Evonik in the Greater China Region

The Greater China region[1)] is extremely attractive for Evonik because of its enormous economic potential. In 2008 the People's Republic of China had more than 1.3 billion inhabitants and a gross domestic product of over US$4 trillion. This region, which is particularly important for the recovery of the global economy, should continue to post dynamic growth in the future. China's rising prosperity is creating an increasingly broad middle class that can afford higher-end products such as automobiles, which contain a wide range of specialty chemical products manufactured by Evonik. China is now the world's third largest economy and trading nation. It also ranks alongside Japan as the dominant economic power in Asia. The attractiveness of this region is enhanced by Taiwan, a highly developed economy specializing in leading-edge technologies, and Hong Kong, which is a major financial center.

Evonik's strategy is focused on active development of its strong portfolio with its balanced geographical, customer and product base. Above all, we intend to grow in markets with above-average growth rates. This applies in particular to the Chinese chemicals market, which experts expect to become the world's largest by 2015.

Evonik's main focus in the Greater China region is on chemicals. In addition, the Energy Business Area has been providing engineering services in the region for more than fifteen years. The Evonik Group had around 4,000 employees in Mainland China, Hong Kong and Taiwan in 2008 and they generated sales of over €820 million. The People's Republic of China accounted for around 85 percent of this.

The engineering services provided by our Energy Business Area in China concentrate primarily on reducing emissions, and on improving efficiency and general environmental protection at coal-fired power plants. The delivery and initial use of special measuring vehicles to optimize the operation of fossil-fueled power plants in various parts of China attracted a great deal of attention. This business area also supported the optimization projects and the retrofitting of flue gas scrubbers and provided training for employees of Chinese utility companies. Most of the training took place in Beijing, Xian and at Evonik's German power plants.

Our chemicals business in this region can trace its roots to a range of trading relations stretching back to the opening of an office in Shanghai in the 1930s. In 1974 the chemicals operations established their own sales organization for Hong Kong, Macao and China. Production of specialty chemicals in the region started in the late 1970s. In November 2002 Evonik Degussa (China) Co., Ltd. was established in Beijing as an umbrella company for the Group's chemicals activities in the region. In those days, the Chinese Ministry of Foreign Trade and Economic Cooperation (MOFTEC) only granted an operating permit to international corporations if they met particularly high requirements regarding the size, quality and sustainability of such new undertakings. At the time, only about 200 holding companies established by foreign investors had been approved. Since then Evonik Degussa (China) Co., Ltd. has provided the resources and competencies required to support the profitable growth of our businesses in China.

[1)] Evonik defines the Greater China region as Mainland China, Hong Kong and Taiwan.

We have systematically extended our presence in the Greater China region since the end of 2002. The Chemicals Business Area now has a total of 19 companies and 15 production sites in the region. Production facilities are located in Anqiu, Changchun, Chongqing, Dalian, Jining, Liaoyang, Nanning, Nanping, Qingdao, Rizhao, Shanghai, Taichung, Taoyuan and Yingkou.

To facilitate the establishment of new business activities in China, in 2004 we embarked on the construction of a multi-user site (MUSC) in Shanghai Chemical Industry Park (SCIP) in Caojing, south-west of Shanghai. The principle of the MUSC is that it enables various Evonik businesses to share infrastructure, thus optimizing their costs and supply base. The first facility to come into service at this site comprised production plants for high-quality products and system solutions for the Chinese coatings industry, which started operating in 2006. In mid-2008 a polycondensation and compounding facility for specialty polyamides came on stream at the site. Its production program includes polyamides based on renewable raw materials. Sales activities are supported by a local Technical Center.

We are currently building a large integrated production complex for specialty polymers (methacrylates and polymethylmethacrylates/PMMA) at the MUSC. Known as MATCH—Methacrylates to China—this is currently Evonik's largest investment project in China and the second largest ever undertaken in the Chemicals Business Area. Around €250 million is being invested in seven closely integrated facilities to produce around 100,000 metric tons p.a. methylmethacrylate (MMA), methacrylic acid and butylmethacrylate. These are vital starting products for PLEXIGLAS®, for example, for use in flat-panel displays and mobile phones. Downstream processing comprises world-scale production plants for PMMA molding compounds and thermoplastic methacrylates. Asian demand already accounts for over half of world output of PMMA. Thermoplastics for binders and additives also offer attractive growth potential. The first MATCH facility came on stream in November 2008 to produce PMMA molding compounds. The next facility to come into service will be a production plant for specialty monomers. Start-up of the facilities for thermoplastic methacrylate resins and MMA is scheduled for 2009.

Evonik has a good market position in China as a producer of carbon blacks and ranks second in the world in this field. We have been producing high-quality rubber blacks in Qingdao (Shandong Province) since 1994: Qingdao Evonik Chemical Co., Ltd., in which we hold a 52 percent stake, produces all grades used in the Chinese rubber industry. Through its proximity to key customers, connection to one of China's largest ports and modern transportation infrastructure, the Qingdao facility is an excellent logistics base for participation in future market growth.

In view of rising Chinese demand for organosilanes for rubber applications, in early 2006 Evonik and a local producer established Evonik Lanxing (Rizhao) Chemical Industrial Co., Ltd. in Shandong. This joint venture manufactures liquid sulfur-functional silanes for admixture to carbon blacks. Evonik is a leading global producer of silanes for rubber applications. They are used in combination with silica to produce high-quality rubber blends, for example, for fuel-saving low rolling resistance tires.

The rubber industry in the Greater China region is also a major customer for Evonik's precipitated silicas and silicates (performance silica). As the global market leader in performance silica, we have eight production sites in five countries in the Asia/Pacific region, including the joint venture Evonik Wellink Silica (Nanping) Co., Ltd. in China. A special application technology facility in Taipei (Taiwan) works on customer-specific issues and develops new products for the Asian market.

In Wuming, our wholly owned subsidiary Evonik Rexim (Nanning) Pharmaceutical Co., Ltd. produces and markets amino acids for the pharmaceuticals industry in Europe, Japan and North America. In view of its enormous population and growing prosperity, China is an important market for these amino acids. In 2004 we started up the world's largest production facility for the pharmaceutical amino acid L-methionine which is used in medical infusions for intravenous nutrition and the treatment of infections. Evonik is one of the market leaders in this field. Today, the Wuming facility produces eight different amino acids for the pharmaceuticals, food and cosmetics industry.

The plan is to include the Wuming site in Evonik's global exclusive synthesis business in the future. Based on a long-term supply agreement with a leading European pharmaceutical company, we are currently building an active ingredient facility at this site. It is due to start operating in late 2009. Our wholly owned subsidiary Evonik Lynchem Co., Ltd. in Dalian has been producing pharmaceutical intermediates and starting products for active ingredients for many years. Our exclusive synthesis strategy is one of horizontal integration. Advanced intermediates and patented active ingredients are produced at our European facilities while starting products and active ingredients that are not covered by patent are manufactured in China. In this way we combine the competitive advantages of manufacturing in Asia with the technological strengths of our European facilities, which have many years experience of complying with patents law and administrative regulations.

To strengthen our global market leadership in polyurethane additives, we started up our first Asian production plant in the Shanghai-Xinzhuang industrial park in 2002. Polyurethane additives play a key role in the manufacture of polyurethane foams, which are used in furniture, mattresses, automotive seats and insulation for construction applications and refrigerators. Asia is developing extremely fast into one of the world's largest markets for polyurethanes.

A production plant for precious metal powder catalysts in Shanghai-Xinzhuang will come on stream at the end of 2009. These catalysts are used in the pharmaceutical, fine chemicals and industrial chemicals sectors 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, which are currently produced at four plants in Hanau (Germany), Tsukuba (Japan), Americana (Brazil) and Calvert City (Kentucky, USA).

China is also an attractive market for cyanuric chloride, an important intermediate for agricultural and industrial applications. It will therefore be one of the focal points of Evonik's global cyanuric chloride business in the future. To strengthen our position we are investing over €20 million in the construction of a new cyanuric chloride plant in Chongqing Changshou

Industrial Park in western China. This new facility is scheduled to come on stream in 2009 and will double our production capacity in China to 75,000 metric tons p.a. Other locations where we produce cyanuric chloride are our sites in Wesseling and Münchsmünster in Germany, and Yingkou in eastern China, through our 65 percent stake in the joint venture Evonik Sanzheng (Yingkou) Fine Chemicals Co., Ltd.

Clear progress was made with our portfolio of high-performance polymers in conjunction with Jilin University in 2005. This successful collaboration in the field of polyether ether ketone (abbreviated to PEEK in accordance with ISO 1043) is continuing through our joint venture JIDA Evonik High Performance Polymers (Changchun) Co., Ltd., in which Evonik has an 80 percent stake. Our research partner Jilin University, which provides technology, holds the other 20 percent. High-performance polymers are clearly specialty chemicals. They are mainly used in high-tech applications that are required to withstand extreme mechanical, thermal and chemical conditions, for example, in the electronics industry, aviation and aerospace.

As a specialty chemicals producer, we focus on innovation and proximity to customers in the Greater China region as elsewhere. The centerpiece is our research and development (R&D) center in Shanghai-Xinzhuang, which cost over €20 million to build. Over 100 employees at this R&D center are working on product developments geared specifically to the local market, familiarizing customers with them and driving forward commercialization. In parallel with the expansion of our production facilities in the region, we are gradually increasing our R&D capacity: By fall 2009 the second extension to the R&D center in Shanghai Xinzhuang will be completed. This R&D center was opened in 2004 and it is increasingly becoming a hub in our global R&D network. In addition, our science forum "Evonik meets Science" provides a regular platform for experts and leading Chinese scientists to exchange views. The most recent forum – held in Shanghai in March 2009 – was on catalytic processes. Topics discussed in the past include organic raw materials, functional polymers, nanotechnology and biotechnology. Evonik is also working on further developments for printable electronics and new displays at the Industrial Technology Research Institute in Hsinchu (Taiwan).

We use our innovative strength to help customers cut the use of natural resources and reduce CO_2 emissions in a bid to utilize energy more efficiently. In spring 2008 we presented our answers to the economic megatrend energy efficiency at the renowned Boao Forum for Asia's conference on "Green Asia: Moving towards Win-Win through Changes." For instance, Evonik positioned itself early on in the high-growth market for lithium-ion battery components. Materials that improve the safety and performance of large-volume lithium-ion batteries are an important precondition for their use in modern electrical and hybrid vehicles. The global market for lithium-ion battery materials is growing at double-digit rates and will probably top the €4 billion mark in the coming decade. In 2005 Evonik and the Japanese company ENAX established the joint venture Evonik Degussa Enax (Anqiu) Power Lion Technologies Co., Ltd. in the Chinese province of Shandong. We thus acquired an exclusive global license to produce electrodes for lithium-ion batteries. Electrodes are produced under the brand name LITARION™ in Anqiu (China) for use at the ENAX sites in Tianjin near Beijing (China) and Yonezawa (Japan).

We need a wide range of skilled staff for our ambitious growth plans in the Greater China Region. Wherever possible, Evonik aims to fill key positions with highly qualified local managers and offer them attractive career opportunities in the Group. We support the development of young Chinese managers through our collaboration with the China Europe International Business School in Shanghai. We also support chemistry students at four of China's leading universities (Zhejiang University, Jilin University, East China University of Science and Technology, Dalian University of Technology). The collaboration with Shanghai Petrochemical Academy, a sort of technical college for chemical professions, rounds out our extensive personnel development activities in China. CRF, a leading employer branding research firm, has singled out Evonik as one of China's "Top Employers 2009".

In 2009 Evonik will once again play an active role in the annual meeting of the Boao Forum for Asia on the island of Hainan in southern China. This platform for debate attracts top-level representatives of industry, science and governmental organizations and is comparable to the World Economic Forum in Davos. Founded in 2001, the Boao Forum for Asia is a not-for-profit non-governmental organization whose aim is to support the development of the countries in the region by fostering economic integration.

Evonik has had a presence in Taiwan for more than 30 years and now has three subsidiaries there: Evonik Degussa Taiwan Ltd. markets imported products and products produced in the region. In 2007 we started up a new production plant in Taichung for PMMA molding compounds in collaboration with our Taiwanese joint venture partner Forhouse Corporation. The first construction phase had capacity of around 40,000 metric tons and is designed for over-the-fence supply to our partner. As well as producing optical-grade PMMA, the site also has production facilities for lighting modules for flat-panel displays. Evonik United Silica Ltd. in Taoyuan started production almost 30 years ago. It manufactures amongst others the highly dispersible silica used for fuel-saving low rolling resistance tires, some special grades for the silicone rubber industry and other performance silicas and houses the regional technical center.

Evonik expects the Greater China region to continue its dynamic development in the future. This applies above all to specialty chemicals. Evonik aims to participate in this growth and is therefore investing around €100 million a year in China. Our prime aim is to build local production facilities, preferably directly where our customers are. We will be stepping up our commitment to the Greater China region consistently in order to strengthen our leading market position.

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