sales offices, technology centers and production sites around the world ensure competent service and advice for customers.

Evonik is the world's only single-source supplier of all the main essential amino acids used in animal feeds: DL-methionine, L-lysine, L-threonine and L-tryptophan. Amino acids are protein buildings blocks used as feed additives, especially in poultry and pig farming. Evonik supports customers by providing extensive analyses, advice on optimum feed formulations and dosing systems for accurate regulation of the amount of amino acid added. This increases the cost-efficiency of animal nutrition and reduces pressure on the environment: It avoids excess amounts of feed, reduces the nitrogen content of excrement and thus cuts the nitrate load of soil. Customer-tailored synthesis includes the supply of intermediates and patented active ingredients for medicines and key starting products for liquid crystals for flat panel displays. Evonik has exclusive synthesis facilities in China and Western Europe, enabling it to supply starting products and non-patented active agents for pharmaceuticals at competitive cost, as well as more advanced intermediates and patented active ingredients that meet top quality standards. The business unit also produces high-purity amino acids for the food, cosmetics and pharmaceuticals industries. Its product range includes precious metal power catalyst systems, which are required for selective and cost-efficient production of pharmaceutical active ingredients and fine and industrial chemicals.

Sales and earnings

Higher demand and improved selling prices lifted sales 25 percent to €1,505 million, while EBITDA doubled to €450 million. Amino acids for animal nutrition were very successful, with volumes and prices boosted primarily by high demand for poultry. The global exclusive synthesis business was greatly strengthened by the acquisition of the remaining shares (49 percent) of the previous joint venture Degussa Lynchem. The new horizontal integration concept, which is designed to give customers an optimum blend of competitive prices due to production centers in Asia and excellent compliance with official regulations and intellectual property protection, started to pay off in 2008: Demand was high and further development of the product portfolio increased earnings. The long-term trend to more efficient use of resources and the economic development of the emerging markets led to rising demand for catalysts. Earnings were supported by the previous year's action to cut costs.

To complete the restructuring of the exclusive synthesis business, the Seal Sands site in the north of England and some business activities at the site were divested through a management buyout in December 2008.

Capital expenditures

In Antwerp (Belgium), an old facility which had temporarily been taken out of service when the new fourth methionine plant was commissioned, came back on stream in October 2008. The old plant has been completely overhauled to leverage a range of synergies in conjunction with the new facility. Further measures to enhance the efficiency of the plant are currently being implemented. Evonik thus has total methionine capacity of around 350,000 metric tons p. a. at three sites. Around €14 million is being invested in a new active ingredients plant in Dossenheim (Germany). This new facility will meet the demanding GMP (good manufacturing practice) standards and is a response to rising demand for active ingredients for the pharmaceuticals industry. Completion is scheduled for the second quarter of 2009. Construction work has also started on a plant for pharmaceutical active ingredients in Wuming (China). Health & Nutrition is thus extending its network of production plants for custom-tailored active ingredients in Europe and China by 2010.

Construction of a production facility for catalysts has started in Shanghai (China). This is scheduled to come into service at the end of 2009 and will produce precious metal powder catalysts for use in synthesis reactions in the pharmaceuticals sector and the fine and industrial chemicals industry. These catalysts are required, for example, for selective and cost-efficient production of pharmaceutical active ingredients and the synthesis of starting products for polyurethanes. Evonik is the world leader in precious metal powder catalysts. The new facility in Shanghai will give Health & Nutrition a further strong regional base. The pharmaceuticals and fine chemicals industries in China are currently growing at a rate of over 15 percent p. a. A key advantage of the Shanghai site is its geographical proximity to the provinces of Jiangsu and Zhejiang, which are home to a large number of pharmaceutical and fine chemicals companies.

Research and development

The focus of R&D into amino acids for animal feeds is optimizing existing production processes and developing new ones to improve the cost position still further. Work has started on innovative modifications to the process used to manufacture the feed additive methionine. These should be ready for use in 2009. The biotechnology unit has further optimized its proprietary tryptophan process. In addition, fermentative production of amino acids for the pharmaceuticals sector (valine and isoleucine) is being stepped up. Applications research (animal nutrition) developed new applications and optimized concepts for use in feed formulations.

Successes with catalysts included the rapid scale-up of methods of producing catalysts in collaboration with customers from the agrochemicals, pharmaceuticals and fine chemicals industries and for specialized chemicals applications.

Health & Nutrition Business Unit

in € million	**2008**	2007	Change in %
External sales	1,505	1,205	25
EBITDA	450	224	101
EBIT	369	149	148

The world needs ideas. Using energy more efficiently is one of the major challenges facing today's world. Our VISCOPLEX® oil additives ensure stable lubrication by engine oils and hydraulic fluids across a wide temperature range. And that improves engine performance and helps save fuel. What's more, our new facility in Singapore means we now have a production base close to our customers in Asia.

Coatings & Additives

The Coatings & Additives Business Unit produces functional polymers and high-quality monomer specialties for the paints and coatings, adhesives and sealants industries. Functional polymers are also used as oil additives and for pharmaceutical applications. These products are based on integrated production structures for methylmethacrylate (MMA), isophorone and silicone. Worldwide, the business unit has 21 production locations and technology centers.

Crosslinkers are used in solvent-free coating of industrial floors, light- and weather-resistant automotive and repair coatings and powder coatings to provide decorative protection against corrosion. Polyester is used in advanced coatings systems for facades, cans and the housings of appliances and in industrial adhesives. Specialty resins improve the bonding and rheological properties of coatings and adhesive systems and ensure lasting high-gloss protection against corrosion. When developing additives for the coatings and colorants industry, this business unit focuses on water-borne and radiation-curing printing inks and lacquers. The product portfolio includes emulsion paints and color mixing systems, coatings additives, water-repellent agents and heat-resistant silicone binders for further processing in the coatings and colorants industry. The VISCOPLEX® range of advanced viscosity index modifiers and pour point depressants improves the flow properties of lubricants and oils over a wide temperature range. They thus improve engine performance and help reduce fuel consumption. The binders manufactured by this business unit are used in food packaging, road markings, heavy-duty industrial flooring, lacquers and a wide variety of other applications. EUDRAGIT® functional tablet coatings ensure that active ingredients are released in the body at the right time and in the right place. They therefore protect sensitive active ingredients from stomach acids and make a key contribution to improving the efficacy and tolerability of medicines.

Sales and earnings

Sales advanced 1 percent to €1,549 million. There was high demand for this business unit's products in the first ten months of 2008. Crosslinkers benefited from new products and applications for coating timber, leather and textiles, the initial use of composites in wind turbines, for example, and as a raw material for tocopherol (vitamin E). Oil additives posted particularly strong growth in Asia and Eastern Europe, while pharmaceuti-

cal polymers grew in almost all regions. However, there was a substantial drop in demand from November 2008, especially from the automotive, construction and coatings industries. As a result, volumes were slightly lower than in 2007. Earnings were also impacted by the spiraling raw material costs, which could not be recouped entirely through price increases. The EBITDA margin therefore declined, with further pressure coming from the strength of the euro. EBITDA slipped 17 percent to €250 million.

Capital expenditures

A new production plant came into operation on Jurong Island (Singapore) in summer 2008 to produce the VISCOPLEX® brand of high-performance lubricant additives for marketing around the world and especially in the Asia-Pacific, Middle East and Africa regions. VISCOPLEX® additives are one of the key components in ready-to-use lubricants for the automotive industry and other industrial applications. They help improve engine performance and save fuel. This production facility is designed to meet demand in Asia, the Middle East and Africa for the next ten years. The Asian market for automotive lubricants is the fastest growing in the world and the region accounts for over one-third of global demand for lubricants. The new plant includes a technology center which focuses on the testing and development of new applications for oil additives. We are investing over €10 million in this plant.

At the end of 2008 Coatings & Additives signed agreements to purchase the oil additives business of the Russian methacrylate producer DOS. The transaction comprises the Russian customer base and polymerization reactors. It rounds out the global oil additives business.

Research and development

One focus of research is the development of products and applications based on renewable raw materials. As well as developing additives for biodiesel, this business unit is exploring the potential of white biotechnology through the Bio Science-to-Business Center.

The Coatings & Additives Business Unit is currently developing environment-friendly coatings additives to meet the particularly strong growth in demand for water and UV-based technologies. In view of this, new binder systems with a high solids content have been developed. Based on silicone epoxy hybrid technology they have excellent performance and environmental compatibility. The new SILIKOPREN® EF system also comprises coating formulations with particularly environment-friendly formulations. These properties are providing access to high-quality applications such as the interior fittings of yachts and airplanes. They can also be used for heavy-duty floors.

New technologies are providing access to selective polymer architectures for adhesive raw materials and additives for coatings and lubricants. For the pharmaceuticals industry, Coatings & Additives is developing melt extrusion processes to raise the bioavailability of active ingredients. In vivo studies have validated the viability of this concept.

The business unit is constantly optimizing its production processes to make more efficient use of resources and raise its competitiveness. Successes scored in 2008 include higher yields, lower waste levels and reduced energy consumption. Another environment-friendly development is an innovative one-component, modified silicone polyurethane dispersion (SILIKOPUR® 8080) which can be diluted with water and dries at room temperature. The dried coating film has particularly good haptic properties, which are required for soft-touch surfaces.

Coatings & Additives Business Unit

in € million	**2008**	2007	Change in %
External sales	1,549	1,535	1
EBITDA	250	303	–17
EBIT	194	244	–20

The world needs ideas. Lightweight components with high rigidity that are capable of withstanding enormous strain are vital for safety and energy efficiency in the aviation and aerospace sectors. ROHACELL® rigid foam is the ideal solution. It is many times lighter than steel and aluminum, and contributes to the stability of passenger airplanes such as the Airbus A380 and the Chinese Phoenix, which is scheduled for market launch in 2010. With our new production plant in Mobile (Alabama, USA) we can provide an optimal service to the attractive North American market.

Performance Polymers

The Performance Polymers Business Unit manufactures and markets a wide range of advanced materials and its applications technology expertise is highly valued on the market. The heart of its business comprises methylmethacrylate (MMA) chemistry and integrated production facilities for polyamide 12. 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.

The business unit's product portfolio includes monomeric and polymeric MMA derivatives. Standard monomers are used, for example, to produce synthetic resins and as binders in weather-resistant paints and coatings. Specialty monomers ensure good adhesion of paints to smooth surfaces. They are also ideal components for adhesives for construction applications, hair-care products, contact lenses and plastic spectacle lenses. The transparent, weather-resistant, scratch-proof polymethylmethacrylate (PMMA) sheeting produced by Performance Polymers is used as noise barriers, in the optics and communications sectors, in medical technology and the construction, furniture and lighting industries. PMMA molding compounds and extruded and cast semi-finished products are mainly marketed under the well-known PLEXIGLAS® brand name. ROHACELL® polymethacrylimide rigid foam is an ideal lightweight structural material for the automotive, aviation and aerospace industries thanks to its mechanical and thermal properties. Performance Polymers also produces special high-performance materials based on polyamide 12, transparent specialty polyamides, polyetherether ketone (PEEK) and polybutylene terephthalate (PBT). These high-performance polymers have to meet the extremely high mechanical, thermal and chemical requirements set for high-tech applications.

Sales and earnings

Sales slipped 3 percent year-on-year to €1,397 million. 2008 was initially dominated by good demand from Europe and Asia. This continued into the fall, ensuring high capacity utilization in production plants. Business was sluggish in the USA because of the economic slowdown there. However, the downturn in the automotive, construction and coatings industries sent demand plunging downward from November. This situation was exacerbated by destocking by suppliers to these industries. In response, the business unit has scaled back or taken out of service large areas of its

production base. Raw material prices hit a record high in 2008 and this could only be recouped in part. At the same time, earnings were affected by the weakness of the US dollar. Overall, EBITDA slipped 41 percent to €112 million.

In response to the sustained drop in demand in the USA, several projects to optimize the portfolio, customer base and production facilities have been introduced and implemented in the USA.

Capital expenditures

Work started on an integrated production complex costing a total of around €250 million in Shanghai (China) in September 2007. This is currently Evonik's largest project in China and the second-largest single investment ever undertaken by the Chemicals Business Area. Just one year after the groundbreaking ceremony, the production of PMMA molding compounds for China and other Asian markets came on stream. These PMMA molding compounds are well-known internationally through the PLEXIGLAS® brand. Asian demand already accounts for over half of world output of PMMA. This new production facility is located in the middle of the world's largest market, where growth rates remain high, and strengthens our position as the world's leading supplier of PMMA molding compounds. The new PMMA facility is part of the integrated methacrylates production complex. Alongside production capacity of around 100,000 metric tons p. a. MMA, this world-scale facility comprises plants for methacrylic acid, butylmethacrylate and specialty methacrylates. Work on the other plants in this complex is well under way. The result will be a unique optimized production complex to serve customers in a wide range of sectors, from optoelectronics to the adhesives industry.

A further production facility for ROHACELL®, an extremely rigid and durable polymethacrylimide foam, came into service in Mobile (Alabama, USA). Investment was around US$10 million. This facility meets the rising demand for this product in North America, cuts delivery times and improves customer service. ROHACELL® is used, for example, in the Japanese high-speed train Shinkansen E4 and in especially lightweight and fast skis and racing bicycles. ROHACELL® reduces the weight of automotive body components by up to 70 percent, speeds up catamarans and helps stabilize airborne A380 passenger planes, which weigh more than 500 metric tons.

Research and development

Performance Polymers received two internal Innovation Awards for its research in 2008.[1] In the category "New Processes" it was honored for the development of AVENEER®, a new method of producing MMA. AVENEER® cuts out the use of sulfuric acid and thus a time-consuming acid regeneration step, thereby reducing costs and saving resources. The award in the category "New System Solutions" went to the Microsoft Surface™ projection surface which resulted from a strategic cooperation with Microsoft. This is the first computer display that enables the user to interact with digital content by touch, gesture or moving around objects on a tabletop.

Performance Polymers Business Unit

in € million	**2008**	2007	Change in %
External sales	1,397	1,442	–3
EBITDA	112	189	–41
EBIT	43	120	–64

[1] See page 51 (Innovation Award).

Energy Business Area

Evonik's 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 operates coal-fired power plants at nine locations in Germany and refinery power plants at two locations. The Energy 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. Further options for foreign business are under consideration. Total installed power is around 10,000 Megawatts (MW), including around 8,000 MW in Germany. Long-term supply and offtake agreements with key customers ensure a sustained return on investment and essentially stable revenues. 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 global engineering services also deepen its country-specific insight into the energy market, enabling it to develop new business ideas for power plant projects.

Evonik is the market leader in highly efficient modern generating technology for hard coal that reduces pressure on natural resources. It is building a 750 MW power station fueled by hard coal in Duisburg-Walsum, Germany, which will have net efficiency of over 45 percent. That is about five percentage points above the best current performance in Germany and excellent compared with international plants operating under comparable conditions. Providing Clean Competitive Energy from Coal (CCEC), this power station will use 15 percent less fuel and emit 15 percent less carbon dioxide (CO_2) than average coal-fired power stations in Germany.

Evonik's activities cover the entire value-added chain in the hard coal sector. In-house coal trading secures the procurement of fuel. The Energy Business Area also has a strong position in the disposal and recovery of power plant residues. As a future-oriented major German supplier of district heating, Evonik uses cogeneration plants.

Sales and earnings

Sales rose 21 percent to €3,649 million. The increase was chiefly due to the higher price of coal, which increased the price of electricity supplied. The price of hard coal, the most important raw material for the Energy Business Area, rose from an average of US$130 per metric ton in January 2008 to an average of US$210 per metric ton in July 2008, before dropping back to around US$80 per metric ton by year end. The fluctuations in the global price of coal only impact the sales reported by the Energy Business Area with a time lag because of the contractually agreed coal price index. EBITDA was €545 million, slightly below the year-back level of €581 million which included one-time factors such as a gain of €27 million from the sale of the 34 percent stake in the Mindanao power plant in the Philippines and the EBITDA of SOTEC, which was divested at the start of 2008 (€22 million).

The EBITDA margin dropped from 19.2 percent to 14.9 percent due to the sharp expansion of sales and slight decline in EBITDA. Capital expenditures advanced 14 percent to €351 million. As in the previous year, the majority of investment spending was for the erection of the hard-coal power plant in Duisburg-Walsum (Germany). Depreciation was €101 million (2007: €99 million). The 5 percent rise in average capital employed to €3,292 million was attributable to capital expenditures and a rise in net working capital. ROCE dropped from 15.3 percent to 13.1 percent.

The Energy Business Area's business model comprising the long-term provision of power plant services for its customers reduces its cyclical exposure. However, the economic crisis led to a substantial drop in production in various industries from November 2008, resulting in far lower demand for energy. Power plant operators and the steel industry sourced less coal from the Trading Business Line. Coal prices have dropped significantly in the wake of the economic downturn, necessitating a write-down of coal inventories.

The **Power** Business Line lifted sales by 20 percent to €1,921 million. The considerable increase in coal prices in the first half of the year made a substantial contribution to this. By contrast, volume sales of energy were down year-on-year due to prolonged shutdowns for overhauls and the shutdown of a power plant due to damage. EBITDA increased thanks to higher earnings contributions from German and foreign power plants and lower maintenance costs.

Coal mining was halted in the Saarland region of Germany following earth tremors in February 2008 and only restarted at far lower volume in the second quarter of 2008. Supply to Evonik's three power plants in the region is secured through the use of imported coal. Technical measures were immediately defined and implemented to avoid a reduction in performance.

Energy Business Area: Key data

in € million	**2008**	2007[1)]	Change in %
External sales	3,649	3,024	21
EBITDA	545	581	–6
EBIT	430	479	–10
Capital expenditures[2)]	351	309	14
Depreciation and amortization[2)]	101	99	2
Capital employed (annual average)	3,292	3,128	5
ROCE in %	13.1	15.3	
EBITDA margin in %	14.9	19.2	
Employees	4,702	4,629	2

[1)] Prior-year figures adjusted for transfer of 50 percent stake in Infracor.
[2)] For intangible assets, property, plant and equipment and investment property.

The world needs ideas. Evonik finds many ways of providing the energy required by homes and businesses. We are particularly good at efficient energy generation with a low environmental impact. In Germany and abroad, we have pioneered highly efficient modern generation technology for hard coal that saves natural resources. What's more, we are one of the German market leaders in renewable energies such as biomass, mine gas and geothermal energy. That is a concept with a future, because the EU is aiming to use renewable energies to generate around 20 percent of its energy requirements by 2020.

Sales slipped 16 percent to €246 million in the **Renewable Energies** Business Line. EBITDA was also down. The declines were essentially due to the fact that the prior-year figures contain the waste management company SOTEC. The remaining stake in this company was divested in January 2008. Energy volumes increased perceptibly, especially energy from biomass plants. Securing the availability of high-quality biomass in Germany was a demanding task in 2008 and there was corresponding pressure on prices. The availability of mine gas decreased due to the reduction in coal mining in Germany. Germany's Renewable Energies Act (EEG) provides excellent prospects for new plants that feed energy into the public grid or district heating networks. In view of the very good perspectives for the development of the Renewable Energies Business Line, further options to strengthen it are currently being examined.

The **Trading** Business Line mainly markets coal for power stations, thus securing the supply of German and imported coal for power stations operated by the company and third parties. Sales increased 37 percent to €1,205 million as a result of far higher coal and freight prices. Following three successful quarters, earnings were hit by the economic crisis in the fourth quarter of 2008. Inventories had to be written down as a result of a sharp drop in the price of coal. At the same time, market freight rates declined considerably. Since the lower freight rates were below the purchase prices already contractually agreed for future freight, a provision was established to cover the pending losses. Overall, this business area merely broke even at EBITDA level, having reported EBITDA of €29 million in 2007. EBIT declined from €27 million to minus €1 million.

Capital expenditures

Construction of what is currently Europe's most advanced power plant fueled by hard coal in Duisburg-Walsum (Germany) accounted for the majority of capital spending. This major project involves total investment of some €820 million and the plant is scheduled to come into operation in 2010.

Another key area of investment was expanding the Renewable Energies Business Line. Construction work started on two projects last year. The first is a €12 million investment in a biomass heating plant using untreated timber at the site of the former Warndt mine in the Saarland region. This receives 40,000 metric tons of timber a year from the forestry company operated by the federal state. The power generated is fed into the public grid under the provisions of the German Renewable Energies Act, while the heat is fed to nearby district heating networks. The power generated

is sufficient for around 3,350 houses, while the heat is sufficient for around 3,170 houses. The new facility should start operating at the end of 2009.

Around €8 million is being spent on a biogas plant in Kirchwalsede (Germany). The facility is being built and operated by a project company in which Evonik will have a 90 percent stake. The fuel will comprise liquid excrement and agricultural by-products such as grass silage. Evonik anticipates a roughly one-year construction phase before the first heating module comes into service. The second module and the fermentation drier, which will be used to produce fertilizers, should be ready in 2010. The biogas plant will have rated power of 1.43 MW and probably feed 11,500 MW hours power p. a. into the public grid under the Renewable Energies Act. Theoretically, the power produced should be sufficient for more than 2,870 houses.

Research and development

R&D focuses on safe, economical and environmentally compatible energy supply with a view to strengthening Evonik's good competitive position in power plant technology. The business unit's research therefore focuses on

- efficiency and momentum
- emissions reduction and CO_2 usage
- the availability and improvement in the cost-efficiency of the power plant process and
- renewable energies.

The increasing proportion of renewable energies used to generate power harbors risks relating to the provision of power to meet requirements because the availability of some of these power plants cannot be planned adequately. To secure power supply, it is therefore essential to guarantee the rapid availability of sufficient generating reserves. More flexible use of generators can be assured with the aid of advanced control concepts that utilize the potential of process technology and process control systems. Since the use of lithium-ion batteries for power storage is another future-oriented vision, this business area is involved in a research project to develop a lithium electricity storage system.

Thermal utilization of biomass is another priority. Alternative methods of generating power from biomass and biogas are being investigated and work on the treatment of biogas for use in mine gas and natural gas networks is being stepped up.

Together with other power generators such as E.ON, RWE, Vattenfall and EnBW, universities and major research centers, Evonik is involved in the COORETEC initiative (technology to reduce CO_2 emissions) established by the German Ministry of Economics and Technology. It is also developing measures to improve the efficiency of power plants, thereby making an effective contribution to reducing the use of resources. To raise the efficiency of hard-coal power stations, steam temperatures need to be lifted to over 700 °C. Another project Evonik is working on with partners to raise efficiency levels—alongside COORETEC—is COMTES 700, a European project funded by the Research Fund for Coal and Steel (RFCS). This project also aims to raise steam temperatures to over 700 °C.

Further R&D projects include optimizing day-to-day operating efficiency in the management of power stations and identifying potential faults.

External sales by business line

in € million	**2008**	2007	Change in %
Power	1,921	1,606	20
Renewable Energies	246	293	–16
Trading	1,205	881	37
Other	277	244	14
Energy	**3,649**	**3,024**	**21**

Volume sales

		2008	2007	Change in %
Power	GWh	39,492	47,554	–17
Renewable Energies (heat)	GWhth	2,038	1,856	10
Renewable Energies (power)	GWhel	1,883	1,783	6
Trading	million metric tons coal	35.7	39.2	–9

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

Real Estate Business Area

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 around 75,000 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, which essentially generates regular and stable cash flows. This business area's regional focus is the key to outstanding market insight and brings considerable advantages in the management of the housing stock.

Sustainable development of the business area's high-quality housing stock is one of its priorities. Smart concepts are used to address the entire lifecycle of a property. These include optimizing energy efficiency, for example, by modernizing properties using energy-saving concepts such as the "three-liter house". Together with carefully planned, cost-saving running cost strategies, this minimizes the utility charges paid by tenants. Careful development and maintenance of neighborhoods, streets and complete districts is also regarded as being strategically important for Evonik. In addition, active portfolio management involving the selective sale and purchase of residential units is used. The business model is rounded out by selected property development activities on company-owned land to upgrade the portfolio.

Evonik aims to expand its leading position in residential real estate in NRW. It is planning to purchase further properties offering attractive potential to create value in future-oriented areas along the river Rhine, for example in the Düsseldorf/Cologne/Bonn region.

Sales and earnings

Sales slipped 11 percent year-on-year to €375 million as portfolio management sold fewer residential units. EBITDA rose 15 percent to €217 million, driven mainly by the first-time inclusion of earnings from THS, which is accounted for at equity.

Property management increased its earnings through higher rents, lower maintenance expenses and a leaner organization. Average net monthly rents excluding utility charges increased from €4.14 per square meter in 2007 to €4.34 per square meter in 2008. Maintenance efficiency improved as net annual maintenance expense was reduced to €11.54 per square meter (2007: €12.22). The vacancy rate increased from 4.6 percent in 2007 to 5.2 percent in 2008, mainly due to construction and modernization work. Constant modernization is necessary to maintain the high quality of the marketable portfolio of residential properties. At the same time, measures to raise value by optimizing the energy efficiency of the portfolio are being implemented.

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 the suitability of the locations for ensuring efficient operational structures. The aim 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 regions and those requiring extensive modernization. Earnings from the portfolio management activities were below the good year-back level, which included €13 million from the sale of GEWO Datteln.

The property development activities, which are run as a complement to the property management business, focus on construction projects on company-owned sites. They generated higher earnings. The number of new residential units handed over increased from 123 in 2007 to 126 in 2008.

The EBITDA margin advanced to 57.9 percent. Capital expenditures amounted to €87 million, below the year-back figure of €103 million. Depreciation declined 12 percent to €44 million. Average capital employed increased 10 percent to €1,762 million, principally because of the addition of the stake in THS in December 2007. ROCE increased to 9.2 percent thanks to an above-average improvement in EBIT.

The Real Estate Business Area is essentially unaffected by the change in economic conditions. However, the financial markets crisis has severely impaired the financing options of potential institutional investors so a number of sales agreements that had been certified by a public notary have not yet taken place.

Real Estate Business Area: Key data

in € million	**2008**	2007[1)]	Change in %
External sales	375	423	–11
EBITDA	217	188	15
EBIT	162	132	23
Capital expenditures[2)]	87	103	–16
Depreciation and amortization[2)]	44	50	–12
Capital employed (annual average)	1,762	1,596	10
ROCE in %	9.2	8.3	
EBITDA margin in %	57.9	44.4	
Employees	443	457	–3

[1)] Prior-year figures adjusted to reflect the change in accounting for low-interest loans.
[2)] For intangible assets, property, plant and equipment and investment property.

The world needs ideas. People's ideal homes change during their lives. Our aim is to provide families with children, couples, singles and senior citizens with the sort of homes they want. In surroundings where they feel comfortable. Our multi-generation concept is a good example. It paves the way for new forms of community life and fosters a sense of wellbeing and belonging.

Capital expenditures

Around a third of the capital expenditures totaling €87 million were for modernization work to improve the energy efficiency of the residential property portfolio. The priority is efficient insulation of residential units. In addition, the findings of the "three-liter house" project completed in 2007 are used for selected projects. In this innovative project, a variety of technologies were installed. The result was an 87 percent reduction in primary energy consumption by the complex and zero CO_2 emissions.

In Lünen (Germany), the construction of houses heated with goethermal energy has started. These new terraced houses are being fitted with innovative ground source heat pumps so they can use the heat stored beneath the earth's surface. One kilowatt of electric power to operate these pumps yields up to five kilowatts of heat energy. Moreover, geothermal energy cuts out investment in chimneys, oil tanks and connections to the gas mains, so operating costs are far lower than oil or gas heating.

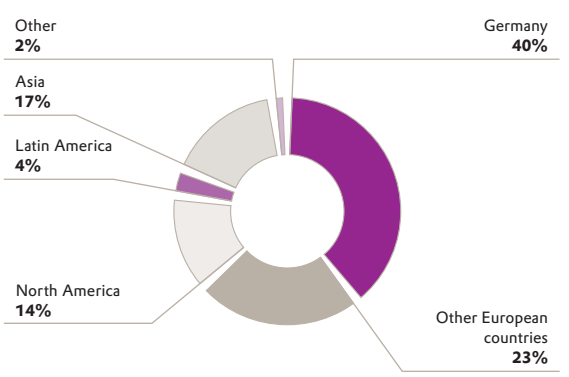
Work commenced on a pioneering multi-generation project in 2008. This comprises complete modernization of a residential area in Essen-Altenessen to meet the needs of various target groups. The first phase comprises the construction of rented apartments principally for the older generation. The apartments will be between 62 and 91 square meters with an elevator to all floors and will have barrier-free showers and balconies. Other features include extra-wide doors, larger corridors and stowage space outside each apartment, for example, for wheelchairs, making them accessible to the disabled. Over the coming years, further apartment blocks are to be built mainly for younger couples, singles and families.

In addition, two larger residential real estate portfolios have been acquired in Essen (404 units) and Recklinghausen (174 units).

As well as investing directly in tomorrow's real estate, we invest in companies in the sector which have outstanding prospects. The Real Estate Business Area has raised its stake in Wohnbau Dinslaken from 21 percent to 35 percent. This company manages nearly 6,000 company-owned apartments and is involved in pioneering projects that take account of demographic trends. These include building attractive apartments for senior citizens in central locations.

Regional development

Sales by region[1)]



[1)] By point of sale.

A global presence

In 2008, as in 2007, 60 percent of sales were generated outside Germany. Sales in Germany increased 8 percent to €6,310 million, while capital expenditures increased 3 percent to €766 million. The biggest single project, accounting for total investment spending of €820 million, is the construction of Europe's most advanced power plant fueled by hard coal in Duisburg-Walsum, which should be completed and come into service in 2010. In Rheinfelden (Germany), Evonik's first monosilane plant was started up successfully. The monosilane is used in the precipitation of polycrystalline silicon in a plant completed at the same time. This is operated by the Joint Solar Silicon (JSSI) joint venture, in which Evonik holds a 51 percent stake and SolarWorld AG the remaining 49 percent. Initially, output in Rheinfelden will be 850 metric tons p. a. solar silicon. Start-up of the 2-PH (2-propyl heptanol) plant in Marl (Germany), which is currently under construction, is planned for the fourth quarter of 2009. This will further optimize integrated C_4 production capacity, round out the portfolio of oxo alcohol products and increase production capacity for oxo alcohols by 60,000 metric tons p. a. to 400,000 metric tons p. a.

Eastern Europe: the market of the future

Sales in the other European countries advanced 8 percent to €3,751 million. There was a slight decrease of 1 percentage point in this region's share of total sales to 23 percent. Capital expenditures in this region amounted to €76 million and were thus below the previous year's figure of €89 million. In Antwerp (Belgium), an old production facility for methionine which had temporarily been taken out of service when the new fourth methionine plant was commissioned, came back on stream in October 2008. The old plant was completely overhauled during the shutdown to leverage a range of synergies in conjunction with the new facility. In 2008 we laid the foundations for further projects in Eastern Europe. In March we signed an agreement with the Russian company Sibur to look into building a propylene oxide facility in conjunction with hydrogen peroxide production for the Russian Federation. Evonik is the world's second largest producer of hydrogen peroxide, a bleaching and oxidation agent, and has developed several innovative processes in this field. One example is the low-cost, environment-friendly HPPO process for the production of propylene oxide from hydrogen peroxide, developed by Evonik in collaboration with the engineering company Uhde. Propylene oxide is a preproduct for polyurethane, which is used in applications such as instrument panels and cushioning in autos. Together with the Russian company Synttech, we are also examining the possibility of building and operating a plant near Inta (Russia) to produce up to 20,000 metric tons p. a. carbon black from natural gas. This product is mainly used in the manufacture of technical rubber goods, an attractive growth market from which we aim to benefit.

New capacities

Sales increased by 12 percent to €2,306 million in **North America**. As in the previous year, this region accounted for 14 percent of total sales. Capital expenditures in the region increased 18 percent to €87 million. A production facility for ROHACELL® came into operation in Mobile (Alabama, USA). Work also started on the construction at this site of a production plant for alcoholates, which are used as catalysts in the production of biodiesel. This facility will have capacity of 60,000 metric tons p. a. and will supply customers in the NAFTA region. This investment increases Evonik's commitment to the production of alternative forms of energy from renewable raw materials.

Sales grew 20 percent to €589 million in **Central and South America** and this region increased its share of total sales by 1 percentage point to 4 percent. Capital expenditures in this region amounted to €5 million and were thus below the year-back figure of €17 million. In Barra do Riacho (Brazil) we extended the capacity of our hydrogen peroxide plant to 70,000 metric tons p. a. in response to growing demand from the South American market. This capacity expansion was achieved by installing high-performance technology developed by Evonik, which allows highly efficient and economical expansion of production capacity without the need to build new plants.

Further expansion in Asia

Sales increased 13 percent to €2,664 million in **Asia** and this region accounted for an unchanged 17 percent of total sales. Capital expenditures increased from €106 million in 2007 to €221 million in 2008. A new production facility on Jurong Island (Singapore) came on stream in summer 2008. It produces the VISCOPLEX® range of high-performance lubricant additives for the global market and especially the Asia-Pacific, Middle East and Africa regions. In China, we are continuing the extensive investments initiated in recent years. In Chongqing we are currently erecting a production facility for cyanuric chloride, which is used as an intermediate in the agrochemicals, textile, paper and plastics industries. Work started on an integrated production complex costing a total of €250 million in Shanghai (China) in September 2007. Just one year after the groundbreaking ceremony, the production of polymethylmethacrylate (PMMA) molding compounds for China and other Asian markets came on stream. These PMMA molding compounds are well-known internationally through the PLEXIGLAS® brand. The new PMMA facility is part of the integrated methacrylates production complex. In Shanghai-Xinzhuang, construction work has also started on a production plant for precious metal powder catalysts for use in the pharmaceutical, fine chemicals and industrial chemicals sectors. They are required, for example, for selective and cost-efficient production of pharmaceutical active ingredients and the synthesis of starting products for polyurethanes.

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. At the start of June 2008, RAG-Stiftung sold 25.01 percent of its shares in Evonik Industries AG to Gabriel Acquisitions GmbH, Cologne (Germany). Gabriel Acquisitions is an indirect subsidiary of funds established and advised by CVC Capital Partners Luxembourg S.à r.l., Luxembourg (Luxembourg). This transaction was closed in September 2008. RAG-Stiftung now directly and indirectly 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). Since January 1, 2008 Evonik Industries AG has charged its subsidiaries for services rendered. These expenses amounted to €220 million in 2008 and are reflected in sales. The other operating income of €1,267 million includes costs of €390 million passed through to other companies in the Group. €335 million of this comprised general allocations of Group costs while €50 million were project expenses, rental costs and the cost of IT licenses. In the gross view, currency translation gains (€855 million) are included in other operating income and the corresponding expenses (€853 million) are included in other operating expenses. The net effect is a gain of €2 million. In 2007 other operating income included book gains of €449 million from the merger of RAG Projektgesellschaft mbH and Unternehmensverband Steinkohlenbergbau e.V. into Evonik Industries AG.

Personnel expenses increased from €53 million to €101 million. Reasons for this increase included payments to members of the Executive Board under severance agreements, provisions for personnel expenses relating to the restructuring of the Group and performance-based payments relating to strategic corporate projects. In addition, it should be noted that the personnel expenses for the members of the Executive Board and some other employees have only been included here since the start of 2008. In the previous year their remuneration was paid by subsidiaries.
The net interest expense relates principally to borrowing for the company's financing activities for the Group. This item also contains interest income and expense from the Group-wide cash pool, which is concentrated at Evonik Industries AG. The income from subsidiaries of €308 million mainly comprises the profit transferred by key subsidiaries under profit-and-loss transfer agreements. The sharp decline from the prior-year figure of €1,093 million was due to the charging of fees for services rendered and general Group costs to the subsidiaries, which noticeably reduced their earnings. In addition, the prior-year figure included the proceeds from the divestment of the mining technology business. Income before taxes declined from €1,047 million to €324 million. After deduction of income taxes, net income was €308 million. €28 million was allocated to revenue reserves, leaving a net profit of €280 million.

Income statement for Evonik Industries AG

in € million	**2008**	2007
Sales	220	0
Other operating income	1,267	652
Personnel expense	–101	–53
Depreciation of property, plant and equipment, amortization of intangible assets	–2	–4
Other operating expenses	–1,163	–467
Operating result	**221**	**128**
Net interest expense	–205	–235
Reversals of write-downs of financial assets	0	61
Dividends and similar income	308	1,093
Income before taxes	**324**	**1,047**
Income taxes	–16	–25
Income before profit transfer	**308**	**1,022**
Profit transferred under profit-and-loss transfer agreement	0	–342
Net income	**308**	**680**
Allocation to revenue reserves	–28	–680
Net profit	**280**	**0**

The total assets of Evonik Industries AG increased by €1.2 billion to €12.4 billion. Financial assets mainly comprise shares in the parent companies of the three business areas. The receivables and liabilities reflect its financing role as the holding company for the Group. Equity, including the net profit, increased to €4.8 billion. As a result of the significant rise in total assets, the equity ratio dropped from 40.3 percent to 38.9 percent. Payables include financial liabilities of €7.3 billion, including €1.5 billion due to banks. The counter-item comprises financial assets of €3.0 billion.

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 and measures set out in this report on relations with affiliated companies under the circumstances known to us at the time when the transactions or measures were taken or not taken, and has not been put at a disadvantage by the fact that such measures were taken or not taken."

Balance sheet for Evonik Industries AG

in € million	**2008**	2007
Assets		
Intangible assets, property, plant and equipment	7	5
Financial assets	9,140	8,999
Non-current assets	**9,147**	**9,004**
Receivables and other assets	3,096	1,949
Securities	0	262
Cash and cash equivalents	199	15
Current assets	**3,295**	**2,226**
Prepaid expenses and deferred charges	3	2
Total assets	**12,445**	**11,232**
Equity and liabilities		
Issued capital	466	466
Capital reserve	720	720
Revenue reserves	3,371	3,343
Net profit	280	0
Equity	**4,837**	**4,529**
Provisions	**209**	**112**
Liabilities	**7,399**	**6,591**
Total equity and liabilities	**12,445**	**11,232**

Corporate Responsibility

Corporate responsibility (CR) means responsible and transparent management of the company, ensuring that due attention is paid to economic, ecological, social and societal interests. By integrating CR into our business, our products and services make a contribution to sustainable development. Evonik demonstrates fairness and responsibility towards its employees, customers, owners, investors, suppliers, politicians, local communities and the general public. We are convinced that CR makes a significant contribution to the long-term success of our company.

In 2008 we developed a Corporate Responsibility strategy on the basis of our corporate values and core competencies. The three dimensions of the CR strategy—the business, employees and processes—form an integral part of Evonik's corporate strategy and give it new impetus.

By integrating corporate responsibility into our core business, CR contributes to achieving our goals of profitable growth and value creation. At the same time, it fosters differentiation from our competitors.

In fall 2008, we published selected indicators for the entire Group for the first time in our publication "Corporate Responsibility—Strategy and Status 2007". Following on from this brief report, we will be issuing a regular report with full information on our Group-wide CR activities from 2009.

Evonik is a member of econsense, the sustainable development forum of German business. Through our Chemicals Business Area, we are also a member of the World Business Council for Sustainable Development and support the Responsible Care initiative of the International Council of Chemical Associations, which promotes sustainable use of resources.

Environment, safety and health

Environment, safety and health (ESH) are key elements in corporate responsibility at Evonik and are shaped and implemented as part of our CR strategy. Our activities in the field of environment, safety and health are therefore positioned at the interface between economic, ecological and social responsibility, which have to be weighed carefully in all processes and decisions.

Our ESH responsibility is based on a Group-wide policy which was introduced in 2007 and which we continued to shape in 2008. As part of our continuous improvement process, we conducted our first Group-wide ESH management review in 2008. The purpose was to assess our ESH performance and derive scope for improvement. Key elements of this management review comprised the content and findings of the internal audits carried out in the previous twelve months to check and evaluate the implementation of our ESH rules, and discussion of our ESH performance on the basis of selected indicators.

Regular internal ESH management inspections are conducted at our production facilities. Moreover, 95 percent of Group-wide production in the Chemicals Business Area is validated as conforming to ISO 14001.

Investment in environmental protection

The Chemicals Business Area invested €44 million in environmental protection (2007: €49 million). The trend in such investment is away from expensive additive end-of-pipe technologies to efficient measures integrated into plants and processes. As a result, investment in integrated environmental protection measures increased by roughly half in 2008 while investment in end-of-pipe technology declined by nearly a third. For example, in Weissenstein (Austria) we invested in improvements to condensate recycling and modernized three in-house hydraulic power plants, which increased energy yields by around 15 percent. In Yingkou (China) an ultrafiltration plant came into service to separate sulfates from electrolysis brine. This has greatly reduced inorganic waste. In addition, new wastewater treatment facilities were built in both Yingkou and Chongqing (China).

A variety of noise protection measures were implemented in the carbon blacks plant in Kalscheuren (Germany) to reduce noise pollution. In Rheinfelden (Germany) a new heat exchanger cycle utilizes exhaust heat from the AEROSIL® production process to preheat air for percarbonate drying, thus saving valuable fossil fuels. In Hart (Germany), measures were introduced to reduce emissions and the grid was extended to utilize the energy content of residual gases from carbide production. Other measures included the installation of new exhaust gas collector systems in Steinau (Germany) and combined environmental projects in Rheinmünster (Germany) for thermal processing of exhaust air streams contaminated with organic substances to supply steam for production purposes.

Operating costs for environmental protection facilities in the Chemicals Business Area increased by 3 percent to €259 million due to the start-up of new plants.

Occupational safety

The safety of our employees at their place of work is particularly important to us. In 2008 the frequency of accidents (number of accidents per million hours worked) was 3.3, down from 3.4 in the previous year. All three business areas contributed to this improvement.

Accident frequency by business area

	2008	2007
Chemicals	1.7	1.8
Energy	7.7	8.9
Real Estate	2.3	12.7
Evonik	**3.3**	**3.4**

The Chemicals Business Area is stepping up its focus on developing its safety culture. Challenges include raising management awareness of safety issues, the role of supervisors in setting an example and safe working practices by employees. Facilitated safety training is used to raise employees' awareness of safe conduct and their personal responsibility. Exercises are used to foster constructive communication and encourage superiors to set an example. Anonymized accident reports are prepared as "lessons learned" to share knowledge and experience with all other sites. Evonik's internal safety award honors sites and plants with a particularly long track record of accident-free working.

In the Energy Business Area, we arranged for two employers' liability insurance associations to audit five power plants. The result of these extensive audits was validation of their occupational safety systems, providing evidence that we have systematically integrated occupational safety and health management into our corporate organization. In 2008 the power plants in Fenne, Lünen, Voerde and Weiher (Germany) were certified, along with the Leuna refinery power plant. The heating power plant in Walsum received an award from the employers' liability association for accident-free working.

The Real Estate Business Area has introduced and consistently applied a systematic occupational safety system. On the basis of a risk evaluation and the action derived from this, occupational safety improved in 2008 and there was a considerable reduction in the number of accidents.

Protecting and promoting health

Our ESH policy contains an undertaking that we will protect and promote the health of employees to maintain their employability and well-being. All business areas at Evonik have a tradition of protecting and promoting health. A wide range of activities are already in place at many of our sites around the world.

Guidelines and a special health protection program have been introduced to place our occupational health and health protection measures on a sustainable basis and develop them systematically in the future, particularly in view of the specific requirements arising from demographic change and the increase in infectious diseases and civilization-related illnesses. The objectives of this program go beyond protecting employees from work-related illnesses and hazards. They include special programs and awareness campaigns to foster and maintain the performance and employability of our staff.

In this way, we will be shaping health management to give it an even broader reach in the future and continue to develop our activities in this field without compromising on quality.

Trading in emissions allowances

Many facilities operated by Evonik's Energy and Chemicals Business Areas fall directly within the remit of the European regulations on trading in CO_2 emissions allowances. In 2008 these facilities emitted around 26 million metric tons of CO_2. The Energy Business Area accounted for around 21.5 million metric tons and the Chemicals Business Area for around 4.5 million metric tons.

The framework for trading CO_2 emissions allowances in Europe after 2012 was adopted at the end of 2008. Evonik's Energy and Chemicals Business Areas are both affected by the new regulations. A full assessment of the implications will only be possible once further details have been released.

Energy efficiency and climate protection
Rising global energy requirements, limited resources and climate protection are overriding issues of our age and require innovative ideas and solutions. In view of this, a continual improvement in energy efficiency taking account of reliability of supply, cost-efficiency and environmental compatibility plays a central role. Evonik already offers a wide range of products and system solutions to raise energy efficiency and reduce the use of resources. To leverage the developments and opportunities arising from the megatrend energy efficiency & climate protection even more effectively, Evonik established the Eco^2 Science-to-Business (S2B) Center at the end of 2008.

This new research center bundles the Group's competencies in energy efficiency and climate protection in development projects across organizational boundaries. The Eco^2 S2B Center is divided into five subject areas: carbon capture, power generation, power storage, solutions to enhance energy efficiency for customers and increasing the energy efficiency of Evonik's processes.

Eco^2 has started out with 21 attractive research projects focusing on energy efficiency and climate protection. These are regularly reviewed for chances of success. In addition, a Group-wide standard for lifecycle assessments has been introduced to evaluate the CO_2 savings potential of Evonik's present business operations and R&D projects over their entire lifecycle. Overall, the Eco^2 S2B Center creates around 50 new jobs in the Group and more jobs at external cooperation partners. Evonik will be investing over €50 million in this S2B Center up to 2013. Including planned public subsidies, the total investment will run into high double-digit millions of euros.

REACH—the EU Chemicals Regulation
The EU Chemicals Regulation REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) came into force on June 1, 2007. Evonik supports the objective of improving the protection of health and the environment in the handling of chemicals and actively campaigned from the outset for a practicable regulation. In 2006 we introduced internal and external measures to ensure we could fulfill all REACH requirements effectively. That included establishing internal project management, compiling data and developing IT solutions, backed up by communication with customers and suppliers at all stages in the supply chain.

The heart of REACH is the registration of all substances produced, imported or placed on the market in the EU in quantities of over 1 metric ton per year. While new substances have to be registered immediately using a detailed procedure, transition periods have been set for phase-in substances (mainly existing chemicals), providing they were pre-registered by December 1, 2008. Since REACH applies separately to each legal entity, the structure of our Group means that we had to submit around 13,600 pre-registrations for nearly 4,000 substances at 50 legal entities. All production substances were pre-registered. To be on the safe side, pre-registrations were also submitted for critical substances sourced from third parties and for strategic reasons. Only some of these substances will actually be registered. Registration will take place on the basis of volume in three phases in 2010, 2013 and 2018.

Employees

Our commitment
Evonik's goal of creating value confronts its human resources departments with demanding assignments. In 2008 they utilized opportunities arising from the ongoing restructuring of the Group and benefited from the previous year's Group-wide harmonization of frameworks and regulations. Together with representatives of our employees we aim to make Evonik's business weatherproof for the future and thus secure the employment of our workforce. Human resources work makes a valuable contribution to Evonik. Our projects and initiatives are measured against that vision.

Evonik's Code of Conduct—Responsibility builds trust
Successful companies are built on trust, but trust cannot be created on command. As a global company, Evonik is subject to a wide range of national and supranational laws. Compliance with these laws is a matter of course. However, we set the benchmark far higher: All business operations must be managed in a manner that ensures observance of all applicable laws, voluntary commitments and other binding regulations in the areas where Evonik does business. The Global Code of Conduct introduced at the start of 2008 sets out Evonik's standards as a responsible corporate entity. These are based on our corporate values: courage to innovate, responsible action and sparing no effort. The principles set out in the Code of Conduct are a guide to our employees' fundamental legal and ethical obligations and give them a secure basis for correct conduct of their work. The Code of Conduct is mandatory for all employees. That fosters the trust of our business partners, shareholders and the general public.

Constructive approach to industrial relations
In August 2008 employer and employee representatives of the German chemical industry agreed on a code of ethics, supported by the Wittenberg Center for Global Ethics. The German Chemical Industry Employers Federation (BAVC) and the Mining, Chemical and Energy Industrial Union (IG BCE) hope that these guidelines will help to counter the crisis in the social market economy. Representatives from Evonik played a part in shaping the guidelines, which are the first joint set of ethical principles adopted for a whole sector of industry. Evonik Industries AG and Evonik Services GmbH have joined the BAVC to ensure that Evonik can play an active role in shaping the nationwide collective bargaining agreements for employees in the chemical industry.

Evonik's human resources strategy—quantifiable value creation
The Evonik Group's human resources activities are managed through a personnel strategy that is constantly evolving. Strategic target areas provide a guide and content for human resources work in the business units, the Corporate Center, the service units and the regions. The five strategic target areas for our current HR strategy are: competency development, positioning as an attractive employer, HR management, change management and shaping a value-based corporate culture. To implement them, we have developed a special model that maps the targets to specific indicators. Target values will be defined for the first time in 2009, so we can measure their attainment and thus monitor progress in implementing the strategy. Examples of these indicators are employee retention (commitment index) and leadership quality as shown by the Group-wide employee survey.

Demographic change—taking preventive action
Identifying the challenges highlighted by a detailed analysis of demographic change and responding promptly and effectively are integral elements of our human resources work. Demographic aspects therefore have a firm place in all relevant HR issues and processes. This is demonstrated, for example, by our special commitment to work/life balance and health management, two issues of relevance to demographic change.

Evonik is currently introducing an innovative new model of long-term human resources planning through the Plan@HR project. This is a networked, all-round approach that maps both quantitative and qualitative changes in our headcount and future personnel requirements. It allows reliable determination of the risk relating to future personnel capacity, aging and skills. Models are used to simulate complex planning scenarios in each organizational unit. In this way, long-term risks and trends can be visualized and analyzed. By consolidating the findings for individual units, Plan@HR thus enables us to identify Group-wide risk that would not be evident from a stand-alone view of individual organizational units.

Looking beyond its own boundaries, Evonik is one of the three leading companies in the Demographic Change Laboratory of the European Union's Alliance for CSR (Corporate Social Responsibility). A groundbreaking demographic report entitled "Mapping Regional Demographic Change and Regional Demographic Location Risk in Europe" was commissioned by the Change Laboratory and presented in May 2008. It is the first digest of information on demographic trends in 264 European regions and their implications for the potential labor force, the availability of skilled workers, productivity and research and development covering the period up to 2030.

In April 2008 employer and employee organizations in the German chemical industry responded to the increasing significance of demographic change by adopting a new collective bargaining agreement on lifetime working and demographic change. The aim is to allow flexible use of a range of tools such as age-focused working structures and measures to promote occupational health to counter the specific challenges arising from demographic change.

Work/life balance as a key success factor
Evonik regards maintaining a sound balance between working requirements and family needs as a duty and a challenge. It is also a key element in the competition to attract the most able specialists and managers. Our broadly based offering in this area ranges from child-care facilities to flexible worktime models. One key aspect in summer 2008 was extending the vacation program for children to five sites in Germany. For the first time, 800 of our employees' children took part in this attractive program. We have extended the provision of rapid and free advice and practical assistance for employees faced with the need to care for relatives to all our sites in Germany. In 2008 Evonik was one of the first signatories of a declaration on "Family as a Success Factor", a corporate network with 2,000 members. As the next step, our goal is to obtain the Hertie Foundation's "berufundfamilie" certification for the entire Group. The audit process has started and will be completed in spring 2009.

Employer branding—campaign to attract talent
Profiling Evonik internally and externally as an attractive employer is a central element in our human resources strategy. Employer branding is used to gain, integrate and retain the talent required by our company. The special image campaign introduced in Germany in 2008 to attract talent proved highly effective in the first phase and resulted in a perceptible increase in Evonik's attractiveness as an employer. This is demonstrated by market research and direct contact to the talented professionals targeted by the campaign.

Vocational training—motivated youngsters
The Evonik Group continued its sustainable vocational training policy in 2008. The focus was on enhancing cost transparency and optimizing quality through standardized benchmarking of our decentralized training offers. Evonik spends around €57 million on vocational training and trainees account for around 9 percent of the Group's German workforce. Our commitment to training youngsters is thus still well above the German industry average of 6.5 percent. That underscores our strong sense of responsibility to society, a commitment we intend to maintain in the future. In 2008, Evonik's German companies trained more than 2,460 young people on more than 40 recognized training courses. In view of the forecast demographic situation in Germany, a proactive policy of training future employees and offering them jobs at the end of their training is needed. Evonik puts that into practice: In 2008 around 550 trainees were hired after successful completion of their training. Our high-quality training is available to young people outside Germany as well as Evonik shapes its own training activities in key growth markets. One example is China, where we have been collaborating with the Shanghai Petrochemical Academy, a leading technical school offering initial training for chemical workers, since 2005. So far a good 80 percent of the operatives trained with our support at this academy have been recruited for production work at Evonik's facilities in Shanghai Chemical Industry Park.

Knowledge is the future—Evonik's skills enhancement drive
The world is changing and that is altering jobs and requirements. Those who focus on targeted training set their sights on the future and consciously decide to move forward in their professional life and secure their personal employability. We support and foster such initiatives to ensure that Evonik can continue to compete successfully on the international stage. In 2008 we introduced a training drive to assist our employees' personal efforts to upgrade their skills throughout their working lives. We support individual initiative and facilitate participation in attractive training courses, on-the-job projects, re-skilling and the use of self-study media. As well as enhancing the skills required for their current tasks, these four modules allow employees to look beyond their current jobs. That makes them fit for tomorrow's requirements and maintains their flexibility. Evonik bears the cost of training measures taken under this campaign. In return, we expect commitment from our employees, including using a certain amount of their leisure time, for example, vacation and overtime balances for training and study. Our training drive is currently focused on Germany. We aim to derive strategies to extend it to our international sites in 2009.

Focused on the future—our talent and succession management
Evonik prefers to fill key positions with internal candidates where possible. The aim of talent and succession management is to identify employees who could move into the circle of roughly 200 Group executives. Alongside a top performance in their present role, to be classified as a talent, employees need to be ranked as being potential executive material through a positive forecast of their potential. To reflect the differing background and experience of both young and experienced managers, talent and succession management at Evonik comprises different talent groups, resulting in differentiated succession management measures. A four-step process based on specific measures and tools is used to foster and develop talented individuals. Specially tailored formats such as mentoring, talent dialogue or talent meetings are used to prepare the various talent groups for future assignments.

Lifetime work accounts—a flexible tool
Lifetime work accounts enable employers to manage the individual retirement process for the older generation flexibly and are a suitable tool for maintaining and possibly rejuvenating the age structure. At the same time, they enable employees to structure the timing of their retirement from working life flexibly. The opportunity to allocate salary and time components to a lifetime work account was extended to employees at the Corporate Center, service units and the Real Estate Business Area in April 2008. This tool had already been introduced in the Chemicals and Energy Business Areas, so employees throughout Germany can now build up credits on lifetime work accounts regardless which organizational unit employs them. At the end of 2008 more than 6,000 employees in Germany were utilizing this tool.

Attractive long-term incentive plan
Our remuneration systems support the achievement of strategic objectives and include long-term incentive components based on those objectives. The Long-Term Incentive Plan introduced in 2008 is an attractive new remuneration component for our executives alongside the bonus systems, which is based on the attainment of annual targets. The aim is to highlight the increase in Evonik's equity value as a central success factor. Payments will be made under the 2008 Long-Term Incentive Plan if the company's equity value rises by a defined amount within a three-year period.

Employee participation plan
The employee participation program introduced in 2008 provides an additional reward for the commitment of our employees. Staff are offered the opportunity to purchase a minimum number of participation rights at a discount. These yield a return based on the Group's return on capital employed (ROCE). This personal investment enables them to benefit directly from the success of the Evonik Group: The better the Group's performance, the higher the return on capital employed. The holders of these participation rights are not the only beneficiaries: Investing in the company increases their motivation, and that has a positive effect on the attainment of the Group's business targets. In the first year of the program more than 4,200 employees in Germany utilized this opportunity and purchased participation rights for a total of €3.7 million. The discount granted by Evonik was €0.5 million.

The 2008 employee survey—"Contribute, Communicate, Create"
At the end of 2008 Evonik asked around 39,000 employees in 51 countries to play an active role in shaping the future of the Group by taking part in the global employee survey. It is particularly important to gain a meaningful insight into the opinions and sentiment of all employees in periods of extensive change. The very high participation rate of over 76 percent is evidence that our workforce places value on contributing its viewpoint to the restructuring and adjustment processes. Good scores were achieved, among other things, for customer focus and entrepreneurial approach. Our employees still see potential in the organization of their tasks and communication. The detailed analysis of the results from some 2,500 organizational units around the world should result in concrete action from mid-2009. The aim is not to generate new activities but to build on those derived from the previous survey. The "Go for Leadership" management development program, "Antenne Evonik" to foster knowledge sharing and networking of employees in different parts of the

company and the "Courage to Change" workshops for trainees are initiatives that have resulted in many positive ideas and developments. The goal is to consolidate that success.

Workforce

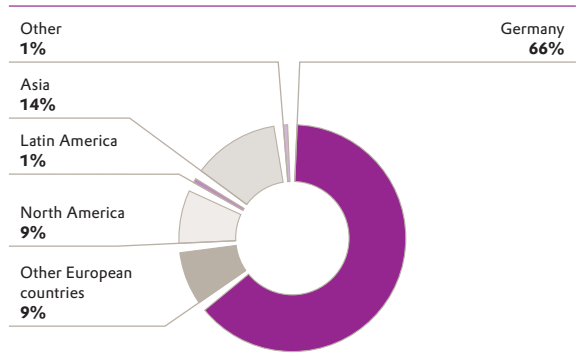
At year-end 2008 the Evonik Group had 40,767 employees, around 21 percent of whom were female. The average age of the workforce was 41 years. 34 percent are employed outside Germany.

The headcount was 2,290 lower than at year-end 2007, mainly because of the divestment of the initiators and tar refining businesses and other non-core operations.

Employees by business area

	2008	2007
Chemicals	31,728	32,285
Energy	4,702	4,629
Real Estate	443	457
Other operations	3,894	4,179
Continuing operations	**40,767**	**41,550**
Discontinued operations	0	1,507
Evonik	**40,767**	**43,057**

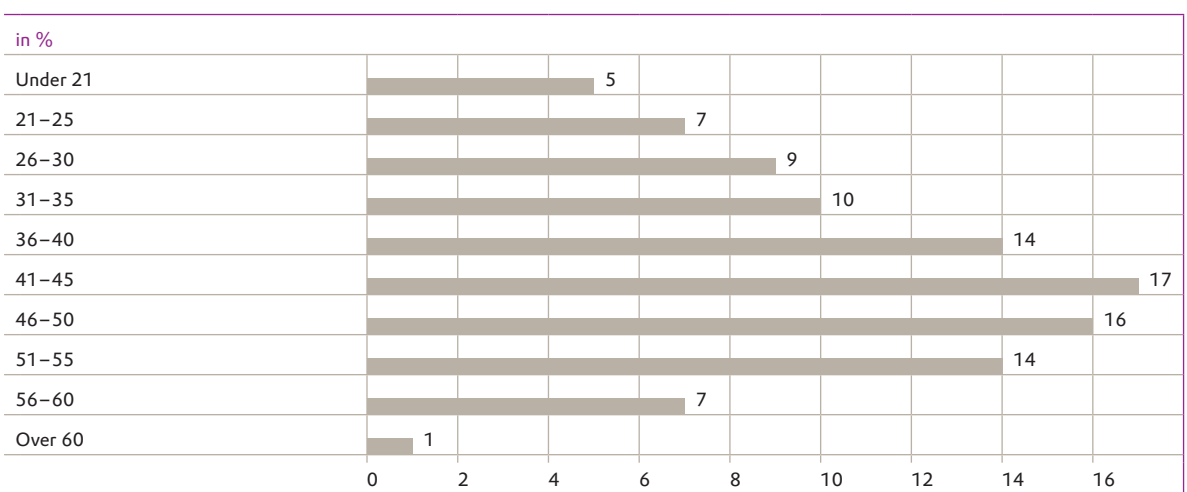
Employees by region



Response to the economic crisis

The massive drop in volumes in the chemicals business from November 2008 also means considerably lower utilization of facilities at production sites. Until the start of 2009, the corresponding adjustment in personnel capacity was achieved by utilizing the flexibility of personnel systems, especially working time accounts and vacation. Since January 2009, many sites have introduced short-time working. At the start of March, around 2,600 employees were affected by this. Short-time working, accompanied by further stabilization measures and posting the planned recruitment of new staff, is designed to avoid redundancies wherever possible.

Age structure of the Evonik Group



Events after the end of the reporting period

There was no sign of an improvement in the economic situation in the first two months of 2009. Virtually all sectors are affected by the crisis, which is compounded by financing and liquidity risks which also affect our customers in almost all end-markets. In view of the considerable reduction in the capacity utilization of our chemical production plants, our German sites have been making use of short-time working since the start of 2009. This is a tool available through German labor market policy and collective bargaining agreements. We are also scaling back capacity considerably at some of our foreign production plants and making use of the locally available personnel policy instruments. To safeguard our cash flow and improve the earnings situation, in February 2009 we introduced an extensive range of measures to cut costs and reviewed and significantly reduced investment plans for 2009.

Risk report

Risk strategy

Evonik is exposed to a variety of risks in the course of its business activities. Risk management 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. Risk management processes are integrated into planning, management, controlling and reporting procedures at all levels in the Group. We only enter into entrepreneurial risks if we are convinced that they can generate a sustained rise in the value of the company and are able to control any possible implications.

Structure and organization of risk management

Risk management facilitates timely identification of risks, the evaluation of their impact and the establishment and monitoring of suitable measures and precautions to ensure that they do not jeopardize the continued operation of the company. Evonik has an internal monitoring and control system in place across the Group. Alongside organizational measures and internal control systems, this includes the Corporate Audit Department 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, management and internal communication of risks. Risk Coordinators within these organizational units are responsible for coordinating the relevant risk management activities. The Group Risk Manager is responsible for managing and coordinating the processes and systems. He is the contact for all risk officers and is responsible for documentation, coordination and information for the entire Group and for developing the methodology of the risk management system.

Risk management is a central element in Evonik's controlling processes. These include strategic and operational planning, strategy meetings of the Executive Board, dialog on objectives, the preparation of investment decisions, monthly reporting and ad hoc reports. The organizational units also conduct an extensive

annual risk inventory with the aid of standard software tools, including a detailed checklist of potential risk factors. In this way, all risks are systematically identified and documented and their probability of occurrence and the potential consequences are assessed. The organizational units are required to specify risk limitation measures for all risks identified in the risk inventory process and evaluate their efficacy and level of implementation. The annual inventory is supplemented by quarterly risk reports which outline any change in the risks identified and any new risk factors. The Evonik Group has issued a binding policy on risk management.

In fiscal 2008 the Corporate Audit Department continued its inspection of the risk management systems in various 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.

The present global economic crisis has affected many markets in which Evonik operates and has had a particularly strong impact on the Chemicals Business Area. The shortfall in demand, in particular, requires action such as scaling back production capacity and extensive cost-savings to limit the earning and cash-flow risks in 2009.

For further information on the impact of the financial markets crisis and the action taken, see the section headed "Risks arising from the financial markets crisis".

Market and competition risks

The Chemicals Business Area was exposed to massive fluctuations in demand in 2008. During the first ten months, the financial markets and real estate crisis and economic slowdown principally curtailed sales in the USA, but virtually all activities were subsequently affected by an unprecedentedly sharp drop in sales around the world. 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. One major 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 stepping up our regional diversification, broadening our production base, cutting production costs and gaining access to new markets in high-growth regions such as China and Eastern Europe. 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. With regard to the REACH Regulation, it should be noted that certain raw materials that are subject to authorization may no longer be available in the future, so alternatives will have to be found. In the Energy Business Area, the energy policy framework could have a detrimental effect. This applies in particular to future regulatory measures to reduce CO_2 emissions further. We therefore have a clear focus on work geared to reducing the specific CO_2 emissions of power plants by increasing efficiency further and using innovative technologies. Moreover, plans to allocate all CO_2 allowances—even for new power plants—by auction from 2013 will hamper the economical and competitive construction of new power plants in Germany. 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.

Production and environmental risks
As an industrial group, Evonik is exposed to a risk of interruptions in operation, quality problems and unexpected technical difficulties, as well as to product safety, occupational safety and environmental risks. Group-wide policies on project and quality management, product safety, occupational safety and environmental protection are an effective way of reducing these risks. Production stoppages due to plant failures are insured. Further, production processes and workflows, which are certified as conforming to international standards, are constantly being upgraded and improved, careful maintenance is carried out on all installations and employees receive appropriate initial and advanced training. 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 the Chemicals Business Area operates such processes in accordance with the principles of the chemical industry's global Responsible Care initiative.

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. However, these measures were not sufficient to counter the escalating procurement costs in the first eleven months in 2008, necessitating substantial hikes in selling prices. Due to the competitive situation it was not always possible to recoup price rises from customers immediately and in full. In some cases, it was possible to conclude offtake agreements with price formulae so that changes in raw materials could be passed on. 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 the procurement of alternative fuels. The risk of fluctuations in coal prices is limited by concluding long-term offtake agreements with customers so that changes in the price of raw materials can be charged to them.

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 sectors 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, developing customer strategies and efforts to establish new applications and gain access to new markets as early as possible. In 2008, not all business units were able to pass on the extremely rapid hikes in raw material and energy costs to customers in full without delay. 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. Some power supply agreements were extended last year.

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.

To mitigate these risks we use hedges, normally in the form of financial derivatives. These are used exclusively for hedging purposes, in other words, they are only used in connection with transactions originated by business operations that have a risk profile exactly opposite to that of the financial derivatives. The type and extent of the transactions to be hedged are defined in a financial policy that is mandatory for the entire Group. Both contractually agreed and forecast transactions are hedged.

Currency 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 general aim of our foreign exchange management is to protect the operating business from fluctuations in earnings and cash flows due to changes in exchange rates on the currency markets. The US dollar plays a particularly significant role in this. The exchange rate risk caused by a rise in the euro against the US dollar, which would make exports to the dollar zone more expensive, is hedged through forward rate agreements and currency options.

The aim of interest-rate management is to protect net income from the negative effects of fluctuations in market interest rates. The risk of changes in interest rates is managed by utilizing primary and derivative financial instruments, especially interest-rate swaps and cross-currency interest-rate swaps, to achieve an appropriate mix of fixed and variable interest rates, bearing in mind the cost-benefit ratio.

As a result of the global banking and financial markets crisis, the credit margins on new loans increased during the year. Since the vast majority of long- and mid-term credit facilities used by the company involve fixed interest and/or margin commitments, there was no significant increase in Evonik's financing costs in 2008. However, some significant increases in bank margins were registered, especially when extending bilateral money market trading lines. However, this was largely offset by lower market interest rates.

A detailed overview of interest rate and foreign exchange management and the use of financial derivatives is given in Note (10.3) to the consolidated financial statements and Note (27) to the annual financial statements of Evonik Industries AG.

Liquidity risks

At the heart of our central liquidity risk management is a Group-wide cash pool. Managing liquidity risks centrally ensures timely provision of the funds needed to finance current operating business and current and future investment at all Group companies in the required currency. Extensive credit lines are available to cover unforeseen liquidity bottlenecks, including a €2.25 billion revolving credit facility (RCF) available to Evonik Industries AG.

Various financial covenants have to be met to comply with the contractually agreed terms of the syndicated credit facility. In particular, Evonik has to provide the syndicate of banks with evidence that it meets the various financial ratios set. A detailed overview of our corporate financing and liquidity management can be found on page 44 f (Financial condition).

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

A detailed overview of liquidity risks and their management can be found in Note (10.3) to the consolidated financial statements.

Acquisition and divestment risks

The strategic development of Evonik may entail the expansion of specific operations. Except where organic growth is achieved through investment in property, plant and equipment, such decisions are normally implemented by acquiring other enterprises or majority stakes in businesses. An intensive examination of potential acquisition targets (due diligence) is undertaken before they are acquired. Key aspects of this are strategic focus, management quality and development potential. New subsidiaries are systematically integrated into the Group and its risk management processes. Through our value-based controlling process and portfolio analysis, we continuously review the sustained profitability of all operating units and their fit with the Group's strategy. Any resultant restructuring or divestment requirements are systematically implemented. The preparation, implementation and subsequent monitoring of investment decisions are undertaken on the basis of defined accountability rules and permitting processes. Post-transaction management closely monitors any liability and guarantee risks resulting from divestments.

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.

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 data 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. Internal communication methods such as IT safety campaigns are used to heighten employees' awareness of the need for security in the handling of information technology.

Risks arising from the financial markets crisis
Following the sharp drop in sales in the Chemicals Business Area from November 2008, we have registered a pronounced dip in demand around the world, especially in our chemicals business. Intensive, timely and full monitoring of the impact of the financial and economic crisis on our business is being undertaken with the aid of various scenarios. In particular, we are developing and evaluating short and long-term counteractive measures. The measures currently planned or that have already been introduced will help to reduce the risks. In the Chemicals Business Area, we are countering the shortfall in demand principally through the use of vacation and balances on overtime accounts, short-time working at some sites and reductions in production capacity.

A considerable decline in the cost of raw materials and oil-related energy costs following the overheating in 2008 has eased the situation on the procurement front. However, in the face of lower demand customers are pressing us to pass on price cuts.

Declining electricity and coal prices and lower demand are risk factors in the Energy Business Area, especially in the Trading and Power Business Lines, but their impact is limited as the business model centers on long-term agreements.

The restricted refinancing opportunities for institutional investors resulting from the financial markets will probably only have a minor impact on the earnings situation in the Real Estate Business Area as the marketing risk is reduced by the planned focus on the sale of property to individuals.

Extensive action is being taken throughout the Group to safeguard earnings and cash flow. This includes, in particular, a widespread recruitment freeze, intensive management of fixed costs, restructuring, cutting back on investment spending and net working capital and renegotiating raw material, energy and freight agreements. To prevent defaults on receivables, customers with liquidity problems are monitored closely. The measures taken and planned include credit limits, upfront payments, Hermes guarantees, netting agreements and credit analyses.

Outlook

A pronounced global economic slowdown
The financial markets crisis has spread to the real economy: Since the fourth quarter of 2008 at the latest, the world's major economies have been battling with recession or, where growth is still positive, with an at times dramatic drop in growth rates. Depending on the sustainability of the state investment programs initiated by all relevant economic powers and the ability to restore confidence in positive economic trends, demand and output are unlikely to pick up until the second half of 2009 at the earliest. Signs of improvement could be felt in the chemical industry when current inventories have been utilized and the automotive, construction and electronics industries have to re-order starting materials.

The downside of the massive state economic programs is a substantial rise in public-sector debt. The economic outlook is dampened by a massive drop in employment and thus purchasing power in China and India as well as in other economic nations that do not have temporary social safety nets such as short-time working. Even in countries like Germany, the unemployment rate is expected to rise to well over 8 percent. The crisis is affecting virtually all sectors: Only the pharmaceuticals and food sectors are still predicting a relatively stable trend. Other factors detracting from the probability of an economic upswing include industry's restricted access to financing as a result of the financial markets crisis and the postponement of investment plans as a result of enforced savings drives.

Business outlook: lower sales and operating profit
The economic crisis has had a considerable impact on the sales, volumes and earnings of Evonik's chemicals operations since November 2008. This has been exacerbated by the financing and liquidity risks affecting our customers in virtually all end-markets. Evonik sees this as an unprecedented global economic situation. The sales, volume and earnings trends up to the end of February 2009 show no indication that the chemicals business is recovering.

By contrast, we assume that the Energy Business Area will only suffer a slight drop in operating profit because our business model here centers principally on long-term supply and offtake agreements with major customers. Moreover, we do not envisage any significant impact on the sales and earnings of our Real Estate Business Area as its business focuses on letting residential units to private households.

The outlook for 2009 is extremely uncertain. Consequently, it is not possible to give a reliable forecast of individual sales and earnings indicators. Instead, we use a range of scenarios based on different parameters and probabilities to ensure appropriate management of the main risks and rule out a threat to the development of the Evonik Group as a whole.

In view of the financial and economic crisis and the dominant role played by the Chemicals Business Area in our performance, we assume that sales will drop considerably which will also have a negative impact on EBITDA and EBIT. Lower procurement prices for key raw materials and the action we have taken to cut costs will merely dampen this effect.

To safeguard our cash flow, we have reviewed our investment plans for 2009 and scaled them back substantially. The main adjustments relate to capacity expansion and construction projects that were scheduled to start in 2009. Overall, we have earmarked nearly €1 billion for investment in 2009.

We will monitor future economic trends closely so we can take timely and well-founded decisions on any necessary adjustments. In this way, we aim to ensure that we can utilize competitive opportunities arising from the economic crisis and emerge stronger from these difficult conditions.

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 2008

Income statement

Evonik Group

in € million	Note	2008	2007
Sales	(6.1)	15,873	14,444
Change in inventories of finished goods and work in progress		109	32
Other own work capitalized		102	81
Other operating income	(6.2)	1,297	956
Cost of materials	(6.3)	–9,379	–7,988
Personnel expense	(6.4)	–2,810	–2,773
Depreciation, amortization and impairment losses	(6.5)	–1,160	–1,119
Other operating expenses	(6.6)	–3,214	–2,690
Income before financial result and income taxes, continuing operations		**818**	**943**
Interest income	(6.7)	76	97
Interest expense	(6.7)	–606	–563
Result from investments recognized at equity	(6.8)	64	34
Other financial income/expense	(6.9)	16	16
Financial result		**–450**	**–416**
Income before income taxes, continuing operations		**368**	**527**
Income taxes	(6.10)	–130	–158
Income after taxes, continuing operations		**238**	**369**
Income after taxes, discontinued operations	(5.3)	117	602
Income after taxes		**355**	**971**
thereof attributable to			
Minority interests		70	95
Equity holders of Evonik Industries AG (net income)		285	876
Earnings per share (basic and diluted) in €	(10.1)	**+0.61**	**+1.88**

Prior-year figures restated.

Balance sheet

Evonik Group

in € million	Note	Dec. 31, 2008	Dec. 31, 2007
Intangible assets	(7.1)	4,086	4,159
Property, plant and equipment	(7.2)	5,696	5,566
Investment property	(7.3)	1,502	1,503
Investments recognized at equity	(7.4)	604	619
Financial assets	(7.4)	1,385	1,302
Deferred tax assets	(7.13)	348	364
Other income tax assets	(7.13)	36	29
Other receivables	(7.6)	73	91
Non-current assets		**13,730**	**13,633**
Inventories	(7.5)	2,196	1,806
Other income tax assets	(7.13)	130	44
Trade accounts receivable	(7.6)	2,572	2,372
Other receivables	(7.6)	399	406
Financial assets	(7.4)	330	488
Cash and cash equivalents	(7.7)	536	319
		6,163	**5,435**
Assets held for sale	(5.3)	206	732
Current assets		**6,369**	**6,167**
Total assets		**20,099**	**19,800**

in € million	Note	Dec. 31, 2008	Dec. 31, 2007
Issued capital		466	466
Reserves		4,245	4,178
Equity attributable to equity holders of Evonik Industries AG		**4,711**	**4,644**
Minority interests		481	437
Total equity	(7.8)	**5,192**	**5,081**
Provisions for pensions and other post-employment benefits	(7.9)	3,900	3,894
Other provisions	(7.10)	1,064	1,099
Deferred tax liabilities	(7.13)	687	761
Other income tax liabilities	(7.13)	120	191
Financial liabilities	(7.11)	4,394	3,752
Other payables	(7.12)	384	397
Non-current liabilities		**10,549**	**10,094**
Other provisions	(7.10)	1,272	1,188
Other income tax liabilities	(7.13)	197	206
Financial liabilities	(7.11)	1,008	942
Trade accounts payable	(7.12)	1,463	1,294
Other payables	(7.12)	332	516
		4,272	**4,146**
Liabilities associated with assets held for sale	(5.3)	86	479
Current liabilities		**4,358**	**4,625**
Total equity and liabilities		**20,099**	**19,800**

Prior-year figures restated.

Statement of changes in equity

Evonik Group

Note (7.8)

in € million	Issued capital	Reserves	
		Capital reserve	Accumulated income/loss
As of December 31, 2006	466	722	2,786
Restatement pursuant to IAS 8			22
As of January 1, 2007	**466**	**722**	**2,808**
Capital increases/decreases		445	
Profit transfer/dividends			–345
Transactions with equity holders		445	–345
Income after taxes			876
Other comprehensive income			
Total income/loss recognized in equity			876
Other changes		–2	–15
As of December 31, 2007	**466**	**1,165**	**3,324**
Capital increases/decreases			
Dividends			
Transactions with equity holders		0	0
Income after taxes			285
Other comprehensive income			
Total income/loss recognized in equity			285
Other changes			1
As of December 31, 2008	**466**	**1,165**	**3,610**

Accumulated other comprehensive income				Attributable to equity holders of Evonik Industries AG	Minority interests	Total equity
Unrealized gains/losses on available-for-sale securities	Unrealized gains/losses on hedges	Revaluation reserve for acquisitions in stages	Currency translation adjustment			
30	45	38	–216	3,871	449	4,320
–23	1			0		0
7	**46**	**38**	**–216**	**3,871**	**449**	**4,320**
				445	30	475
				–345	–61	–406
				100	–31	69
				876	95	971
1	35	20	–254	–198	–34	–232
1	35	20	–254	678	61	739
	–2	–2	16	–5	–42	–47
8	**79**	**56**	**–454**	**4,644**	**437**	**5,081**
				0	19	19
				0	–40	–40
				0	–21	–21
				285	70	355
–6	–79		–127	–212	9	–203
–6	–79	0	–127	73	79	152
		–5	–2	–6	–14	–20
2	**0**	**51**	**–583**	**4,711**	**481**	**5,192**

Cash flow statement

Evonik Group

in € million	Note	2008	2007
Income before financial result and income taxes, continuing operations		818	943
Depreciation, amortization, impairment losses/reversal of impairment losses		1,119	1,099
Gains/losses on disposal of non-current assets		–182	–95
Other non-cash income/expense		34	–14
Change in inventories		–434	–101
Change in receivables/other assets		–238	–189
Change in provisions		–195	–277
Change in liabilities (excluding financial liabilities)		–77	60
Cash outflows for interest		–223	–278
Cash inflows from interest		23	30
Cash inflows from dividends		42	52
Cash outflows for income taxes		–306	–132
Cash flow from operating activities, continuing operations		**381**	**1,098**
Cash flow from operating activites, discontinued operations		7	117
Cash flow from operating activities	(8.1)	**388**	**1,215**
Intangible assets, property, plant and equipment, investment property			
Cash outflows for investments		–1,165	–1,068
Cash inflows from divestments		131	118
Acquisitions, equity investments and loans			
Cash outflows for investments		–97	–98
Cash inflows from divestments		363	957
Change in current securities and deposits		213	–238
Cash flow from investing activities	(8.2)	**–555**	**–329**
Cash inflows/outflows relating to capital contributions		19	30
Cash outflows for payments to minority interests[1)]		–35	–61
Profit transfer for prior year/dividends paid[2)]		–345	–235
Cash inflows from the addition of financial liabilities		983	389
Cash outflows for the repayment of financial liabilities		–266	–1,130
Cash flow from financing activities		**356**	**–1,007**
Change in cash and cash equivalents		**189**	**–121**
Cash and cash equivalents as of January 1		**349**	**467**
Change in cash and cash equivalents		189	–121
Changes in exchange rates and other changes in cash and cash equivalents		4	3
Cash and cash equivalents as of December 31	(8.3)	**542**	**349**
Cash and cash equivalents included in assets held for sale		–6	–30
Cash and cash equivalents as reported on the balance sheet as of December 31	(7.7)	**536**	**319**

Prior-year figures restated.
[1)] In 2008, €5 million of dividends to minority interests were not paid out (2007: paid out in full).
[2)] Profit transfer/dividends paid without tax charge (stand-alone view). –342 –220

Notes to the consolidated financial statements of Evonik Industries AG for 2008

(1) Segment report

Evonik Group by operating segments

	Chemicals		Energy	
in € million	**2008**	2007	**2008**	2007
External sales	11,512	10,571	3,649	3,024
Internal sales	131	154	242	216
Total sales	11,643	10,725	3,891	3,240
EBITDA (before non-operating result)	1,600	1,610	545	581
EBITDA margin in %	13.9%	15.2%	14.9%	19.2%
Depreciation and amortization	–661	–676	–101	–99
Result from investments recognized at equity	23	22	5	11
EBIT (before non-operating result)	927	930	430	479
Non-operating result	–365	–124	63	–21
Operating income	562	806	493	458
Capital employed (as of December 31)	9,222	9,189	3,598	3,176
Capital employed (average)	9,336	9,205	3,292	3,128
ROCE in %	9.9%	10.1%	13.1%	15.3%
Investments recognized at equity	115	159	57	60
Capital expenditures	703	599	351	309
Financial investments	108	46	93	24
Other material non-cash income and expense	–949	–754	–225	–162
Employees (as of December 31)	31,728	32,285	4,702	4,629

Evonik Group by regions

	Germany		Rest of Europe		North America	
in € million	**2008**	2007	**2008**	2007	**2008**	2007
External sales	6,310	5,837	3,751	3,472	2,306	2,057
Goodwill[1)]	2,087	2,114	546	551	297	280
Other intangible assets, property, plant and equipment and investment property[1)]	6,052	6,018	634	746	617	688
Capital expenditures	766	741	76	89	87	74
Financial investments	107	93	16	4	0	45
Employees (as of December 31)	27,114	27,587	3,682	3,859	3,723	3,768

Prior-year figures restated.
[1)] Non-current assets pursuant to IFRS 8.33 b).

Real Estate		Total reportable segments		Corporate, other operations, consolidation		Total Group (continuing operations)	
2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
375	423	15,536	14,018	337	426	15,873	14,444
0	0	373	370	–373	–370	0	0
375	423	15,909	14,388	–36	56	15,873	14,444
217	188	2,362	2,379	–191	–143	2,171	2,236
57.9%	44.4%	15.2%	17.0%			13.7%	15.5%
–44	–50	–806	–825	–36	–37	–842	–862
33	0	61	33	3	1	64	34
162	132	1,519	1,541	–215	–178	1,304	1,363
0	48	–302	–97	–104	–273	–406	–370
162	180	1,217	1,444	–319	–451	898	993
1,835	1,754	14,655	14,119	–23	–13	14,632	14,106
1,762	1,596	14,390	13,929	–4	59	14,386	13,988
9.2%	8.3%	10.6%	11.1%			9.1%	9.7%
432	398	604	617	0	2	604	619
87	103	1,141	1,011	19	21	1,160	1,032
12	7	213	77	–64	67	149	144
–13	43	–1,187	–873	–236	–291	–1,423	–1,164
443	457	36,873	37,371	3,894	4,179	40,767	41,550

Asia		Central and South America		Other		Total Group (continuing operations)	
2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
2,664	2,354	589	490	253	234	15,873	14,444
224	172	25	24	21	19	3,200	3,160
686	487	80	103	15	26	8,084	8,068
221	106	5	17	5	5	1,160	1,032
26	2	0	0	0	0	149	144
5,542	5,594	466	463	240	279	40,767	41,550

(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 the number HRB No. 19474.

Evonik Industries AG is a direct subsidiary of RAG-Stiftung, Essen (Germany), which directly and indirectly held all shares in Evonik Industries AG at the start of 2008. With economic effect from the start of June 2008 RAG-Stiftung divested 25.01 percent of its shares in Evonik Industries AG to Gabriel Acquisitions GmbH (Gabriel Acquisitions), Cologne (Germany). Gabriel Acquisitions is an indirect subsidiary of funds initiated and advised by CVC Capital Partners Luxembourg S.à r.l., Luxembourg (Luxembourg). The legal closing of the transaction took place in September 2008. Following closure of the transaction, RAG-Stiftung directly and indirectly still 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.

The present consolidated financial statements of Evonik Industries AG and its subsidiaries (referred to jointly as "Evonik" or the "Group") were approved for publication by the Executive Board of Evonik Industries AG as of the date of signature. 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 315a 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 standards adopted by the International Accounting Standards Board (IASB), London (International Financial Reporting Standards or International Accounting Standards) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC; formerly the Standing 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, 2008 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 Note (3.4). To enhance the clarity of presentation, some items are combined in the balance sheet, income statement and statement of changes in equity and explained in detail in the Notes.

The income statement is prepared using the total cost format. Expenses are grouped by type. Assets and liabilities are classified by maturity. They are classified as current if they are due or expected to be realized within 12 months from the reporting date. The statement of changes in equity shows changes in the issued capital, reserves attributable to equity holders of Evonik Industries AG and changes in minority interests in the reporting period. Transactions with equity holders in their capacity as owners are also shown separately here. The cash flow statement provides information on the company'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 items and further information such as the segment report.

(3.3) Newly issued IFRS

Accounting standards applied for the first time

The IASB has revised or issued a number of standards and interpretations. These have been officially adopted into European law by the European Union and became mandatory for the first time in fiscal 2008. None of the new accounting standards that took effect in fiscal 2008 had a material impact on the consolidated financial statements.

In November 2006, the IASB issued IFRIC 11 "IFRS 2: Group and Treasury Share Transactions". IFRIC 11 outlines how to apply IFRS 2 to share-based payments where an entity grants equity instruments in its own company or another Group company. This interpretation requires that where an entity uses its own equity instruments, the transaction must be recorded as equity-settled, regardless how the company has obtained the equity instruments. It also provides guidance on whether share-based payment for goods and services involving equity instruments of an entity's parent company should be accounted for as cash-settled or equity-settled.

Further, in October and November 2008 the IASB issued revised versions of the standards IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures". The amendments permit the reclassification of financial instruments from the categories at fair value through profit or loss and available-for-sale in exceptional circumstances. Until the end of October 2008, retrospective application of these revised standards was permitted for the period from July 1, 2008. From November 1, 2008 they may only be applied prospectively.

Accounting standards that are not yet mandatory

The IASB adopted further accounting standards up to December 31, 2008 which did not become mandatory in the fiscal year or have not yet been officially adopted 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 November 2006 the IASB issued IFRIC 12 "Service Concession Arrangements". This addresses the measurement and recognition of the rights and obligations arising from service contracts at companies that provide public services on behalf of a public-sector organization, for example, the construction, operation and maintenance of roads, airports, prisons and utility infrastructures. This interpretation is applicable for fiscal years beginning on or after January 1, 2008. Earlier application is permitted. However, this interpretation has not yet been adopted by the European Union. Application of this interpretation will not have a material impact on Evonik's consolidated financial statements.

In March 2007 the IASB published amendments to IAS 23 "Borrowing Costs". The principal change is the deletion of the previous option permitting the recognition of borrowing costs as an expense if they were directly attributable to the acquisition, construction or production of a qualifying asset. In future, such borrowing costs must be capitalized as acquisition or production costs for the relevant assets. The amendment to IAS 23 is applicable to the borrowing costs for qualifying assets capitalized for the first time on or after January 1, 2009. This change will not have a material impact on Evonik's consolidated financial statements.

The IASB published IFRIC 13 "Customer Loyalty Programmes" in June 2007. This interpretation addresses the measurement and recognition of such programs. It specifies that in future they must be divided into two components, one relating to the goods or services provided, which must be recognized in income as sales, and one referring to the loyalty bonuses granted to the customer, which must be accrued as a liability until they are claimed by the customer or expire. This interpretation is applicable for fiscal years beginning on or after July 1, 2008. Earlier application is recommended. This interpretation is not currently relevant for the Group's consolidated financial statements.

Further, in July 2007 the IASB published interpretation IFRIC 14 "IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". This interpretation clarifies the valuation of the asset ceiling for plan assets and defined benefit obligations and any statutory or contractual minimum funding requirements for company pension plans as of the reporting date. Under European law, this interpretation is applicable at the latest for fiscal years beginning on or after January 1, 2009. Application of this interpretation will not have a material impact on Evonik's consolidated financial statements.

In September 2007 the IASB published a revised version of IAS 1 "Presentation of Financial Statements". The most important change comprises the separate presentation of changes in equity that do not relate to transactions with the company's equity holders. These must be presented in one statement of comprehensive income or as two statements, a separate income statement and a statement of comprehensive income. The new version of IAS 1 is applicable for the first time for fiscal years starting on or after January 1, 2009. Earlier application is permitted. The amendments to IAS 1 will affect the presentation of the above components of the financial statements.

In January 2008 the IASB published a revised version of IFRS 2 "Share-based Payment". The changes relate to the definition of the vesting conditions for share-based payment plans and clarify that the ruling on cancelation of a share-based payment plan is applicable regardless which party cancels the plan. The revised version of IFRS 2 is applicable for fiscal years beginning on or after January 1, 2009. Earlier application is permitted. This amendment is not currently relevant for Evonik's consolidated financial statements.

In January 2008 the IASB also published the revised standards IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" as part of the convergence project with the Financial Accounting Standards Board (FASB) "Business Combinations Phase II". The principal amendments to IFRS 3 relate to the recognition of goodwill relating to minority interests, the recognition of 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 contingent 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 minority interests. The revised standards are applicable for fiscal years starting on or after July 1, 2009. Joint application of both standards at an earlier date is permitted. The revised standards are relevant for Evonik's consolidated financial statements.

In February 2008, the IASB published amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements". These amendments relate to the definition of the difference between equity and liabilities. The new definition allows specific types of companies to present capital held in the form of puttable financial instruments as equity in the separate financial statements under certain conditions. Minority interests in such companies still have to be recognized as liabilities in the consolidated financial statements. Further, new disclosure requirements have been added to IAS 1 "Presentation of Financial Instruments." The revised standards are applicable for fiscal years starting on or after January 1, 2009. Earlier application is permitted. The changes will not have a material impact on Evonik's consolidated financial statements.

In May 2008 the IASB published amended versions of standards IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements". The amendments principally relate to the measurement of the cost of acquisition of subsidiaries, jointly controlled entities and associates by companies applying the IFRS in a separate financial statement for the first time. The revised standards are applicable for fiscal years starting on or after January 1, 2009. Earlier application is permitted. This amendment is not relevant for Evonik's consolidated financial statements.

Further, as part of its first annual improvements process, in May 2008 the IASB published "Improvements to IFRSs" 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 amendments comprise firstly, changes for presentation, recognition or measurement purposes and secondly, changes in terminology and editorial changes that have little impact on accounting. The amended standards are generally applicable for fiscal years starting on or after January 1, 2009. Earlier application is permitted. The changes will not have a material impact on Evonik's consolidated financial statements.

In July 2008 the IASB published interpretation IFRIC 15 "Agreements for the Construction of Real Estate". This interpretation addresses the conditions in which companies engaged in the construction of real estate should apply IAS 11 "Construction Contracts" or IAS 18 "Revenue". This interpretation is applicable for fiscal years beginning on or after January 1, 2009. Earlier application is permitted. Application of this interpretation will not have a material impact on Evonik's consolidated financial statements.

In July 2008 the IASB also published interpretation IFRIC 16 "Hedges of a Net Investment in a Foreign Operation". This interpretation clarifies that, when hedging a net investment, hedge accounting may only be applied to the foreign exchange differences between the functional currency of the foreign operation and the parent company's functional currency. For this, the position of the parent entity within the Group is not relevant. It also clarifies that the amount reclassified to the income statement from the foreign currency translation reserve when a hedged foreign operation is disposed of is governed by IAS 39 "Financial Instruments: Recognition and Measurement" while the amount to be recognized in respect of the net investment is governed by IAS 21 "The Effect of Changes in Foreign Exchange Rates". This interpretation is applicable for fiscal years beginning on or after October 1, 2008. Earlier application is permitted. Application of this interpretation will not have a material impact on Evonik's consolidated financial statements.

Further, in July 2008 the IASB published an amendment to IAS 39 "Financial Instruments: Recognition and Measurement" relating to the permitted hedged items in a hedging relationship. The standard outlines the conditions under which the risk of inflation relating to the hedged item can be designated for hedge accounting and the possibility of using options to hedge one-sided risks. In particular, it clarifies that only the intrinsic value of the option, not the full value, comprising the intrinsic value and the time value, can be designated as a hedge. The revised standard is applicable retrospectively for fiscal years beginning on or after July 1, 2009. Earlier application is permitted. The impact on Evonik's consolidated financial statements is currently being examined.

In November 2008 the IASB published the revised standard IFRS 1 "First-time Adoption of International Financial Reporting Standards". The changes relate solely to the structure of the standard; the substance has not been altered. The new standard is applicable for fiscal years beginning on or after January 1, 2009. Earlier application is permitted. This revised standard is not relevant for Evonik's consolidated financial statements.

In November 2008 the IASB published interpretation IFRIC 17 "Distributions of Non-cash Assets to Owners". This new interpretation addresses accounting for non-cash dividends distributed to shareholders and is applicable for fiscal years beginning on or after July 1, 2009. Earlier application is permitted. This interpretation is not currently relevant for Evonik's consolidated financial statements.

(3.4) Restatement of prior-year figures

An enterprise may only alter 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:

Accounting for low-interest loans in the Real Estate Business Area

Evonik has altered the principles used to account for low-interest loans from public-sector banks to finance subsidized residential properties. In the past, these were accounted for in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and the benefit resulting from the low interest rate was not quantified by recognition at fair value. However, IAS 20 conflicts with IAS 39 "Financial Instruments: Recognition and Measurement", which requires that low-interest liabilities should initially be measured at fair value. Since this approach reflects the accounting practice customary

in the sector, the Executive Board of Evonik Industries AG is of the opinion that it provides the users of the financial statements with more relevant information if low-interest loans are recognized in accordance with IAS 39. In accordance with IAS 39, low-interest loans are measured at fair value, which is lower than the amortized disbursement amount of the loan. The resultant difference is recognized as deferred income analogously to IAS 20. Deferred income is released in the same amount as the interest on the financial liability. The amount released is recognized in sales if the low-interest loan was granted as compensation for rental revenues foregone. 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. To ensure comparability, the corresponding figures for fiscal 2007 have been restated.

Further changes

Evonik has restated some prior-year figures in the income statement and statement of changes in equity in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". They comprise an increase of €152 million in the cost of materials, which is reflected in a corresponding reduction in other operating expenses and a correction to the balance carried forward in the statement of changes in equity, c. f. statement of changes in equity.

Restated prior-year figures

Income statement

in € million	2007 restated	Changes		2007 published
		Real Estate	Other	
Sales	14,444	14		14,430
Change in inventories of finished goods and work in progress	32			32
Other own work capitalized	81			81
Other operating income	956	1		955
Cost of materials	–7,988		–152	–7,836
Personnel expense	–2,773			–2,773
Depreciation, amortization and impairment losses	–1,119			–1,119
Other operating expenses	–2,690		152	–2,842
Interest income	97			97
Interest expense	–563	–15		–548
Result from investments recognized at equity	34			34
Other financial income/expense	16			16
Income taxes	–158			–158
Income after taxes, continuing operations	**369**	**0**	**0**	**369**
Income after taxes, discontinued operations	602			602
Income after taxes	**971**	**0**	**0**	**971**
thereof attributable to				
Minority interests	95			95
Equity holders of Evonik Industries AG (net income)	876			876

Balance sheet (excerpt)

in € million	2007 restated	Changes Real Estate	2007 published
Non-current financial liabilities	3,752	–241	3,993
Non-current other payables	397	241	156
Current financial liabilities	942	–29	971
Current other payables	516	29	487
Miscellaneous	14,193	–	14,193
Total equity and liabilities	**19,800**	**0**	**19,800**

(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. Initial consolidation or deconsolidation takes place as of the date on which Evonik gains or loses control.

Investments that do not have a significant influence on the assets, financial position and earnings of the Group, either individually or in aggregate, are not included in the scope of consolidation. Instead they are recognized in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Changes in the scope of consolidation are outlined in Notes (5.1) and (5.2). An overview of the major consolidated subsidiaries and companies recognized at equity can be found at the end of this annual report.

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. The assets, liabilities and contingent liabilities of the subsidiary are included at their fair values. If shares in the subsidiary are held before acquiring control, the fair value of the assets, liabilities and contingent liabilities may have altered over time. Every change in relation to the shares previously held is treated as a revaluation and recognized separately in equity in the revaluation reserve. Any remaining excess of the acquisition cost over the fair value of net assets is recognized as goodwill. Negative differences are expensed immediately. In the deconsolidation process the carrying amounts of capitalized goodwill are taken into account when calculating the gain or loss on the transaction.

Where further shares in a fully consolidated subsidiary are acquired, the additional acquisition costs are offset against the minority interests. Any remaining excess of the acquisition cost over the fair value of net assets is capitalized as goodwill. Since such transactions are not covered by any reporting standard, the Executive Board of Evonik Industries AG has selected this accounting method after weighing up all relevant circumstances.

Intragroup 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 all major companies recognized at equity are prepared using uniform accounting and valuation principles.

(3.6) Currency translation

Foreign currency transactions are measured in the separate financial statements of subsidiaries 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 subentity, 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 directly in equity in other comprehensive income.

The following exchange rates were used for currency translation:

	Annual average exchange rates		Closing rates	
€1 corresponds to	**2008**	2007	**Dec. 31, 2008**	Dec. 31, 2007
Australian dollar (AUD)	1.74	1.64	2.03	1.68
Brazilian real (BRL)	2.66	2.68	3.23	2.60
British pound (GBP)	0.80	0.69	0.95	0.73
Chinese renminbi yuan (CNY)	10.25	10.44	9.50	10.75
Japanese yen (JPY)	152.57	161.71	126.14	164.93
Swiss franc (CHF)	1.58	1.64	1.49	1.65
US dollar (USD)	1.47	1.37	1.39	1.47

(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 Energy Business Area mainly generates sales revenues through the operation of power plants and decentralized energy supply facilities in Germany and abroad, coal trading and the marketing of related services. Where the customer bears substantially all risks and benefits arising from the ownership of the facilities, revenues are recognized as finance leases.

The Real Estate Business Area's sales principally comprise revenues from letting, administration and running 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 to all business areas.

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 the sale of goods and services 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

Acquired intangible assets are capitalized at cost. Intangible assets with a finite useful life are amortized. 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 is carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated among cash generating units (CGUs). The CGUs are aggregated so that they correspond at most to a business unit.

(b) Franchises, trademarks and licenses

Patents, trademarks and licenses are recognized at amortized cost. They 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 reviewed annually to check that their useful life is still indefinite. If the assessment of the useful life of such trademarks has altered and they are reclassified as finite, their carrying amounts are amortized over their estimated remaining useful life using the straight-line method. Trademarks with an indefinite useful life are tested for impairment.

(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 production or acquisition cost less depreciation and impairment losses. 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 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 accumulated 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.

Property, plant and equipment is 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	12–50
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 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.

Costs incurred for planning and pre-engineering work for capital expenditure projects are expensed and depreciated over the useful life of the project if there is a high probability that the project will be realized.

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

Gains and losses from the disposal of retirements 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 less depreciation. It is depreciated over a useful life of 25–80 years using the straight-line method. 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

An impairment test is conducted on non-current assets in accordance with IAS 36 "Impairment of Assets" if there are indications of impairment. Goodwill and other intangible assets with an indefinite useful life that are allocated to a cash generating unit (CGU) are tested for impairment at least once a year. The impairment test is conducted on September 30. In view of the economic crisis, an additional impairment test on goodwill was carried out in fiscal 2008. The impairment test comprises comparing the recoverable amount of the CGU 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. An impairment loss is recognized if the recoverable amount of a CGU is below its carrying amount. In the first step, goodwill is written down. Any remaining impairment is then allocated among other assets in relation to their carrying amount. The impairment loss is reversed—except in the case of goodwill—if the reason for the original impairment charge no longer applies.

For the purpose of impairment testing of goodwill, the recoverable amount is determined from the market value of the CGU. Since 2008, the CGUs have been defined as the business units rather than segments. Their market value is determined from a five-year plan based on historical values, in keeping with the time horizon set by Evonik's new shareholder for achieving its goals of raising value. In the previous year a three-year plan was used. 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_2 allowances, etc., used in the mid-term planning are derived from market expectations and set centrally by Evonik. These growth rates are derived from experience and future expectations and are CGU-specific. The average long-term growth rates for the markets in which the CGUs 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 CGU 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 premium is derived by multiplying the beta factor by the market risk premium. The risk-free interest rate is defined as 4.75 percent for all CGUs (2007: 4.6 percent). The beta factor is obtained from the capital market by comparison with the values for comparable companies for the CGU (peer group). In principal, a terminal growth rate is assumed for individual CGUs. The cost of debt for the CGUs in the Chemicals and Energy Business Areas are 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 parameters used are set out in Notes (6.5) and (7.1).

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 using the first-in first-out method or as an average. 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 borrowing costs and gains and losses for qualifying cash flow hedges for the purchase of raw materials which have been reclassified from accumulated other comprehensive income.

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.

Provisions for pensions and other post-employment benefits

Provisions for pensions and other post-employment benefits are recognized 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 2005G mortality tables published by Klaus Heubeck. Pension obligations outside Germany are determined using country-specific parameters and accounting 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 reflected in the annual financial statements and the actual obligation calculated and from deviations between the expected and actual fair value of plan assets. 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 a performance-related remuneration plan for Evonik's executives. The resulting obligations are determined and expensed in accordance with IAS 19 "Employee Benefits".

Deferred taxes, other income taxes

Since the termination of the domination and profit-and-loss transfer agreement between RAG Aktiengesellschaft (RAG), Essen (Germany) and Evonik Industries AG as of December 31, 2007, Evonik Industries AG has no longer formed a single fiscal entity with the RAG Group and is thus an independent taxable entity under German income tax law. The accounting practice used until December 31, 2007 for the purpose of the consolidated financial statements of assuming that Evonik was an independent taxable entity on the basis of a commercial view (stand-alone approach) is therefore no longer required. Otherwise, the Group uses the following unchanged procedure:

In compliance with IAS 12 "Income Taxes", deferred tax assets 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 carryfowards 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, this includes a solidarity surcharge of 5.5 percent of the corporation tax and trade tax of 14 percent. The tax rates used for foreign companies are their national tax rates. These vary between 16.5 percent (Hong Kong) and 39.5 percent (USA).

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.

Financial instruments are initially measured at cost. Subsequent measurement is at amortized cost or fair value. The cost of acquisition corresponds to the fair value of the consideration given or received after deduction of direct transaction costs. It is calculated by discounting the expected future cash flows using the effective interest rate at the time of acquisition (present value). The effective interest rate takes account of all directly attributable fees that are by nature interest. For subsequent measurement, the cost of acquisition is measured using the effective interest rate. The fair value is taken as the stock exchange or market price provided that the financial instrument is traded on a sufficiently active market. If no such price is available, prices for other transactions in the same period are used. In all other cases, established valuation methods are used. These include comparison with the market price of similar financial instruments, discounted cash flow analyses and option pricing models.

(a) Primary financial instruments

Evonik classifies primary financial instruments as financial assets in the categories loans and receivables, available-for-sale or at fair value through profit or loss. 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. Non-current assets assigned to this category that do not bear market interest rates are recognized at present value. If there are objective indications based on historical empirical values that it will not be possible 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. In principle they are recognized at fair value after deduction of the direct transaction costs associated with their acquisition. If no fair value is available or it cannot be determined reliably, for example, equity instruments that are not listed on a stock exchange, such assets are recognized at amortized cost. Changes in the fair value are recognized directly in equity in accumulated other comprehensive income. 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 accumulated other comprehensive income and recognized in the income statement. If the reason for the impairment loss no longer applies, the reversal is allocated to equity and thus has no impact on income. Only debt instruments that are allocated to this category are written back by up to the amount of the original impairment. Impairment losses are not reversed if they apply to investments and other financial assets whose fair value cannot be reliably determined.

The category at fair value through profit or loss comprised the designation of a single security transaction (fair value option) at Evonik. Financial instruments assigned to this category are recognized 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.

The category at amortized cost mainly refers to trade accounts payable, bonds and credits, with the exception of the corporate bond issued by Evonik Degussa GmbH, Essen (Germany), part of which is included in hedge accounting. The liabilities assigned to this category are valued at amortized cost using the effective interest rate method. Liabilities that do not bear market rates of interest are recognized at present value.

(b) Derivative financial instruments

Derivative financial instruments are used primarily 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. They are initially measured at fair value as an asset or liability. Initial recognition is on the trading date. Any transaction costs incurred are expensed immediately. The fair value of financial derivatives is generally their stock exchange or market price. If there is no active market for the instrument, 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 using future cash flows. Stand-alone financial derivatives are classified as at fair value through profit or loss.

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 criteria 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 accumulated 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 same income statement item as changes in the value of the underlying transaction, irrespective of the original accounting treatment of the underlying transaction. 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. In view of this method, changes in the value of the underlying transaction 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 directly in equity in accumulated other comprehensive income. The ineffective portion of the change in value is recognized in the income statement. Amounts recognized directly in equity in accumulated other comprehensive income are expensed as soon as the underlying transaction 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 materials. If the hedged future transaction comprises a non-financial asset or liability, the profit or loss previously recognized directly in equity in accumulated 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. Unrealized gains and losses recognized directly in equity in accumulated other comprehensive income are reclassified to the income statement when the foreign subsidiary is divested.

Derivatives that are included in other contracts or other primary financial instruments (embedded derivatives) are separated from the host contract under certain conditions and are recognized as stand-alone derivatives.

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 the lessee bears substantially all opportunities and risks associated with ownership of the asset. Where Evonik is the lessee in such agreements, the assets are included in property, plant and equipment at fair value or at the present value of the non-cancelable 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.

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 its 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 recognized separately.

Non-current assets are no longer depreciated or amortized. Instead they are recognized at the lower of their carrying amount or fair value less costs to sell. Unless they are classified as discontinued operations, the results of the valuation and the sale of the asset are 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 measurement, divestment and ongoing operations of discontinued operations is reported separately from the continuing operations on the income statement. Similarly the cash flow from the operating activities of discontinued operations is reported separately from the continuing operations in the cash flow statement.

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. The actual circumstances evidently rarely 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 average cost of capital (WACC) of 10 percent as a result of changes in capital market interest rates would result in additional impairment losses of €114 million. However, these additional impairment losses would be confined to two business units in the Chemicals Business Area, with €75 million relating to Consumer Specialties and €39 million to Performance Polymers.

(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, an impairment loss 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 one percentage point in the discount rate would increase the present value of the defined benefit obligation by €887 million. Conversely, an increase of one percentage point in the discount rate would decrease the defined benefit obligation by €828 million.

If the trend in health-care costs were to increase by one percentage point, the accumulated health-care benefit obligation would increase by €7 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 €7 million and pension 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 long-term provisions depends to a large extent on the selection and development of the market-oriented discount rate.

(e) Discounting non-current receivables and liabilities

The valuation of non-current receivables and liabilities that are interest-free or do not bear interest at market rates and of other non-current provisions depends to a large extent on the discount rate selected and how it develops. The Group uses different interest rates for different currencies and terms to maturity. These constitute the rates applicable for industrial companies with first-class credit ratings. Non-current receivables and liabilities due in more than 15 years are discounted using a uniform rated based on a mixed calculation. The discount rates used in the Group are as follows:

	Interest rate in %			
Year	EUR	USD	GBP	JPY
1	2.67	1.28	2.01	0.79
2	2.68	1.42	2.60	0.73
3	3.02	1.71	2.83	0.78
4	3.13	1.93	3.03	0.84
5	3.22	2.07	3.13	0.90
6	3.35	2.29	3.22	0.96
7	3.45	2.30	3.29	1.02
8	3.55	2.46	3.35	1.09
9	3.65	2.48	3.39	1.15
10	3.73	2.50	3.43	1.21
11	3.78	2.56	3.49	1.26
12	3.83	2.62	3.55	1.30
13	3.85	2.65	3.59	1.34
14	3.87	2.68	3.62	1.39
15	3.89	2.71	3.66	1.43
> 15	2.86			

Changes in these rates may have a considerable impact on the carrying amounts of non-current receivables and liabilities.

(5) Changes in the Evonik Group

(5.1) Scope of consolidation

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.

The scope of consolidation changed as follows:

Number of companies	Germany	Other countries	Total
Evonik Industries AG and consolidated subsidiaries			
December 31, 2007	122	165	287
Acquisitions	–	1	1
Other companies consolidated for the first time	5	3	8
Divestments	–10	–10	–20
Intragroup mergers	–11	–11	–22
Other companies deconsolidated	–	–10	–10
December 31, 2008	106	138	244
Investments recognized at equity			
December 31, 2007	18	9	27
Investments recognized at equity for the first time	1	–	1
Divestments	–1	–2	–3
Intragroup mergers	–1	–	–1
December 31, 2008	17	7	24
	123	**145**	**268**

(5.2) Acquisitions and divestments

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

Acquisitions

In February 2008 the Energy Business Area acquired all shares in Przedsiebiorstwo Energetyczne Sp.z.o.o., Czerwionka-Leszczyny (Poland) from the Republic of Poland. This subsidiary operates in the field of energy supply.

In addition, Evonik raised its stake in investments. This included the acquisition by the Chemicals Business Area of the remaining shares in the subsidiary Degussa Lynchem Co. Ltd., Dalian (China) in June 2008. Further, the acquisition of the remaining 30 percent minority stake in an initiators company was closed in September 2008. The purpose of this transaction was the divestment of all shares in the company.

The aggregate impact of the additions of shares on the balance sheet was negligible. In total, the purchase prices amounted to around €40 million.

Divestments

In January 2008 the Energy Business Area divested its shares in SOTEC GmbH, Saarbrücken (Germany), which held various investments, including shares in another subsidiary. The acquirer was the previous minority shareholder E.ON Energy from Waste Aktiengesellschaft (formerly BKB Aktiengesellschaft), Helmstedt (Germany). The companies divested generate energy by incinerating waste.

The subsidiary RAG Montan Immobilien GmbH (formerly Montan-Grundstücksgesellschaft mbH), Essen (Germany), which was previously recognized under other operations, was divested to RAG Beteiligungs-GmbH (formerly DSK Beteiligungs-GmbH), Essen (Germany) with economic effect from January 1, 2008. RAG Montan Immobilien GmbH is a site development company.

In April 2008, the shares in RÜTGERS Chemicals GmbH, Castrop-Rauxel (Germany) were transferred to two companies of financial investor TRITON, St. Helier (Jersey, UK). This entailed the deconsolidation of nine subsidiaries. These tar refining operations were previously recognized under other operations. It was agreed not to disclose the purchase price, which was well in the triple-digit million range.

In May 2008, an agreement was signed to divest the initiators group held by the Chemicals Business Area to two companies of the financial investor Speyside Equity, LLC (Philadelphia, USA). This transaction took place in two stages. In the first stage at the end of June, Evonik transferred the shares in four subsidiaries which were then deconsolidated. In the second stage, the shares in two remaining subsidiaries were divested with legal effect from end-September.

The divestment of the shares in CC Carbon Pte. Ltd. (CC Carbon), Singapore (Singapore), which had been recognized at equity, to Coeclerici Compagnie S.A., Massagno (Switzerland) was completed in June 2008. CC Carbon trades in coke, coking coal and steam coal and was previously part of the Energy Business Area.

In July 2008, the sale of the shares in JJ-Degussa Chemicals (S) Pte. Ltd., which had been recognized at equity, to the former joint venture partner Jebsen & Jessen (SEA) Pte. Ltd., Singapore (Singapore) was completed.

In August 2008 the Energy Business Area divested a further 4 percent of the shares in its subsidiary STEAG State Power Inc., Makati City (Philippines). It now holds just 51 percent of shares in this company, which is still consolidated.

The sale of the Chemicals Business Area's mining chemicals business in North America was closed in October 2008. This transaction comprised two subsidiaries and one other investment in the USA and Canada, which were purchased by a company of financial investor Oaktree Capital Management, LLC, Los Angeles (California, USA).

Further, in October, an agreement was signed on the divestment of the minority stake in ThyssenKrupp Röhm Kunststoffe GmbH (TRK), Düsseldorf (Germany), which was recognized at equity, to ThyssenKrupp Services AG, Düsseldorf (Germany). TRK specializes in trading semi-finished plastics. The transaction was closed in December 2008.

The aggregate impact of these divestments on the balance sheet at the time of deconsolidation was as follows:

in € million	
Non-current assets	345
Current assets (excluding cash and cash equivalents)	373
Cash and cash equivalents	64
Non-current liabilities	268
Current liabilities	215
Gross price	534

(5.3) Assets held for sale and discontinued operations

In addition to the divestments outlined in Note (5.2), the Executive Board of Evonik Industries AG decided to divest further business operations. Since the divestment process has not yet been completed, they are still included in the consolidated financial statements. 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 have to be stated separately from other assets and liabilities on the balance sheet. The amounts recognized for these assets and liabilities in previous accounting periods do not have to be reclassified or restated.

Businesses whose assets and associated 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 restated.

The tar refining and initiators businesses divested in 2008, together with the gas distribution and mining technology operations divested in the previous year, met the criteria for classification as discontinued operations, see Note (5.2). Post-divestment income and expenses were incurred for various discontinued operations divested prior to 2007 (various discontinued operations from prior years).

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

Income statement

	Operating earnings		Divestment gains/losses		Income from discontinued operations	
in € million	**2008**	2007	**2008**	2007	**2008**	2007
Gas distribution	–	44	–	119	0	163
Mining technology	–	23	–2	399	–2	422
Tar refining	22	65	128	–	150	65
Initiators	5	–26	–36	–	–31	–26
Discontinued operations from previous years	–	–	0	–22	0	–22
Total	**27**	**106**	**90**	**496**	**117**	**602**

The following income and expense items relate to the operating earnings of these operations:

Income statement

in € million	**2008**	2007
Income	331	2,215
thereof gas distribution	–	996
thereof mining technology	–	318
thereof tar refining	255	759
thereof initiators	76	142
Expenses	–289	–2,087
thereof gas distribution	–	–937
thereof mining technology	–	–288
thereof tar refining	–220	–674
thereof initiators	–69	–188
Operating income before income taxes, discontinued operations	42	128
thereof gas distribution	–	59
thereof mining technology	–	30
thereof tar refining	35	85
thereof initators	7	–46
Income taxes	–15	–22
thereof gas distribution	–	–15
thereof mining technology	–	–7
thereof tar refining	–13	–20
thereof initiators	–2	20
Operating income after taxes, discontinued operations	27	106
thereof gas distribution	–	44
thereof mining technology	–	23
thereof tar refining	22	65
thereof initiators	5	–26

The divestment gains and losses comprise the following:

Income statement

in € million	2008	2007
Income before income taxes from the divestment of discontinued operations	92	502
thereof gas distribution	–	120
thereof mining technology	–3	407
thereof tar refining	129	–
thereof initiators	–33	–
thereof discontinued operations from previous years	–1	–25
Income taxes	–2	–6
thereof gas distribution	–	–1
thereof mining technology	1	–8
thereof tar refining	–1	–
thereof initiators	–3	–
thereof discontinued operations from previous years	1	3
Income after taxes from the divestment of discontinued operations	90	496
thereof gas distribution	–	119
thereof mining technology	–2	399
thereof tar refining	128	–
thereof initiators	–36	–
thereof discontinued operations from previous years	–	–22

In the light of the strategic refocusing of the Group, the Executive Board of Evonik Industries AG decided to divest certain non-core businesses. Their assets and liabilities have therefore been classified as held for sale and are stated separately on the balance sheet alongside the discontinued operations. Reclassification included the following non-core businesses:

At the start of 2007 a non-core business belonging to the renewable energies business of the Energy Business Area was reclassified. This business was divested in January 2008, see Note (5.2). In 2007 its assets of €183 million and liabilities of €153 million were reclassified on the balance sheet.

The mining chemicals business of the Chemicals Business Area was classified as held for sale from June 2007. The divestment process suffered a prolonged delay as a result of an unexpected legal dispute, consequently the twelve-month deadline could not be met. The agreement was signed in the third quarter and the transaction was closed in October 2008, see Note (5.2). Assets of €23 million and liabilities of €3 million relating to this business were stated separately in 2007.

From December 2007, Montan-Grundstücksgesellschaft mbH (MGG), Essen (Germany), previously recognized under other operations, was classified as held for sale. This company was divested in February 2008, see Note (5.2). In 2007 its assets of €40 million and liabilities of €39 million were reclassified on the balance sheet.

Evonik also classified various real estate activities as held for sale as from December 2007. Following the divestment of individual properties, the assets assigned to non-core businesses amounted to just €26 million (2007: €49 million).

In September 2008, the NCN chemicals business was classified as held for sale. As of the reporting date, assets of €180 million and liabilities of €86 million were reclassified.

An impairment loss of €8 million was recognized in connection with the reclassification of non-core businesses.

Balance sheet

in € million	Total Dec. 31, 2008	Non-core businesses
Intangible assets	25	25
Property, plant and equipment	56	56
Investment property	23	23
Investments recognized at equity	0	–
Financial assets	1	1
Inventories	52	52
Trade accounts receivable	31	31
Other receivables	9	9
Other	9	9
Assets held for sale	**206**	**206**

Balance sheet

in € million	Total Dec. 31, 2008	Non-core businesses
Provisions for pensions and other post-employment benefits	32	32
Other provisions	33	33
Financial liabilities	0	–
Trade accounts payable	16	16
Other	5	5
Liabilities associated with assets held for sale	**86**	**86**

Balance sheet

in € million	Total Dec. 31, 2007	Tar refining	Initiators	Non-core businesses
Intangible assets	10	–	0	10
Property, plant and equipment	252	109	51	92
Investment property	62	–	–	62
Investments recognized at equity	8	–	–	8
Financial assets	13	11	0	2
Inventories	107	76	19	12
Trade accounts receivable	133	99	21	13
Other receivables	88	7	4	77
Other	59	27	13	19
Assets held for sale	**732**	**329**	**108**	**295**

Balance sheet

in € million	Total Dec. 31, 2007	Tar refining	Initiators	Non-core businesses
Provisions for pensions and other post-employment benefits	81	28	35	18
Other provisions	137	69	20	48
Financial liabilities	132	24	–	108
Trade accounts payable	81	66	10	5
Other	48	26	6	16
Liabilities associated with assets held for sale	**479**	**213**	**71**	**195**

The cash flows from 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 in cash pooling activities within the Group.

The cash flows for the discontinued operations can be broken down by business as follows:

Cash flow statement

in € million	2008	2007
Cash flow from operating activities	**7**	**117**
thereof gas distribution	–	78
thereof mining technology	–	–33
thereof tar refining	12	72
thereof initiators	–5	0
Cash flow from investing activities	**–6**	**–48**
thereof gas distribution	–	–16
thereof mining technology	–	–16
thereof tar refining	–3	–11
thereof initiators	–3	–5
Cash flow from financing activities	**–2**	**7**
thereof gas distribution	–	–7
thereof mining technology	–	12
thereof tar refining	–4	2
thereof initiators	2	–
Change in cash and cash equivalents, discontinued operations	**–1**	**76**

(6) Notes to the income statement

(6.1) Sales

in € million	2008	2007
Revenues from the sale of goods and services	15,360	13,856
Revenues from investment property	343	393
Revenues from finance leases	170	194
Other revenues	–	1
	15,873	**14,444**

(6.2) Other operating income

in € million	2008	2007
Income from the disposal of assets	195	78
Income from the reversal of provisions	112	198
Income from the reversal of deferred items	17	8
Income from the reversal of impairment losses	20	18
Income from the measurement of derivatives (excluding interest rate derivatives)	445	270
Gains on currency translation of monetary assets and liabilities	288	156
Income from cost transfer	41	38
Income from sideline operations	31	34
Income from insurance refunds	19	19
Income from research subsidies	13	8
Other income	116	129
	1,297	**956**

Income from the disposal of assets mainly comprises €51 million (2007: €16 million) from the divestment of property, plant and equipment and investment property and €120 million (2007: €60 million) from the sale of investments.

The income from reversals of impairment losses on assets in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" principally comprises €5 million (2007: €6 million) relating to trade accounts receivable and, as in the previous year, €1 million relating to other investments. Pursuant to IAS 36 "Impairment of Assets", €14 million (2007: €10 million) of the reversals relate to the following business areas:

	Reversal of impairment losses	
in € million	2008	2007
Chemicals	6	4
Real Estate	8	6
	14	**10**

(6.3) Cost of materials

in € million	2008	2007
Cost of raw materials, supplies and purchased goods and services	9,336	7,975
Impairment losses on raw materials, supplies and purchased goods	45	14
Reversals of impairment losses on raw materials, supplies and purchased goods	–2	–1
	9,379	**7,988**

The restated cost of raw materials, supplies and purchased goods and services for 2007 is €152 million higher than originally reported. At the same time, other operating expenses were reduced, see Note (6.6).

(6.4) Personnel expense

in € million	2008	2007
Wages and salaries	2,320	2,257
Social security contributions	336	342
Pension expenses	136	158
Other personnel expense	18	16
	2,810	**2,773**

Interest expense on accrued interest on pensions and the expected return on plan assets are included in net interest expense, see Note (6.7).

(6.5) Depreciation, amortization and impairment losses

This item shows depreciation and amortization, representing the allocation of production/acquisition cost over the useful life of assets, and impairment losses undertaken in response to signs of additional asset impairment.

in € million	2008	2007
Depreciation and amortization	842	862
Impairment losses	318	257
	1,160	**1,119**

Depreciation and amortization

Depreciation and amortization refer to the following groups of assets:

in € million	2008	2007
Intangible assets	151	167
Property, plant and equipment	648	645
Investment property	43	50
	842	**862**

Impairment losses

Impairment losses identified in response to signs of additional asset impairment as defined in IAS 36 "Impairment of Assets", IAS 39 "Financial Instruments: Recognition and Measurement" or IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" relate to the following groups of assets:

in € million	**2008**	2007
Impairment losses pursuant to IAS 36	**278**	**237**
Intangible assets	7	164
Property, plant and equipment	263	65
Investment property	8	8
Impairment losses pursuant to IAS 39	**32**	**20**
Financial instruments	28	17
Other receivables	4	3
Impairment losses pursuant to IFRS 5	**8**	**0**
Assets held sale	8	–
	318	**257**

(a) Impairment losses pursuant to IAS 36

Impairment losses recognized in accordance with IAS 36 "Impairment of Assets" relate to the following business areas:

	Impairment losses		Risk-adjusted discount rate in %	
in € million	**2008**	2007	**2008**	2007
Chemicals	267	72	8.1	7.4–7.7
Energy	3	6	7.2	7.0
Real Estate	8	8	6.2	4.9
Corporate, other operations	–	151	7.6	7.2
	278	**237**		

In the Chemicals Business Area, impairment losses mainly comprise €159 million resulting from the economic crisis, which started to have an impact from November 2008. The main impairment losses in this business area comprised €64 million in the Inorganic Materials Business Unit, €42 million in the Health & Nutrition Business Unit and €40 million in the Performance Polymers Business Unit. They relate principally to plant and machinery used to manufacture products for the automotive and construction industries.

In the previous year, corporate and other operations included impairment losses on the Degussa brand following the introduction of the Evonik brand.

Further impairment losses were recognized for the other business areas following the impairment test on various non-current assets.

(b) Impairment losses pursuant to IAS 39

The impairment losses on financial instruments and other receivables determined in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" comprise €23 million (2007: €14 million) on trade accounts receivable, €4 million (2007: €1 million) on other investments and, as in 2007, €2 million on loans. An impairment loss of €1 million (2007: zero) was recognized on finance leases. Further, an impairment loss of €4 million (2007: €3 million) was recognized on other receivables.

(6.6) Other operating expenses

in € million	2008	2007
Losses on the disposal of assets	77	51
Losses on measurement of derivatives (excluding interest rate derivatives)	676	192
Losses on currency translation of monetary assets and liabilities	40	168
Rental expense for leases	125	93
Expenses for repairs and maintenance	311	316
Administrative expenses	387	421
Selling expenses	599	560
Miscellaneous tax expense	61	48
Other expense	938	841
	3,214	**2,690**

Losses on the disposal of assets include €11 million (2007: €17 million) relating to the divestment of property, plant and equipment and investment property and €8 million (2007: €23 million) relating to the sale of investments.

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

The other operating expenses for 2007 are €152 million lower than originally reported. At the same time, the cost of materials increased, see Note (6.3).

(6.7) Net interest expense

in € million	2008	2007
Income from securities and loans	19	41
Interest and similar income from interest rate derivatives	44	23
Other interest-type income	13	33
Interest income	**76**	**97**
Interest expense on financial liabilities	–250	–289
Interest expense for finance leases	–8	–12
Interest and similar expense for interest rate derivatives	–48	–23
Other interest-type expense	–29	–34
Net interest expense for pensions	–215	–187
Interest expense on accrued interest on other provisions	–56	–18
Interest expense	**–606**	**–563**
	–530	**–466**

Borrowing costs of €22 million (2007: €12 million) are capitalized. The underlying financing costs are calculated as an average of 3.5 percent based on internal and external interest rates on borrowing in the accounting period.

(6.8) Result from investments recognized at equity

in € million	2008	2007
Income from measurement at equity	80	43
Expenses for measurement at equity	–8	–9
Impairment losses	–8	–
	64	**34**

(6.9) Other financial income/expenses

in € million	2008	2007
Income from other investments	16	17
Income from current securities	0	–1
	16	**16**

(6.10) Income taxes

Income taxes comprise the following:

in € million	2008	2007
Other income taxes	129	257
(thereof relating to other periods)	(7)	(43)
Deferred taxes	1	–99
(thereof relating to other periods)	(–34)	(–25)
	130	**158**

The tax reconciliation shows the development of expected income taxes relative to the effective income taxes stated in the income statement. The effective income taxes include other income taxes and deferred taxes. The expected income taxes for 2008 are based for the first time on an overall tax rate of 30 percent (2007: 39 percent), comprising corporation tax of 15 percent (2007: 25 percent), a solidarity surcharge of 5.5 percent and the average municipal trade tax rate.

in € million	2008	2007
Income before income taxes, continuing operations	**368**	**527**
Expected income taxes	110	206
Variances due to differences in the rates of municipal trade tax	13	11
Deviation from the expected tax rate	–1	–32
Changes in valuation allowances on deferred taxes	–33	30
Losses not affecting deferred taxes and the use of loss carryforwards	8	–1
Changes in tax rates and tax legislation	1	–49
Non-deductible expenses	74	29
Interest ceiling	26	–
Tax-free income	–61	–30
Result from investments recognized at equity	–19	–13
Non-deductible goodwill impairment losses	0	1
Other	12	6
Effective income taxes (other income taxes and deferred taxes)	**130**	**158**
Effective tax rate (in percent)	35.3	30.0

The change in the valuation allowances on deferred taxes is principally due to the write-up of deferred taxes. Other contains deferred tax expense attributable to currency effects and other income taxes and deferred taxes relating to other periods.

(7) Notes to the balance sheet

(7.1) Intangible assets

in € million	Goodwill	Patents, trademarks and licenses	Capitalized development costs	Other intangible assets	**Total**
Cost of acquisition/production					
As of January 1, 2007	**3,334**	**1,746**	**143**	**522**	**5,745**
Currency translation	–48	–8	–	–2	–58
Additions from business combinations	33	8	–	–	41
Other additions	13	19	5	8	45
Disposal	–44	–25	–	–2	–71
Reclassification	–	8	8	–8	8
As of December 31, 2007	**3,288**	**1,748**	**156**	**518**	**5,710**
Currency translation	46	5	–	2	53
Additions from business combinations	6	0	–	0	6
Other additions	18	29	7	6	60
Disposal	–41	–45	–	0	–86
Reclassification	–	2	–	0	2
As of December 31, 2008	**3,317**	**1,739**	**163**	**526**	**5,745**
Amortization and impairment losses					
As of January 1, 2007	**143**	**756**	**70**	**293**	**1,262**
Currency translation	–	–6	–	–	–6
Additions from business combinations	–	2	–	0	2
Amortization	–	107	10	50	167
Impairment losses	15	148	16	–	179
Reversal of impairment losses	–	0	–	–	0
Disposal	–30	–22	–	–2	–54
Reclassification	–	1	4	–4	1
As of December 31, 2007	**128**	**986**	**100**	**337**	**1,551**
Currency translation	–	3	–	0	3
Additions from business combinations	–	0	–	0	0
Amortization	–	104	8	39	151
Impairment losses	–	1	6	0	7
Reversal of impairment losses	–	–	–	–	0
Disposal	–11	–41	–	–1	–53
Reclassification	–	0	–	0	0
As of December 31, 2008	**117**	**1,053**	**114**	**375**	**1,659**
Carrying amounts as of Dec. 31, 2007	**3,160**	**762**	**56**	**181**	**4,159**
Carrying amounts as of Dec. 31, 2008	**3,200**	**686**	**49**	**151**	**4,086**

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

in € million	Goodwill		Growth rate in %	
	Dec. 31, 2008	Dec. 31, 2007	**2008**	2007
Chemicals	2,733	2,718	1.5	1.5
Energy	415	393	0.7	0.7
Real Estate	40	40	1.0	1.0
Corporate, other operations	12	9		
	3,200	**3,160**		

As in the previous year, the goodwill allocated to the Chemicals Business Area principally relates to earlier acquisitions of shares in Evonik Degussa GmbH, Essen (Germany). It is allocated as follows among the business units: Industrial Chemicals €514 million, Inorganic Materials €554 million, Consumer Specialties €197 million, Health & Nutrition €497 million, Coatings & Additives €753 million and Performance Polymers €218 million. The goodwill allocated to the Energy Business Area mainly relates to earlier acquisitions of shares in Evonik Steag GmbH, Essen (Germany).

As in the previous year, patents, trademarks and licenses include trademarks with an indefinite useful life totaling €283 million. These relate exclusively to the Chemicals Business Area.

In the previous year this item also included amortization of €6 million for trademarks for which the useful life estimate has changed from indefinite to finite.

Capitalized development costs mainly relate to the purchase price allocation for former purchases of shares in Evonik Degussa GmbH and the related recognition of hidden reserves. They are allocated in full to the Chemicals Business Area. Research and development spending recognized as an expense was €311 million (2007: €307 million).

As in the previous year, as of the reporting date there were no intangible assets to which title was restricted and no obligations to acquire 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
Cost of acqusition/production					
As of January 1, 2007	**3,482**	**13,326**	**1,179**	**552**	**18,539**
Currency translation	–41	–172	–8	–11	–232
Additions from business combinations	38	135	14	10	197
Other additions	38	199	59	619	915
Disposal	–196	–881	–155	–11	–1,243
Reclassification	49	240	25	–339	–25
As of December 31, 2007	**3,370**	**12,847**	**1,114**	**820**	**18,151**
Currency translation	9	20	–2	21	48
Additions from business combinations	11	10	1	2	24
Other additions	51	193	56	766	1,066
Disposal	–191	–894	–122	–34	–1,241
Reclassification	49	293	19	–355	6
As of December 31, 2008	**3,299**	**12,469**	**1,066**	**1,220**	**18,054**
Depreciation and impairment losses					
As of January 1, 2007	**1,805**	**10,145**	**959**	**25**	**12,934**
Currency translation	–17	–125	–6	–1	–149
Additions from business combinations	2	11	8	–	21
Depreciation	79	508	76	0	663
Impairment losses	17	66	1	11	95
Reveral of impairment losses	–1	–12	0	–	–13
Disposal	–109	–719	–136	–1	–965
Reclassification	7	–10	1	1	–1
As of December 31, 2007	**1,783**	**9,864**	**903**	**35**	**12,585**
Currency translation	7	12	–2	2	19
Additions from business combinations	6	8	0	–	14
Depreciation	79	502	67	–	648
Impairment losses	71	174	5	13	263
Reversal of impairment losses	–5	–1	0	0	–6
Disposal	–175	–855	–116	–25	–1,171
Reclassification	6	2	–1	–1	6
As of December 31, 2008	**1,772**	**9,706**	**856**	**24**	**12,358**
Carrying amounts as of Dec. 31, 2007	**1,587**	**2,983**	**211**	**785**	**5,566**
Carrying amounts as of Dec. 31, 2008	**1,527**	**2,763**	**210**	**1,196**	**5,696**

The carrying amounts of assets from finance leases are €11 million (2007: €47 million) for land, land rights and buildings, €28 million (2007: €30 million) for plant and machinery and €4 million (2007: €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 €85 million (2007: €83 million). A further €89 million (2007: €89 million) was subject to other restrictions on title.

The Group has commitments of €422 million (2007: €621 million) to purchase property, plant and equipment.

(7.3) Investment property

in € million	Land, land rights	Buildings	**Total**
Cost of acquisition/production			
As of January 1, 2007	**394**	**2,309**	**2,703**
Currency translation	0	–1	–1
Additions from business combinations	–	–	0
Other additions	22	74	96
Disposal	–69	–223	–292
Reclassification	–6	–25	–31
As of December 31, 2007	**341**	**2,134**	**2,475**
Currency translation	1	3	4
Additions from business combinations	–	–	0
Other additions	4	47	51
Disposal	0	–1	–1
Reclassification	–21	–3	–24
As of December 31, 2008	**325**	**2,180**	**2,505**
Depreciation and impairment losses			
As of January 1, 2007	**16**	**1,057**	**1,073**
Currency translation	0	0	0
Additions from business combinations	–	–	0
Depreciation	1	49	50
Impairment losses	1	7	8
Reversal of impairment losses	–	–6	–6
Disposal	–4	–127	–131
Reclassification	–1	–21	–22
As of December 31, 2007	**13**	**959**	**972**
Currency translation	–	2	2
Additions from business combinations	–	–	0
Depreciation	0	43	43
Impairment losses	0	8	8
Reversal of impairment losses	–	–8	–8
Disposal	0	0	0
Reclassification	–5	–9	–14
As of December 31, 2008	**8**	**995**	**1,003**
Carrying amounts as of December 31, 2007	**328**	**1,175**	**1,503**
Carrying amounts as of December 31, 2008	**317**	**1,185**	**1,502**

Other additions comprise retroactive acquisition costs of €32 million (2007: €35 million). The fair value of investment property was €2,778 million on the reporting date (2007: €2,653 million).

The carrying amount of investment property with restrictions to title amounts to €1,118 million (2007: €1,132 million). This mainly comprises registered land charges for loans, which totaled €840 million on the reporting date (2007: €887 million).

The income statement comprises operating expenses totaling €323 million (2007: €311 million) relating to investment property which generates rental revenues. Operating expenses for investment property which does not generate rental revenues comprised €11 million, as in the previous year.

Commitments to purchase real estate classified as investment property amounted to €12 million (2007: €7 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 and financial assets

	Dec. 31, 2008		Dec. 31, 2007	
in € million	Total	thereof with a term to maturity of more than 1 year	Total	thereof with a term to maturity of more than 1 year
Investments recognized at equity	604	604	619	619
Other investments	112	112	70	70
Loans	165	82	96	52
Securities and similar claims	45	38	346	43
Receivables from finance leases	1,117	1,036	1,130	1,057
Receivables from derivatives	218	97	134	80
Other financial assets	58	20	14	–
	2,319	**1,989**	**2,409**	**1,921**

(a) Investments recognized at equity

The key financial data from the last available financial statements of the main associated companies recognized at equity, based on Evonik's interest, are as follows:

in € million	**2008**	2007
Non-current assets as of December 31	99	92
Current assets as of December 31	32	110
Non-current liabilities as of December 31	33	29
Current liabilities as of December 31	45	73
Income	97	281
Expenses	92	272

The key financial data include the 54.4 percent stake in Kommanditgesellschaft Deutsche Gasrußwerke GmbH & Co. KG, Dortmund (Germany) and the 51 percent stakes in Joint Solar Silicon GmbH & Co. KG, Freiburg (Germany) and DSL. Japan Co., Ltd., Tokyo (Japan). These companies are accounted for at equity because the Group does not have a majority of the voting rights.

The key financial data from the last available financial statements of the main joint ventures recognized at equity, based on Evonik's interest, are as follows:

in € million	**2008**	2007
Non-current assets as of December 31	1,524	1,518
Current assets as of December 31	198	376
Non-current liabilities as of December 31	1,027	1,087
Current liabilities as of December 31	177	333
Income	504	256
Expenses	450	238

The key financial data include the 80 percent interest in the power plant REG Raffinerie-Energie oHG, Cologne (Germany). This company is recognized using the equity method because Evonik does not have a majority of the voting rights.

(b) Other investments

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

(c) Loans

Loans are exposed to a risk of changes in interest rates, which can affect their fair value or future cash flows. They are recognized at cost.

As of the reporting date the long-term loans of €15 million (2007: €8 million) included accumulated impairment losses of €8 million (2007: €1 million). The terms and conditions of long-term loans amounted to €3 million were renegotiated (2007: zero). No non-impaired loans were overdue.

(d) Securities and similar claims

Securities and similar claims are exposed to a risk of changes in interest rates, 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. In the previous year, this item included €289 million relating to a share purchase transaction. These securities were designated as at fair value through profit or loss (fair value option) and hedged against major fluctuations in market prices using options.

(e) Receivables from finance leases

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

in € million	**Dec. 31, 2008**	Dec. 31, 2007
Gross investment	**2,249**	**2,379**
(therof non-guaranteed residual value)	(–)	(–)
due within 1 year	246	243
due in 1–5 years	909	929
due in more than 5 years	1,094	1,207
Interest included therein	–1,131	–1,249
Net investment	1,118	1,130
Accumulated impairment losses	–1	–
Carrying amount of receivables from finance leases	**1,117**	**1,130**
less present value of non-guaranteed residual values	–	–
Present value of outstanding minimum lease payments	**1,117**	**1,130**
due within 1 year	81	73
due in 1-5 years	382	364
due in more than 5 years	654	693

As in the previous year, no contingent lease payments were received under finance leases. In 2008, an impairment loss was recognized for uncollectable outstanding minimum lease payments as insolvency proceedings were opened against the lessee.

Receivables from finance leases include a contract for the supply of electricity by the Iskenderun power plant near Iskenderun (Turkey) valued at €658 million (2007: €673 million). This contract runs for 20 years and ends on November 22, 2019.

A further €162 million (2007: €154 million) results from a supply contract for power from the Mindanao power station near Cagayan de Oro (Philippines), which came into operation in 2006. This contract with STEAG State Power, Inc., Makati City (Philippines) runs for 25 years and ends on November 14, 2031. The leased assets will be transferred to the lessee when the contract ends.

Moreover, receivables from finance leases include €179 million (2007: €193 million) relating to the lease agreement for STEAG-Raffinerie-Kraftwerk-Sachsen-Anhalt, Leuna (Germany). This lease had an original term of 12 years and would have expired in November 2008. In 2006 the lessee exercised its contractually agreed option to extend the lease by another 8 years to November 2016.

(f) Receivables from derivatives

The breakdown of receivables from derivatives is as follows:

in € million	**Dec. 31, 2008**	Dec. 31, 2007
Receivables from currency derivatives	126	82
Receivables from interest derivatives	42	30
Receivables from commodity derivatives	50	5
Receivables from other derivatives	0	17
	218	**134**

In the previous year, receivables from other derivatives related primarily to an embedded derivative in the form of a swap involving the price of coal and electricity and a long-term energy supply agreement. In view of energy price trends, an amount of €16 million was included in receivables from derivatives for this supply agreement in 2007.

(g) Collateral

Financial assets pledged as security for Group liabilities amounted to €585 million (2007: €636 million). A further €11 million were pledged for guarantees granted, as in the previous year, and €425 million (2007: €470 million) were subject to other restrictions on title. The majority of the assets pledged as collateral are receivables from finance leases of the project companies for the Iskenderun and Mindanao power plants. The pledges relate to borrowing of €585 million by these companies. The collateral can only be utilized by the banks providing this financing in the event of permanent non-performance of contractual obligations, for example, non-payment of interest and repayment installments or failure to achieve agreed financial targets. Utilization of the collateral is not anticipated.

(7.5) Inventories

in € million	**Dec. 31, 2008**	Dec. 31, 2007
Raw materials and supplies	668	541
Work in progress	150	169
Finished goods	1,378	1,096
	2,196	**1,806**

The carrying amounts of inventories pledged as security for Group liabilities amounted to €54 million (2007: €25 million).

(7.6) Trade accounts receivable and other receivables

	Dec. 31, 2008		Dec. 31, 2007	
in € million	Total	thereof with a term to maturity of more than 1 year	Total	thereof with a term to maturity of more than 1 year
Trade accounts receivable	2,572	–	2,372	–
Miscellaneous tax receivables	131	–	82	3
Advance payments made	41	–	45	–
Miscellaneous other receivables	224	41	274	35
Deferred expenses	76	32	96	53
	3,044	**73**	**2,869**	**91**

Trade accounts receivable totaling €163 million on the reporting date (2007: €131 million) were impaired by €45 million (2007: €14 million). €272 million (2007: €249 million) of the non-impaired trade accounts receivable were overdue on the balance sheet date.

in € million	**Dec. 31, 2008**	Dec. 31, 2007
Overdue trade accounts receivable		
up to 3 months	259	241
more than 3 months and up to 6 months	7	6
more than 6 months and up to 9 months	3	1
more than 9 months and up to 12 months	2	0
more than 1 year	1	1
	272	**249**

The terms for trade accounts receivable totaling €2 million (2007: €9 million) were renegotiated and would otherwise have been impaired or overdue.

Receivables pledged as security for Group liabilities amounted to €5 million (2007: €2 million). A further €1 million (2007: €1 million) were pledged for guarantees granted and €8 million (2007: €14 million) were subject to other restrictions on title.

(7.7) Cash and cash equivalents

The cash and cash equivalents totaling €536 million (2007: €319 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. The carrying amounts of cash and cash equivalents pledged as security amounted to €151 million (2007: €83 million). These pledged cash and cash equivalents are deposited in tied project accounts in connection with two foreign power plant projects, in Iskenderun and Mindanao. Surplus liquidity can be distributed to the shareholders in the project companies once the original purpose has been fulfilled.

(7.8) Equity

(a) Issued capital

As in the previous year, the company's fully paid-up capital stock was €466,000,000 and is divided into 466,000,000 non-par bearer shares. RAG-Stiftung has notified Evonik Industries AG that it directly holds a majority of the shares in Evonik Industries AG. Gabriel Acquisitions has notified Evonik Industries AG that it directly holds more than a quarter of the shares in Evonik Industries AG. Further, the following companies have submitted notification that they indirectly hold more than a quarter of the shares in Evonik Industries AG through their investment in Gabriel Acquisitions: Gabriel Investments S.à r.l., Gabriel Holdings S.à r.l., 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., CVC European Equity V Limited, 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 Tandem GP Limited, CVC Capital Partners Advisory Company Limited, CVC Capital Partners Finance Limited, Clear Vision Capital Fund SICAV-FIS S.A., CVC Nominees Limited.

(b) Capital reserve

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

(c) Accumulated income/loss

The accumulated income of €3,610 million (2007: €3,324 million) comprises Group earnings received in fiscal 2008 and previous years. Income after taxes corresponds to the net income attributable to equity holders of Evonik Industries AG, as stated in the income statement for fiscal 2008. However, under German stock corporation law, only profit reserves from the commercial accounts drawn up by Evonik Industries AG are available for distribution without any restrictions. As of December 31, 2008, Evonik Industries AG's profit reserves totaled €3,371 million (2007: €3,343 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 €280 million should be distributed for 2008. That corresponds to a dividend of around €0.60 per non-par share.

(d) Accumulated other comprehensive income

Accumulated other comprehensive income contains gains and losses recognized directly in equity. The reserve from the measurement of available-for-sale securities contains remeasurement gains and losses resulting from changes in the value of financial instruments that are expected to be temporary and are thus not charged to income. The unrealized gains and losses on hedges stated in accumulated other comprehensive income comprise net unrealized gains and losses from changes in the fair value of the effective portion of cash flow hedged and net investment hedges. The revaluation reserve for acquisitions made in stages contains the gains and losses on shares held in subsidiaries that are consolidated for the first time before the change of control. Currency translation adjustments comprise differences arising from the translation of foreign financial statements.

Accumulated other comprehensive income (OCI) changed as follows:

	2008			2007		
in € million	Before taxes	Taxes	Net	Before taxes	Taxes	Net
Accumulated other comprehensive income as of January 1	**–269**	**–42**	**–311**	**–100**	**–25**	**–125**
Gains/losses on available-for-sale securities						
Recognized directly in OCI	–9	3	–6	4	–3	1
Gains/losses on hedges						
Recognized directly in OCI	–119	37	–82	43	–5	38
Reclassified from OCI to the income statement	4	–1	3	–7	2	–5
Revaluation reserve for acquisitions in stages						
Gains/losses recognized directly in OCI	–	–	0	31	–11	20
Transfers to accumulated income/loss	–6	1	–5	–2	–	–2
Currency translation adjustment	–129	–	–129	–238	–	–238
Accumulated other comprehensive income as of December 31	**–528**	**–2**	**–530**	**–269**	**–42**	**–311**

In 2008, €4 million (2007: €7 million) was reclassified from unrealized gains and losses on hedges in accumulated other comprehensive income to the income statement. €23 million (2007: €14 million) of this amount was recognized in sales, €30 million (2007: €8 million) in cost of materials, €1 million (2007: zero) in other operating expenses and €4 million (2007: €1 million) in other operating income.

(e) Minority interests

Minority interests are shares in the issued capital and reserves of consolidated subsidiaries that are not attributable to the equity holders of Evonik Industrial AG.

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

	2008			2007		
in € million	Before taxes	Taxes	Net	Before taxes	Taxes	Net
Accumulated other comprehensive income as of January 1	**–93**	**–3**	**–96**	**–58**	**0**	**–58**
Gains/losses on hedges						
Recognized directly in OCI	–20	6	–14	9	–3	6
Currency translation adjustment	28	–	28	–44	–	–44
Accumulated other comprehensive income as of December 31	**–85**	**3**	**–82**	**–93**	**–3**	**–96**

(7.9) 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 on the legal, tax and economic circumstances in the various countries in which the companies operate. The level of the benefit obligations generally depends on individual employees' length of service and remuneration.

Germany accounted for around 95.5 percent (2007: 98.6 percent) and thus the vast majority of the 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. The pension plans at foreign companies may be either defined contribution or defined benefit plans.

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

	Group		Germany	
in %	**2008**	2007	**2008**	2007
Discount rate as of December 31	6.02	5.54	6.00	5.50
Future salary increases	2.68	2.75	2.50	2.53
Future pension increases	2.02	1.86	2.00	1.75
Expected return on plan assets as of December 31	5.41	5.31	5.00	5.00
Health-care cost trend	7.45	7.77	–	–

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 2008:

in € million	**2008**	2007
Present value of the defined benefit obligation as of January 1	7,078	8,034
Current service cost	100	132
Interest cost	380	354
Employee contributions	35	35
Actuarial gains and losses	–269	–798
Benefits paid	–395	–395
Past service cost	15	3
Additions from business combinations	–5	–93
Reclassification pursuant to IFRS 5	–36	–102
Curtailments	–1	–3
Settlements	–	–
Currency translation	–87	–89
Present value of the defined benefit obligation as of December 31	**6,815**	**7,078**

The fair value of the plan assets changed as follows in fiscal 2008:

in € million	**2008**	2007
Fair value of plan assets as of January 1	3,058	3,138
Expected return on plan assets	165	166
Employer contributions	90	112
Employee contributions	13	14
Actuarial gains and losses	–152	–129
Benefits paid	–146	–147
Additions from business combinations	–	–
Reclassification pursuant to IFRS 5	–7	–15
Currency translation	–111	–81
Fair value of plan assets as of December 31	**2,910**	**3,058**

The actual return on plan assets was €13 million in fiscal 2008 (2007: €37 million).

Employer contributions of €66 million are expected to be incurred in the coming year.

The next table shows the present value of all defined benefit plans, 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	**2008**	2007	2006	2005
Present value of the defined benefit obligation as of December 31	6,815	7,078	8,034	8,494
Fair value of plan assets as of December 31	2,910	3,058	3,138	3,115
Funded status as of December 31	**3,905**	**4,020**	**4,896**	**5,379**
Experience adjustments to defined benefit obligation	–21	–39	–47	–64
Experience adjustments to plan assets	–152	–129	–14	–50

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, 2008**	Dec. 31, 2007
Present value of defined benefit obligation	6,815	7,078
Fair value of plan assets	2,910	3,058
Funded status	**3,905**	**4,020**
Unrecognized past service cost	–	1
Unrecognized actuarial cost	–215	–225
Other changes (including asset ceiling)	210	98
Pension provisions recognized on the balance sheet	**3,900**	**3,894**

As of the reporting date, €3,864 million (2007: €3,968 million) of the present value of all defined benefit obligations was unfunded and €2,880 million (2007: €3,041 million) was fully or partially funded. In addition, the defined benefit obligation includes health-care obligations of €71 million (2007: €69 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 the plan assets totaling €2,910 million on the reporting date (2007: €3,058 million) was split as follows: 11.4 percent (2007: 21.5 percent) in shares, 80.1 percent (2007: 71.5 percent) in debt instruments, 0.7 percent (2007: 2.1 percent) in real estate and 7.8 percent (2007: 4.9 percent) in other assets. Shares amounting to €114 million (2007: €109 million) were hedged. On the reporting date, €22 million (2007: €24 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 €215 million (2007: €225 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	**2008**	2007
Current service cost	100	132
Interest cost	380	354
Expected return on plan assets	–165	–166
Amortization	–84	–69
Effect of curtailments and settlements	–1	–3
Effect of asset ceiling	112	98
Reclassification pursuant to IFRS 5	–	–9
Net pension expense	**342**	**337**

Preventive health-care benefits accounted for €4 million of the total expense (2007: €6 million).

Interest cost and the expected return on plan assets are included in net interest expense, while the other amounts are included in personnel expense as pension expenses.

A total of €9 million (2007: €7 million) was paid into foreign defined-contribution plans, which are also included in personnel expense as pension expenses.

Further, €158 million (2007: €153 million) was paid into defined-contribution state plans (statutory pension insurance). This is reported in personnel expense as social security contributions.

(7.10) Other provisions

These comprise:

in € million	Dec. 31, 2008 Total	thereof with a term to maturity of up to 1 year	thereof with a term to maturity of more than 5 years	Dec. 31, 2007 Total	thereof with a term to maturity of up to 1 year	thereof with a term to maturity of more than 5 years
Personnel-related	967	491	132	1,000	520	142
Recultivation and environmental protection	252	40	78	256	35	86
Restructuring	135	70	12	112	53	12
Other	982	671	77	919	580	81
	2,336	**1,272**	**299**	**2,287**	**1,188**	**321**

Changes in provisions in fiscal year were as follows:

in € million	Personnel-related	Recultivation, environmental protection	Restructuring	Other
As of January 1, 2008	1,000	256	112	919
Additions	459	20	57	534
Utilization	–500	–22	–22	–338
Reversal	–15	–6	–4	–121
Reclassification	–3	–13	–11	–10
Currency translation	1	–2	–	–13
Interest adjustments	19	18	3	16
Changes in scope of consolidation	6	1	–	–5
As of December 31, 2008	**967**	**252**	**135**	**982**

Personnel-related provisions are established for a number of different reasons and include provisions for unutilized vacation entitlements and rest days, occupational health checks, bonuses and performance-related pay, anniversary bonuses and early retirement arrangements.

Provisions are established for environmental protection and recultivation on the basis of contractual, statutory and regulatory requirements. They cover soil reclamation obligations, water protection, the recultivation of landfills and site decontamination obligations.

Provisions for restructuring are based on planned restructuring measures. Restructuring is defined as a program which is planned and controlled by the company and will materially alter one of the company's areas of business activity or the way in which this 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, costs for the termination of contracts, dismantling obligations, soil reclamation expenses, rents for unused facilities and all other expenses relating exclusively to shutdowns or implementation of the restructuring program.

Provisions for other obligations include litigation risks, legal and consultancy expenses and other uncertain liabilities and the following items:

in € million	Selling activities	Other taxes	Dismantling obligations
As of January 1, 2008	169	69	73
Additions	110	41	10
Utilization	–56	–8	–5
Reversal	–34	–7	–
Reclassification	–37	2	–4
Currency translation	9	–	–
Interest adjustments	2	4	6
Changes in the scope of consolidation	1	1	1
As of December 31, 2008	**164**	**102**	**81**

Companies in the Evonik Group are involved in legal disputes and court cases, including class actions in the USA and Canada relating to alleged price-fixing. The outcome of such legal disputes and litigation cannot be predicted accurately. Adequate provisions have been established to cover possible claims for compensation and legal expenses.

(7.11) Financial liabilities

	Dec. 31, 2008		Dec. 31, 2007	
in € million	Total	thereof with a term to maturity of more than 1 year	Total	thereof with a term to maturity of more than 1 year
Bonds	1,290	1,290	1,241	1,241
Liabilities to banks	3,529	2,854	2,718	2,280
Loans from non-banks	51	45	86	50
Liabilities from finance leases	80	68	116	106
Liabilities from derivatives	272	67	69	38
Other financial liabilities	180	70	464	37
	5,402	**4,394**	**4,694**	**3,752**

(a) Bonds, liabilities to banks

The amount stated under bonds comprises 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.

Liabilities to banks include a syndicated credit facility, of which €1,479 million (2007: €779 million) had been drawn. Interest on amounts drawn under the syndicated credit facility is based on EURIBOR plus a margin.

This balance sheet item also includes low-interest loans from public-sector banks to finance subsidized residential properties in the Real Estate Business Area. These are reported at fair value. The difference between the fair value and the amortized amount disbursed is shown as deferred income, see Note (7.12).

Bonds are exposed to a risk of price fluctuations while liabilities to banks 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 was 100.8 percent on the reporting date, valuing it at €1,260 million (2007: €1,212 million).

The Group has not infringed the payment terms agreed for its financial liabilities.

In the previous year, shares in consolidated subsidiaries were pledged as collateral for loans amounting to €779 million. Following attainment of the milestones defined for the syndicated credit facility, the shares in Evonik Degussa GmbH pledged as collateral for this loan were released in full at the start of 2008.

(b) 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 are as follows:

in € million	**Dec. 31, 2008**	Dec. 31, 2007
Future minimum lease payments	**127**	**190**
due within 1 year	21	20
due in 1-5 years	74	76
due in more than 5 years	32	94
Interest included therein	–47	–74
Present value of future minimum lease payments (liabilities from finance leases)	**80**	**116**
due within 1 year	12	10
due in 1-5 years	30	44
due in more than 5 years	38	62

(c) Liabilities from derivatives

The breakdown of liabilities from derivatives is as follows:

in € million	**Dec. 31, 2008**	Dec. 31, 2007
Liabilities from currency derivatives	103	13
Liabilities from interest derivatives	51	39
Liabilities from commodity derivatives	118	0
Liabilities from other derivatives	0	17
	272	**69**

In the previous year, liabilities from other derivatives essentially comprised a zero cost collar used to hedge a share purchase transaction against major fluctuations in market prices.

(d) Other financial liabilities

Other financial liabilities in 2007 included €367 million in liabilities relating to the profit-and-loss transfer agreement with RAG.

(7.12) Trade accounts payable and other payables

in € million	Dec. 31, 2008 Total	Dec. 31, 2008 thereof with a term to maturity of more than 1 year	Dec. 31, 2007 Total	Dec. 31, 2007 thereof with a term to maturity of more than 1 year
Trade accounts payable	1,463	–	1,294	–
Miscellaneous tax payables	38	–	148	–
Advance payments received	84	15	76	13
Miscellaneous other payables	179	11	247	8
Deferred income	415	358	442	376
	2,179	**384**	**2,207**	**397**

The Real Estate Business Area offset €77 million (2007: €79 million) in utility charges and heating costs that can be allocated to tenants against prepayments from tenants for these costs.

(7.13) Deferred taxes and other income taxes

The breakdown of deferred taxes and other income taxes reported on the balance sheet by due date is shown in the table:

in € million	Dec. 31, 2008 Total	Dec. 31, 2008 thereof with a term to maturity of more than 1 year	Dec. 31, 2007 Total	Dec. 31, 2007 thereof with a term to maturity of more than 1 year
Deferred tax assets	348	154	364	207
Other income tax assets	166	36	73	29
Deferred tax liabilities	687	627	761	644
Other income tax liabilities	317	120	397	191

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, 2008	Dec. 31, 2007	**Dec. 31, 2008**	Dec. 31, 2007
Assets				
Intangible assets	17	12	264	318
Property, plant and equipment, investment property	370	333	629	676
Financial assets	10	26	393	333
Inventories	153	121	42	38
Receivables and other assets	29	6	42	58
Liabilities				
Provisions	423	516	77	99
Payables	151	123	69	45
Special tax allowance reserves (based on local law)	–	–	52	22
Loss carryforwards	224	195	–	–
Tax credits	–	4	–	–
Other	13	38	24	10
Deferred taxes (gross)	**1,390**	**1,374**	**1,592**	**1,599**
Write-downs	–137	–172	–	–
Netting	–905	–838	–905	–838
Deferred taxes (net)	**348**	**364**	**687**	**761**

No deferred tax assets were recognized on temporary differences of €1,048 million (2007: €1,094 million) because it is not probable that future taxable income will enable them to be realized. €85 million of this relates to the interest ceiling pursuant to Section 8a of the German Corporate Income Tax Act (KStG) in conjunction with Section 4h of the German Income Tax Act (EStG).

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 expiry dates:

in € million	Corporation taxes (German and foreign)		Local taxes (German and foreign)		Tax credits (foreign)	
	2008	2007	**2008**	2007	**2008**	2007
Up to 1 year	3	3	1	–	–	–
2–5 years	42	59	36	–	–	–
6–10 years	384	355	9	–	–	–
Unlimited	548	1,125	1,129	1,513	157	–
	977	**1,542**	**1,175**	**1,513**	**157**	**0**

(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 have 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 are 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 flow from investing activities includes cash inflows and outflows relating to acquisitions and divestments of subsidiaries.

The total purchase price for shares in subsidiaries consolidated for the first time was €11 million (2007: €42 million). In fiscal 2008, the related outflow of cash and cash equivalents amounted to €11 million (2007: €42 million). In 2008, as in 2007, cash and cash equivalents acquired were negligible.

The total selling prices of subsidiaries divested was €406 million (2007: €898 million), including €392 million (2007: €876 million) settled in cash and cash equivalents. Divestments included outflows of cash and cash equivalents totaling €64 million (2007: €37 million).

Further, cash inflows from divestments included €14 million from the sale of shares in connection with the mining technology activities divested in 2007. In the previous year, this item included €66 million in retroactive tax payments for the divestment of the construction chemicals activities in 2006.

(8.3) Cash and cash equivalents

The cash and cash equivalents of €542 million (2007: €349 million) shown in the cash flow statement comprise the liquid assets of both the continuing and discontinued operations. Since the cash and cash equivalents assigned to the assets held for sale have been reclassified in the balance sheet in accordance with IFRS 5: "Non-current Assets Held for Sale and Discontinued Operations", see Note (5.3), a reconciliation is provided from the cash and cash equivalents shown in the cash flow statement and the balance sheet, see Note (7.7).

(9) Notes on the segment report

The segment report provides an overview of the earnings and asset position of the continuing operations by operating segments and regions. In compliance with IFRS 8 "Operating Segments", segment reporting is presented using the same structure as internal reporting to the Executive Board of Evonik Industries AG (management approach).

(9.1) Reporting based on operating segments

The reporting based on operating segments reflects the Group's internal organizational and reporting structure. Effective January 1, 2008, the twelve former business units in the Chemicals Business Area were amalgamated to form six:

Business Units (new)	Business Units (old)
Industrial Chemicals	Building Blocks C4 Chemistry
Inorganic Materials	Advanced Fillers & Pigments Aerosil & Silanes
Consumer Specialties	Care & Surface Specialties Superabsorbents
Health & Nutrition	Exclusive Synthesis & Catalysts Feed Additives
Coatings & Additives	Coatings & Colorants Specialty Acrylics
Performance Polymers	High Performance Polymers Methacrylates

The internal reporting structure was adjusted accordingly. In keeping with this reorganization, the six new business units in the Chemicals Business Area should be classified as reportable segments, unless they are combined at a higher reporting structure. In view of their comparability, based on their sector-specific features, Evonik has combined the business units in the Chemicals Business Area in a single reportable segment. This still ensures transparent segment reporting.

As of January 1, 2008 Evonik Steag GmbH, Essen (Germany) acquired from Evonik Degussa GmbH 50 percent of the shares in Infracor GmbH, Marl (Germany), a service company which operates the Marl site for the chemical industry. Marl is one of the largest integrated chemicals sites in Europe. One major activity at Infracor is the supply of energy to the companies at the site from the company-owned industrial power plants. The transfer of the shares is designed to realize synergy potential for the Group, especially in the fields of steam and power management, refrigeration, water, gases, waste management and waste-water treatment. Since the start of 2008 Infracor has thus been allocated in equal parts to the Energy and Chemicals Business Areas.

The segment report for fiscal 2008 adopts the new structure. The prior-year figures have been restated accordingly. The Group's organizational and reporting structure is thus subdivided into the Chemicals, Energy and Real Estate Business Areas.

(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 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 high-performance materials.

Close collaboration with industrial customers—often through long-term development alliances—is of enormous strategic significance for Evonik. 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 capacity 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 nine locations in Germany and refinery power plants at two locations. 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 10,000 Megawatts (MW) worldwide, including around 8,000 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 global 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 GmbH, Essen (Germany), which owns around 75,000 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, 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.

This regional focus is the key to above-average market insight and brings advantages in the management of the housing stock.

(f) 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 reportable segments to Group sales.

in € million	**2008**	2007
Total sales, reportable segments	**15,909**	**14,388**
Total sales, other operations	723	846
Consolidation	–759	–790
Total sales corporate, other operations, consolidation	**–36**	**56**
Total sales, continuing operations	**15,873**	**14,444**

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. The table shows the external sales split by country for the continuing operations:

in € million	**2008**	2007
Germany	6,310	5,837
USA	1,944	1,714
Turkey	657	512
China	578	566
France	537	512
Netherlands	496	429
Italy	405	398
Other countries	4,946	4,476
External sales, continuing operations	**15,873**	**14,444**

As internal management parameters for the operating business, the Executive Board of Evonik Industries AG uses a variety of earnings indicators, which are reported on a segment basis. These are EBITDA (before non-operating result), EBIT (before non-operating result) and operating income.

Operating income is defined as earnings before interest and income taxes. This is the earnings parameter that corresponds to the recognition and valuation principles used to prepare the consolidated financial statements, without adjustment for non-operating items.

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.

EBIT (before non-operating result) comprises earnings before interest, taxes and the non-operating result (subsequently referred to as EBIT).

EBITDA (before non-operating result) is the main parameter that can be influenced by the segment management (subsequently referred to as EBITDA). To calculate EBITDA, depreciation and amortization, impairment losses and reversals of impairment losses, which are not included in the non-operating result, are deducted from EBIT. The EBITDA margin is the ratio of EBITDA to external sales.

Depreciation and amortization relate to intangible assets, property, plant and equipment and investment property, see Note (6.5).

The result from investments recognized at equity corresponds to the result for these investments as reported in the income statement; see Note (6.8).

The following table shows the relationship between the internal management parameters EBITDA and EBIT and the external earnings parameters operating income and income before income taxes from the continuing operations:

in € million	**2008**	2007
EBITDA (before non-operating result)	**2,171**	**2,236**
Depreciation, amortization, impairment losses/reversal of impairment losses	–1,148	–1,101
Impairment losses/reversal of impairment losses (non-operating result)	281	228
EBIT (before non-operating result)	**1,304**	**1,363**
Non-operating result	–406	–370
Operating income	**898**	**993**
Net interest expense	–530	–466
Income before income taxes, continuing operations	**368**	**527**

In fiscal 2008 the non-operating result amounted to minus €406 million compared with minus €370 million in 2007. In 2008 non-operating income came to €138 million and non-operating expenses were €544 million.

The income principally resulted from the sale of investments, while the expenses essentially comprise impairment losses on assets, the restructuring of the Group and strengthening the Evonik brand, additions to provisions for the planned shutdown of smaller chemical locations, antitrust proceedings and the planned relocation of the administrative activities at the Frankfurt premises.

The reconciliation from the operating income of all reportable segments to income before income taxes from the continuing operations is as follows:

in € million	**2008**	2007
Total operating income, reportable segments	**1,217**	**1,444**
Total operating income, other operations	–2	–15
Corporate Center and corporate activities	–304	–282
Consolidation	–13	–154
Total operating income corporate, other operations, consolidation	**–319**	**–451**
Total operating income Group, continuing operations	**898**	**993**
Net interest expense	–530	–466
Income before income taxes, continuing operations	**368**	**527**

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, other interest-free liabilities and deferred tax liabilities is then deducted from this. Capital employed comprises the assets required by the reportable segments for operational purposes. The table shows a reconciliation to the capital employed of the continuing operations:

in € million	**Dec. 31, 2008**	Dec. 31, 2007
Total capital employed, reportable segments	**14,655**	**14,119**
Total capital employed, other operations	–94	–67
Corporate, consolidation	71	54
Total capital employed corporate, other operations, consolidation	**–23**	**–13**
Total capital employed, continuing operations	**14,632**	**14,106**

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.

Investments recognized at equity correspond to their carrying amounts as reflected in the balance sheet, see Note (7.4).

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 presented as financial investments. The acquisition of subsidiaries is shown as an addition to financial investments in the reporting period (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, 2008**	Dec. 31, 2007
Germany	8,139	8,132
USA	835	875
Belgium	542	569
China	524	313
Other countries	1,244	1,339
Non-current assets	**11,284**	**11,228**

(10) Other disclosures

(10.1) 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 minority interests, including the earnings of discontinued operations. Earnings per share could be diluted by "potential" ordinary shares.

Number of shares	**2008**	2007
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	**2008**	2007
Income after taxes, continuing operations	238	369
Income after taxes, discontinued operations	117	602
less income after taxes attributable to minority interests	–70	–95
Income after taxes attributable to equity holders of Evonik Industries AG (net income)	**285**	**876**
Earnings per share (basic and diluted) in €		
from continuing operations	+0.51	+0.79
from discontinued operations	+0.25	+1.29
less minority interests	–0.15	–0.20
Earnings per share (basic and diluted) in € attributable to equity holders of Evonik Industries AG	**+0.61**	**+1.88**

(10.2) 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".

(a) Evonik LTI Plan

Evonik Industries AG granted the Evonik LTI Plan to executives named by the Executive Board for the first time in 2008. The LTI Plan comprises a three-year performance period from May 1, 2008 through April 30, 2011. The intrinsic value of the plan depends on how the fictitious equity value of Evonik derived from EBITDA develops over the performance period.

The reference base for calculating the increase in value is the fictitious equity value as of December 31, 2007. The actual increase compared with this reference base will be compared with the mid-term plan for 2008 through 2010 approved by the Supervisory Board of Evonik Industries AG. Assuming that the fictitious equity value calculated as of December 31, 2010 is above the reference value, a cash payment will be made under the LTI Plan. The level of this payment will be based on an individual target and the relationship between actual and planned target attainment. A provision of €2 million was established for the Evonik LTI Plan at year-end 2008.

(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 (in the period 2003 through 2005) 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.

The table shows the number of performance options allocated under the Evonik Degussa LTI Plans between 2003 and 2006:

LTI Plan	2006	2005	2004	2003
As of January 1, 2008	777,342	857,551	794,942	465,522
Granted	–	–	–	–
Exercised	–662,383	–	–	–149,115
Lapsed	–9,302	–74,300	–70,475	–316,407
As of December 31, 2008	**105,657**	**783,251**	**724,467**	**0**

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.

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 €18 million on the reporting date (2007: €23 million). The exercise of rights relating to the tranches for 2003 through 2006 resulted in a total payment of €26 million in 2008 (2007: €1 million for the 2003 tranche). Around 2 percent of this (2007: around 7 percent) went to members of the Board of Management of Evonik Degussa GmbH.

Due to the restructuring of Evonik, no more performance options were granted in 2007. Instead, a total of €6 million in voluntary bonuses was paid out to the managers previously entitled to performance options at the start of 2008. A provision was established for this in 2007.

(10.3) Additional information on financial instruments

Net result

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	2008	At fair value through profit or loss		Available-for-sale	Loans and receivables	Liabilities at fair value	Liabilities at amort. cost
		Trading	Designation				
Proceeds from disposals	–34	–	–35	2	–1	–	–
Income from the measurement of derivatives	–229	358	–	–	–	–587	–
Impairment losses/reversals of impairment losses	–22	–	–	–4	–18	–	–
Net interest expense	–231	0	–	1	18	0	–250
Income from other investments	12	–	–	12	–	–	–
Result from current securities	0	–	–	0	–	–	–
Total	**–504**	**358**	**–35**	**11**	**–1**	**–587**	**–250**

in € million	2007	At fair value through profit or loss		Available-for-sale	Loans and receivables	Liabilities at fair value	Liabilities at amort. cost
		Trading	Designation				
Proceeds from disposals	4	–	–	9	–5	–	–
Income from the measurement of derivatives	98	218	38	–	–	–158	–
Impairment losses/reversals of impairment losses	–9	–	–	0	–9	–	–
Net interest expense	–234	0	–	12	29	–2	–273
Income from other investments	17	–	–	17	–	–	–
Result from current securities	–1	–	–	–1	–	–	–
Total	**–125**	**218**	**38**	**37**	**15**	**–160**	**–273**

Income from the measurement of derivatives does not include income from derivative financial instruments that qualify for hedge accounting.

The result from the fair value option was minus €35 million (2007: €38 million due to a change in fair value). As in the previous year, no interest income was recognized for the ineffective portion of cash flow hedges or for the ineffective portion of fair value hedges. Interest income of €19 million (2007: €41 million) relates to financial instruments not allocated to the category at fair value through profit or loss, while interest expense, including interest expense for finance leases, was €258 million (2007: 286 million). Net interest expense does not include any interest income on the impaired portion of financial assets or trade accounts receivable.

Classification

At Evonik, the classification of financial instruments that fall within the scope of IFRS 7 "Financial Instruments: Disclosures" is based on the presentation on the balance sheet. The following table comprises a reconciliation of the carrying amounts of these balance sheet items to the valuation categories defined in IAS 39 "Financial Instruments: Recognition and Measurement" and shows their fair values:

	At fair value through profit or loss		Available-for-sale	Loans and receivables	No IAS 39 category	Dec. 31, 2008	
in € million	Trading	Designation				Carrying amount	Fair value
Financial assets	**73**	**0**	**157**	**182**	**1,303**	**1,715**	
Other investments	–	–	112	–	–	112	112
Loans	–	–	–	165	–	165	164
Securities and similar claims	–	–	45	–	–	45	45
Receivables from finance leases	–	–	–	–	1,117	1,117	1,271
Receivables from derivatives	73	–	–	–	145	218	218
Other financial assets	–	–	–	17	41	58	58
Trade accounts receivable	–	–	–	2,572	–	2,572	2,572
Cash and cash equivalents	–	–	–	536	–	536	536
Total	**73**	**0**	**157**	**3,290**	**1,303**	**4,823**	

	Liabilities at fair value	Liabilities at amort. cost	No IAS 39 category	Dec. 31, 2008	
in € million				Carrying amount	Fair value
Financial liabilities	**102**	**4,229**	**1,071**	**5,402**	
Bonds	–	516	774	1,290	1,260
Liabilities to banks	–	3,529	–	3,529	3,629
Loans from non-banks	–	51	–	51	52
Liabilities from finance leases	–	–	80	80	84
Liabilities from derivatives	102	–	170	272	272
Other financial liabilities	–	133	47	180	180
Trade accounts payable	–	1,463	–	1,463	1,463
Total	**102**	**5,692**	**1,071**	**6,865**	

in € million	At fair value through profit or loss: Trading	At fair value through profit or loss: Designation	Available-for-sale	Loans and receivables	No IAS 39 category	Dec. 31, 2007: Carrying amounts	Dec. 31, 2007: Fair value
Financial assets	**24**	**289**	**127**	**110**	**1,240**	**1,790**	
Other investments	–	–	70	–	–	70	70
Loans	–	–	–	96	–	96	96
Securities and similar claims	–	289	57	–	–	346	346
Receivables from finance leases	–	–	–	–	1,130	1,130	1,366
Receivables from derivatives	24	–	–	–	110	134	134
Other financial assets	–	–	–	14	–	14	14
Trade accounts receivable	–	–	–	2,372	–	2,372	2,372
Cash and cash equivalents	–	–	–	319	–	319	319
Total	**24**	**289**	**127**	**2,801**	**1,240**	**4,481**	

in € million	Liabilities at fair value	Liabilities at amort. cost	No IAS 39 category	Dec. 31, 2007: Carrying amounts	Dec. 31, 2007: Fair value
Financial liabilities	**9**	**3,764**	**921**	**4,694**	
Bonds	**–**	496	745	1,241	1,212
Liabilities to banks	–	2,718	–	2,718	2,834
Loans from non-banks	–	86	–	86	87
Liabilities from finance leases	–	–	116	116	133
Liabilities from derivatives	9	–	60	69	69
Other financial liabilities	–	464	–	464	464
Trade accounts payable	–	1,294	–	1,294	1,294
Total	**9**	**5,058**	**921**	**5,988**	

Some of the derivative financial instruments, parts of the bond issued by Evonik Degussa GmbH and some of the other financial assets and liabilities are not allocated to any of the categories defined in IAS 39 because they are included in hedge accounting.

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 in accordance with the yield curve, see Note (4). 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 underlying transactions hedged 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:

	Dec. 31, 2008			Dec. 31, 2007		
in € million	Total	thereof with a term to maturity of up to 1 year	thereof with a term to maturity of more than 1 year	Total	thereof with a term to maturity of up to 1 year	thereof with a term to maturity of more than 1 year
Currency derivatives	3,773	3,517	256	3,131	2,730	401
Interest derivatives	1,171	36	1,135	1,766	61	1,705
Commodity derivatives	492	310	182	32	32	0
Other derivatives	13	13	0	26	0	26
	5,449	**3,876**	**1,573**	**4,955**	**2,823**	**2,132**

Where the criteria for hedge accounting are fulfilled, interest, currency and commodity derivatives are accounted for as fair value hedges, cash flow hedges or hedges of a net investment. Embedded derivatives do not generally qualify for hedge accounting.

Hedge accounting

The following major hedging transactions qualified for hedge accounting in fiscal 2008:

(a) Fair value hedges

€750 million of the €1,250 million bond issued by Evonik Degussa GmbH in November 2003 was hedged until 2013 against fluctuations in the risk-free reference interest rate by means of receiver interest swaps. The fair value of these interest rate hedges was €40 million on the reporting date (2007: minus €5 million). A regression analysis was used to provide evidence of the effectiveness of the hedges. Income of €44 million (2007: expenses of €21 million) relating to the fair value measurement of the derivatives and expenses of €47 million (2007: income of €20 million) from the fair value measurement of the bond were recognized in net interest expense.

The Energy Business Area has long-term master agreements on the purchase and sale of imported coal, including ocean freight. Both fixed and indexed rates have been agreed for such contracts. The price risk relating to pending transactions where purchase and sale are not synchronized is hedged through to 2011 using coal and freight swaps designated as fair value hedges. The fair value of these hedges was €5 million on the reporting date. A regression analysis is carried out quarterly to provide evidence of their prospective effectiveness. Their retrospective effectiveness was measured by the cumulative dollar offset method. The fair value measurement of derivatives resulted in income of €45 million and expenses of €40 million, while the fair value measurement of the underlying pending transactions resulted in expenses of €48 million and income of €41 million. These amounts were recognized in other operating income and expenses. The Energy Business Area did not have any fair value hedges in 2007.

(b) Cash flow hedges

The Energy Business Area has hedged interest payments relating to the financing of power plant projects up to 2026 with interest rate swaps and interest rate caps. In addition, commodity swaps were used to hedge coal and freight price risks relating to the planned supply of company-owned power stations and forward exchange contracts to hedge currency risks relating to the planned procurement of raw materials. These derivatives mature in the period up to 2011. The following fair values are recognized: interest derivatives minus €48 million (2007: €30 million), currency derivatives €8 million (2007: minus €2 million) and commodity derivatives minus €16 million (2007: €0 million).

In the Chemicals Business Area, forward exchange contracts are used to hedge forecast sales as of the balance sheet date amounting to around €615 million (2007: €455 million) up to 2009 against exchange rate movements. The fair value of hedging instruments included in hedge accounting was €19 million (2007: €10 million). In addition, commodity swaps with a fair value of minus €56 million (2007: €5 million) were used to hedge forecast purchases of raw materials against price fluctuations up to 2010.

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. Only a negligible amount was recognized in income as the ineffective portion of the valuation of cash flow hedges (2007: expense of €1 million).

(c) Hedge of a net investment

The Energy Business Area uses currency derivatives to hedge the proportionate equity allocated to foreign power station projects against changes in exchange rates. The fair value of these hedges was €31 million (2007: €49 million). €4 million (2007: €1 million) was derecognized from unrealized gains/losses on hedges in accumulated other comprehensive income and charged to income in 2008 as the result of capital reductions or the divestment of shares.

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 foregoing the opportunity to benefit from positive market trends. For this purpose we have established a systematic financial and risk management system. 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 underlying transactions 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 primarily through futures contracts.

(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.

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 through primary and derivative financial instruments, especially interest rate swaps and interest rate caps. 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 December 31, 2008, around 50 percent (2007: around 60 percent) of net financing requirements were hedged at fixed interest rates.

Several scenario analyses were carried out to measure exchange rate and interest rate risk as of December 31, 2008.

A change of 5 percent and 10 percent in the exchange rates of the most important currencies for Evonik, the USD and GBP versus the euro, was modeled, together with standard deviation for each of these changes to simulate the possible loss of value of primary and derivative financial instruments. The scenario is shown in the table:

	Dec. 31, 2008		Dec. 31, 2007	
in € million	Impact on income	Impact on equity	Impact on income	Impact on equity
USD				
+5%	–42	–24	–22	–9
–5%	42	24	22	9
+10%	–83	–49	–43	–18
–10%	83	49	44	18
+ Standard deviation	–8	–5	–4	–2
– Standard deviation	8	5	4	2
GBP				
+5%	25	–	32	–
–5%	–28	–	–35	–
+10%	49	–	61	–
–10%	–59	–	–75	–
+ Standard deviation	5	–	7	–
– Standard deviation	–5	–	–7	–

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 related 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. The results are summarized in the table:

	Dec. 31, 2008		Dec. 31, 2007	
in € million	Impact on income	Impact on equity	Impact on income	Impact on equity
+50 basis points	–24	22	–25	20
–50 basis points	25	–23	27	–21
+100 basis points	–48	43	–49	39
–100 basis points	51	–48	54	–44
+150 basis points	–71	62	–72	57
–150 basis points	78	–75	83	–68

Commodity risks result from changes in the market prices of raw materials. 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 great 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 altered by 10 percent on the reporting date, the fluctuation in the value of these derivatives would have resulted in a change of €8 million (2007: €4 million) in other comprehensive income. If the price of imported coal or freight rates had been altered by 10 percent, the fluctuation in the value of the corresponding derivatives would have been €4 million (2007: €0 million).

(b) Liquidity risk

Liquidity risk is managed through business planning to ensure that 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. There are also agreed bilateral credit facilities amounting to €180 million to cover short-term funding requirements, and more than €450 million for letters of credit. Drawings at year end were €5 million and €268 million respectively. To secure its liquidity, Evonik has a €2,250 million syndicated credit facility agreed in 2006 which runs until 2011. €800 million of this was in use on the reporting date (2007: none). It is used to cover short-term financing requirements.

The table shows the remaining maturity of the primary financial instruments based on the agreed dates for payment of the undiscounted interest and repayment installments.

	Up to 1 year		More than 1 and up to 3 years		More than 3 and up to 5 years		More than 5 years	
in € million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Financial liabilities	**1,452**	**1,663**	**1,422**	**698**	**1,769**	**536**	**1,769**	**3,472**
Bonds	64	64	128	128	1,378	128	–	1,314
Liabilities to banks	1,243	1,157	1,189	493	362	342	1,671	1,525
Loans from non-banks	14	55	11	36	3	30	42	538
Liabilities from finance leases	21	20	49	40	26	35	31	94
Other financial leases	110	367	45	1	0	1	25	1
Trade accounts payable	**1,463**	**1,294**	**–**	**–**	**–**	**–**	**–**	**–**

No interest or repayment installments related to discontinued operations (2007: €22 million).

The breakdown of undiscounted 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 also presented as gross amounts:

	Up to 1 year		More than 1 and up to 3 years		More than 3 and up to 5 years		More than 5 years	
in € million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Receivables from derivatives	**96**	**39**	**39**	**5**	**13**	**5**	**0**	**46**
Currency derivatives	87	36	5	2	–	1	–	–
Cash inflows	1,672	965	114	23	3	12	–	–
Cash outflows	–1,585	–929	–109	–21	–3	–11	–	–
Interest derivatives	9	2	23	3	13	4	–	30
Commodity derivatives	–	–	11	–	0	–	–	–
Other derivatives	–	1	–	0	–	–	–	16
Liabilities from derivatives	**–200**	**–37**	**–42**	**–40**	**–1**	**–2**	**2**	**0**
Currency derivatives	–118	–34	–20	–39	–	–1	–	–
Cash inflows	1,748	969	88	91	–	3	–	–
Cash outflows	–1,866	–1,003	–108	–130	–	–4	–	–
Interest derivatives	–6	–3	–18	–1	–1	–1	2	0
Commodity derivatives	–76	–	–4	–	–	–	–	–
Other derivatives	–	0	–	0	–	–	–	0

(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, derivatives, payment commitments). 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 amounts 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.

(10.4) Related parties

In addition to the subsidiaries included in the consolidated financial statements, the Group maintains relationships with related parties. All relationships with major subsidiaries and investments are listed at the end of this annual report.

Related parties with which the Group maintains business relationships are associated companies and joint ventures of Evonik, which are recognized at equity, RAG-Stiftung and Gabriel Acquisitions as shareholders of Evonik Industries AG, together will fellow subsidiaries of Evonik owned by the RAG-Stiftung.

The transactions between the Group and these companies are shown in the table:

	Evonik Group		Fellow subsidiaries		RAG-Stiftung	
in € million	**2008**	2007	**2008**	2007	**2008**	2007
Goods and services supplied	84	52	152	207	15	–
Goods and services received	55	3	464	398	–	–
Other income	11	4	2	3	–	–
Receivables as of December 31	14	38	201	68	–	–
Liabilities as of December 31	62	52	527	705	–	–

The receivables on the reporting date principally result from the supply of coal and electricity. The liabilities mainly comprise deferred items from the settlement of adjustments to contracts on the purchase of electricity and payables for coal and electricity.

Further, as of the balance sheet date, €28 million (2007: €47 million) comprised security pledged to RAG for the liabilities of the Real Estate Business Area in connection with the financing of property.

In view of the change in ownership structure at year-end 2007, business relations with E.ON AG, RWE AG, ThyssenKrupp AG and selected companies in these groups, which were stated as related parties in 2007, no longer comprised related party transactions in 2008.

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 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 Chemicals, Energy and Real Estate Business Areas.

The Supervisory Board of Evonik Industries AG received total remuneration of €1,990,000 for its work (2007: €54,000).

The remuneration paid to the Executive Board of Evonik Industries AG and other members of the Group's management is shown in the table:

	Executive Board of Evonik Industries AG		Other management members	
in € million	**2008**	2007	**2008**	2007
Short-term remuneration	20	11	6	9
Post-employment benefits	19	12	15	13
Termination benefits	8	–	1	–
LTI Plans	0	0	0	0

The short-term remuneration reported for fiscal 2007 included termination benefits. Post-employment benefits comprise pension obligations at the present value of the defined benefit obligation. Current service cost for pensions amounted to €1 million (2007: €2 million).

Apart from the relationships stated above, Evonik did not have any other significant business relationships with related parties.

(10.5) Contingent liabilities and other financial commitments

Contingent liabilities were as follows on the reporting date:

in € million	**Dec. 31, 2008**	Dec. 31, 2007
Guarantee obligations	44	84
Obligations under warranties and indemnity guarantees	330	636
	374	**720**

Obligations under warranties and indemnity agreements include letters of comfort, some of which were issued in conjunction with third parties.

There is 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 nominal value of obligations from future minimum lease payments for assets leased under operating leases with the following payment terms is shown in the table:

in € million	**Dec. 31, 2008**	Dec. 31, 2007
Due within 1 year	44	54
Due in 1–5 years	137	163
Due in more than 5 years	119	157
	300	**374**

Contingent rental payments in 2007 amounted to €4 million.

(11) Disclosures in compliance with German legislation

(11.1) Information on shareholdings pursuant to Section 313 Paragraphs 2 and 4 of the German Commercial Code

Information on the shareholdings of Evonik Industries AG and the Group is provided in a separate list rather than in the notes to the financial statements. The list indicates which companies have made use of the provisions in Section 264 Paragraph 3 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) Number of employees pursuant to Section 314 Paragraph 1 No. 4 of the German Commercial Code

The table shows the annual average headcount for the continuing operations:

by segment	**2008**	2007
Chemicals	32,108	31,846
Energy	4,701	4,595
Real Estate	443	501
Corporate, other operations	3,933	4,131
	41,185	**41,073**

Further, an average of 657 employees (2007: 2,810) worked for the discontinued operations.

(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 2008 amounted to €20,269,173.51 (2007: €11,061,708.38).

Termination benefits amounted to €7,699,000.00 in 2008.

As of the reporting date €9,657,904.00 was allocated to provisions for pension obligations to former members of the Executive Board.

The remuneration of the Supervisory Board in 2008 totaled €1,990,343.03 (2007: €54,291.61).

Essen, March 10, 2009

Evonik Industries AG
The Executive Board

Dr. Engel Wagner Weber

Auditor's report

"We have audited the consolidated financial statements prepared by Evonik Industries AG, Essen, comprising the income statement, the balance sheet, statement of changes in equity, 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, 2008. 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 ("Handelsgesetzbuch": 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 on 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 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, March 10, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Norbert Vogelpoth	Eckhard Sprinkmeier
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

Ladies and gentlemen:
During the past fiscal year, the Supervisory Board of Evonik Industries AG once again performed the obligations imposed on it by law and the Articles of Incorporation. We maintained an ongoing dialog with the Executive Board of Evonik Industries AG, continuously monitored its management of the company and provided regular advice. The Executive Board provided us with full and timely information on all relevant aspects of business policy, corporate planning and strategic development, and the profitability, business performance and situation of the Group.

We addressed all issues of relevance to the company at five meetings, on January 30, April 8, June 13, September 16 and December 18, 2008 and in one case—on October 9, 2008—through a written circulation procedure. In addition, the Executive Board provided us with written reports on business trends and processes of particular importance for Evonik. Further, the Chairman of the Supervisory Board was kept constantly informed of all significant business matters.

The most significant issue in our discussions was providing support for RAG-Stiftung's divestment of a minority stake in Evonik through a dual-track procedure and the decision taken by RAG-Stiftung to concentrate on a trade sale, resulting in conclusion of an agreement with Gabriel Acquisitions GmbH, which is owned by the CVC fund companies.

Other key issues discussed included:

- the conclusion of agreements relating to the accession of Gabriel Acquisitions GmbH as a shareholder of Evonik, for example, on holding business conferences
- amendment of the Articles of Incorporation
- the construction of two integrated production facilities for chlorosilanes (France, Netherlands)
- the establishment of a joint venture with Daimler AG for collaborative development of lithium-ion batteries (LiTec)
- divestment of the Initiators Business Line
- investment in expansion of the power plant in Iskenderun (Turkey).

The work of the Supervisory Board was prepared and supported by eight meetings of the Executive Committee, six meetings of the Finance and Investment Committee, plus one decision taken by this committee using a written circulation procedure, and five meetings of the Audit Committee.

The Supervisory Board also discussed the new management concept for the Evonik Group in detail. Key aspects of this included:

- the reduction of the Executive Board to three members so it can focus on strategic tasks and the related delegation of operational tasks to the Boards of Management of the companies at the head of each business area
- the alignment of the Corporate Center to strategic steering activities
- the appointment of Dr. Klaus Engel as a member of the Executive Board and subsequently as Chairman of the Executive Board for the period January 1, 2009 through December 31, 2013
- ending the term of office of Dr. Werner Müller as Chairman and a member of the Executive Board of Evonik Industries AG and terminating the contracts with Dr. Alfred Tacke, Dr. Alfred Oberholz and Dr. Peter Schörner in connection with their resignation from the Executive Board of Evonik Industries AG as of the end of December 31, 2008
- the appointment of Dr. Wolfgang Colberg as a member of the Executive Board of Evonik Industries AG for the period from April 1, 2009 through March 31, 2014.

The Supervisory Board would like to thank the Executive Board for its key contribution to the successful start of Evonik and the company's positioning on the capital market in mid-2008.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, has audited the financial statements as of December 31, 2008 prepared in accordance with the German Commercial Code (HGB), the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS), as permitted by Section 315a Paragraph 3 of the German Commercial Code (HGB) and the combined management report for Evonik Industries AG and the Evonik Group, and has endorsed them with an unqualified opinion pursuant to Section 322 of the German Commercial Code (HGB). The auditors also included the company's risk management in the annual audit pursuant to a voluntary request from the Supervisory Board.

The annual financial statements, combined management report and audit reports prepared by the auditors were distributed to all members of the Supervisory Board in good time. The auditors outlined the main findings of their audit at the meeting of the Audit Committee on March 18, 2009 and the full meeting of the Supervisory Board on March 23, 2009. The documents were discussed in detail. Following a thorough examination of the annual financial statements for the company, consolidated financial statements for the Group and the combined management report, we concur with the auditors' findings and raise no objections to the report. The Supervisory Board therefore endorses the annual financial statements for Evonik Industries AG and the consolidated financial statements for the Evonik Group. The annual financial statements for 2008 are thus adopted.

The Executive Board 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 314 Paragraph 3 of the German Stock Corporation Act (AktG):

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

1. the facts contained in the report are correct
2. the company's expenditures in connection with the legal transactions contained in the report were not unreasonably high or compensation was received for any disadvantages
3. there are no circumstances that would suggest a significantly different assessment of the measures outlined in the report than that reached by the Executive Board."

The Supervisory Board also examined the report on the affiliated companies for completeness and correctness. This examination found that the Executive Board has, with the necessary care,

- identified the associated companies
- taken the necessary precautions to identify
  a) the transactions undertaken by the company during the past fiscal year with the controlling company or companies affiliated with it or at the instigation of or in the interests of these companies, further
  b) other action taken or not taken at the instigation of or in the interests of these companies during the past fiscal year
- and has included these actions and transactions in their entirety in the report on affiliated companies.

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. On the basis of random samples, 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 Supervisory Board saw no reason to reach a significantly different assessment of the measures outlined in the report than the conclusions drawn by the Executive Board. The Audit Committee discussed the report in advance and gave the Supervisory Board a detailed report on the outcome of its meeting.

As a result of the carve-out of Evonik from the RAG Group at year-end 2007, a "status procedure" had to be conducted; a Supervisory Board thus had to be established in compliance with the provisions of the German Codetermination Act of 1976. At its meeting on April 8, 2008, the Supervisory Board re-elected Wilhelm Bonse-Geuking as Chairman and Werner Bischoff as Deputy Chairman and reconstituted the committees of the Supervisory Board.

Martin Blessing stepped down from the Supervisory Board effective September 16, 2008 and Werner Wenning stepped down effective September 17, 2008. We would like to thank both gentlemen for their dedicated and constructive collaboration. As their successors on the Supervisory Board, the Shareholders' Meeting elected Steve Koltes effective September 16, 2008 and Dr. Christian Wildmoser effective September 17, 2008.

The Supervisory Board would like to thank Executive Board, Works Councils and all employees of Evonik Industries AG and its affiliated companies for their commitment and successful achievements.

The Supervisory Board

Essen, March 2009

Wilhelm Bonse-Geuking
Chairman

Further information on corporate officers

Supervisory Board of Evonik Industries AG

Wilhelm Bonse-Geuking, Südlohn
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
Member of the National Executive of the Mining, Chemical and Energy Industrial Union (IG BCE)
a) Continental AG
Evonik Degussa GmbH
Hoechst GmbH
RWE AG
RWE Dea AG
RWE Power AG
Sanofi-Aventis Deutschland GmbH

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) BAT (Germany) GmbH (Chair)
b) Wilh. Werhahn KG (Deputy Chair)

Gebhard Gaßner, Chieming
Chairman of the Group Senior Staff Committee of Evonik Industries AG
Chairman of the Central and Group Senior Staff Committees of Evonik Degussa GmbH

Dr. Hans Michael Gaul, Düsseldorf
a) HSBC Trinkaus & Burkhardt AG
IVG Immobilien AG
Siemens AG
VNG – Verbundnetz Gas AG
Volkswagen AG

Ursel Gelhorn, Essen
Deputy Chairman of the Group Works Council of Evonik Steag GmbH

Stephan Gemkow, Overath
Member of the Board of Management of Deutsche Lufthansa AG
a) Delvag Luftfahrtversicherungs-AG (Chair)
LSG Lufthansa Service Holding AG
Lufthansa AirPlus Servicekarten GmbH (Chair)
Lufthansa Cargo AG
Lufthansa Technik AG
b) Amadeus IT Group S.A.
JetBlue Airways Corporation
WAM Acquisition S.A.

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

Professor Wolfgang A. Herrmann, Freising
President of Munich Technical University
a) E.ON Bayern AG

Steve Koltes, Küsnacht
(from September 16, 2008)
Managing Director of CVC Capital Partners (Luxembourg) S.à r.l.
b) DSI International S.à r.l.
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)
a) Evonik Degussa GmbH
Goodyear Dunlop Tires Germany GmbH
Hoechst GmbH

Dr. Siegfried Luther, Gütersloh
Former CFO of Bertelsmann AG
a) Infineon Technologies AG
WestLB AG
Wintershall Holding 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 Werksangehörigen der Degussa AG VVAG

Rainer Schankweiler, Essen
Deputy 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
Chairman of the Management Board of LyondellBasell Holdings B.V.

Dr. Christian Wildmoser, Savigny
(from September 17, 2008)
Managing Director of CVC Capital Partners Switzerland GmbH
b) Flint Group Holdings S.à r.l.

The following gentlemen left Supervisory Board during 2008:

Martin Blessing, Königstein
(until September 16, 2008)
Spokesman for the Management Board of Commerzbank AG

Werner Wenning, Leverkusen
(until September 17, 2008)
Chairman of the Management Board of Bayer AG

Executive Board

Dr. Werner Müller, Mülheim an der Ruhr
Chairman
a) DB Mobility Logistics AG (Chair)
Deutsche Bahn AG (Chair)
Evonik Degussa GmbH (Chair)
Evonik Steag GmbH (Chair)
b) Evonik Immobilien GmbH
Evonik Wohnen GmbH
g.e.b.b. Gesellschaft für Entwicklung, Beschaffung und Betrieb mbH (Chair)
Stadler Rail AG

Dr. Klaus Engel, Mülheim an der Ruhr
b) Evonik Degussa Brasil Ltda. (Chair)
Evonik Degussa Corporation (Chair)

Dr. Alfred Oberholz, Marl
b) Evonik Degussa Antwerpen N.V. (Chair)
Evonik Degussa (China) Co., Ltd. (Chair)
Evonik Degussa Corporation
Evonik Degussa Japan Co., Ltd. (Chair)
Evonik Degussa Taiwan Ltd. (Chair)

Dr. Peter Schörner, Bochum
a) Evonik Degussa GmbH
Evonik Services GmbH (Chair)
Evonik Steag GmbH
b) GSB Gesellschaft zur Sicherung von Bergmannswohnungen GmbH (Chair)
THS GmbH

Dr. Alfred Tacke, Essen
a) Evonik New Energies GmbH (Chair)
Evonik Power Saar GmbH (Chair)
RAG Aktiengesellschaft
RAG Deutsche Steinkohle AG

Heinz-Joachim Wagner, Bad Nauheim
a) Evonik Services GmbH
b) B. Metzler Seel. Sohn & Co. Holding AG
Degussa Bank GmbH
Evonik Degussa Brasil Ltda.
Evonik Degussa Corporation

Ulrich Weber, Krefeld
a) Evonik Degussa GmbH
Evonik Power Saar GmbH
Evonik Services GmbH
Evonik Steag GmbH
HDI-Gerling Industrie AG
HDI-Gerling Service AG
RAG Aktiengesellschaft
RAG Deutsche Steinkohle AG
b) Evonik Immobilien GmbH (Chair)
Evonik Wohnen GmbH (Chair)
RAG BILDUNG GmbH (Chair)
THS GmbH (Chair)

a) Membership of other statutory supervisory boards (as of December 31, 2008).
b) Membership of comparable German and foreign supervisory bodies of business enterprises (as of December 31, 2008).

Major shareholdings

	Equity[1]	Evonik's stake including shareholdings pursuant to Section 16 German Stock Corporation Act (AktG)		
	in € million	Direct %	Indirect %	Total %
I. Consolidated subsidiaries				
Chemicals Business Area				
Germany				
1. Evonik Degussa GmbH, Essen	2,739	94.90	5.10	100.00
2. Evonik Goldschmidt GmbH, Essen	127		100.00	100.00
3. Evonik Oxeno GmbH, Marl	39		100.00	100.00
4. Evonik Röhm GmbH, Darmstadt	168		100.00	100.00
5. Evonik RohMax Additives GmbH, Darmstadt	31		100.00	100.00
6. Evonik Stockhausen GmbH, Krefeld	127		100.00	100.00
Other countries				
7. Evonik Cyro LLC (formerly Cyro Industries Inc.), Parsippany (NJ, US)	54		100.00	100.00
8. Degussa Amalgamation Ltd., Milton Keynes (UK)	438		100.00	100.00
9. Evonik Degussa (China) Co. Ltd., Bejing (CN)	100		100.00	100.00
10. Evonik Degussa Antwerpen N.V., Antwerp (BE)	150		99.99	99.99
11. Evonik Degussa Brasil Ltda., São Paulo (BR)	94		100.00	100.00
12. Evonik Degussa Canada Inc., Burlington (CA)	60		100.00	100.00
13. Evonik Degussa Corporation, Parsippany (NJ, US)	1,356		100.00	100.00
14. Evonik Degussa Japan Co., Ltd., Tokyo (JP)	82		100.00	100.00
15. Evonik Degussa UK Holdings Ltd., London (UK)	487		100.00	100.00
16. Evonik Goldschmidt Chemical Corporation, Hopewell (VA, US)	4		100.00	100.00
17. Evonik RohMax USA Inc., Horsham (PA, US)	20		100.00	100.00
18. Evonik Stockhausen Inc., Greensboro (NC, US)	–1		100.00	100.00
19. Laporte Speciality Organics Limited, Milton Keynes (UK)	331		100.00	100.00
20. NIPPON AEROSIL Co., Ltd., Tokyo (JP)	45		80.00	80.00
Energy Business Area				
Germany				
21. Evonik Steag GmbH, Essen	674	5.10	94.90	100.00
22. Evonik Fernwärme GmbH, Essen	21		100.00	100.00
23. Evonik New Energies GmbH, Saarbrücken	62		100.00	100.00
24. Evonik Power Saar GmbH (formerly Evonik New Energies GmbH), Saarbrücken	11		100.00	100.00
25. Evonik Power Minerals GmbH, Dinslaken	34		100.00	100.00
26. Evonik Trading GmbH, Essen	35		100.00	100.00
27. Minegas GmbH, Essen	5		74.80	74.80
28. Mingas-Power GmbH, Essen	4		60.00	60.00
29. RVG GmbH (formerly RAG Verkauf GmbH), Essen	1		51.00	51.00
30. Evonik-EVN Walsum 10 Kraftwerksgesellschaft mbH (formerly STEAG-EVN Walsum 10 Kraftwerksgesellschaft mbH), Essen	113		51.00	51.00
31. STEAG-Raffinerie-Kraftwerk-Sachsen-Anhalt GmbH, Essen	0		100.00	100.00

	Equity[1]	Evonik's stake including shareholdings pursuant to Section 16 German Stock Corporation Act (AktG)		
	in € million	Direct %	Indirect %	Total %
Other countries				
32. Compañia Eléctrica de Sochagota S. A. E. S. P., Tunja (CO)	62		51.00	51.00
33. Iskenderun Enerji Üretim ve Ticaret Anonim Sirketi, Ankara (TR)	1,000		51.00	51.00
34. SFW Energia Sp. z. o. o., Gliwice (PL)	11		100.00	100.00
35. STEAG State Power, Inc., Makati City (PH)	112		51.00	51.00
Real Estate Business Area				
Germany				
36. Evonik Immobilien GmbH, Essen	150	100.00		100.00
37. Aachener Bergmannssiedlungsgesellschaft mbH, Hückelhoven	29		100.00	100.00
38. EBV GmbH, Hückelhoven	32		100.00	100.00
39. Evonik Wohnen GmbH, Essen	3		100.00	100.00
40. Lünener Wohnungs- und Siedlungsgesellschaft mbH, Lünen	38		100.00	100.00
41. Rhein Lippe Wohnen GmbH, Duisburg	195		100.00	100.00
42. Siedlung Niederrhein GmbH, Dinslaken	57		100.00	100.00
43. Walsum Immobilien GmbH, Duisburg	25		100.00	100.00
44. Wohnbau Auguste Victoria GmbH, Marl	35		100.00	100.00
45. Wohnbau Westfalen GmbH, Dortmund	170		100.00	100.00
46. Wohnungsbaugesellschaft mbH "Glückauf", Moers	52		100.00	100.00
Other companies				
Germany				
47. Evonik Projekt-Beteiligungs-GmbH & Co. KG, Essen	344	99.00		99.00
48. RAG Coal International GmbH, Essen	334	100.00		100.00
49. RBV Verwaltungs-GmbH, Essen	252	100.00		100.00
50. RÜTGERS GmbH, Essen	449		100.00	100.00
51. RÜTGERS Rail Verwaltungs GmbH, Essen	50		100.00	100.00
II. Joint ventures (recognized at equity)				
Energy Business Area				
Germany				
52. REG Raffinerie-Energie oHG, Cologne	14		80.00	80.00
Real Estate Business Area				
Germany				
53. THS GmbH (formerly Treuhandstelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlenbezirk GmbH), Essen	110		50.00	50.00
III. Associated companies (recognized at equity)				
Energy Business Area				
Germany				
54. Fernwärmeversorgung Niederrhein GmbH, Dinslaken	38		26.00	26.00
55. Kraftwerk Bexbach Verwaltungsgesellschaft mbH, Bexbach	24		33.33	33.33
Other countries				
56. ARKAD Deniz Tasimaciligi A. S., Istanbul (TR)	22		49.00	49.00

[1] Foreign currency amounts are translated at the closing rate for December.

Credits

Published by
Evonik Industries AG
Rellinghauser Straße 1–11
45128 Essen
Germany
www.evonik.com

Contact
Communications/Board Office
PHONE +49 201 177-3899
FAX +49 201 177-2911
info@evonik.com

Investor Relations
PHONE +49 201 177-2089
FAX +49 201 177-2097
investor.relations@evonik.com

Concept, layout, typesetting and production
XEO GmbH, Düsseldorf

Photographs
Aerowest GmbH
Corbis GmbH
Getty Images Deutschland GmbH
iStockphoto
maps.com
masterfile Deutschland GmbH
Christian Schlüter
Andreas Teichmann
XEO GmbH

Printing
Laupenmühlen Druck GmbH & Co. KG, Bochum

Evonik Industries AG
Rellinghauser Straße 1–11
45128 Essen
Germany
www.evonik.com

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