HALF YEAR FINANCIAL REPORT

2ND QUARTER 2017 | 1ST HALF YEAR 2017

EVONIK
POWER TO CREATE

Positive earnings trend continued in the second quarter

2nd quarter

- Integration of the Air Products specialty additives business is proceeding successfully
- Sales grew 11 percent to €3.6 billion
- Adjusted EBITDA rose 9 percent year-on-year to €635 million, and increased 4 percent compared with the previous quarter

1st half

- Perceptible increase in volumes in the growth segments; overall, selling prices were slightly higher than in the prior year
- Adjusted EBITDA rose 8 percent to €1.25 billion
- Adjusted net income improved to €549 million
- Outlook for 2017 confirmed: Adjusted EBITDA expected to be between €2.2 billion and €2.4 billion (including the Air Products specialty additives business)

Key data for the Evonik Group

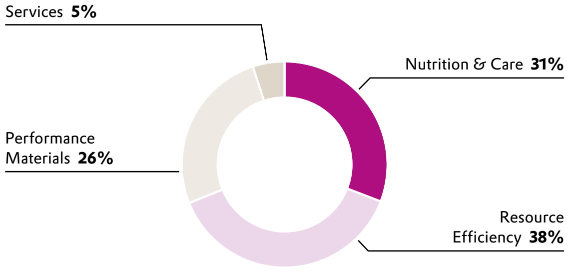
	2nd quarter		1st half	
in € million	**2017**	2016	**2017**	2016
Sales	3,614	3,258	7,296	6,363
Adjusted EBITDA [a]	635	585	1,247	1,150
Adjusted EBITDA margin in %	17.6	18.0	17.1	18.1
Adjusted EBIT [b]	429	406	834	795
Income before financial result and income taxes, continuing operations (EBIT)	375	359	667	736
Net income	235	165	394	405
Adjusted net income	289	246	549	501
Earnings per share in €	0.50	0.35	0.85	0.87
Adjusted earnings per share in €	0.62	0.53	1.18	1.07
Cash flow from operating activities	29	288	306	626
Free cash flow [c]	−192	84	−135	236
Capital expenditures	224	211	421	371
Net financial debt/assets as on the balance sheet as of June 30	–	–	−3,087	598
No. of employees as of June 30	–	–	35,429	33,742

[a] Earnings before financial result, taxes, depreciation and amortization, after adjustments.
[b] Earnings before financial result and taxes, after adjustments.
[c] Cash flow from operating activities less cash outflows for investment in intangible assets, property, plant and equipment.

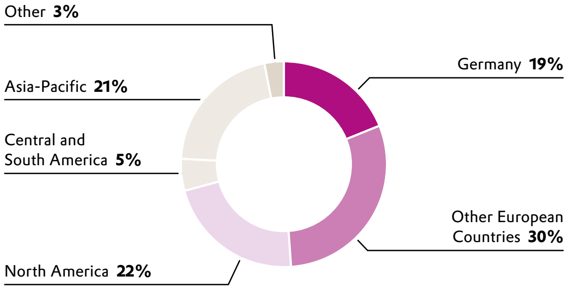
Due to rounding, some figures in this report may not add up exactly to the totals stated.

HALF YEAR FINANCIAL REPORT 2017

Sales by segment



Sales by region



Interim management report as of June 30, 2017

1. Business conditions and performance

1.1 Economic background

Global economic conditions were somewhat better than expected in the first half of 2017. In the advanced economies, the slight acceleration of the upswing continued. The increase in economic output in the USA accelerated faster than in the comparable prior-year period, supported by domestic consumption and higher investment by the corporate sector. The economic prospects for the euro zone remained slightly positive thanks to the continuation of the expansionary monetary policy and the good labor market situation. In Germany, the economy was mainly supported by consumer spending, the trade surplus and investment in construction. In Japan, the moderate growth continued due to higher exports and corporate investment.

In the emerging markets, China in particular posted slightly higher growth. The recession in Russia is over but growth remained low as a consequence of the continuing international sanctions. Brazil is only slowly emerging from crisis. Political uncertainty, high unemployment and private debt are holding back a significant improvement in the economic situation.

Worldwide, the development of Evonik's **end-customer industries** differed by sector and region in the first six months of 2017. Growth momentum in the automotive and mechanical engineering sectors weakened slightly year-on-year in North America and Europe but remained high in Asia. Demand for consumer and care products developed positively compared with the prior year, especially in Latin America and Asia, whereas growth was slightly lower in North America and Europe. The pace of growth in the construction industry increased in Europe and Latin America, mainly because capital expenditures were higher than in 2016. In the first six months, the general industrial trend only showed marginal growth in output in Europe, while there was a slight improvement in North America and Asia.

1.2 Business performance

Significant events

At its meeting on March 1, 2017, the Supervisory Board of Evonik Industries AG resolved on changes in the **Executive Board.** Dr. Klaus Engel handed over his post as Chairman of the Executive Board of Evonik Industries AG to Christian Kullmann after the Annual Shareholders' Meeting on May 23, 2017 and left the company with effect from the end of the meeting. Dr. Ralph Sven Kaufmann left Evonik by mutual and amicable agreement on June 30, 2017, before the scheduled end of his term of office. Dr. Harald Schwager will join Evonik on September 1, 2017 as Deputy Chairman of the Executive Board, with responsibility for chemicals and innovation. Dr. Schwager is a chemist and was a member of the Board of Executive Directors of BASF SE, Ludwigshafen (Germany) until May 2017.

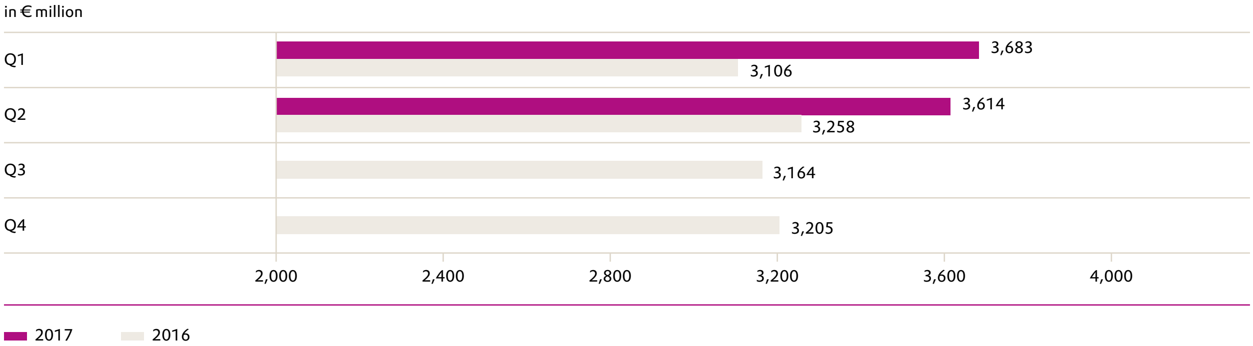
Business performance in Q2 2017

The positive earnings trend continued in the second quarter. Adjusted EBITDA was €635 million, which was higher than in both the previous quarter and the prior-year quarter. All three chemical segments posted an improvement compared with the previous quarter, while the year-on-year rise was driven principally by the Resource Efficiency and Performance Materials segments.

Good progress is being made with the integration of the specialty additives business, which we acquired from Air Products and Chemicals, Inc., Allentown (Pennsylvania, USA) on January 3, 2017. This business was integrated into the Nutrition & Care and Resource Efficiency segments at the beginning of this year. It is expected that the acquisition of the silica business of J. M. Huber Corporation, Atlanta (Georgia, USA) will be closed as planned in the second half of 2017.

The Evonik Group grew **sales** 11 percent to €3,614 million in the second quarter of 2017. 8 percentage points of this increase came from the initial consolidation of the specialty additives business acquired from Air Products. Thanks to continued strong demand in the growth segments, sales volumes were level with the good prior-year quarter. Overall, selling prices were raised by 3 percentage points.

Sales by quarter



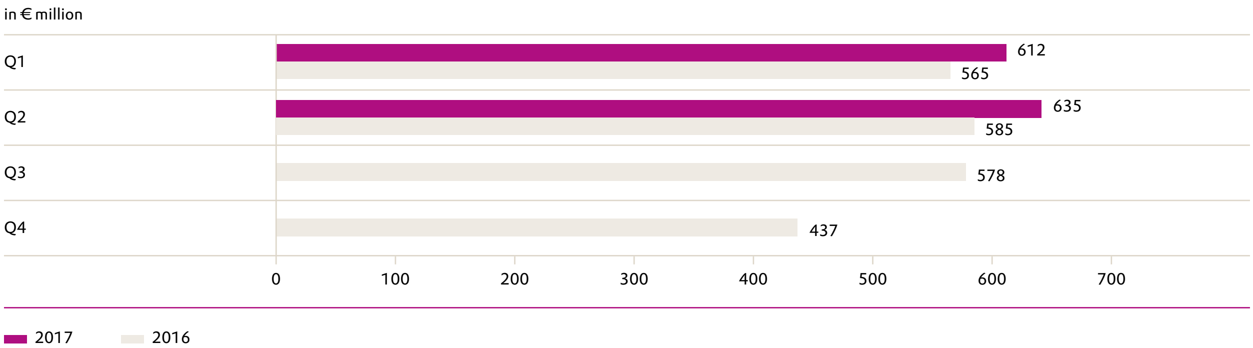
Year-on-year change in sales

in %	Q1 2017	Q2 2017	H1 2017
Volumes	8	–	4
Prices	–1	3	1
Organic sales growth	**7**	**3**	**5**
Exchange rates	2	–	1
Change in the scope of consolidation/other effects	10	8	9
Total	**19**	**11**	**15**

Adjusted EBITDA rose 9 percent to €635 million. The adjusted EBITDA margin was 17.6 percent (Q2 2016: 18.0 percent).

Adjusted EBIT increased 6 percent to €429 million.

Adjusted EBITDA by quarter



Statement of income

in € million	2nd quarter 2017	2nd quarter 2016	2nd quarter Change in %	1st half 2017	1st half 2016	1st half Change in %
Sales	**3,614**	**3,258**	**11**	**7,296**	**6,363**	**15**
Adjusted EBITDA	**635**	**585**	**9**	**1,247**	**1,150**	**8**
Depreciation and amortization	–206	–179		–413	–355	
Adjusted EBIT	**429**	**406**	**6**	**834**	**795**	**5**
Adjustments	–54	–47		–167	–59	
thereof attributable to						
Restructuring	*–5*	*–18*		*–13*	*–24*	
Impairment losses/reversals of impairment losses	*1*	*–17*		*1*	*–17*	
Acquisition/divestment of shareholdings	*–36*	*–11*		*–126*	*–11*	
Other	*–14*	*–1*		*–29*	*–7*	
Financial result	–26	–93		–82	–128	
Income before income taxes, continuing operations	**349**	**266**	**31**	**585**	**608**	**–4**
Income taxes	–112	–97		–184	–195	
Income after taxes, continuing operations	**237**	**169**	**40**	**401**	**413**	**–3**
Income after taxes, discontinued operations	3	–1		3	–1	
Income after taxes	**240**	**168**	**43**	**404**	**412**	**–2**
thereof attributable to non-controlling interests	5	3		10	7	
Net income	**235**	**165**	**42**	**394**	**405**	**–3**
Earnings per share in €	**0.50**	**0.35**	**–**	**0.85**	**0.87**	**–**

The **adjustments** totaling –€54 million included expenses of €36 million for the purchase of shareholdings in companies, principally the acquisition of the Air Products specialty additives business. This amount includes costs relating to the acquisition[1] (€8 million), especially for the integration of the business and expenses resulting from the fact that the inventories acquired by Evonik and used in the reporting period have been subject to a fair value step-up in the course of the purchase price allocation (€19 million). Further expenses related to the acquisition of Dr. Straetmans GmbH[1], Hamburg (Germany).

Interest income relating to tax refunds contributed to the significant improvement in the **financial result** to –€26 million. In addition, the prior-year figure included special items of –€37 million for currency hedging in connection with the acquisition of the Air Products specialty additives business.

Income before income taxes, continuing operations was 31 percent higher at €349 million. The income tax rate was 32 percent, which was slightly above the expected Group tax rate, mainly due to non-period taxes. Overall, **net income** grew 42 percent to €235 million.

The calculation of **adjusted net income** (after adjustment for special items) improves comparability of the earnings power of the continuing operations, especially on a long-term view, and thus facilitates the forecasting of future development. The adjusted financial result improved from –€55 million to –€32 million in the second quarter of 2017. Adjusted net income rose 17 percent to €289 million. **Adjusted earnings per share** increased to €0.62.

[1] See Note 4.2.

Reconciliation to adjusted net income

	2nd quarter			1st half		
in € million	2017	2016	Change in %	2017	2016	Change in %
Adjusted EBITDA	**635**	**585**	**9**	**1,247**	**1,150**	**8**
Depreciation and amortization	–206	–179		–413	–355	
Adjusted EBIT	**429**	**406**	**6**	**834**	**795**	**5**
Adjusted financial result	–32	–55		–85	–88	
Amortization and impairment losses on intangible assets	34	10		64	20	
Adjusted income before income taxes [a]	**431**	**361**	**19**	**813**	**727**	**12**
Adjusted income taxes	–137	–112		–254	–219	
Adjusted income after taxes [a]	**294**	**249**	**18**	**559**	**508**	**10**
thereof adjusted income attributable to non-controlling interests	5	3		10	7	
Adjusted net income [a]	**289**	**246**	**17**	**549**	**501**	**10**
Adjusted earnings per share [a] in €	**0.62**	**0.53**	**–**	**1.18**	**1.07**	**–**

[a] Continuing operations.

Business performance in H1 2017

Sales grew 15 percent to €7,296 million. 8 percentage points of this increase came from the initial consolidation of the specialty additives business acquired from Air Products. Higher volumes contributed 4 percentage points and slightly higher selling prices contributed 1 percentage point. Moreover, currency and other effects were positive.

Adjusted EBITDA rose 8 percent to €1,247 million, driven by perceptible volume growth and the first-time consolidation of the acquired specialty additives business. By contrast, lower selling prices in the Nutrition & Care segment had a negative effect. The adjusted EBITDA margin was 17.1 percent, compared with 18.1 percent in the first six months of 2016. Adjusted EBIT increased 5 percent to €834 million.

The **adjustments** totaling –€167 million included expenses of €126 million for the purchase of shareholdings in companies, principally the acquisition of the Air Products specialty additives business. This amount includes costs relating to the acquisition[1] (€32 million), especially for the integration of the business and transaction taxes. Further, the adjustments include additional expenses resulting from the fact that the inventories acquired by Evonik and used in the reporting period have been subject to a fair value step-up in the course of the purchase price allocation (–€83 million). A further adjustment of –€13 million comprised restructuring expenses, mainly to optimize the administrative structure.

The **financial result** improved to –€82 million. The prior-year figure of –€128 million included special items of €37 million from currency hedging expenses in connection with the acquisition of the Air Products specialty additives business. Overall, **income before income taxes, continuing operations** was 4 percent lower than in the prior-year period at €585 million. The income tax rate was 31 percent, and thus roughly in line with the expected Group tax rate.

Net income declined slightly to €394 million.

Adjusted net income increased 10 percent to €549 million, while **adjusted earnings per share** rose from €1.07 to €1.18.

[1] See Note 4.2.

1.3 Segment performance

Nutrition & Care segment

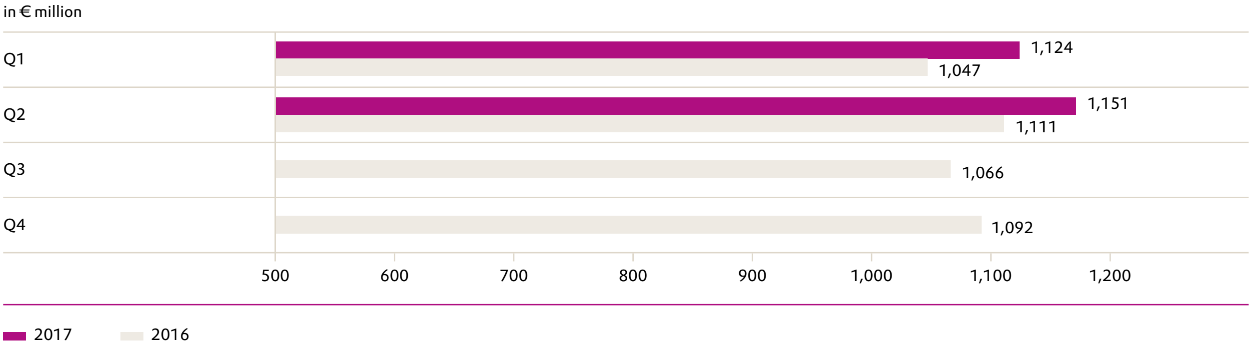
Key data for the Nutrition & Care segment

in € million	2nd quarter 2017	2016	Change in %	1st half 2017	2016	Change in %
External sales	1,151	1,111	4	2,275	2,157	5
Adjusted EBITDA	196	264	–26	385	557	–31
Adjusted EBITDA margin in %	17.0	23.8	–	16.9	25.8	–
Adjusted EBIT	133	212	–37	255	452	–44
Capital expenditures	85	61	39	154	102	51
No. of employees as of June 30	–	–	–	8,564	7,369	16

The Nutrition & Care segment grew sales 4 percent to €1,151 million in the **second quarter of 2017.** This was attributable to the initial consolidation of the business acquired from Air Products (9 percentage points), and to higher volumes. The increase was held back by selling prices, which were still lower than in the prior-year period.

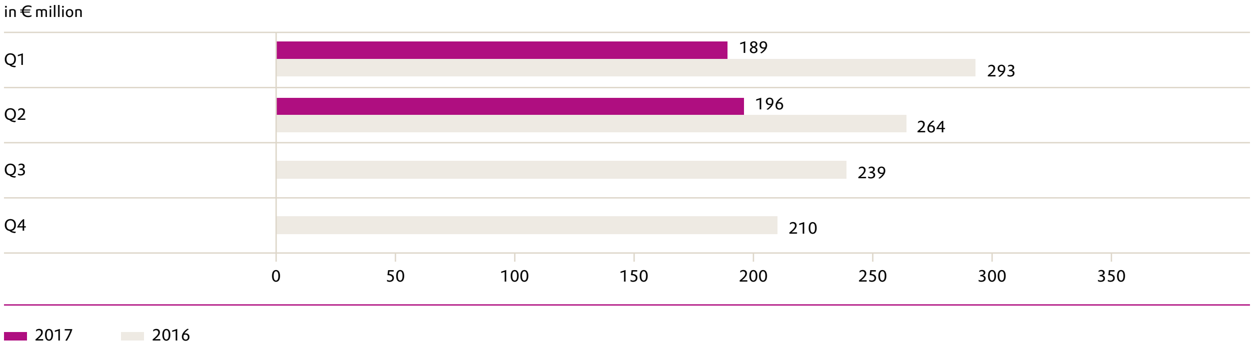
Sales of essential amino acids for animal nutrition decreased. While demand was good overall, there was a further year-on-year decline in selling prices, especially for methionine, as new capacity came onto the market. By contrast, the health care business reported a significant rise in sales, with all product lines posting a very satisfactory development. Business with additives for polyurethane foam registered good demand worldwide.

Sales Nutrition & Care segment



Adjusted EBITDA dropped 26 percent to €196 million, principally because selling prices were significantly lower than in the prior-year period. The adjusted EBITDA margin fell from 23.8 percent to 17.0 percent.

Adjusted EBITDA Nutrition & Care segment



In the **first six months of 2017** the Nutrition & Care segment's sales increased 5 percent to €2,275 million, driven by the initial consolidation of the business acquired from Air Products (10 percentage points), significant volume growth, and positive currency effects. A countertrend came from the fact that selling prices were substantially lower than in the prior-year period. Adjusted EBITDA declined 31 percent to €385 million. The adjusted EBITDA margin dropped to 16.9 percent.

On May 10, 2017 we completed the acquisition of **Dr. Straetmans GmbH** to strengthen our "Health & Care" growth engine. This company specializes in developing and marketing alternative preservatives for the cosmetics industry. This acquisition complements our portfolio of specialties for cosmetics and further consolidates our position as a leading global partner for the cosmetics industry.

Resource Efficiency segment

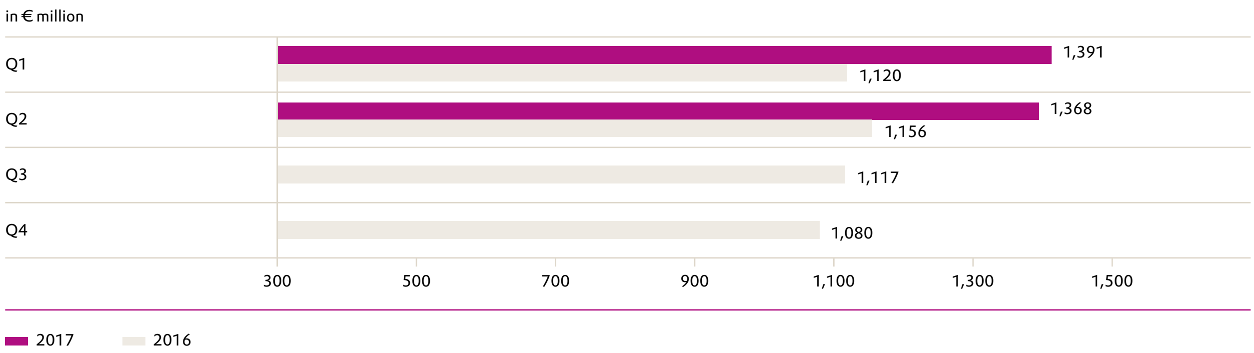
Key data for the Resource Efficiency segment

	2nd quarter			1st half		
in € million	**2017**	2016	Change in %	**2017**	2016	Change in %
External sales	1,368	1,156	18	2,759	2,276	21
Adjusted EBITDA	318	270	18	628	526	19
Adjusted EBITDA margin in %	23.2	23.4	–	22.8	23.1	–
Adjusted EBIT	249	214	16	490	414	18
Capital expenditures	68	63	8	135	112	21
No. of employees as of June 30	–	–	–	9,140	8,758	4

The very good business trend in the Resource Efficiency segment continued in the **second quarter of 2017,** with sales rising 18 percent to €1,368 million. Volumes rose as a result of higher demand, and selling prices were increased to compensate for higher raw material costs. 12 percentage points of this growth came from the initial consolidation of the business acquired from Air Products.

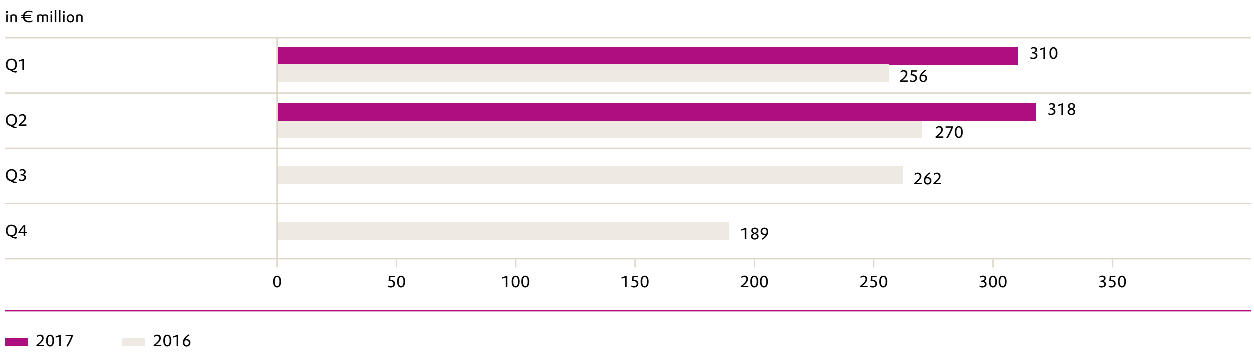
Sales of silica increased year-on-year thanks to high demand, especially from the tire and coatings industries. Business with high-performance polymers also benefited from very pleasing volume growth, which generated significantly higher sales. Demand for oil additives for the automotive, construction and transportation industries was high worldwide, resulting in higher sales. Coating additives posted a very good performance worldwide.

Sales Resource Efficiency segment



Adjusted EBITDA climbed 18 percent to €318 million thanks to higher volumes and the additional earnings contributions from the activities acquired from Air Products. Despite higher raw material costs, the adjusted EBITDA margin was 23.2 percent, a very good level and on a par with the prior-year period.

Adjusted EBITDA Resource Efficiency segment



In the **first six months of 2017,** sales in the Resource Efficiency segment rose 21 percent to €2,759 million. There was a further substantial hike in volume sales thanks to higher demand, and currency effects and slightly higher selling prices also had a positive effect. 12 percentage points of the increase came from the initial consolidation of the business acquired from Air Products. Adjusted EBITDA increased 19 percent to €628 million. The adjusted EBITDA margin was 22.8 percent, which was around the same level as in the first half of 2016.

Performance Materials segment

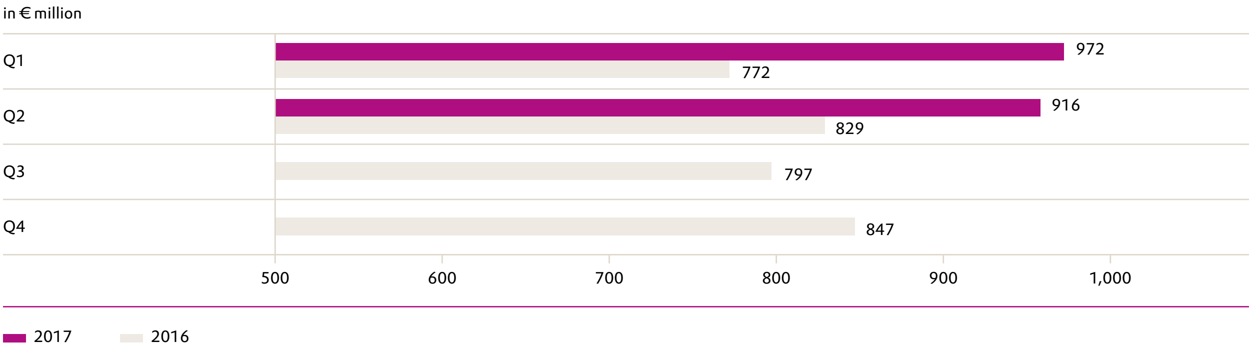
Key data for the Performance Materials segment

	2nd quarter			1st half		
in € million	2017	2016	Change in %	2017	2016	Change in %
External sales	916	829	10	1,888	1,601	18
Adjusted EBITDA	169	105	61	328	169	94
Adjusted EBITDA margin in %	18.4	12.7	–	17.4	10.6	–
Adjusted EBIT	133	70	90	256	100	156
Capital expenditures	39	41	–5	68	65	5
No. of employees as of June 30	–	–	–	4,404	4,376	1

The Performance Materials segment reported a further significant improvement in business in the **second quarter of 2017,** with sales up 10 percent at €916 million. This was principally due to significantly higher selling prices, while volumes declined as a result of the unscheduled downtime at the production plant in Antwerp.

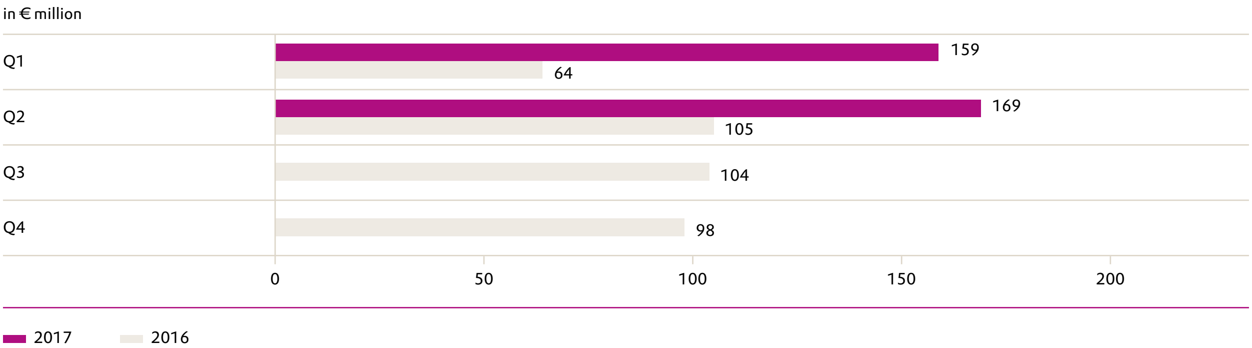
Selling prices of performance intermediates picked up significantly due to the rise in the oil price and higher global demand, especially for the C_4 derivative butadiene. Sales rose substantially year-on-year. Methacrylates also registered a significant improvement in sales. There was a further rise in demand, especially from the coatings and automotive sectors, while supply on the market was tight.

Sales Performance Materials segment



Adjusted EBITDA improved 61 percent to €169 million, principally as a result of higher selling prices. The adjusted EBITDA margin increased significantly to 18.4 percent, up from 12.7 percent in the second quarter of 2016.

Adjusted EBITDA Performance Materials segment



In the **first six months of 2017,** sales in the Performance Materials segment rose 18 percent to €1,888 million. Since volumes were slightly lower, the growth came mainly from higher selling prices. Adjusted EBITDA increased 94 percent to €328 million. This was attributable to the rise in selling prices and successful restructuring. The adjusted EBITDA margin rose significantly to 17.4 percent (H1 2016: 10.6 percent).

Services segment

Key data for the Services segment

in € million	2nd quarter 2017	2nd quarter 2016	2nd quarter Change in %	1st half 2017	1st half 2016	1st half Change in %
External sales	174	163	7	367	330	11
Adjusted EBITDA	35	33	6	76	68	12
Adjusted EBITDA margin in %	20.1	20.2	–	20.7	20.6	–
Adjusted EBIT	3	4	–25	14	11	27
Capital expenditures	28	41	–32	55	85	–35
No. of employees as of June 30	–	–	–	12,725	12,737	–

Sales increased 7 percent to €174 million in the **second quarter of 2017.** This was mainly attributable to higher revenues from utilities and waste management for external customers at our sites. Adjusted EBITDA improved 6 percent to €35 million.

Sales grew 11 percent to €367 million in the **first six months of 2017.** Adjusted EBITDA rose 12 percent to €76 million.

2. Earnings, financial and asset position

2.1 Earnings position

Sales rose 15 percent to €7,296 million in the first six months of 2017. 8 percentage points of the rise came from initial consolidation of the specialty additives business acquired from Air Products. Further factors were perceptibly higher volume sales and positive currency effects. The cost of sales increased by 19 percent to €4,986 million. The principal reasons for this were consolidation of the new business, higher volumes, and the rise in raw material costs. The **gross profit on sales** improved 6 percent to €2,310 million. Selling expenses increased by 14 percent to €841 million, mainly due to the expansion of our business. Research and development expenses were up slightly year-on-year at €220 million. General administrative expenses increased 8 percent to €356 million as a result of the first-time consolidation of the Air Products business.

Other operating income was €116 million, which was €14 million lower than in the prior-year period. The 27 percent rise in other operating expense to €346 million was principally due to expenses in connection with the acquisition of the Air Products business. **Income before financial result and income taxes, continuing operations** dropped 9 percent to €667 million.

The **financial result** improved to –€82 million. The prior-year figure of –€128 million included currency hedging expenses of €37 million in connection with the acquisition of the Air Products business. **Income before income taxes, continuing operations** was 4 percent lower at €585 million. The income tax rate was 31 percent, and thus roughly in line with the expected Group tax rate. **Net income** dropped 3 percent to €394 million.

2.2 Financial and asset position

As of June 30, 2017, financial debt was €3,631 million, a slight rise of €84 million compared with year-end 2016. Financial assets fell by €4,114 million to €544 million, mainly as a result of the purchase price payment for the Air Products specialty additives business and the payment of the dividend of €536 million for fiscal 2016. Therefore, we had **net financial debt** of €3,087 million as of June 30, 2017, compared with net financial assets of €1,111 million at year-end 2016.

Net financial debt/assets

in € million	June 30, 2017	Dec. 31, 2016
Non-current financial liabilities[a]	–3,216	–3,240
Current financial liabilities[a]	–415	–307
Financial debt	**–3,631**	**–3,547**
Cash and cash equivalents	517	4,623
Current securities	10	11
Other financial investments	17	24
Financial assets	**544**	**4,658**
Net financial debt/assets as stated on the balance sheet	**–3,087**	**1,111**

[a] Excluding derivatives.

We refinanced our **syndicated credit facility** on June 20, 2017. The new credit line is unchanged at €1.75 billion and has an initial term of 5 years with two extension options of one year each, so it runs until 2024 at the latest. This credit facility is the central liquidity reserve for the Group and is not currently drawn.

On July 7, 2017, Evonik Industries AG successfully issued a **hybrid bond** with a nominal value of €500 million on the debt capital market for the first time. The proceeds will be used to finance the planned acquisition of the Huber silica business. The purchase price for this transaction, which was signed in December 2016, is US$630 million and it will be financed out of the proceeds of the bond issue and internal funds. In future financial statements, the hybrid bond will be recognized as debt, but the rating agencies regard it as 50 percent equity as it is subordinate to other financial liabilities. Consequently, it supports our solid investment grade rating. The formal tenor of the bond is 60 years, but Evonik has a first redemption right in 2022. The bond was issued at a price of 99.383 percent and has a coupon of 2.125 percent p. a. Evonik has a corporate rating of Baa1 from Moody's and BBB+ from S&P, with a stable outlook in both cases. As is customary for such instruments, the ratings for the hybrid bond are two notches below the corporate ratings at Baa3/BBB– and are therefore also in the investment grade range.

In the first six months of 2017, **capital expenditures for property, plant and equipment** increased 13 percent to €421 million (H1 2016: €371 million). In principle, there is a slight timing difference in outflows for property, plant and equipment due to payment terms. In the reporting period, cash outflows for property, plant and equipment totaled €441 million (H1 2016: €390 million).

The **financial investments** of €3,597 million mainly related to the acquisition of the Air Products specialty additives business and Dr. Straetmans.

Cash flow statement (excerpt)

	1st half	
in € million	2017	2016
Cash flow from operating activities	306	626
Cash flow from investing activities	–4,034	–244
Cash flow from financing activities	–370	–588
Change in cash and cash equivalents	–4,098	–206

Prior-year figures restated.

The **cash flow from operating activities** declined to €306 million in the first half of 2017. That was €320 million below the figure for the comparable prior-year period, and resulted principally from lower earnings before financial result and income taxes (EBIT) and an increase in net working capital.

The cash outflow of €4,034 million for investing activities was mainly attributable to outflows for the acquisition of shareholdings in companies and for capital expenditures.

The cash outflow of €370 million for financing activities mainly comprised the dividend payment of €536 million for fiscal 2016.

The **free cash flow**[1] was –€135 million in the first six months of 2017, compared with €236 million in the prior-year period.

Total assets were €18.9 billion as of June 30, 2017, €0.7 billion lower than at year-end 2016. The increase of €2.9 billion in non-current assets to €13.7 billion was mainly attributable to the addition of assets from the operations acquired from Air Products. Current assets declined by €3.6 billion to €5.2 billion. This was mainly caused by a significant reduction in cash and cash equivalents due to payment of the purchase prices of the acquisitions and the dividend payment.

Equity declined by €0.5 billion to €7.3 billion, principally as a result of the dividend payment for 2016. The equity ratio decreased from 39.5 percent to 38.7 percent.

[1] Cash flow from operating activities, less outflows for capital expenditures for intangible assets, property, plant and equipment.

3. Employees

As of June 30, 2017, the Evonik Group had 35,429 employees. The increase of 1,078 compared with year-end 2016 was mainly attributable to the acquisition of the Air Products specialty additives business.

Employees by segment

	June 30, 2017	Dec. 31, 2016
Nutrition & Care	8,564	7,594
Resource Efficiency	9,140	8,928
Performance Materials	4,404	4,393
Services	12,725	12,892
Other operations	596	544
Evonik	**35,429**	**34,351**

4. Opportunity and risk report

As an international Group with a diversified portfolio of specialty chemicals, Evonik is exposed to a wide range of **opportunities** and **risks.** The risk categories and principal individual opportunities and risks relating to our earnings, financial and asset position, and the structure of our risk management system were described in detail in the opportunity and risk report, which forms part of the management report for 2016.

In view of the continued volatility of the operating environment, we regularly and systematically monitor and analyze the markets, sectors and growth prospects of relevance for our segments.

Based on current market trends in our Nutrition & Care, Resource Efficiency and Performance Materials segments, we see slightly better opportunities and somewhat less risk potential for this year than in our assessment at the end of 2016. While Evonik therefore still considers that it is exposed to more risks than opportunities, the opportunities and risks are more balanced. There are still no risks that could jeopardize the continued existence of the Evonik Group or major individual companies.

5. Events after the reporting date

See Note 8.4 "Events after the reporting date".

6. Expected development

Our expectations for **global economic conditions in 2017** are unchanged compared with the start of the year: Overall we still anticipate slightly stronger global economic momentum, with a year-on-year growth rate of 2.6 percent in 2017. The emerging markets will benefit particularly from the recovery of raw material prices. The economic recovery in Russia and Brazil should therefore continue, albeit at a relatively low level. We predict that in China growth will be high, but that growth rates will remain slightly lower. The economic upturn in some advanced economies will probably be dampened by the heightened uncertainty resulting from the UK's decision to leave the European Union and the United States' future economic policy.

The basis for our forecast has not changed:
- Global growth of 2.6 percent
- Euro/US dollar exchange rate at same level as in the prior year (US$1.10)
- Internal raw material cost index perceptibly higher than in the prior year

Sales and earnings

Following the acquisition of the Air Products specialty additives business on January 3, 2017, our forecast is for the Evonik Group including these business activities. Since the acquisition of Huber's silica business, which was announced in December 2016, is expected to be closed in the second half of 2017, these operations are not included in this forecast.

We are confirming our outlook for 2017 and still anticipate higher **sales** (2016: €12.7 billion). Thanks to our strong market positions, balanced portfolio and concentration on high-growth businesses, we assume continued high demand for our products and perceptible volume growth. Average selling prices are expected to be stable across our entire product portfolio.

Overall, we aim to grow our operating earnings year-on-year and still expect **adjusted EBITDA** to be between €2.2 billion and €2.4 billion (2016: €2.165 billion).

This is based on the assumption that the Air Products specialty additives business will contribute sales of around €1.0 billion and adjusted EBITDA of around €250 million in fiscal 2017, including initial positive synergies of €10–20 million. The operations acquired have been integrated into the Nutrition & Care and Resource Efficiency segments. Based on sales and adjusted EBITDA, they have been allocated roughly equally between these two segments.

In the majority of businesses in the Nutrition & Care segment the earnings trend will be stable or slightly positive compared with the previous year. Moreover, the Air Products activities allocated to this segment should make a positive contribution to earnings. We anticipate lower average annual selling prices for essential amino acids for animal nutrition following their previously high level, especially at the start of 2016. Overall, we therefore assume that earnings in the Nutrition & Care segment will be lower than in the previous year.

We expect a considerable rise in earnings in the Resource Efficiency segment in 2017 after a very successful business performance in 2016. The Air Products activities allocated to this segment should contribute to this, and a good business performance is also expected in most of the other businesses.

We expect the Performance Materials segment to report considerably higher earnings, driven by a year-on-year improvement in the supply/demand situation for key products and steps taken to raise efficiency. We assume that the favorable supply/demand situation seen at the beginning of the year will normalize during the year.

The earnings impact of higher raw material prices on individual businesses will vary, but should largely balance out across the portfolio as a whole.

In 2017, the return on capital employed (**ROCE**) should again be above the cost of capital (10.0 percent before taxes). Nevertheless, it will be perceptibly lower than in 2016 (14.0 percent) as a consequence of the substantial acquisition-driven rise in capital employed.

Financing and investments

We expect **capital expenditures,** including those for the Air Products specialty additives business and the pro rata expenditures for construction of the world-scale facility for feed additives in Singapore, to be around €1.0 billion. Total capital expenditures should therefore be around the 2016 level (€0.96 billion).

The **free cash flow** is expected to be clearly positive again, but will fall considerably short of the high level reported for 2016 (€0.8 billion), which benefited, in particular, from high inflows from the optimization of net working capital.

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 interim financial statements as of June 30, 2017

Income statement

Income statement for the Evonik Group

	2nd quarter		1st half	
in € million	**2017**	2016	**2017**	2016
Sales	3,614	3,258	7,296	6,363
Cost of sales	–2,424	–2,144	–4,986	–4,191
Gross profit on sales	**1,190**	**1,114**	**2,310**	**2,172**
Selling expenses	–438	–383	–841	–739
Research and development expenses	–114	–109	–220	–212
General administrative expenses	–172	–174	–356	–329
Other operating income	94	102	116	135
Other operating expense	–189	–176	–346	–273
Result from investments recognized at equity	4	–15	4	–18
Income before financial result and income taxes, continuing operations	**375**	**359**	**667**	**736**
Interest income	23	6	33	29
Interest expense	–56	–56	–115	–111
Other financial income/expense	7	–43	–	–46
Financial result	**–26**	**–93**	**–82**	**–128**
Income before income taxes, continuing operations	**349**	**266**	**585**	**608**
Income taxes	–112	–97	–184	–195
Income after taxes, continuing operations	**237**	**169**	**401**	**413**
Income after taxes, discontinued operations	3	–1	3	–1
Income after taxes	**240**	**168**	**404**	**412**
thereof attributable to				
Non-controlling interests	5	3	10	7
Shareholders of Evonik Industries AG (net income)	235	165	394	405
Earnings per share in € (basic and diluted)	**0.50**	**0.35**	**0.85**	**0.87**

Prior-year figures restated.

Statement of comprehensive income

Statement of comprehensive income for the Evonik Group

	2nd quarter		1st half	
in € million	2017	2016	2017	2016
Income after taxes	**240**	**168**	**404**	**412**
Gains/losses on available-for-sale securities	6	–	12	1
Gains/losses on hedging instruments	62	–1	–38	101
Currency translation adjustment	–317	130	–344	11
Attributable to the equity method (after income taxes)	–	1	–	1
Deferred taxes	–21	2	–8	–25
Comprehensive income that will be reclassified subsequently to profit or loss	**–270**	**132**	**–378**	**89**
Remeasurement of the net defined benefit liability for defined benefit pension plans	93	–1,541	83	–1,745
Deferred taxes	–15	461	–6	526
Comprehensive income that will not be reclassified subsequently to profit or loss	**78**	**–1,080**	**77**	**–1,219**
Other comprehensive income after taxes	**–192**	**–948**	**–301**	**–1,130**
Total comprehensive income	**48**	**–780**	**103**	**–718**
thereof attributable to				
Non-controlling interests	1	6	7	9
Shareholders of Evonik Industries AG	47	–786	96	–727
Total comprehensive income attributable to shareholders of Evonik Industries AG	**47**	**–786**	**96**	**–727**
thereof attributable to				
Continuing operations	44	–785	93	–726
Discontinued operations	3	–1	3	–1

Balance sheet

Balance sheet for the Evonik Group

in € million	June 30, 2017	Dec. 31, 2016
Intangible assets	5,871	3,312
Property, plant and equipment	6,229	6,041
Investments recognized at equity	47	43
Financial assets	293	213
Deferred taxes	1,174	1,162
Other income tax assets	9	8
Other receivables	51	58
Non-current assets	**13,674**	**10,837**
Inventories	1,964	1,679
Other income tax assets	239	228
Trade accounts receivable	1,957	1,661
Other receivables	414	300
Financial assets	127	317
Cash and cash equivalents	517	4,623
Current assets	**5,218**	**8,808**
Total assets	**18,892**	**19,645**

in € million	June 30, 2017	Dec. 31, 2016
Issued capital	466	466
Capital reserve	1,167	1,166
Accumulated income	5,652	5,716
Treasury shares	–	–
Accumulated other comprehensive income	–66	310
Equity attributable to shareholders of Evonik Industries AG	**7,219**	**7,658**
Equity attributable to non-controlling interests	86	92
Equity	**7,305**	**7,750**
Provisions for pensions and other post-employment benefits	3,680	3,852
Other provisions	830	817
Deferred taxes	514	453
Other income tax liabilities	190	173
Financial liabilities	3,240	3,334
Other payables	48	71
Non-current liabilities	**8,502**	**8,700**
Other provisions	820	1,035
Other income tax liabilities	122	83
Financial liabilities	439	401
Trade accounts payable	1,190	1,212
Other payables	514	464
Current liabilities	**3,085**	**3,195**
Total equity and liabilities	**18,892**	**19,645**

Statement of changes in equity

Statement of changes in equity for the Evonik Group

in € million	Issued capital	Capital reserve	Accumulated income	Treasury shares	Accumulated other comprehensive income	Attributable to shareholders of Evonik Industries AG	Attributable to non-controlling interests	Total equity
As of January 1, 2016	**466**	**1,166**	**5,821**	**–**	**40**	**7,493**	**83**	**7,576**
Capital increases/decreases	–	–	–	–	–	–	4	4
Dividend distribution	–	–	−536	–	–	−536	−8	−544
Purchase of treasury shares	–	–	–	−15	–	−15	–	−15
Share-based payment	–	3	–	–	–	3	–	3
Sale of treasury shares	–	−3	–	15	–	12	–	12
Income after taxes	–	–	405	–	–	405	7	412
Other comprehensive income after taxes	–	–	−1,219	–	87	−1,132	2	−1,130
Total comprehensive income	–	–	−814	–	87	−727	9	−718
Other changes	–	–	2	–	−1	1	–	1
As of June 30, 2016	**466**	**1,166**	**4,473**	**–**	**126**	**6,231**	**88**	**6,319**
As of January 1, 2017	**466**	**1,166**	**5,716**	**–**	**310**	**7,658**	**92**	**7,750**
Dividend distribution	–	–	−536	–	–	−536	−11	−547
Purchase of treasury shares	–	–	–	−19	–	−19	–	−19
Share-based payment	–	5	–	–	–	5	–	5
Sale of treasury shares	–	−4	–	19	–	15	–	15
Income after taxes	–	–	394	–	–	394	10	404
Other comprehensive income after taxes	–	–	77	–	−375	−298	−3	−301
Total comprehensive income	–	–	471	–	−375	96	7	103
Other changes	–	–	1	–	−1	–	−2	−2
As of June 30, 2017	**466**	**1,167**	**5,652**	**–**	**−66**	**7,219**	**86**	**7,305**

Cash flow statement

Cash flow statement for the Evonik Group

in € million	2nd quarter 2017	2nd quarter 2016	1st half 2017	1st half 2016
Income before financial result and income taxes, continuing operations	375	359	667	736
Depreciation, amortization, impairment losses/reversal of impairment losses on non-current assets	207	183	413	359
Result from investments recognized at equity	–4	15	–4	18
Gains/losses on the disposal of non-current assets	–	–	1	–
Change in inventories	–15	120	–2	115
Change in trade accounts receivable	–11	85	–200	60
Change in trade accounts payable and current advance payments received from customers	–71	–	–34	–154
Change in provisions for pensions and other post-employment benefits	–30	–30	–96	–67
Change in other provisions	–269	–300	–175	–250
Change in miscellaneous assets/liabilities	–46	61	–23	86
Cash outflows for interest	–40	–42	–61	–60
Cash inflows from interest	24	11	28	28
Cash inflows from dividends	4	3	5	4
Cash inflows/outflows for income taxes	–95	–177	–213	–249
Cash flow from operating activities	**29**	**288**	**306**	**626**
Cash outflows for investments in intangible assets, property, plant and equipment	–221	–204	–441	–390
Cash outflows for investments in subsidiaries	–59	–	–3,580	–52
Cash outflows for investments in other shareholdings	–	–29	–2	–35
Cash inflows from divestments of intangible assets, property, plant and equipment	4	1	4	4
Cash inflows/outflows from divestment of shareholdings	–	–	–12	–
Cash inflows/outflows relating to securities, deposits and loans	–	238	20	243
Transfers to the pension trust fund (CTA)	–23	–14	–23	–14
Cash flow from investing activities	**–299**	**–8**	**–4,034**	**–244**
Cash inflows/outflows relating to capital contributions	–	2	–	4
Cash outflows for dividends to shareholders of Evonik Industries AG	–536	–536	–536	–536
Cash outflows for dividends to non-controlling interests	–6	–	–11	–8
Cash outflows for the purchase of treasury shares	–3	–8	–19	–15
Cash inflows from the sale of treasury shares	20	15	20	15
Cash inflows from the addition of financial liabilities	71	60	196	89
Cash outflows for repayment of financial liabilities	–7	–45	–85	–67
Cash inflows/outflows in connection with financial transactions	–16	–79	65	–70
Cash flow from financing activities	**–477**	**–591**	**–370**	**–588**
Change in cash and cash equivalents	**–747**	**–311**	**–4,098**	**–206**
Cash and cash equivalents as of April 1/January 1	**1,275**	**2,466**	**4,623**	**2,368**
Change in cash and cash equivalents	–747	–311	–4,098	–206
Changes in exchange rates and other changes in cash and cash equivalents	–11	1	–8	–6
Cash and cash equivalents as on the balance sheet as of June 30	**517**	**2,156**	**517**	**2,156**

Prior-year figures restated.

Notes

1. Segment report

Segment report by operating segments—2nd quarter

	Nutrition & Care		Resource Efficiency		Performance Materials	
in € million	**2017**	2016	**2017**	2016	**2017**	2016
External sales	1,151	1,111	1,368	1,156	916	829
Internal sales	7	8	14	12	58	24
Total sales	1,158	1,119	1,382	1,168	974	853
Adjusted EBITDA	196	264	318	270	169	105
Adjusted EBITDA margin in %	17.0	23.8	23.2	23.4	18.4	12.7
Adjusted EBIT	133	212	249	214	133	70
Capital expenditures	85	61	68	63	39	41
Financial investments	78	14	–2	1	2	4

Segment report by regions—2nd quarter

	Germany		Other European Countries		North America	
in € million	**2017**	2016	**2017**	2016	**2017**	2016
External sales	632	604	1,110	1,013	806	628
Capital expenditures	106	92	18	21	49	61

	Services		Other operations		Corporate, consolidation		**Total Group (continuing operations)**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	174	163	5	–	–	−1	**3,614**	3,258
	517	505	8	9	−604	−558	**–**	–
	691	668	13	9	−604	−559	**3,614**	3,258
	35	33	−24	−31	−59	−56	**635**	585
	20.1	20.2	–	–	–	–	**17.6**	18.0
	3	4	−27	−34	−62	−60	**429**	406
	28	41	3	5	1	–	**224**	211
	1	1	–	–	−1	–	**78**	20

	Central and South America		Asia-Pacific		Middle East, Africa		**Total Group (continuing operations)**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	193	195	753	716	120	102	**3,614**	3,258
	3	6	48	31	–	–	**224**	211

Segment report by operating segments—1st half

in € million	Nutrition & Care 2017	Nutrition & Care 2016	Resource Efficiency 2017	Resource Efficiency 2016	Performance Materials 2017	Performance Materials 2016
External sales	2,275	2,157	2,759	2,276	1,888	1,601
Internal sales	14	16	25	21	104	51
Total sales	2,289	2,173	2,784	2,297	1,992	1,652
Adjusted EBITDA	385	557	628	526	328	169
Adjusted EBITDA margin in %	16.9	25.8	22.8	23.1	17.4	10.6
Adjusted EBIT	255	452	490	414	256	100
Capital expenditures	154	102	135	112	68	65
Financial investments	1,836	67	1,756	14	3	9
No. of employees as of June 30	8,564	7,369	9,140	8,758	4,404	4,376

Segment report by regions—1st half

in € million	Germany 2017	Germany 2016	Other European Countries 2017	Other European Countries 2016	North America 2017	North America 2016
External sales	1,357	1,193	2,228	1,993	1,596	1,232
Goodwill as of June 30[a]	1,632	1,542	785	578	1,807	363
Other intangible assets, property, plant and equipment as of June 30[a]	3,321	2,837	630	567	1,801	1,091
Capital expenditures	201	169	31	34	98	108
No. of employees as of June 30	21,723	21,396	2,835	2,701	4,564	3,849

[a] Non-current assets according to IFRS 8.33 b.

Services 2017	Services 2016	Other operations 2017	Other operations 2016	Corporate, consolidation 2017	Corporate, consolidation 2016	**Total Group (continuing operations) 2017**	Total Group (continuing operations) 2016
367	330	7	–	–	–1	**7,296**	6,363
1,021	966	16	19	–1,180	–1,073	**–**	–
1,388	1,296	23	19	–1,180	–1,074	**7,296**	6,363
76	68	–48	–59	–122	–111	**1,247**	1,150
20.7	20.6	–	–	–	–	**17.1**	18.1
14	11	–54	–65	–127	–117	**834**	795
55	85	7	7	2	–	**421**	371
1	1	–	1	1	–	**3,597**	92
12,725	12,737	235	184	361	318	**35,429**	33,742

Central and South America 2017	Central and South America 2016	Asia-Pacific 2017	Asia-Pacific 2016	Middle East, Africa 2017	Middle East, Africa 2016	**Total Group (continuing operations) 2017**	Total Group (continuing operations) 2016
370	386	1,523	1,354	222	205	**7,296**	6,363
32	32	309	284	–5	–	**4,560**	2,799
199	214	1,582	1,539	8	8	**7,541**	6,256
5	12	86	48	–	–	**421**	371
793	708	5,320	4,911	194	177	**35,429**	33,742

2. General information

Evonik Industries AG is an international specialty chemicals company headquartered in Germany.

The present condensed and consolidated interim financial statements (consolidated interim financial statements) of Evonik Industries AG and its subsidiaries (referred to jointly as Evonik or the Evonik Group) as of June 30, 2017 have been prepared in accordance with the provisions of IAS 34 Interim Financial Reporting, and in application of Section 315a Paragraph 1 of the German Commercial Code (HGB) using the International Financial Reporting Standards (IFRS) and comply with these standards. The IFRS comprise the standards (IFRS, IAS) issued by the International Accounting Standards Board (IASB), London (UK) and the interpretations (IFRIC, SIC) of the IFRS Interpretations Committee (IFRS IC), as adopted by the European Union.

The consolidated interim financial statements as of June 30, 2017 are presented in euros. The reporting period is January 1 to June 30, 2017. All amounts are stated in millions of euros (€ million) except where otherwise indicated. The basis for the consolidated interim financial statements comprises the consolidated financial statements for the Evonik Group as of December 31, 2016, which should be referred to for further information.

3. Accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as of December 31, 2016, with the exception of the following two changes:

In the cash flow statement, all effects from currency hedging transactions were previously included in the cash flow from operating activities, with the exception of the effects of currency hedging in connection with acquisition projects. The effects of these transactions were included in the cash flow from investing activities if they related to currency hedging of the purchase price to be paid, and in the cash flow from financing activities if they related to hedging of acquisition-related intragroup financing. From fiscal 2017, all financing-related cash flow effects from currency hedging—including those unrelated to acquisitions—are included in the cash flow from financing activities. This change leads to consistent treatment of the financing-related cash flow effects of currency hedging. Moreover, it is in keeping with the differentiated allocation of income and expenses from currency translation and currency hedging introduced in 2015. Since then, these have been recognized in income before financial result and income taxes (which is the starting point for the indirect method of calculating the cash flow from operating activities) if they relate to the operating business, and in the financial result if they relate to financing-related processes. The comparative figures for the prior-year period have been restated accordingly.

The joint operation StoHaas Monomer GmbH & Co. KG, Marl (Germany), together with its wholly owned subsidiaries, was previously recognized on the basis of the target output quota for the partners, which Evonik estimated to be constant. The assumption of a constant output quota can no longer be upheld. However, amounts above or below this quota are still offset between the partners via a fixed compensation mechanism, so switching to the method of recognizing Evonik's share of the assets, liabilities, income and expenses of this joint operation on the basis of its share of the ownership interest in this company, which is also permitted, gives more reliable and more relevant information. Switching from recognition on the basis of the output quota to the share of the ownership interest in this joint operation is a change of accounting policy as defined in IAS 8 and therefore has to be applied retrospectively. Since Evonik used an output quota of 50 percent as the basis for recognition of this joint operation in the previous year, and this corresponds to its share of the ownership interest, the change of accounting policy does not have any material impact on the prior-year figures. Consequently, the prior-year figures have not been restated.

4. Changes in the Group

4.1 Scope of consolidation

Changes in the scope of consolidation

No. of companies	Germany	Other countries	Total
Evonik Industries AG and consolidated subsidiaries			
As of December 31, 2016	**38**	**99**	**137**
Acquisitions	3	4	7
Other companies consolidated for the first time	1	–	1
Other companies deconsolidated	–	–1	–1
As of June 30, 2017	**42**	**102**	**144**
Joint operations			
As of December 31, 2016	**3**	**2**	**5**
As of June 30, 2017	**3**	**2**	**5**
Investments recognized at equity			
As of December 31, 2016	**4**	**9**	**13**
Acquisitions	–	1	1
As of June 30, 2017	**4**	**10**	**14**
	49	**114**	**163**

4.2 Acquisitions and divestments

Acquisition of the specialty additives business of Air Products and Chemicals, Inc.

On January 3, 2017, Evonik acquired the specialty additives business (Performance Materials Division) of Air Products and Chemicals, Inc. (Air Products), Allentown (Pennsylvania, USA). The acquisition comprised asset deals, and the acquisition of all shares in six companies and 50 percent of the shares in one further company (share deals). The specialty additives business, which has around 1,100 employees at eleven production and development locations, has been integrated into the Nutrition & Care and Resource Efficiency segments.

The business acquired and Evonik's existing specialty additives business are a good fit, both regionally and in terms of their product ranges. In the core markets for coating and adhesive additives, high-quality additives for polyurethane foam, and specialty surfactants for industrial cleaners they target the same customers, but with different and complementary products. The regional focus of the business acquired from Air Products is North America and Asia, while Evonik is mainly active on the European market. The acquisition mainly strengthens Evonik's position on the North American market, improving its ability to serve the increasingly global operations of its customers in the future.

Provisional purchase price allocation for the specialty additives business as of the acquisition date

in € million	Fair value recognized
Intangible assets	923
Property, plant and equipment	334
Investments recognized at equity	5
Non-current assets	**1,262**
Inventories	349
Trade accounts receivable	157
Other receivables	5
Cash and cash equivalents	11
Current assets	**522**
Total assets	**1,784**
Provisions for pensions and other post-employment benefits	11
Deferred taxes	54
Non-current liabilities	**65**
Other provisions	3
Other income tax liabilities	5
Trade accounts payable	56
Other payables	3
Current liabilities	**67**
Total liabilities	**132**
Provisional net assets	**1,652**
Provisional goodwill	1,859
Provisional purchase price pursuant to IFRS 3	**3,511**

The purchase price allocation for the specialty additives business has not yet been completed. Consequently, there may be changes to the allocation of the purchase price among the assets and liabilities acquired. Intangible assets include acquired customer relationships, technologies, patents, licenses and know-how. In the reporting period, intangible assets increased by €214 million, mainly because the valuation of customer relationships was revised. The fair value of property, plant and equipment declined by €85 million, principally as a result of new information on plant and machinery. Further, an additional €6 million of the purchase price was allocated to inventories.

Provisional purchase price for the acquisition of the specialty additives business

in € million	
Purchase price before purchase price adjustments and currency hedging effects	**3,647**
Provisional purchase price adjustments	–21
Currency hedging effects that can be transferred to the assets acquired	–115
Provisional purchase price pursuant to IFRS 3	**3,511**
Financial assets from purchase price adjustments not yet received	5
Cash and cash equivalents acquired	–11
Cash outflow as per cash flow statement	**3,505**

The purchase price, which was agreed in US dollars, was paid out of cash and cash equivalents, including the proceeds of the bond issue in September 2016.

Change in goodwill for the acquired specialty additives business

in € million	
Goodwill as of January 3, 2017, as stated in the quarterly financial report for Q1 2017	**1,999**
Effect of adjustment of the purchase price allocation	–140
Goodwill as of January 3, 2017, as per the latest status of the purchase price allocation	**1,859**
Currency translation	–152
Goodwill as of June 30, 2017	**1,707**

The provisional calculation of goodwill mainly comprises the expected future benefits of assets that were not individually identifiable or for which recognition is not permitted. These include cost synergies resulting from optimization of procurement, production, logistics, marketing, sales and administration, and sales synergies due to joint innovation, extension of the customer base and product portfolios, and improved access to new markets. In addition, positive tax effects will result from the customary write-downs in connection with the asset deals.

The breakdown of the costs relating to the acquisition of the specialty additives business included in adjustments is as follows:

Costs relating to the acquisition of the specialty additives business

in € million	1st half 2017	2016
Acquisition costs (other operating expense)	4	27
Cost of integration/preparing integration (other operating expense)	15	11
Transaction taxes (other operating expense)	13	–
Financing costs (interest expense)	–	5
Currency hedging and financing costs (other financial income/expense)	–	24
	32	**67**

Bank charges of €4 million were accrued in fiscal 2016 in connection with the issuance of bonds. These are included in interest expense on a pro rata basis by applying the effective interest method over the tenor of each of the bonds.

Sales from the specialty additives business since the acquisition date totaled €497 million. Income also reflects additional expenses of €83 million resulting from the fact that the inventories acquired by Evonik and used in the reporting period have been subject to a fair value step-up in the course of the purchase price allocation. Further income includes depreciation and amortization of assets newly recognized or revalued in the purchase price allocation. Overall, income after taxes was –€5 million.

Evonik and Air Products concluded further agreements alongside the acquisition of the specialty additives business. These include a service agreement for a defined period. During this time Air Products will provide services such as IT, finance, accounting and taxes, which will be billed monthly. Supply and leasing agreements, and a rental agreement have also been concluded.

Further disclosures cannot be made as of the present status of the purchase price allocation; the details will be published when the necessary information is available (IFRS 3.B67(a)). As well as finalizing the revaluation of intangible assets, property, plant and equipment, inventories and deferred taxes, this also refers to information on the tax deductibility of goodwill.

Acquisition of Dr. Straetmans GmbH

On May 10, 2017, Evonik acquired all shares in Dr. Straetmans GmbH, Hamburg (Germany). This company specializes in developing and marketing alternative preservatives for the cosmetics industry. This acquisition complements Evonik's portfolio of specialties for the cosmetics business. The company has been renamed Evonik Dr. Straetmans GmbH (Evonik Dr. Straetmans) and integrated into the Nutrition & Care segment.

Provisional purchase price allocation for Evonik Dr. Straetmans as of the acquisition date

in € million	Fair value recognized
Intangible assets	32
Property, plant and equipment	8
Non-current assets	**40**
Inventories	7
Trade accounts receivable	5
Cash and cash equivalents	5
Current assets	**17**
Total assets	**57**
Deferred taxes	10
Financial liabilities	4
Non-current liabilities	**14**
Other provisions	1
Other income tax liabilities	1
Trade accounts payable	2
Current liabilities	**4**
Total liabilities	**18**
Provisional net assets	**39**
Provisional goodwill	41
Provisional purchase price pursuant to IFRS 3	**80**

The first-time consolidation of Evonik Dr. Straetmans is based on a provisional purchase price allocation. The purchase price was settled out of cash and cash equivalents. The provisional calculation of goodwill is not tax deductible and mainly comprises the expected future benefits of assets that were not individually identifiable or for which recognition is not permitted. These include expected synergies from backward integration of production and use of Evonik's global distribution network, as well as the workforce of Evonik Dr. Straetmans.

Transaction costs of €1 million relating to this acquisition have been recognized. In addition, the contract contains agreements that are classified as separate transactions and are not included in the purchase price pursuant to IFRS 3. A maximum of €4 million is tied to the retention of key personnel in the company and will be paid at the latest after three years. Personnel-related provisions have been recognized for this. A further amount of at most €4 million is tied to the attainment of specific objectives by key personnel and will be paid at the latest after three years. The level of personnel-related provisions required on the basis of the attainment of these objectives will be reviewed as of each reporting date. Both the transaction costs and the earnings effects of the provisions established are contained in the income statement in other operating expense, and are included in the adjustments.

The contributions made by Evonik Dr. Straetmans to sales and earnings were not material relative to the Nutrition & Care segment as a whole, either since the date of acquisition or on a pro forma basis in the period since January 1, 2017.

There were no divestments in the reporting period.

5. Notes to the income statement

5.1 Other operating income

Other operating income

	2nd quarter		1st half	
in € million	**2017**	2016	**2017**	2016
Net income from operational currency hedging	22	–	13	–
Income from the reversal of provisions	10	41	11	46
Income from restructuring measures	3	10	3	10
Income from the disposal of assets	3	–	3	1
Net income from currency translation of operating monetary assets and liabilities	–	7	–	–
Other income	56	44	86	78
	94	**102**	**116**	**135**
thereof adjustments	4	54	4	60

Prior-year figures restated.

The gross income and expense from currency translation of operating monetary assets and liabilities are netted in the same way as the gross income and expenses from the corresponding currency hedging. The corresponding net results are recognized in other operating income or other operating expense as appropriate.

The other income of €86 million (H1 2016: €78 million) comprises, among other things, income from non-core operations, and income from insurance premiums and refunds.

5.2 Other operating expense

Other operating expense

in € million	2nd quarter 2017	2nd quarter 2016	1st half 2017	1st half 2016
Net expenses for currency translation of operating monetary assets and liabilities	33	–	42	14
Expenses for restructuring measures	8	28	16	34
Expenses relating to the REACH Regulation	2	3	5	5
Impairment losses	–	3	3	6
Losses on the disposal of assets	1	1	2	2
Net expenses for operational currency hedging	–	14	–	6
Other expense	145	127	278	206
	189	**176**	**346**	**273**
thereof adjustments	60	84	173	102

Prior-year figures restated.

The restructuring expenses of €16 million (H1 2016: €34 million) mainly relate to optimization of the administrative structure. This item also includes expenses that would by nature otherwise be included in other categories of other operating expense.

The other expense of €278 million (H1 2016: €206 million) comprises costs of €32 million in connection with the acquisition of the specialty additives business and additional expenses of €83 million resulting from the fact that the inventories acquired by Evonik and used in the reporting period have been subject to a fair value step-up in the course of the purchase price allocation. Further, other expense includes expenses for projects relating to the acquisition of companies, and expenses for insurance deductibles, outsourcing, environmental protection and non-core operations.

5.3 Result from investments recognized at equity

In the previous year, this item contained an impairment loss of €17 million on an investment held by the Nutrition & Care segment, which was recognized in the adjustments.

5.4 Financial result

Interest income includes €17 million (H1 2016: €22 million) in connection with tax refunds in the first half of the year.

Other financial income/expense

in € million	2nd quarter 2017	2nd quarter 2016	1st half 2017	1st half 2016
Net income/expense from currency translation of financing-related monetary assets and liabilities	1	1	–6	37
Net income/expense from financing-related currency hedging	4	–44	4	–83
Miscellaneous financial income/expense	2	–	2	–
	7	**–43**	**–**	**–46**

Gross income and expense from the currency translation of financing-related risk positions are netted. They mainly result from the exchange rate risk of intragroup financing transactions denominated in foreign currencies and from cash and cash equivalents in foreign currencies. The effects of the corresponding currency hedging are recognized in the line item net income/expense from financing-related currency hedging. In the first six months, this also included income of €5 million from currency hedging in connection with the planned acquisition of the silica business of J. M. Huber Corporation (Huber), Atlanta (Georgia, USA). In the prior-year period, this item included expenses of €37 million relating to hedging of the purchase price of the Air Products specialty additives business.

6. Notes to the balance sheet

Equity and employee share program

In 2016, the Executive Board of Evonik Industries AG decided to purchase shares in the company, utilizing the resolution adopted by the Annual Shareholders' Meeting on May 18, 2016 authorizing it to buy back shares in the company. The Supervisory Board has approved this share buy-back program, which relates to the share-based employee participation program (employee share program) Share.2017 launched by Evonik Industries AG in March 2017. The period during which eligible employees could acquire shares ended on March 24, 2017. The lock-up period for Evonik shares purchased or granted through the Share.2017 program ends on December 31, 2019.

Overall, Evonik Industries AG purchased 621,241 ordinary shares on the capital market at an average price of €30.02 per share. In April 2017, 564,408 of these ordinary shares (including 140,711 bonus shares) were transferred to participating employees on the basis of the share price and exchange rates prevailing on April 6, 2017. The remaining 56,833 ordinary shares were sold to third parties via the stock exchange by April 13, 2017.

As of June 30, 2017, Evonik therefore no longer held any treasury shares.

7. Notes to the segment report

Reconciliation from adjusted EBITDA for the reporting segments to income before income taxes of the continuing operations

	2nd quarter		1st half	
in € million	**2017**	2016	**2017**	2016
Adjusted EBITDA, reporting segments	718	672	1,417	1,320
Adjusted EBITDA, other operations	–24	–31	–48	–59
Adjusted EBITDA, Corporate	–59	–55	–120	–110
Consolidation	–	–1	–2	–1
Adjusted EBITDA, Corporate, consolidation	**–59**	**–56**	**–122**	**–111**
Adjusted EBITDA	**635**	**585**	**1,247**	**1,150**
Depreciation and amortization	–200	–176	–405	–350
Impairment losses/reversals of impairment losses	–7	–25	–9	–28
Depreciation, amortization, impairment losses/reversal of impairment losses included in adjustments	1	22	1	23
Depreciation and amortization	**–206**	**–179**	**–413**	**–355**
Adjusted EBIT	**429**	**406**	**834**	**795**
Adjustments	–54	–47	–167	–59
Financial result	–26	–93	–82	–128
Income before income taxes, continuing operations	**349**	**266**	**585**	**608**

8. Other disclosures

8.1 Financial instruments

The following overview shows the carrying amounts and fair values of all financial assets and liabilities. That part of derivative financial instruments for which hedge accounting is applied is not allocated to any of the categories.

Carrying amounts and fair values of financial assets as of June 30, 2017

	Carrying amounts by valuation category				June 30, 2017	
in € million	Available-for-sale	Loans and receivables	Held for trading	Not allocated to any category	Carrying amount	Fair value
Financial assets	**134**	**111**	**21**	**154**	**420**	**380**
Other investments[a]	123	–	–	–	123	83
Loans	–	73	–	–	73	73
Securities and similar claims	11	–	–	–	11	11
Receivables from derivatives	–	–	21	154	175	175
Other financial assets	–	38	–	–	38	38
Trade accounts receivable	**–**	**1,957**	**–**	**–**	**1,957**	**1,957**
Cash and cash equivalents	**–**	**517**	**–**	**–**	**517**	**517**
	134	**2,585**	**21**	**154**	**2,894**	**2,854**

[a] The difference between the carrying amount and fair value results from equity investments recognized at cost of acquisition as the fair value cannot be determined reliably (€40 million).

Carrying amounts and fair values of financial assets as of December 31, 2016

	Carrying amounts by valuation category				Dec. 31, 2016	
in € million	Available-for-sale	Loans and receivables	Held for trading	Not allocated to any category	Carrying amount	Fair value
Financial assets	**122**	**104**	**14**	**290**	**530**	**492**
Other investments[a]	110	–	–	–	110	72
Loans	–	72	–	–	72	72
Securities and similar claims	12	–	–	–	12	12
Receivables from derivatives	–	–	14	285	299	299
Other financial assets	–	32	–	5	37	37
Trade accounts receivable	**–**	**1,661**	**–**	**–**	**1,661**	**1,661**
Cash and cash equivalents	**–**	**4,623**	**–**	**–**	**4,623**	**4,623**
	122	**6,388**	**14**	**290**	**6,814**	**6,776**

[a] The difference between the carrying amount and fair value results from equity investments recognized at cost of acquisition as the fair value cannot be determined reliably (€38 million).

Carrying amounts and fair values of financial liabilities as of June 30, 2017

	Carrying amount by valuation category			June 30, 2017	
in € million	Liabilities held for trading	Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
Financial liabilities	**8**	**3,631**	**40**	**3,679**	**3,660**
Bonds	–	3,126	–	3,126	3,102
Liabilities to banks	–	455	–	455	460
Loans from non-banks	–	11	–	11	11
Liabilities from derivatives	8	–	40	48	48
Other financial liabilities	–	39	–	39	39
Trade accounts payable	**–**	**1,190**	**–**	**1,190**	**1,190**
	8	**4,821**	**40**	**4,869**	**4,850**

Carrying amounts and fair values of financial liabilities as of December 31, 2016

	Carrying amount by valuation category			Dec. 31, 2016	
in € million	Liabilities held for trading	Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
Financial liabilities	**14**	**3,546**	**175**	**3,735**	**3,737**
Bonds	–	3,127	–	3,127	3,126
Liabilities to banks	–	375	–	375	378
Loans from non-banks	–	16	–	16	16
Liabilities from derivatives	14	–	174	188	188
Other financial liabilities	–	28	1	29	29
Trade accounts payable	**–**	**1,212**	**–**	**1,212**	**1,212**
	14	**4,758**	**175**	**4,947**	**4,949**

In accordance with IFRS 13, fair value measurement is based on a three-level hierarchy. Where available, the fair value is determined from the quoted prices for identical assets or liabilities in an active market (Level 1). If such data are not available, measurement based on directly or indirectly observable inputs is used (Level 2). In all other cases, valuation methods that are not based on observable market data are used (Level 3). Where input factors from different levels are used, the level applicable for the lowest material input factor is determined and the overall fair value is assigned to this level.

The following table shows the financial instruments that are measured at fair value on a recurring basis after initial recognition on the balance sheet:

Financial instruments recognized at fair value as of June 30, 2017

in € million	Fair value based on			June 30, 2017
	Publicly quoted market prices (Level 1)	Directly observable market-related prices (Level 2)	Individual valuation parameters (Level 3)	
Other investments	83	–	–	83
Securities and similar claims	11	–	–	11
Receivables from derivatives	–	175	–	175
Liabilities from derivatives	–	–48	–	–48

Financial instruments recognized at fair value as of December 31, 2016

in € million	Fair value based on			Dec. 31, 2016
	Publicly quoted market prices (Level 1)	Directly observable market-related prices (Level 2)	Individual valuation parameters (Level 3)	
Other investments	72	–	–	72
Securities and similar claims	12	–	–	12
Receivables from derivatives	–	299	–	299
Liabilities from derivatives	–	–188	–	–188

The financial instruments allocated to Level 1 are recognized at their present stock market price. They comprise all securities and one equity investment. As of the present reporting date, all derivatives are allocated to Level 2. They comprise currency, interest rate and commodity derivatives whose fair value was determined with the aid of a discounted cash flow method or option pricing models on the basis of the exchange rates at the European Central Bank, observed interest rate structure curves, FX volatilities, observed commodity prices, and observed credit default premiums. There were no transfers between the levels of the fair value hierarchy in the reporting period.

The fair value of financial instruments recognized at amortized cost is calculated as follows:

The fair value of bonds is their directly observable stock market price on the reporting date. For loans, other financial assets, liabilities to banks, loans from non-banks, and other financial liabilities the fair value is determined as the present value of the expected future cash inflows or outflows and is therefore allocated to Level 2. Discounting is based on the interest rate for the respective maturity on the reporting date, taking the creditworthiness of the counterparties into account. Since the majority of other financial receivables and liabilities and trade accounts receivable and payable are current, their fair values—like the fair value of cash and cash equivalents—correspond to their carrying amounts.

The other investments that are recognized on the balance sheet at amortized cost comprise investments in equity instruments for which there is no quoted price in an active market and whose fair values cannot be determined reliably in accordance with one of the three levels of the fair value hierarchy. There is no intention of selling these investments.

8.2 Related parties

There has not been any material change in related party transactions since December 31, 2016.

The dividend for fiscal 2016 was paid in the second quarter, after adoption of the resolution by the Annual Shareholders' Meeting on May 23, 2017.

RAG-Stiftung, Essen (Germany) received €364 million.

8.3 Contingent receivables and liabilities

There has not been any material change in contingent receivables and liabilities since the consolidated financial statements as of December 31, 2016.

8.4 Events after the reporting date

Evonik Industries AG issued a €500 million hybrid bond on the debt capital market for the first time on July 7, 2017. The formal tenor of the bond is 60 years, but Evonik has a first redemption right in 2022. The bond has a coupon of 2.125 percent p. a. and the issue price was 99.383 percent. It will be used to finance the planned acquisition of the Huber silica business.

8.5 Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report for the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Essen, July 27, 2017

Evonik Industries AG
The Executive Board

Kullmann Wessel Wolf

Review report

To Evonik Industries AG, Essen,

We have reviewed the condensed consolidated interim financial statements—comprising the condensed income statement, condensed statement of comprehensive income, condensed balance sheet, condensed statement of changes in equity, condensed cash flow statement and selected explanatory notes—and the interim Group management report for Evonik Industries AG, Essen, for the period from January 1, 2017 to June 30, 2017, which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim Group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the company's Executive Board. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim Group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim Group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information performed by the Independent Auditor of the Entity" (ISRE 2410). These standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Düsseldorf, August 2, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lutz Granderath	Antje Schlotter
German Public Auditor	German Public Auditor

Financial calendar

Financial calendar 2017/2018

Event	Date
Interim report Q3 2017	November 3, 2017
Report on Q4 2017 and FY 2017	March 6, 2018
Interim report Q1 2018	May 8, 2018
Annual Shareholders' Meeting 2018	May 23, 2018
Interim report Q2 2018	August 2, 2018
Interim report Q3 2018	November 6, 2018

Credits

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