

Christian Kullmann—Chairman of the Executive Board, Evonik Industries AG

Statement at the Annual Shareholders' Meeting on May 23, 2018 in Essen (Germany)

Evonik—Welcome

Good morning, ladies and gentlemen,

Together with my colleagues on the Executive Board, I would like to welcome you all most warmly to this year's Annual Shareholders' Meeting. As Chairman of Evonik's Executive Board, I'm delighted to be delivering my first report on how our company performed last year.

Dr. Müller has already outlined last year's changes on the Executive Board. Since last September, we have been working systematically in this constellation to make Evonik even better. In particular, we have set out further details of our strategic focus, defined new goals, and already made some progress in implementing them. I will be talking about that in more detail later.

First, I would like to look at the three key elements of our strategy. I will use some examples to illustrate how we will be driving forward Evonik in the coming years. Then we will outline Evonik's financial performance in 2017 and the start of fiscal 2018.

Corporate strategy

Last year was a special year for Evonik. In September, we celebrated the tenth anniversary of Evonik Industries. Our company has changed and developed enormously since 2007. Step by step, it has evolved from a broadly based industrial conglomerate into a focused specialty chemicals company.

We want to continue along this path. The Executive Board's aim is to build on Evonik's successful first decade as we shape the future of the Group.

We want to make Evonik even better! On your way into the hall and in the video, you saw some impressive examples of how our products make daily life better. The task for us, as members of the Executive Board, is now to make Evonik an even better company. To achieve that, we have set clear goals, which we announced in June 2017:

Our aim is to build a best-in-class specialty chemicals company.

This apparently simple sentence sets an ambitious goal that stretches and motivates us anew every day. To achieve it, we are focusing on three strategic success factors:

- leading in innovation,
- active portfolio management, and
- an open and performance-oriented culture.

Evonik's strong innovative capability, the expertise of our employees, and their proximity to our customers are key competitive advantages. It is clear that we do not simply want to sell good products; we want to tailor our offerings to our customers' specific challenges. In the future, we will therefore be aligning our capability to provide solutions for complex problems even more precisely to their needs. We are making very good progress here and our well-stocked pipeline of new products makes us confident that we can generate further growth.

I would like to give you a couple of brief examples to illustrate this: Our membranes for efficient gas purification are a success story. The original idea for these membranes came from our research labs and we now market a whole product family under the SEPURAN® brand. This technology is a key component in a wide range of gas treatment facilities, for biogas, air and technical gases. SEPURAN® enhances the efficiency and cost-effectiveness of these processes, as evidenced, in particular, by their very low energy consumption. Further applications are currently being developed for this extremely successful product group.

I would also like to present one of our most promising innovations: the production of omega-3 fatty acids for sustainable salmon farming. Together with our partner, DSM, we have developed a fermentation process for this and are building the first commercial-scale production facility at the Evonik site in Blair (Nebraska, USA). In the future, this facility will produce omega-3 fatty acids from algae, providing a considerably more ecological alternative to fish oil. Essentially, it turns salmon into vegetarians. In this way, we are helping to reduce fish-to-fish feeding. A few weeks ago, we took the next step and established the Veramaris joint venture with DSM.

We see partnerships of this type, where both companies contribute their expertise, as groundbreaking for the specialty chemicals sector. That does not mean that both partners always have to be chemicals companies. For example, we are setting up a partnership with the US company Hewlett Packard to drive forward 3D printing. Our materials pave the way for further development of this very promising future market. 3D printing is a business with particularly high growth potential, and our high-performance polymer polyamide 12 has outstanding properties as a key material.

The second major lever to achieve our strategic goal is systematically focusing Evonik on growth markets and high-margin specialty chemicals businesses. We made enormous progress here in 2017. We successfully closed the biggest acquisition in our history, the specialty additives business of the US company Air Products. Integration of these units into the Evonik Group is proceeding quickly and smoothly. Moreover, the acquisition of the silica business of the US company J. M. Huber was completed in September. Thanks to the professional groundwork, integration is proceeding rapidly here too. Furthermore, we acquired the Hamburg-based family-owned business Dr. Straetmans. These three acquisitions are evidence of our systematic focus on future-oriented growth markets with attractive and stable margins.

In the future, we will therefore be concentrating on the most promising business activities. However, that also means that we will no longer be able to invest the amount in other businesses that would be required for their optimal development.

These include the methacrylates business in our Performance Materials Segment. This business is performing excellently but the necessary expansion is capital-intensive. Therefore we are bundling these activities in an independent entity. The aim is to find a buyer that will invest in the business and give it a good future.

We will be continuing our active management of Evonik's portfolio. That applies for both further acquisitions and possible divestments in the future.

Ten years on, Evonik is therefore continuing to change and to move creatively and consistently towards its goal of being a best-in-class specialty chemicals company.

The necessary precondition for success is the third element in our strategy: a corporate culture that permits and supports change. The Executive Board has made this cultural change a key focus and every employee worldwide is expected to work actively to drive forward our company at all times. In particular, I expect our executives to use their freedom to take decisions within our overall strategy, to take responsibility, and to act decisively.

Sustained discipline is needed to ensure our long-term market success. Here, we see potential for improvement at Evonik. With hindsight, not all expenditures in the past have been justified by corresponding market success. In future, we will make sure that our earnings grow far faster than our costs. The change in our mindset is not just beginning; it is already in full swing.

That said, Evonik will not make savings for their own sake—cost-cutting is not a substitute for strategy. Rather, we will continue to stand by our responsibility to our employees. For example, we have just agreed to extend ban on dismissals for business-related reasons in Germany for a further year until the end of 2021. We are firmly convinced that we can only achieve our goal of being a best-in-class specialty chemicals company with our qualified and motivated employees around the world.

A good operating performance in 2017

Ladies and gentlemen:

Last year was a good year for our company. Allow me to give you a brief overview of our key figures.

Sales rose significantly to around €14.4 billion. The drivers were both organic growth resulting from higher volumes and prices and the acquisitions that were consolidated for the first time in 2017.

Our earnings—adjusted EBITDA—clearly achieved the target we announced at the start of the year. That is important; it strengthens trust. We set ourselves a target of between €2.2 billion and €2.4 billion and we landed at the upper end of this range, at €2.36 billion, almost 10 percent more than in the previous year.

Since income taxes hardly changed, adjusted net income rose 9 percent to €1.01 billion. Based on the number of outstanding shares, that gives earnings per share of €2.17, up from €1.99 in the previous year.

Our earnings and our success in 2017 would not have been possible without the enormous and untiring commitment of our employees. I am sure that you, our shareholders, join me in thanking our employees around the world for that. I would also like to express my particular thanks to our employee representatives and to the entire Supervisory Board for their trusting and constructive collaboration in the past year.

Operating performance of the segments in 2017

I shall now look briefly at the development of our operating business.

A glance at our segments shows that Resource Efficiency continued its unbroken growth trend. This segment increased sales 21 percent to €5.4 billion in 2017. This growth was boosted by the acquisition of the Air Products specialty chemicals business and J. M. Huber's silica business. Overall, all business units in this segment posted higher earnings. The Resource Efficiency Segment raised adjusted EBITDA 20 percent to €1.2 billion, which means this segment has almost doubled its operating result in the past five years. That is an excellent achievement.

The situation in the Nutrition & Care Segment was considerably more challenging. Amino acids for animal nutrition continued to grapple with declining prices. However, the successful price rises in the second half of the year finally reversed the downward price trend. Prices have stabilized. This segment's sales increased slightly, by 5 percent, to €4.51 billion, mainly as a result of the acquisition of the Air Products specialty chemicals business. As a result of the price erosion I just mentioned, this segment's earnings were lower than in the previous year. Adjusted EBITDA was €77 million, compared with €88 million in 2016. We are not satisfied with that. Therefore, we have already taken steps within our strategy in order to secure our leading position in feed additives. We want to become leaner with a clearer strategic focus so we can utilize our strengths even better.

2017 was a very good year for the Performance Materials Segment. Its two largest areas—the C4 chain and methacrylates—were very successful. Segment sales grew 17 percent to €2.78 billion. In view of the very favorable market momentum, especially for methacrylates, adjusted EBITDA climbed 78 percent to €660 million. The segment posted an extremely attractive margin of 17.5 percent, compared with 11.4 percent in the previous year.

Stable dividend and high dividend yield of around 4 percent

Based on this performance, the Executive Board and Supervisory Board are again proposing a dividend of €1.15 per share.

We therefore want to continue our reliable dividend policy this year and—providing we obtain their approval—give our shareholders an attractive share in the success of the company.

Over the past eight years, we have raised our dividend by an average of 7 percent a year. With a dividend yield of around 4 percent and payout ratio of over 50 percent, we are confirming our claim to be an attractive dividend-oriented stock.

Outlook for 2018—Earnings expected to grow

Let us take a first look at 2018:

We anticipate a sustained positive trend in our business and our markets over the year as a whole. Our aim is therefore to continue to grow sales and earnings this year. Specifically, we expect adjusted EBITDA to be between €2.4 billion and €2.6 billion.

We still have a firm focus on our mid-term goal of increasing the EBITDA margin across the Group from 16–18 percent to around 18–20 percent.

Q1 2018—A good start to the new year

What is more, ladies and gentlemen, we are making progress towards achieving these goals. Our first-quarter figures, which we published at the start of the month, confirm the successful start to the year.

In the first quarter of 2018, sales grew slightly to €3.7 billion. Higher volumes and prices more than compensated for the significantly negative influence of the weaker US dollar.

Adjusted EBITDA rose even faster, by 14 percent to €679 million. We also increased the margin by 2.1 percentage points to 18.5 percent. In the context of rising raw material costs, this highlights the specialty nature of our businesses. In view of this encouraging start to the year, we have clearly confirmed our guidance for 2018 as a whole.

Evonik shares—Price performance in 2017 and 2018

Let us look back at the performance of our share price in 2017.

Evonik shares started 2017 at a price of around €28 and developed solidly in the first half of the year. They also performed well relative to the benchmark index, the STOXX Europe 600 Chemicals.

The capital market responded positively to the presentation of our new corporate strategy in June 2017. Following a phase of market weakness in the summer, which even we were unable to avoid, this had a positive effect on the share price. At the start of December, it rose to a high for the year of €32.84.

Our shares ended the year above €31. That was a gain of 10.5 percent over the year. The reference index, the STOXX Europe 600 Chemicals, registered a comparable gain in the same period.

Evonik is stepping up its sustainability activities

Ladies and gentlemen,

We are convinced that responsible conduct by executives and staff at all levels is vital for the future of Evonik. Sustainability and responsibility are therefore the cornerstones of our business model.

For many years, our innovative products and processes have been making a contribution to sustainable development. Sustainability is becoming an increasingly important criterion in our markets and opens up vast growth potential. Our life cycle analyses and sustainability analysis make the contribution of products and services to our business performance measurable. We are continuously developing this methodology. In addition, we have started to evaluate the positive and negative impacts of Evonik's business activities on the economy, the environment, and society along the value chain in monetary terms.

Transparent and open reporting of our sustainability activities is a matter of course to us. In addition, we are rated by renowned rating agencies. Evonik is positioned among the leaders in the chemicals sector in significant sustainability ratings and is a member of key sustainability-oriented index families.

We received many accolades for our sustainability activities and sustainability reporting in 2017. This is an additional incentive to step up our work in this area.

To enable our employees to participate in the increase in Evonik's value, we launched a further tranche of our employee share program in Germany, the USA, Belgium, Singapore and China this spring. The program is a strong cross-border bridge and helps strengthen our corporate identity in different regions. As in the past, more than one in three eligible employees took up this offer. Worldwide, around 12,500 employees acquired shares in Evonik. That was a participation rate of nearly 40 percent.

This year, we purchased 594,663 shares for the employee share program at an average price of €28.44 per share, each of which accounts for a proportionate share of €1.00 of the capital stock. That was 0.1 percent of our capital stock of €466 million. We used the authorization of the Annual Shareholders' Meeting in 2016 to purchase these shares. All the shares have now been transferred to the eligible employees and the surplus has been sold on the market.

Evonik—Concluding remarks

Meine Damen und Herren,

Before I conclude my presentation, ladies and gentlemen, I would like to say a few personal words.

On behalf of my colleagues on the Executive Board, I would like to thank all members leaving the Supervisory Board today for their support, for accompanying the strategic refocusing of Evonik, and for their constructive collaboration over the years.

My—our—special thanks go to Dr. Werner Müller. Without you, Dr. Müller, Evonik would not exist in its present form. As Chairman of the Supervisory Board, you have always given the company good advice and supported us in the implementation of key strategic decisions. In recognition of that, at the Supervisory Board meeting on March 5, 2018 we appointed you Honorary Chairman. Dr. Müller, please accept our thanks.

That brings me to the end of my address. I would be delighted if you—our esteemed shareholders—would go on supporting Evonik and my colleagues on the Executive Board in the future as we continue along the path we have chosen. On behalf of our workforce of over 36,000 people, I would like to thank you for your confidence in our company.

Thank you.

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