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Evonik—Creating the exceptional

Statement at the Annual Shareholders' Meeting
on May 23, 2017 in Essen (Germany)



Evonik—Welcome

Good morning ladies and gentlemen,

Along with my colleagues on the Executive Board, I would like to welcome you all most warmly to this year's Annual Shareholders' Meeting. I am delighted to report to you—our owners—on last year's operating performance and, in particular, the strategic progress we made.

2016 was another eventful and successful year for Evonik. Financially, we clearly achieved the targets we had set ourselves, although the global environment was highly competitive, and we also successfully achieved the biggest acquisition in Evonik's history to date. Our most recent acquisitions in the USA have made our company more international, more competitive and more robust overall.

In addition, we have worked vigorously and with a great deal of creativity on our innovations, which will remain a key growth driver of our business in the future. "Creating the exceptional", the motto of our annual report and of this year's Shareholders' Meeting, refers to both the strategically important acquisitions and Evonik's inherent power to drive forward its own development. Therefore, our annual report does not simply review the past fiscal year; it also looks forward to a promising future with wide-ranging prospects.

I will be presenting some interesting examples to you in the course of my speech. But first I would like to look at 2016's key strategic milestones and comment on Evonik's financial performance in fiscal 2016 and at the start of 2017.

Consistent realization of our strategy

Ladies and gentlemen,

The past fiscal year was dominated by the strategic development of our company. For several years, our sustainable growth strategy has focused on the following key elements:

- investment to enable us to extend our leading market positions
- innovations to strengthen our technological leadership
- and strengthening Evonik's competitiveness through acquisitions.

We made exceptionally good progress with acquisitions in 2016.

In May we made a big and important step in the strategic development of our portfolio by acquiring the Air Products specialty additives business. We paid around US\$3.8 billion for this business, which is characterized by stable growth and very attractive margins. Through this acquisition, Evonik has also become one of the leading suppliers of high-quality specialty additives in the Americas and Asia. These products are used, for example, in adhesives, automotive paints, and industrial cleaning agents.

The transaction was closed on January 3, 2017. So far, integrating the business operations and new employees into our Resource Efficiency and Nutrition & Care growth segments has proceeded quickly and successfully.

Going forward, we are equally optimistic about our silica business, which we are also strengthening through an acquisition. By acquiring the silica division of the US family business J. M. Huber for around US\$630 million we are extending our presence in this attractive growth business. It adds attractive applications in the consumer goods and, above all, the dental sector to our silica offering. We assume that we will be able to complete this transaction successfully in the second half of 2017, following approval by the antitrust authorities.

Both acquisitions are a perfect fit with Evonik's portfolio. They have operating profit margins of over 20 percent, strengthen our presence in key growth markets, and also enhance Evonik's innovative strength. They therefore make an important contribution to the overall development of our two growth segments, Nutrition & Care and Resource Efficiency.

Our collaboration with customers in the market for both specialty additives and silica is particularly close and is driven by innovations. Further expansion of these business activities will therefore significantly strengthen our profile as an attractive specialty chemicals company.

Last year, we were also far from inactive in driving growth through investment in property, plant and equipment. We are strengthening our established silica business by building a new production facility for precipitated silica in South Carolina in the south of the United States. The groundbreaking ceremony for this complex, which is located right next to important key account customers in the tire industry, took place last December. Production is scheduled to start in 2018.

For many years, Evonik has enjoyed a world-leading technology and market position in methionine for animal nutrition. To make sure we can support our customers' strong growth and rising demand in the future as well, last October we started to build a further, integrated production complex for methionine in Singapore. Demand for feed additives for animal nutrition is rising steadily, especially in Asia.

We have also continued to prepare our European sites for the future. In the fall, we held the ground-breaking ceremony for our new polyamide 12 powder facility in Marl (Germany). Our specialty polyamide 12 powder is increasingly being used in the fast-growing 3D printing sector, which I will be talking about in more detail in a moment.

In Weiterstadt (Germany), we are building a new stretching and polishing plant for Plexiglas, which is scheduled to come into service in early 2018. It will enable us to produce far larger and more uniform sheets of Plexiglas than in the past—for example for high-quality applications in the aviation industry.

Our third growth driver—innovations—is decisive for sustainable profitable growth at Evonik. We intend to make a total of €4 billion available for innovations up to 2025. In 2016, we spent €438 million worldwide on research & development.

That pays off: Over half of our global business is protected by patents held by Evonik. In 2016 alone, we submitted around 230 new patent applications. Around 10 percent of our total sales are now generated with products that are less than five years old.

A good operating performance in fiscal 2016

Financially, 2016 was a successful year for Evonik overall, although it was also dominated by difficult global economic conditions and major political events.

Global growth remained weak in 2016 and was below the forecasts made at the start of the year. At the same time, the risks in the banking system and the UK's decision to leave the EU gave rise to new uncertainty.

In this environment, Group sales were around €12.7 billion, which was below the prior-year figure. This was mainly caused by lower raw material and end-product prices, which resulted in correspondingly lower revenue. However, the decline in sales does not mean we sold less. Quite the contrary: Demand for our products was still good worldwide in 2016. Volumes were once again higher than in the previous year.

After an exceptionally strong year in 2015, our guidance for our most important earnings indicator, adjusted EBITDA, was between €2.0 billion and €2.2 billion. We clearly achieved this goal despite the difficult conditions, with adjusted EBITDA actually at the upper end of our forecast at €2.165 billion. The adjusted EBITDA margin of 17.0 is still very good compared with the European chemicals sector. Adjusted net income, which is the basis for our dividend payment, was €930 million. That was almost €2 per share.

The return on capital employed (ROCE) also remained high, at 14 percent, so we once again earned a high premium on the cost of capital.

In addition, we once again generated a clearly positive free cash flow of around €800 million. That also underscores the high priority given to capital discipline.

Operating performance of the segments in 2016

And now, ladies and gentlemen, allow me to talk briefly about the development of each of our three chemical segments.

Earnings in the Nutrition & Care segment dropped significantly following the previous year's exceptionally strong performance. This was mainly due to the normalization of selling prices for essential amino acids for animal nutrition. By contrast, most of the other businesses developed very satisfactorily, especially in the healthcare business and our additives for polyurethane foam.

The Resource Efficiency segment posted a considerable improvement for the third successive year, with earnings increasing to €977 million and an excellent margin of 21.8 percent. This is further evidence of the very robust nature of this business, irrespective of cyclical fluctuations. Particularly high demand was registered for the crosslinkers product group. Sales of silica and specialty additives for paints and coatings also increased significantly.

Following several highly challenging years caused by difficult market conditions, the Performance Materials segment was finally able to raise adjusted EBITDA considerably—by 20 percent to €371 million. This was mainly due to an improvement in the supply/demand situation, with higher volumes and a corresponding improvement in capacity utilization at our plants. In addition, cost-cutting measures started to have a visible impact. The adjusted EBITDA margin improved from 9.0 percent to 11.4 percent. This pleasing improvement was driven by methacrylates and by the stronger development of C4 chemicals at year-end.

Ladies and gentlemen,

Our performance and achievements in 2016 would not have been possible without the tremendous and untiring commitment of our employees. I am sure that you, our shareholders, join me in thanking our staff around the world most sincerely for that. In addition, I would especially like to thank the employee representatives and the Supervisory Board with its Chairman Dr. Werner Müller for their trustful and constructive collaboration during the past fiscal year.

Stable dividend and high dividend yield of over 4 percent

Based on the performance I have just outlined, the Executive Board and Supervisory Board are proposing to you, our shareholders, that the company should once again pay a dividend of €1.15 per share. In this way, we want to continue our consistent dividend policy, and—providing we obtain your approval—give our shareholders an attractive share in the company's success.

Over the past eight years, we have raised our dividend by an average of 8 percent a year. With a dividend yield of around 4 percent, we are underscoring the sustained attractiveness of our shares.

Outlook for 2017—Earnings expected to be above the previous year's level

Now let us take an initial look at 2017. We expect to see a slight improvement in global economic conditions this year, with global growth of 2.6 percent. However, there is still considerable political and geopolitical uncertainty, which will determine whether the economic development is favorable. Here I am talking, first and foremost, about:

- the crises and armed conflicts in the Middle East
- the uncertainty surrounding the refocusing of US security and trade policy
- and the urgent need to reform the EU following the Brexit decision.

Despite these challenging conditions, we are still confident about Evonik's future. Our long-term horizon for investment in attractive future markets such as healthcare, nutrition and resource efficiency, and our strategic acquisitions will pay off again this year. Therefore, we aim to exceed last year's sales and adjusted EBITDA. We expect adjusted EBITDA to be between €2.2 billion and €2.4 billion.

Q1 2017—A good start to the new year

Ladies and gentlemen,

We are making good progress towards achieving this target. At the beginning of this month, we reported on our successful start to the year. In the first quarter of 2017, sales increased considerably, by 19 percent, to nearly €3.7 billion, compared with €3.1 billion in the first quarter of 2016. This was due to an exceptionally good volume trend, and the first-time consolidation of the specialty additives business acquired from Air Products also made a substantial contribution. As a result, adjusted EBITDA increased to €612 million, that was nearly €50 million, or 8 percent, more than in the prior-year quarter. Against this encouraging background, we have clearly confirmed our outlook for 2017 as a whole.

The successful start to the year shows that we are moving in the right direction with our growth strategy. The combination of organic growth and strategic acquisitions has strengthened our company. We are on track to reduce our exposure to economic cycles and to achieve a better balance of earnings components across our portfolio.

Evonik shares—Price performance in 2016

Now let us take a look at last year's share price performance.

Evonik's share price was unable to escape the downward trend on the stock markets at the start of 2016. In parallel with the benchmark indices, our share price therefore dropped from its price of €30.62 at the start of the year.

Publication of the outlook for fiscal 2016, which forecast that earnings would be below the exceptionally strong 2015 level, mainly as a result of the normalization of prices for feed additives, led to a further drop in the share price.

However, it rebounded towards the benchmark indices during the remainder of the first half. The announcement of the acquisition of the Air Products specialty additives business on May 6 was followed by a sharp hike in the share price.

At the start of October, shares in Evonik rose to a high for the year of €30.92. This was followed by a weaker performance ahead of the financial report on the third quarter, especially in view of expectations of a continued downward price trend on the market for feed additives in 2017.

The announcement of the acquisition of silica producer Huber Silica in December triggered a further recovery in the share price.

So far this year, the share price performance has been pleasing. At the end of January 2017, our shares were back at over €30. Supported by the successful reporting on fiscal 2016 at the start of March, the positive earnings outlook for 2017 and, most recently, the publication of first quarter results that exceeded market expectations, the share price is currently around €32. Evonik's share price has therefore outperformed the benchmark index for the European chemicals industry. This shows that you, our shareholders, are increasingly rewarding the strategic path we have chosen, which is also reflected positively in our current financial indicators.

Evonik—Creating the exceptional

So, ladies and gentlemen, how do we intend to boost our business and our share price in the future? Through our innovative capability. As I mentioned earlier, “creating the exceptional” is the motto for our annual report and for this year’s Annual Shareholders’ Meeting. Allow me to give you some examples and to present some of the solutions that will shape our work in the future.

I would like to start with 3D printing, a highly promising future market. 3D printing is bringing about a fundamental change in industrial manufacturing. High-quality specialty plastic powders and additives from Evonik are making that change possible.

The medical technology, aviation and automotive industries all use components made from high-quality engineering plastics. Based on a three-dimensional digital blueprint, plastics are applied in layers to an underlying structure. Within a short time, a geometric shape is created. This precisely matches the digital specification and can be used at once.

Thanks to polyamide 12, we are one of the world-leading suppliers of powders for 3D printing. These powders are perfectly tailored to the relevant printing technology and are produced at our site in Marl (Germany) using a special proprietary process. The global market for 3D printing is expected to grow by 25 percent a year up to 2020! While sales in this market were an estimated US\$7 billion in 2016, they could be over €17 billion in four years time. This development is being driven by technical progress: 3D printers are becoming more and more powerful and can process enormous volumes of data. We are benefiting from growth in the market for 3D printing by expanding production capacity, developing new products, and entering into strategic alliances.

As already reported, we are currently expanding our capacity by 50 percent. The new production line in Marl is scheduled to come into service at the end of this year. We are also consistently extending our range of products tailored specifically to 3D printing by adding new materials and powder types.

Now I would like to turn my attention to a topic that will have an exceptionally big impact on our industry in the coming years. Naturally, digitalization, which is already far-reaching, is not by-passing the chemical industry. Alongside technological progress, the so-called “fourth industrial revolution” offers us enormous potential for completely new business models, supply-chain concepts and distribution channels.

To develop and implement our digitalization strategy, we have put together our own interdisciplinary team of experts and set up a company that operates like a start-up. Our goal for the coming years is to gain entry to this billion-euro market with new business models. Alongside technical expertise, that requires, above all, creativity—and that is a competency that has played a greater role than most in Evonik’s success.

By bundling and building up our digital expertise, we are securing the basis for a sound assessment of digital technologies and services, and the development of digital pilot projects. We are driving forward the development of customer-specific and extremely user-friendly digital offerings. The basis for this is interchange between different units and disciplines, in other words, ensuring a closer relationship with the relevant target groups. After all, a precise knowledge of their questions and problems is essential in order to develop suitable solutions.

You can find many further examples of interesting innovations such as the development of probiotics, which reduce the use of antibiotics in livestock farming, in our Annual Report, which is available in the foyer.

Evonik—A responsible company

Sustainable business activities and responsible conduct are cornerstones of Evonik's business model. For many years, our innovative products and solutions have been making a contribution to sustainable development, and we are extending our work in this field.

We experience the close relationship between ecologically and socially responsible conduct on the one hand and business success on the other on a daily basis in our interaction with employees, customers, investors and business partners. Protecting our environment and the climate and efficient use of resources are among the major global challenges of our age. For us that does not simply mean continuing our committed endeavors to achieve our ambitious environmental targets. Sustainability has also been a growth driver for many years and has become an important criterion for our customers' purchasing decisions.

2016 was another milestone for our sustainability activities. Evonik was included in the prestigious Dow Jones Sustainability *World* and *Europe* indices for the first time. Moreover, we are delighted that our work received two accolades from the German Sustainability Award 2016—one in the research category, and also as one of Germany's the five most sustainable large corporations. These accolades give us an incentive to continue to pursue this path with determination.

That also applies to our commitment to society. In the year marking our tenth anniversary, the Evonik Foundation will therefore be stepping up its diverse activities to support education, science, the arts, the church, social projects and sport. It will continue to pay special attention to the training of refugees and underprivileged German youngsters who have left school without any qualifications.

To enable our employees to share in the increase in Evonik's value, a further tranche of our employee share program was launched in the spring for employees in Germany, the USA, Belgium and, for the first time, Singapore and China. The program now provides an even stronger cross-border link and helps to strengthen identification with the Evonik Group in the various regions. This year too, more than one in three eligible employees took up this offer. In Germany, the participation ratio rose to a new record of nearly 45 percent. World-wide, nearly 13,000 employees acquired shares in Evonik.

For our employee share program, this year we purchased a total of 621,241 shares at an average price per share of €30.02 and a pro rata share of €1.00 per share in the capital stock. That is around 0.1 percent of our capital stock of €466 million. For this we utilized the authorization granted by the Annual Shareholders' Meeting in 2016 to purchase shares in the company. The shares purchased have now been transferred to eligible employees and the excess shares have been sold.

Evonik—Concluding remarks

This year, ladies and gentlemen, we are celebrating ten years of Evonik Industries.

Some of you were present in summer 2007 when Dr. Müller unveiled our headquarters and revealed our new name: Evonik Industries.

Since then we have strengthened our company and driven forward its future-oriented development.

We have

- safely weathered the global financial and economic crisis
- successfully listed Evonik on the stock market
- divested our real estate and energy businesses
- and systematically focused our company on chemicals.

Simultaneously, we have driven forward our internationalization step by step and successfully started up state-of-the-art production facilities in attractive growth regions such as Singapore and China, as well as in North America and Brazil.

As I said a couple of years ago, we have no intention of watching the consolidation of our sector from the sidelines. Since then we have carefully analyzed who and what might be a good fit for us, and our intensive search has proven fruitful.

Acquiring the Air Products specialty additives business is a big and important step in the strategic development of our portfolio.

Given our well-stocked innovation pipeline, strong market and technology positions, and selective investment in our leading businesses, Evonik is in good shape for the coming years.

I can therefore confidently hand Evonik over to my successor. Strategically and operationally the company is very well positioned. Evonik meets all the preconditions that are necessary to actively shape the future successfully and to utilize attractive and sustainable opportunities for growth.

I would be delighted if you, our esteemed shareholders, would continue to support Evonik and my colleagues on the Executive Board as they continue this course in the future. Speaking for the last time as Chairman of Evonik's Executive Board, I would like to thank you personally, and on behalf of our 35,000 employees, for your trust, interest and attention.

Thank you.

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