

Sustainability Analysis 2.0 of Evonik's business

Vision

Evonik is one of the world's leading specialty chemicals companies. We concentrate on attractive growth markets, such as health, nutrition, resource efficiency, and globalization. Our chemical operations are grouped in three segments—Nutrition & Care, Resource Efficiency, and Performance Materials—with a total of 22 business lines.

Our specialty chemicals products make an indispensable contribution to the benefits of our customers' products, which generate their success on the global market.

We are convinced that sustainable and responsible business activities are vital for the future of companies. In keeping with this, Evonik accepts responsibility worldwide—for its business, its employees, its products, and the impact of its products on the environment and society.

Our sustainability strategy takes up the growth markets identified in our corporate strategy and defines areas of action geared to balanced management of economic, ecological, and social factors.

Approach

We have developed the methodology for the Sustainability Analysis 2.0 of our businesses in collaboration with the operational units. The focus is on analyzing the sustainability opportunities and challenges facing our businesses along their value chains.

We focus especially on market trends and future market developments. That meets the requirements of a steadily rising number of customers who want an assurance that sustainability aspects are anchored along the entire value chain. At the same time, it further extends our claim that Evonik is a company operating in accordance with the principles of sustainability.

Target

The findings of our Sustainability Analysis 2.0 are designed to supplement established internal strategic business analyses. They should cover our entire portfolio of chemical businesses. Transparent and quantifiable evaluation of sustainability aspects is necessary to include this perspective in business decisions.

By taking these aspects into consideration when analyzing our businesses, we are able to identify both opportunities and risks. In this way, we support the market development of individual products and businesses, and help to position Evonik as a “sustainable investment.”

Procedure

A sustainability analysis of all Evonik's chemicals businesses is performed at the level of PARCs (= Product-Application-Region Combinations¹). This analysis is based on the criteria outlined below, which reflect the value chains of our businesses. It takes account of sustainability aspects from the supply chain through production to subsequent use.

The core elements of our analysis are sustainability criteria relating to the ecological and social issues along the value chain, which Evonik classifies as material. These are closely based on the principles and content of the WBCSD Portfolio Sustainability Assessments (PSA). Along with other international companies, Evonik has been actively involved in developing these principles since 2017. A Framework for PSA² for cross-sector use was published at the end of 2017, and in spring 2018 a sector-specific Chemical Industry Methodology for PSA³ was published.

¹ A PARC comprises a product used for a defined application in a specific region.

² <https://www.wbcsd.org/Projects/Chemicals/Resources/Framework-for-portfolio-sustainability-assessments>

³ <https://www.wbcsd.org/Programs/Energy-Circular-Economy/Factor-10/Sector-Deep-Dives/Resources/Chemical-Industry-Methodology-for-Portfolio-Sustainability-Assessments>

The framework for the Sustainability Analysis 2.0 comprises the five process steps illustrated in Fig 1.

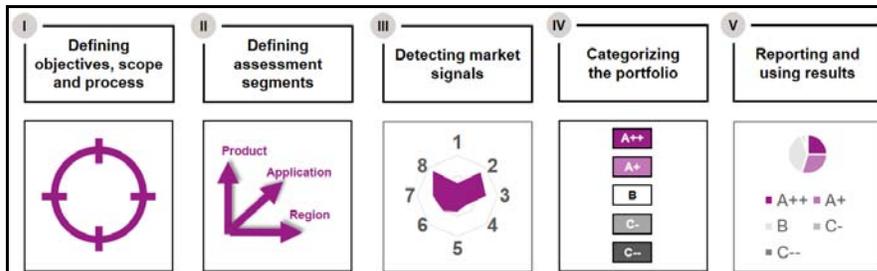


Fig. 1: PORTFOLIO SUSTAINABILITY ASSESSMENT (PSA) FRAMEWORK

The PSA methodology describes the signal categories of specific relevance for the chemical industry:

- Signal category 1:
Chemical hazard and exposure across the life cycle
- Signal category 2:
Anticipated regulatory trends
- Signal category 3:
Sustainability ambitions along the value chain
- Signal category 4:
Authoritative ecolabels, sustainability-related certification, and standards
- Signal category 5:
Environmental and social performance across the life cycle compared to alternative solutions
- Signal category 6:
Sustainable value creation
- Signal category 7:
Contribution to the UN Sustainable Development Goals
- Signal category 8:
Contribution to the company's internal guidelines and objectives

Evonik uses this portfolio management tool, which is based on sustainability aspects, for the Sustainability Analysis 2.0 described in this document. The findings are used in a structured overall evaluation of the sustainability performance of our businesses, result-

ing in allocation to the performance category A++, A+, B, C-, or C-- on the basis of the PARCs analyzed (Fig. 2). In this way, the full portfolio of PARCs should be analyzed for each strategic business entity.

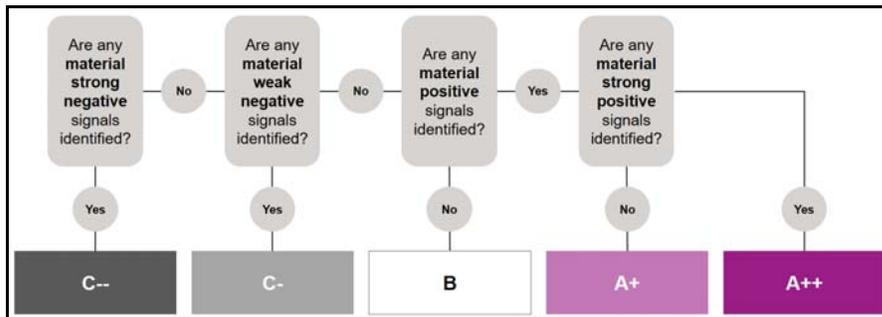


Fig. 2: DECISION TREE FOR PORTFOLIO CATEGORIZATION

A++ indicates PARCs that take the lead in meeting the standards for sustainable business defined by Evonik's benchmark. PARCs in the A++ category fully meet the requirements. They do not show any material negative signals. Moreover, material strong positive signals have been identified in one or more signal categories.

A+ indicates PARCs that are at an advanced stage in meeting the standards for sustainable business set by Evonik's benchmark. PARCs in the A+ category meet almost all the requirements. They do not show any material negative signals. Unlike those in the A++ category, however, only material weak positive signals were identified for one or more signal categories.

B indicates PARCs with a neutral position as regards meeting the standards for sustainable business defined by Evonik's benchmark. For PARCs in this category, neither material negative nor material positive signals have been identified.

C- indicates PARCs that have room for improvement in meeting the standards for sustainable business defined by Evonik's benchmark. They do not yet meet these requirements. Material

weak negative but not material strong negative signals were identified for one or more signal categories.

C-- indicates PARCS that do not satisfactorily apply the standards for sustainable business set by Evonik's benchmark. PARCs in the C-- category do not meet these requirements. At the same time, they have material strong negative signals in one or more signal categories.

Results

The results of our Sustainability Analysis 2.0 provide a transparent insight into:

- the exposure of our business to issues that are critical for their reputation (e.g., product stewardship, regulatory trends)
- the extended possibilities of product development (e.g., the sustainability profiles expected by customers and end-markets)
- our contribution to reducing our ecological footprint and maximizing our hand print along the various value chains
- the benefits of our products and solutions in overcoming the social challenges of population growth (addressed, for example, in the United Nations' Sustainable Development Goals).

Evonik takes up these findings in its sustainability evaluation of its businesses and uses them to provide specific impetus for ongoing development.

Aggregated results for the Evonik Group are used in external communication, for example, in our Sustainability Report, and in dialog with sustainability-oriented analysts.

Status

There is extensive internal process documentation of the methodology used for our Sustainability Analysis 2.0. As well as the criteria used in the analysis of our businesses, this defines responsibility within the organization, the time intervals between analyses, controls, and quality assurance steps. The methodology is based on the following quality principles: relevance, completeness, consistency, transparency, accuracy, feasibility, and topicality.

The process will be performed for the first time in 2019 with all business lines at Evonik, in collaboration with the relevant specialist departments. The procedure and findings will be documented.

The analysis uses a variety of Group-wide reporting and analysis tools, e.g., CRM systems, controlling, ESHQ, procurement. In addition, we use business-specific information, e.g., from Sales, Marketing, and Product Development.

We set high standards for the sustainability analysis of our businesses and have therefore arranged for external validation of the methodology through a limited assurance review. We will continue to develop our methodology in keeping with the objectives of our sustainability analysis.

Essen, December 11, 2018

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Independent Practitioner's Report on a Limited Assurance Engagement on Sustainability Information⁴

To Evonik Industries AG, Essen

We have performed a limited assurance engagement on the process of the Sustainability Analysis 2.0 of the business portfolio of Evonik Industries AG, Essen (hereinafter: "the Company") as described in the accompanying document „Sustainability Analysis 2.0 of Evonik's business" as of December 12, 2018.

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the design and development of an appropriate process for classifying the business portfolio of the Company according to the quality criteria as set forth on page 8 of the accompanying document, for designing, implementing and maintaining internal controls and organizational safeguard measures relevant for ensuring such a classification as well as for describing and documenting the process of the Sustainability Analysis 2.0.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the process of the Sustainability Analysis 2.0 as described in the accompanying document based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that, in all material aspects,

- the Company's organizational measures – especially the intended internal control and organizational safeguard measures – as set forth in the accompanying document are generally not appropriate to ensure a classification of the Company's business portfolio in accordance with the quality criteria set forth on page 8 of the accompanying document as of December 12, 2018, provided that the organizational measures are respected and complied with, or
- the Company's organizational measures – especially the intended internal control and organizational safeguard measures – as set forth in the accompanying document are not presented correctly and implemented as of December 12, 2018.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment, including the assessment of the risks of material misstatement of the accompanying document and of significant deficiencies in the organisational measures for classifying the business portfolio in accordance with the quality criteria set forth on page 8 of the accompanying document.

⁴ PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the process of the Sustainability Analysis 2.0 of the business portfolio and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Inspection of internal documentation and process descriptions;
- Inquiries of personnel responsible for the methodology and process of the Sustainability Analysis 2.0;
- Walk-through of the relevant process steps at central and decentralized company level;
- Inspection of the methodology's application for selected business units based on the internal process documentation.

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that, in all material aspects,

- the Company's organizational measures – especially the intended internal control and organizational safeguard measures – as set forth in the accompanying document are generally not appropriate to ensure a classification of the Company's business portfolio in accordance with the quality criteria set forth on page 8 of the accompanying document as of December 12, 2018, provided that the organizational measures are respected and complied with, or
- the Company's organizational measures – especially the intended internal control and organizational safeguard measures – as set forth in the accompanying document are not presented correctly and implemented as of December 12, 2018.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to the fact, that the accompanying Company's document was prepared as of December 12, 2018. Any projections of the information contained in the document to a future date are subject to the risk that the accompanying document is superseded due to changes made. The effectiveness of individual controls and organizational safeguard measures is subject to constraints inherent to the system making it possible that errors or omissions may occur without being detected. Also, any projections to future periods on the basis of our conclusion are subject to the risk that due to changes in organizational measures – including the internal control and the organization safeguard measures – the substance of this conclusion may be negatively affected.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement. The report is not intended to provide third parties with support in making (financial) decisions. Our responsibility lies solely toward the Company. We do not assume any responsibility towards third parties.

Munich, December 12, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink
Wirtschaftsprüfer
(German Public Auditor)

ppa. Axel Faupel