Management report

for the 2021 financial year

Basic principles of the company

Establishment, purpose and business model of the RAG-Stiftung

On the basis of the agreements on coal policy, the RAG-Stiftung was established on 26 June 2007 with an endowment capital of EUR 2.0 million as a legally capable foundation under civil law with its headquarters in Essen. Guided by the principles of corporate responsibility, its mandate is to manage the transition process in German coal mining until the end of 2018 and, beyond this, to ensure the further development of what is now the Evonik Group (Evonik).

The RAG-Stiftung's objective lies in the transition, management and support of the German coal mining industry bundled in the RAG Group, subject to the legal and other conditions for the socially responsible discontinuation of subsidised coal mining in Germany. This also involves support within RAG for the elimination and avoidance of subsequent consequences of coal mining on the environment and nature within the scope of the legal obligations. A further purpose of the RAG-Stiftung is the promotion of education, science and culture in connection with German coal mining in the mining regions of North Rhine-Westphalia and Saarland.

The RAG-Stiftung's business model aims to ensure the financing of perpetual obligations of RAG's coal mining activities with proceeds from the sale and reinvestment of shares in Evonik Industries AG, with dividends from Evonik Industries AG and other investment income, and with revenue generated from diverse financial assets. In accordance with this business model, our primary objective is to finance the cash outflow, which has increased with the respective inflation rate since 2019, for the sustainable financing of perpetual obligations from investment income and financial assets.

Responsibilities of the RAG-Stiftung's management bodies

According to the articles of association, the Board of Trustees monitors the Foundation's Board of Executives in its management of the RAG-Stiftung's operations.

The Foundation's Board of Executives manages the RAG-Stiftung's business operations and is its legal and extrajudicial representative. The Foundation's Board of Executives manages the RAG-Stiftung on its own responsibility according to the Foundation's purpose and articles of association.

Changes to the RAG-Stiftung's management bodies

The following were ex officio members of the RAG-Stiftung's Board of Trustees in 2021:

- Peter Altmaier, former Federal Minister for Economic Affairs and Energy (until 8 December 2021)
- Tobias Hans, Member of State Parliament and Minister President of the State of Saarland
- Dr Robert Habeck, Member of the German Bundestag and Federal Minister for Economic Affairs and Climate Action (since 8 December 2021)
- Armin Laschet, Member of the German Bundestag and former Minister President of the State of North Rhine-Westphalia (until 27 October 2021)
- Christian Lindner, Member of the German Bundestag and Federal Minister of Finance (since 8 December 2021)
- Olaf Scholz, Member of the German Bundestag and Federal Chancellor of the Federal Republic of Germany, former Federal Minister of Finance (until 8 December 2021)

- Michael Vassiliadis, Chairman of the IG BCE
- Hendrik Wüst, Member of State Parliament and Minister President of the State of North Rhine-Westphalia (since 27 October 2021)

The group of other members of the Board of Trustees comprises:
- Martin Albers, Chairman of the Working Group of Works Councils in the RAG-Stiftung and Chairman of the General Works Council at Evonik Industries AG
- Dr Burckhard Bergmann, member of various supervisory boards
- Dr Jürgen Großmann, Shareholder of Georgsmarienhütte Holding GmbH
- Professor Norbert Lammert, former President of the German Bundestag, Chairman of the Konrad-Adenauer-Stiftung
- Heiko Maas, Member of the German Bundestag, former Federal Foreign Minister
- Hildegard Müller, President of the German Association of the Automotive Industry
- Thomas Kufen, Mayor of the City of Essen
- Dr Andreas Reichel, Chairman of the Board of Management of STEAG GmbH
- Barbara Schlüter, Chairwoman of the General Works Council and the Group Works Council of RAG Aktiengesellschaft (until 31 December 2021)

The Board of Trustees is chaired by Dr Jürgen Großmann; Michael Vassiliadis is Deputy Chairman. There were no changes to the Board of Executives of the RAG-Stiftung. Its members are:
- Bernd Tönjes, Chairman of the Board of Executives
- Dr Jürgen-Johann Rupp, Chief Financial Officer
- Bärbel Bergerhoff-Wodopia, Chief Human Resources Officer, responsible for education, science and culture

BOARD OF TRUSTEES AND BOARD OF EXECUTIVES OF THE RAG-STIFTUNG

BOARD OF TRUSTEES

Chairpersons
Dr Jürgen Großmann
Michael Vassiliadis (Deputy)

Hendrik Wüst
Professor Norbert Lammert
Thomas Kufen
Dr Andreas Reichel
Hildegard Müller

Christian Lindner
Dr. Robert Habeck
Dr Jürgen Großmann
Dr Burckhard Bergmann

Tobias Hans
Heiko Maas

Michael Vassiliadis
Martin Albers
Barbara Schlüter

BOARD OF EXECUTIVES

Chair
Bernd Tönjes

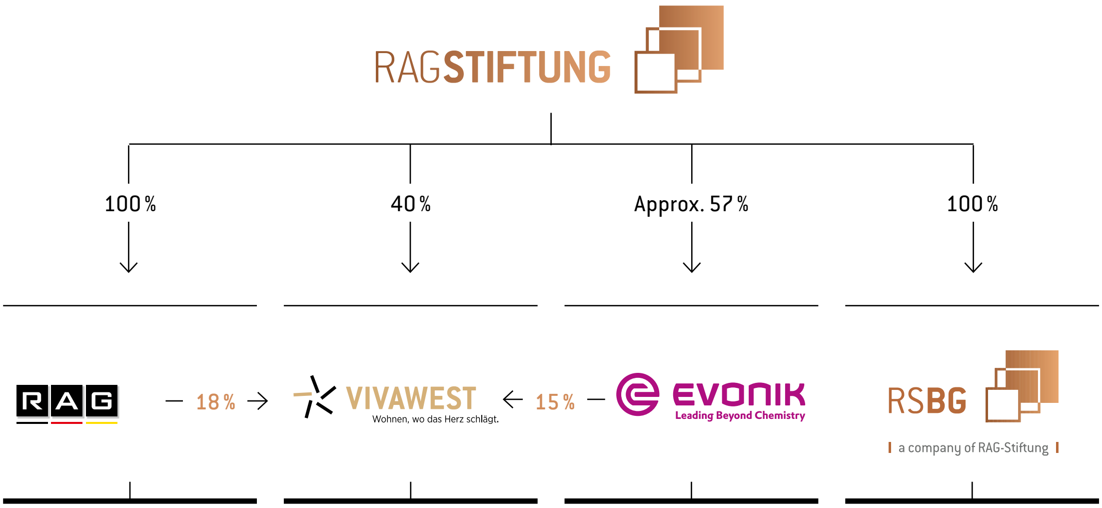
Chief Financial Officer
Dr Jürgen-Johann Rupp

Chief Human Resources Officer
Education, science, culture
Bärbel Bergerhoff-Wodopia

Members ex officio

As of 31 December 2021

RAG-STIFTUNG: STRATEGIC HOLDINGS



Investment portfolio

The RAG-Stiftung's strategic holdings are RAG Aktiengesellschaft (RAG), Essen; Evonik Industries AG, Essen; Vivawest GmbH (Vivawest), Gelsenkirchen; and RSBG SE, Essen.

The RAG-Stiftung holds all direct shares in RAG. Coal mining in Germany was the RAG Group's primary business activity. Following the scheduled cessation of active mining in December 2018, the Company's focus has been on processing the residual pollution and perpetual obligations from mining.

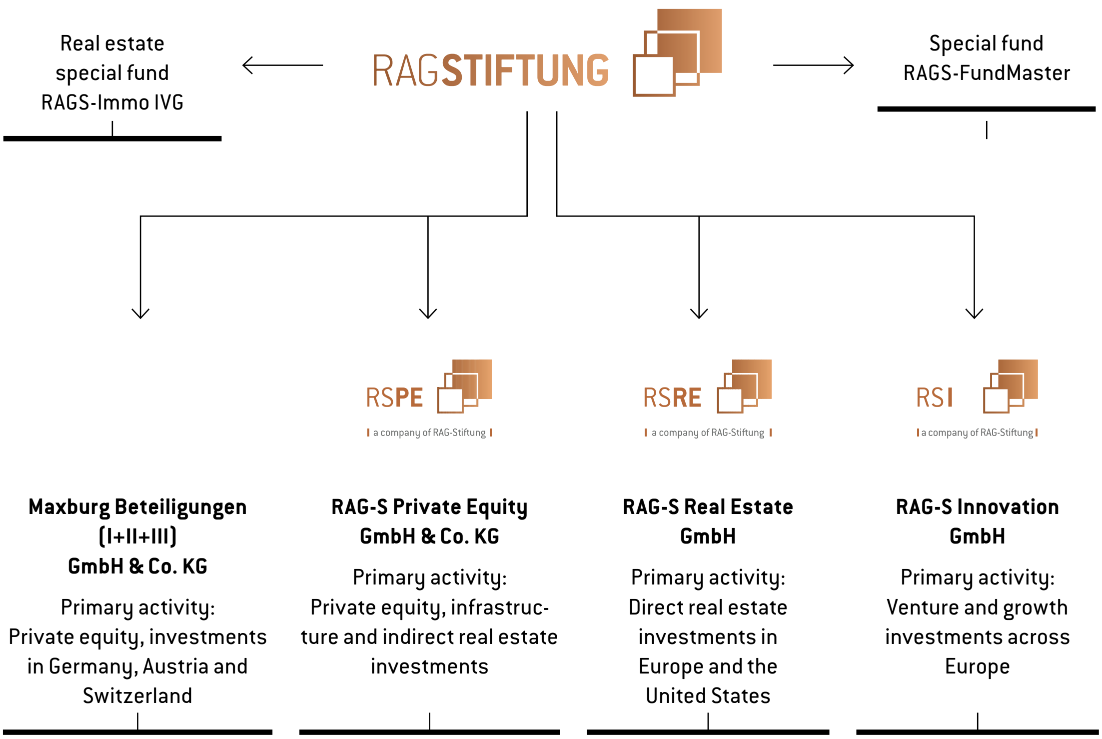
On 31 December 2021, the RAG-Stiftung directly held approximately 57 % (31 December 2020: around 59 %) of the shares in Evonik Industries AG, of which around 34 % are being held for sale. Evonik Industries AG is the holding company of the global Evonik Group, which focuses on speciality chemicals.

The RAG-Stiftung continued to have a direct holding of 40 % in Vivawest in 2021. A further 18.2 % is held by RAG and 15 % by Evonik. With around 118,000 apartments in its portfolio, Vivawest is a large housing provider in Germany.

RSBG SE is a traditional holding company. The RAG-Stiftung continues to hold 100 % of the shares. The investment strategy of RSBG SE is to further expand the company as a holding company that acquires minority or majority holdings in specialised medium-sized engineering, automation and industrial service companies. The investment objective is to generate ongoing income and increase the value of the invested capital over the medium and long term.

Various investment vehicles are used for the RAG-Stiftung's financial assets:

VEHICLES OF THE RAG-STIFTUNG FOR CAPITAL INVESTMENTS



In the "**RAGS-FundMaster**" special fund managed by capital management company Deka Investment GmbH, assets with a market value of approximately EUR 4.5 billion are administered by external managers, each with their own specific investment order. The majority of the special fund is invested in liquid assets (liquid return portfolio). There are mandates issued to manage global government bonds, international corporate bonds from Europe, the United States and emerging markets, and global and European shares. There is also one mandate for global inflation-linked bonds and another mandate for high-yield bonds. A small portion, the illiquid return portfolio, combines the aim of protecting against inflation with achieving returns above the money market interest rate. It includes investments in commercial real estate, which are performed as indirect investments via special funds.

In addition, European real estate investments are made in the **special real estate fund "RAGS-Immo IVG"** managed by PATRIZIA Immobilien Kapitalverwaltungsgesellschaft mbH, and European and American direct investments are made in **RAG-S Real Estate GmbH** (**RSRE**). **RAG-S Innovation GmbH** (**RSI**) invests in private debt investments through a Luxembourg-based vehicle (RAG-S Lending S.C.S, SICAV-RAIF).

The RAG-Stiftung's international private equity, infrastructure activities and other non-European real estate investments are pooled in **RAG-S Private Equity GmbH & Co. KG** (**RSPE**). With investments in the private equity asset class, the RAG-Stiftung decides on investments in funds administered by external managers. Critical factors for success in these cases include selection of the managers, sufficient diversification across different managers and various investment styles and, above all, diversification across various fund ages (vintage years). Decisions on investment in companies or other funds are made exclusively by the manager. Infrastructure and real estate activities of the RAG-Stiftung that are unsuitable for special funds are also held in the KG.

Maxburg Beteiligungen GmbH & Co. KG and the almost identically structured **Maxburg Beteiligungen II GmbH & Co. KG** and **Maxburg Beteiligungen III GmbH & Co. KG** (**"Maxburg KG"**) are also private equity funds which were set up exclusively for the RAG-Stiftung. Decisions on investments are made by an investment committee which cannot decide against the votes of the RAG-Stiftung, with the exception of disposals. Maxburg Capital Partners GmbH manages Maxburg KG. It identifies and assesses potential investment projects and prepares decisions on acquisition and possible disposal. Following a positive decision by Maxburg KG's investment committee, Maxburg Capital Partners GmbH also carries out the acquisition and possible disposal of investments. Furthermore, risk management is carried out by Maxburg Capital Partners GmbH.

Investment report

Overall statement on the course of business

Despite the ongoing coronavirus pandemic, 2021 was an extremely satisfying year for the RAG-Stiftung. We fulfilled our primary task, which was to secure and increase the capital stock to finance the perpetual obligations.

The RAG-Stiftung worked as efficiently as in previous years, meeting the budget in administrative expenditure.

CENTRAL KEY PERFORMANCE INDICATORS: FORECAST AND ACTUAL VALUES

In EUR million

	2021	Forecast for 2021	2020
Financial performance indicators			
Net profit for the year	0	Stable	0
Addition to provision for perpetual obligations	665	Approx. 290	859

The addition to the provision for perpetual obligations, which was considerably higher than the original forecast for 2021, was based chiefly on three factors that exceeded projections: higher operating income from the sale of Evonik shares, income from equity interests – particularly RSPE and Maxburg KG – and a higher dividend distribution from the RAGS-FundMaster special fund, which is reflected in “Other interest and similar income”.

Positive development of our capital investments

Despite the ongoing coronavirus pandemic and the challenging economic environment towards the end of 2021, capital investments in the RAGS-FundMaster special fund exhibited pleasing performance overall:

Due to the slight increase in interest rates, bond mandates declined by 2.4 % and 2.18 % respectively. The Emerging Market Debt mandate also fell slightly by 0.4 % against the previous year. The differences in terms of central bank policy between the Fed and the ECB are reflected in corporate mandates: whereas the European Corporate mandate declined slightly by 1.2 % and 1.3 %, the US Corporate mandate closed the year down by 2.9 %.

Driven by rising inflation, the mandate for inflation-indexed bonds performed strongly in the year under review, climbing by 4.0 %. The leveraged Credit Liquide special strategy mandate closed the year 10.0 % higher. The Global High-Yield mandate rose by 1.7 % in 2021.

The losses in the bond mandates were more than offset by gains in the equity mandates. The European Equity mandate ended the year with a sharp rise of 25.7 %, with the Global Equity mandate increasing by 20.3 %. The Global Reits mandate was an especially strong performer in 2021, appreciating in value by 43.9 %.

The liquidity position and the investments in the Tactical Investments mandate were used for reallocation to other mandates. The annual return came in at 7.9 %. The real estate mandates held in the illiquid return portfolio achieved a return of 5.7 %. The RAGS-FundMaster special fund achieved a return of 5.87 % in 2021 overall, despite the coronavirus pandemic.

Our illiquid private equity companies also saw a highly positive development despite the coronavirus pandemic, with both RSPE and Maxburg KG posting extremely pleasing results.

Economic conditions

The global economic upturn persisted in 2021. However, growth was dampened by the pandemic, which had still not been overcome. Driven by new variants of the virus, such as Delta and Omicron, infection rates and fatalities continued to rise around the world. The waves did not centre solely around a cluster of emerging and developing countries, where access to vaccines was more limited, but also around more developed economies, even though the latter group managed to make considerable headway in terms of vaccinations and combating the virus.

Repeated outbreaks of the virus in critical links of the global supply chain led to prolonged supply shortages, and therefore a weakening of global economic growth, in the reporting year. Moreover, inflation rose sharply in many countries. Alongside purely low base effects, this was also due to adjustment difficulties associated with the pandemic in the areas of supply chains, semiconductors and commodities. Overall, the risks threatening economic growth once again increased.

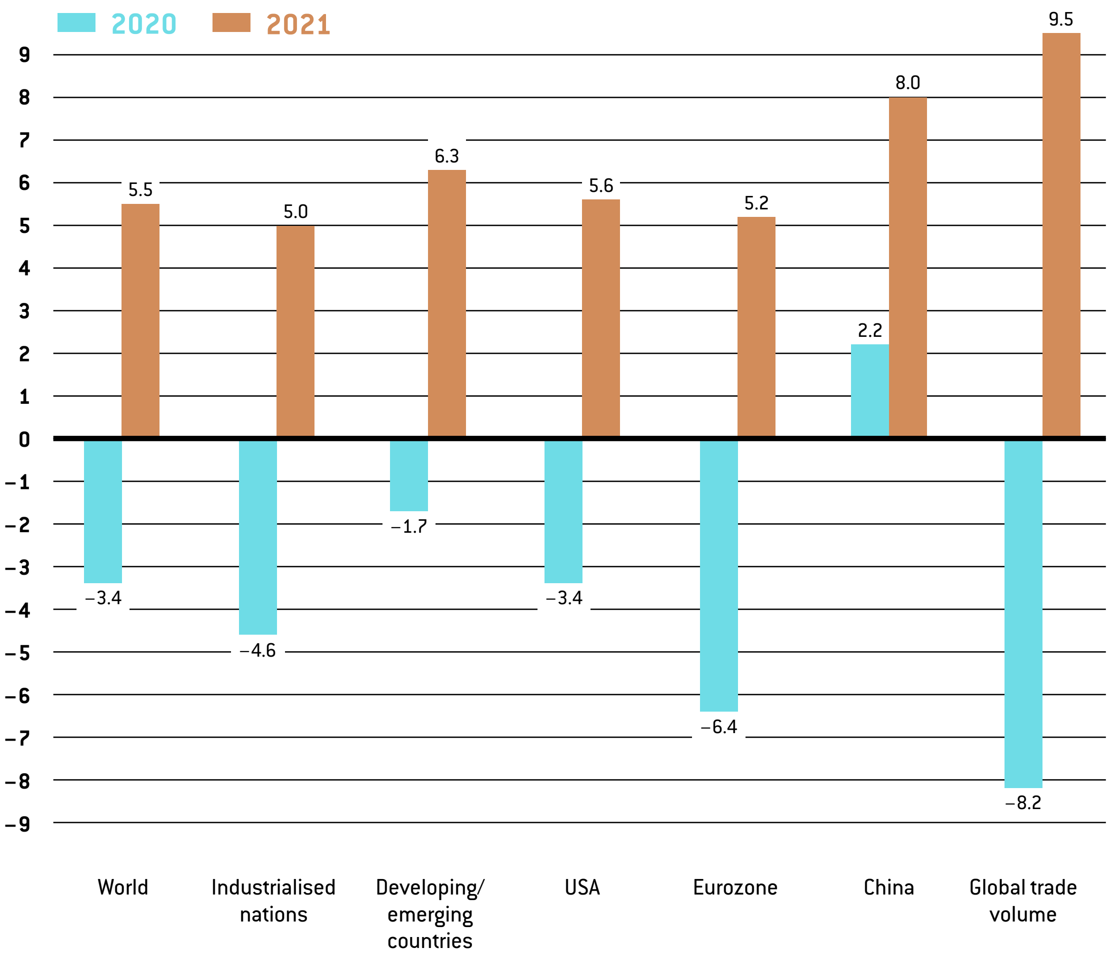
According to Global Economic Prospects, published by the World Bank, the global economy grew by 5.5 % overall (2020: 3.4 % contraction).

Economic development in the regions in detail:

According to the World Bank, the United States economy grew by 5.6 %. First and foremost, this growth was underpinned by fiscal policy measures, but was cooled by weaker private consumer demand and slower production growth in the second half of 2021. In turn, this was mainly due to increasing supply bottlenecks, rising energy prices and diminishing fiscal policy support connected with the pandemic. Inflation also climbed significantly at the same time.

GDP GROWTH RATES, WORLD AND COUNTRIES FOR 2020 AND 2021

In %



Source: World Economic Prospects

At its November meeting, the US Federal Reserve decided to scale back its bond-buying programme. As part of its tapering decision, the Fed intends to reduce purchases by a total of USD 15 billion a month, insofar as the economic outlook allows. On the basis of this plan, net bond purchases may be reduced to zero by about mid June 2022.

The coronavirus pandemic also dominated economic developments in Europe and central Asia in 2021. Roughly a tenth of the region's population was infected with the virus, making this one of the world's hardest-hit regions. In particular, this trend intensified in the final few months of the year due to new variants. Driven by pent-up demand, economic growth in Europe and central Asia came in at 5.8 % according to estimates of the World Bank. However, new export orders and growth were depressed slightly by high commodity prices, ongoing supply difficulties and stricter movement restrictions. The World Bank anticipates economic growth of 5.2 % in the eurozone in 2021.

Regional growth in East Asia and the Pacific region recovered against the previous year. Here, the economy expanded by 7.1 % in 2021; however, the speed and nature of the recovery varied sharply from region to region. In China, GDP grew by an estimated 8 % in 2021. The region (excluding China) also recovered last year, albeit only by 2.5 %. This weaker-than-expected growth serves as a reflection of the substantial impacts of the pandemic in several large economies, including Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Economic growth in Latin America and the Caribbean once again increased to around 6.7 % in 2021. This was boosted by rising exports and, in the second half of the year, by rapid progress in the roll-out of Covid-19 vaccinations and a sharp fall in the rate of new infections.

The recovery in the Middle East and North Africa gained momentum in the second half of 2021. This was attributable to gradual oil production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and its partners, a recovery in global oil prices, falling Covid-19 infection rates and the solidification of global demand. According to World Bank estimates, growth came in at 3.1 % in 2021.

Industry situation of the strategic holding

Coal/mining

Since the end of subsidised German coal mining on 31 December 2018, RAG's core business has encompassed not only the processing of residual pollution liabilities and perpetual obligations, but also the implementation of the process of shutting down operations. This includes necessary closure plans in line with the provisions of the German Federal Mining Act (*Bundesberggesetz* – BBergG), according to which the concept of "extraction" also covers the activities that follow coal production. The economic framework for the company's activities is formed by the principle of strict cost discipline, the German Hard Coal Financing Act (*Steinkohlefinanzierungsgesetz* – SteinkohleFinG), authorisations, coal guidelines and the approval procedures for the implementation of pit water management concepts.

Additional significant factors that affect the Company's success are the approval procedures for the implementation of pit water management concepts and the development of interest rates and prices on the market.

Speciality chemicals

In the financial year under review, the global economic conditions developed more strongly than anticipated at the start of the year. According to estimates of IHS Markit[1], global economic output increased by 5.6% overall in 2021, with a rise of just 4.4% expected at the start of the year.

Increasing order volumes and strong demand gave rise to an acceleration in industrial activity in 2021. Overall, global industrial production rose sharply against the previous year. In some cases, however, growth was restricted by supply chain interruptions on acc ount of the pandemic. Some of these interruptions resulted in longer delivery periods and higher prices for commodities, purchased materials and transport services within the industrial sector.

Following a pandemic-related fall in the previous year, the Evonik customer base recovered in 2021. Demand for personal hygiene and care products rose sharply in 2021, particularly in the Asia-Pacific region and Europe. Activity in the food and feed industry recorded substantial expansion in all regions except Central and South America. Production in automotive manufacturing and mechanical engineering also shot back up in all regions, with the lowest growth witnessed in Europe. Demand in the construction sector rose sharply.

Commodity prices increased substantially across the board in 2021. At year end, the prices were well above the coronavirus-related low level of the previous year.

Against the most important foreign currency for Evonik – the US dollar – the euro traded at an average of USD 1.18 in 2021, thereby improving on the average level of the previous year (USD 1.15).

Residential property in Germany

The German residential property investment market closed the year with a remarkable result: the transaction volume for residential property and portfolios of some EUR 49.8 billion dramatically exceeded both the forecast (+162%; 2020: +128%) and the five-year average (+178%). As such, the previous record high witnessed in 2015 was beaten by quite some way. The dominant factor in this regard is the takeover of Deutsche Wohnen SE by Vonovia SE, which – with an estimated value of EUR 23.5 billion – represented the largest transaction of 2021.

[1] Corresponds to IHS Markit figures as of 18 January 2022.

The demand for residential space in Germany is directly connected to the number of private households and their available income. Due to the high level of immigration from abroad, the population and number of households in Germany have risen steadily in recent years. The trend of increasing household numbers is being reinforced by the ageing population and the associated increase in one- and two-person households (singularisation). By 2040, the number of households in Germany is expected to increase by 3 % to 42.6 million due to the continuous reduction in the average number of people per household. Forecasts suggest that the number of private households in North Rhine-Westphalia will increase by 3 % by 2045.

Net basic rents for residential space continued to rise moderately in 2021 in terms of existing rentals. The German Federal Statistical Office expects an increase of 1.3 %. The index of advertised rents is rising steadily for new buildings. The increase across Germany in the reporting year was 4.4 % compared with the previous year. However, the market for rented accommodation in Germany also developed differently from region to region in 2021. While the markets in some rural and structurally weak regions stagnated, demand for apartments in large cities and metropolitan areas remained high.

In the period from January to November 2021, a total of 341,037 building permits were issued, which equates to a 2.8 % increase compared to the previous year. There is a corresponding time lag between the building permits issued and the construction projects being completed. Professional construction associations calculate that approximately 300,000 new apartments were built in 2021. According to estimates by politicians and the construction industry, 400,000 apartments would have to be built each year in Germany to meet the persistently high demand for housing.

Structurally favourable conditions for the further development of the German housing market include the rising number of households, coupled with a steady rise in demand for living space per capita. Stable incomes, low unemployment, persistently low financing costs and high demand for apartments in prospering regions also constitute factors that, thus far, have remained largely unaffected by the impacts of the coronavirus pandemic.

The significant rise in real estate prices means that the residential market has increasingly become the focus of political attention in recent years. In Germany's large cities and prospering metropolitan areas, affordable housing has become a key social issue, and politicians have already taken steps to tighten the regulatory framework. Since tenancy laws have a direct impact on business activities, the planned legislative changes are being followed closely.

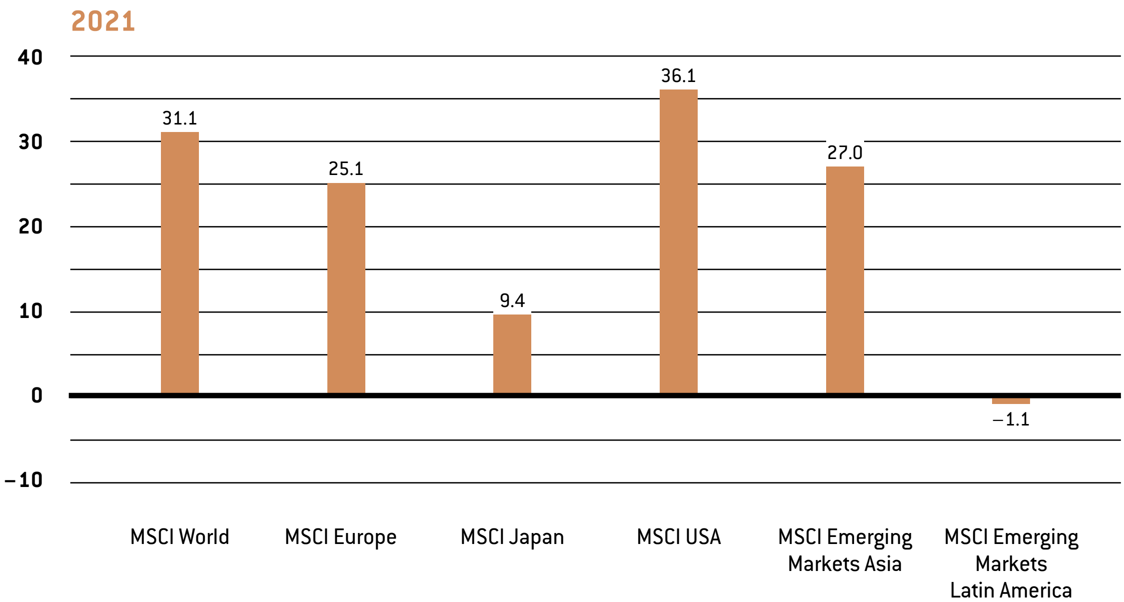
The sharp rises in construction prices are having an adverse effect. In addition, the number of government regulations is also increasing, the aim being to ensure climate neutrality in respect of existing properties and new builds alike. Vivawest monitors developments in the subsidisation of energy-efficient buildings particularly closely.

Capital market situation
The situation on the capital markets is highly relevant to the RAG-Stiftung as a major investor.

The capital market underwent two distinct phases in 2022: the year was dominated by hopes of a swift end to the pandemic and a return to normal social and economic life following the announcement of initial successes in the vaccination campaign. Expectations of an extensive relief package from the new US president played their part in this regard. As such, share prices rose considerably. The German lead index, the DAX, climbed above the 15,000-point mark for the first time and was up by more than 13 % following the first six months of the year, with other indexes reaching similar highs in November. However, the DAX was unable to defend its record high of 16,290 points it reached in November, and closed the year at 15,885 points. This was due to numerous adverse factors: vaccination rates lagged well behind expectations and were not sufficient to bring about lasting containment of the virus. New variants, such as Omicron and Delta, compounded the uncertainty. In addition, supply bottlenecks and the scarcity of key semiconductors generated headwind and led to a return of inflation. Finally, more uncertainty was prompted by concerns of a more rapid departure from the expansionary monetary policy of the Fed and other central banks due to considerably higher inflation.

PERFORMANCE OF STOCK MARKETS IN EUROS

In %



Source: RMC report

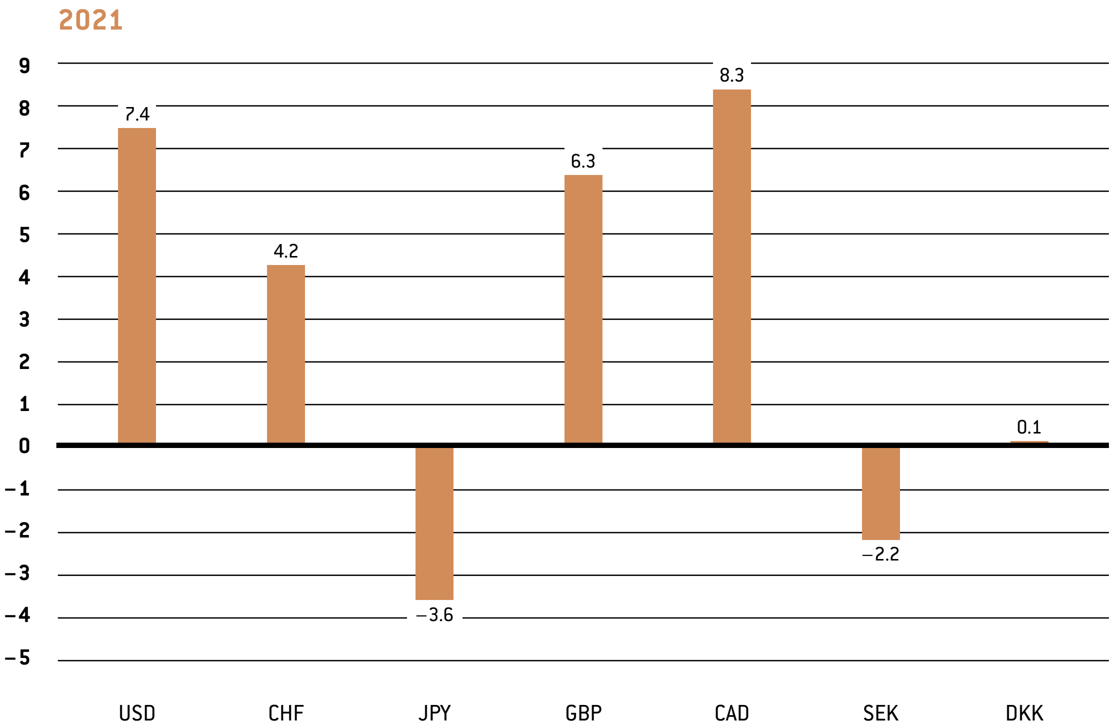
In the eurozone, the economic recovery was weaker, and price pressure less pronounced, than in the United States. Whereas German inflation stood out, the inflation rate in France was ultimately more moderate at 2.6 %. The European Central Bank (ECB) regarded itself as facing much less inflationary pressure than the Fed and therefore acted more cautiously, focusing initially on the Pandemic Emergency Purchase Programme (PEPP).

Euro declines against other currencies
In the reporting year, the value of the euro fell against most other currencies.

The US dollar recorded a year-on-year gain of 7.4 % against the euro at year-end 2021, which corresponds to a closing exchange rate of 1,1370 EUR/USD. The Canadian dollar also rose by 8.3 % against the euro year on year. While the British pound rose by 6.3 % and the Swiss franc by 4.2 % against the euro, the Japanese yen fell by 3.6 % and the Swedish krona fell by 2.2 % against the euro.

CHANGE IN KEY EXCHANGE RATES AGAINST THE EURO

End of 2021 vs end of 2020 in %

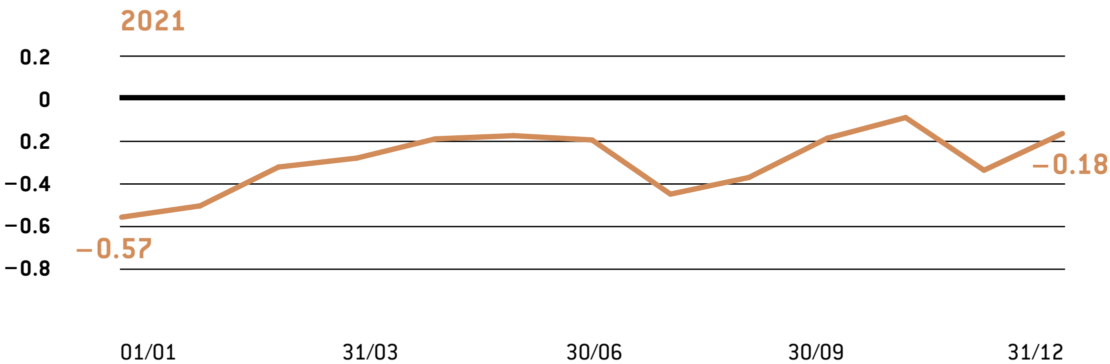


By virtue of the solid economic recovery – driven by expansive monetary and fiscal policy – and rising prices, 2021 was a positive year for the commodities and stock markets. On the bond markets, in contrast, returns increased slightly, leading to negative performance on the investment-grade and government bond indexes. In light of the uncertainty surrounding a shift in central bank policy due to rising inflation, volatility also increased on the bond market.

Development of bond markets in 2020 in detail
In 2021, global bond markets posted a negative performance, down 2.5 % (JPM[2] Global Bond Index). Due to the weakness of the euro, the performance for euro investors increased relatively to 0.6 %.

- Anyone investing solely in German federal bonds recorded a loss of 2.6 % in 2021.
- The return on the German ten-year benchmark bond rose slightly by 40 basis points[3] (bp) during the course of the year due to emerging worries about inflation. After the benchmark yielded –58 bp at the end of 2020, the return at the end of 2021 stood at –18 bp.
- The spreads of the European countries on ten-year bonds widened in almost all countries as per the end of the year: Greece's spread widened from 120 bp to 149 bp. The spread on Italian government bonds increased from 110 bp to 136 bp. Spain's risk premium increased from 63 bp to 77 bp. Eurozone bonds generated a wide-scale loss of 3.5 % in 2021.
- US Treasury bonds lost 2.6 % in local currency and achieved a positive performance of 4.8 % in euros.

YIELD DEVELOPMENT OF THE TEN-YEAR FEDERAL BOND
In %



[2] J.P. Morgan is a US financial services provider that calculates and publishes numerous international bond indexes.
[3] 100 bp = 1 %.

- Emerging-market bonds were down 2.9 % in local currency and down 1.8 % in euros.
- The real interest rates in France and Germany over the ten-year period were at –1.75 % at the end of 2021 and therefore below the previous year-end value of –1.48 %. A 30-year maturity generated a negative real interest rate of –1.94 % at the end of 2021, below the value of the previous year of –1.50 %
- Inflation swaps, which reflect the course of inflation expected by the market, were at 2.06 % for ten years at the end of December 2021 in the eurozone, thus above the previous year's value of 1.13 %

Development of the investment companies

RAG

In line with expectations and in view of the regulations stipulated by the agreements on coal policy, RAG's 2021 financial year developed satisfactorily.

The financial year ended with a net loss of EUR 239.3 million. This was mainly due to the price- and interest-indexed adjustment of other provisions. In accordance with the controlling and profit-and-loss transfer agreement between RAG and the RAG-Stiftung, the loss was settled by the RAG-Stiftung.

Staff reduction was continued as planned in 2021. The takeover of staff as part of mergers involving subsidiaries counteracted this development.

The coronavirus pandemic had no direct economic or financial impact on the company.

The extraordinary strain on the workforce due to reductions in personal contacts and the increased use of digital technologies did not have any adverse effects on the high levels of dedication and performance. Measures were introduced right at the beginning of the pandemic and were tightened in response to the widespread increase in the number of infections in the autumn. This made it possible to prevent infection chains within the company. Business processes were steadily maintained.

Evonik

KEY FIGURES FOR THE EVONIK GROUP (IFRS)

In EUR million

	2021	2020	Change in %
Sales	14,955	12,199	+23
EBITDA (adjusted)	2,383	1,906	+25
Group result	746	465	+60
Dividend (per share, in EUR)	1.17	1.15	+2

Evonik successfully made strategic progress in 2021. For instance, the results of the internal sustainability analysis were incorporated within the strategic management process for the first time. In the coming years, Evonik intends to substantially increase the share of attractive growth areas with a focus on sustainability (next-generation solutions) within its portfolio. In spite of challenging underlying conditions, Evonik continued with important investments at the Marl site, such as the establishment of a large plant complex for the special plastic polyamide 12 and the construction of two modern gas and steam turbine power plants, as planned. As part of the growth strategy within the Nutrition & Care division, smaller acquisitions for the purpose of consolidation were completed with the takeovers of Infinitec Activos SL (Montornès del Vallès, Spain), Botanica GmbH (Sins, Switzerland) and JeNaCell GmbH (Essen, Germany), with these acquisitions supporting the focus on sustainability. Following the successful completion of the SG&A optimisation programme, Evonik continues to work continuously and systematically to streamline structures and improve efficiency within both production and administration.

In 2021, Evonik underwent positive development of its business operations. With global demand high, Evonik significantly increased sales volumes against 2020, a year that was hampered by the coronavirus pandemic. Sales prices also improved compared to 2020. From the second half of 2021, however, the procurement market was significantly more volatile due to the rapid economic recovery from the impacts of the coronavirus pandemic. All primary energy prices rose, thereby also making many primary chemical products more expensive. The availability of raw materials, logistics services and packaging materials was extremely limited. Evonik therefore experienced higher raw material and logistics costs and restrictions in global supply chains, particularly in the second half of the year. Overall, Evonik posted sizeable increases in sales and EBITDA, with all chemicals divisions contributing.

Group sales rose by 23 % to EUR 14,955 million. Adjusted EBITDA improved by 25 % to EUR 2,383 million. This was due above all to greater volumes and improved sales prices, with rising raw material and logistics costs coupled with restrictions in global supply chains having an adverse effect, particularly in the second half of the year. The adjusted EBITDA margin increased to 15.9 % (previous year: 15.6 %). By virtue of the higher result, ROCE improved to 9.0 % and therefore reached the level of capital expenditure, but was below the medium-term target of 11 %.

The Group result rose by 60 % to EUR 746 million. Once adjusted for extraordinary items, the Group's result from ongoing operations climbed by 54 % to EUR 986 million.

The Executive Board and the Supervisory Board of Evonik will be proposing an increased dividend of EUR 1.17 per share to the Annual General Meeting (2020: EUR 1.15 per share).

Evonik generated a strong free cash flow of EUR 950 million. The cash conversion rate of 40 % indicates the proportion of the operating result that can be converted into cash.

The financial profile of Evonik remains excellent: Evonik has a solid BBB+ investment-grade rating from S&P. Net financial debt remains more or less unchanged at a solid level. In addition to sufficient liquidity, Evonik also has access to a large non-utilised credit line.

Vivawest

KEY FIGURES FOR THE VIVAWEST GROUP (IFRS)
In EUR million

	2021	2020	Change in %
Sales	876	834	+5
EBITDA (adjusted)	414	384	+8
Income after tax	84	101	–17
FFO	263	245	+7
NAV	6,446	5,369	+20

Despite all the challenges associated with the pandemic, Vivawest continued its positive business development of recent years in the 2021 financial year.

The positive development in the Real Estate segment was supported by stable income levels from the core business area of portfolio management, together with the significant income and earnings contributions from real estate sales generated as a result of an ongoing process of portfolio restructuring. Together with the Real Estate Services segment, financial expectations were outperformed once again.

With a further increase in letting performance, combined with a moderate turnover rate, the demand-related vacancy rate fell significantly to 1.1 % as of year end (previous year: 1.4 %). Along with vacancies due to modernisation and pre-sales measures, which came in at 1.4 % and were also therefore down on the previous year's figure, a total vacancy rate of just 2.5 % was reported as of the balance sheet date. This is the lowest level achieved by Vivawest to date. Vivawest was largely able to use the continuing good management situation and significantly improved rental trend – attributable in particular to successful investments – to further increase its spending on improvement of the quality of the portfolio.

During the financial year under review, Vivawest generated sales revenue of EUR 876 million and adjusted EBITDA of EUR 414 million. Both figures were considerably higher than the forecasts contained in the 2020 management report (EUR 853 million and EUR 391 million) and the comparative prior-year figures (EUR 834 million and EUR 384 million), mainly due to the strong course of business in the Real Estate segment.

Group earnings after tax (EAT), in contrast, were adversely affected by the formation of a provision for trade taxes from prior periods in the amount of EUR 41 million following a retroactive refusal of extended reduction and therefore came in below the previous year at EUR 84 million (previous year: EUR 101 million).

The standard industry indicator funds from operations (FFO), which measures the performance of portfolio management after interest and tax expenses, not accounting for the profit from the disposal of investment properties, stood at EUR 263 million and was also higher than the forecast (EUR 255 million) and the prior-year figure (EUR 245 million) on account of the improved interest rate position.

At EUR 6,446 million, the net asset value (NAV) as of 31 December 2021 was up by EUR 1,077 million on the prior-year figure. In addition to the market value of investment property, the NAV includes the Group's net financial indebtedness as well as provisions for pensions and long-term obligations from the area of mining follow-up management. The increase is primarily attributable to the balance of value-increasing investments and targeted disinvestments, the market-related reduction of the discounting interest rate used to value real estate and the development of the market value performance of the real estate portfolio as a consequence of improved management performance.

RSBG SE (previously RAG-Stiftung Beteiligungsgesellschaft mbH)

RSBG SE KEY INDICATORS

In EUR million

	2021	2020	Change in %
Investment income [a]	63	122	−48
Net profit for the year	36	116	−69

[a] Investment income is largely influenced by the sale.

Overall, the 2021 financial year progressed according to expectations for RSBG SE. Gains from disposals exceeded impairments of individual investments within the portfolio that became necessary on account of the ongoing coronavirus pandemic as well as the individual course of business.

Investment income includes dividends from investment companies in the amount of EUR 21.0 million, gains from the sale of shares held as fixed assets in the amount of EUR 94.0 million and expenses relating to the assumption of losses of affiliated companies in the amount of EUR 47.9 million (mainly related to impairments).

The net profit for the year stood at EUR 35.9 million, compared with EUR 116.3 million in the previous year.

Earnings position

Income statement

RAG-STIFTUNG: INCOME STATEMENT
In EUR million

	2021	2020	Change
Revenue	2.2	2.1	+0.1
Other operating income	268.2	580.7	−321.5
Personnel expenses	−9.4	−9.4	+0.0
Depreciation and amortisation on intangible assets and property, plant and equipment	−1.3	−1.4	+0.1
Other operating expenses	−703.2	−901.5	+198.3
Income from investments	611.6	684.1	−72.5
Expenses relating to the assumption of losses	−239.3	−368.6	+129.3
Income from other securities and loans held as financial assets, including interest income and amortisation of financial assets and securities held as current assets	87.7	58.1	+29.6
Income taxes	−16.0	−43.6	+27.6
Income after tax	**+0.5**	**+0.5**	**+0.0**
Other taxes	−0.5	−0.5	+0.0
Annual net profit (+)/loss (−)	**0.0**	**0.0**	**0.0**

In 2021, revenue increased by EUR 0.1 million to EUR 2.2 million due to higher rental income received from directly held real estate.

Other operating income of EUR 268.2 million in the reporting year stemmed primarily from the sale of Evonik shares.

Of the EUR 9.4 million reported for personnel expenses, EUR 1.5 million was attributable to the addition to the provisions for pensions and EUR 0.4 million for social security.

Other operating expenses amounting to EUR 703.2 million primarily concerned the addition to the provision for perpetual obligations of EUR 665.0 million (2020: EUR 858.5 million). Other operating expenses also include expenses for education, science and culture – one of the goals of the articles of association – in the amount of EUR 26.7 million.

The investment income of EUR 611.6 million primarily includes the dividend distribution of Evonik Industries AG of EUR 305.0 million, as well as the profit distribution of Maxburg KG in the amount of EUR 188.8 million. Other distributions were attributable to Vivawest GmbH in the amount of EUR 55.6 million and RSBG SE in the amount of EUR 36 million.

Other financial income[4] amounted to EUR 87.7 million in the reporting year. This stemmed mainly from income from securities and special real estate funds in the direct ownership of the RAG-Stiftung, from the dividend of the RAGS-FundMaster special fund and, conversely, from interest expenses and amortisation of financial assets.

Income taxes came in at around EUR 16 million.

As in the previous year, the RAG-Stiftung allocated the full amount to the provision for perpetual obligations in the amount of EUR 665.0 million (2020: EUR 858.5 million) as a result of the system of creating provisions with its otherwise accrued earnings, ensuring that the result under commercial law was balanced.

[4] Income from other securities and loans held as financial assets, including interest income and amortisation of financial assets and securities held as current assets.

Financial position

Principles and objectives of the RAG-Stiftung's financial management

The RAG-Stiftung's principal task is to ensure the financing of the perpetual obligations following the discontinuation of subsidised coal mining in Germany.

Pursuant to section 3, paragraph 6, of the articles of association, the RAG-Stiftung's assets must be invested in such a way as to ensure the greatest possible security and return with sufficient liquidity, while preserving an appropriate mix and diversification. The primary aim of the investment is the sustainable financing of the perpetual obligations. The risks and opportunities within the investment portfolio are optimised with the proviso that these obligations will remain covered. The cornerstones of the investment are therefore the assets and the expected inflow of funds and the cash outflows covered by the payments for perpetual obligations to RAG AG. The RAG-Stiftung's strategic capital investment is therefore based on an asset liability approach, which takes into account the long-term payment obligations and the incoming payments expected on an ongoing basis.

The RAG-Stiftung's investment strategy also provides for a wide diversification of the investments across the various asset classes and investment markets and the systematic further development of the diversification strategy in order to stabilise earnings and to be able to react to the current uncertainties on the financial markets. In response to the low rates of interest in general and to future inflation risks, the investments are to be further expanded into higher-yielding tangible assets (including private equity, direct holdings and real estate/infrastructure).

The standards for capital investment – that is, the principles of investment policy and risk controlling – are laid out in a set of General Investment Guidelines for the RAG-Stiftung (*Allgemeine Kapitalanlagerichtlinie* – KARL). Capital investments include all investments, with the exception of the holdings in Evonik and Vivawest. According to carrying amounts at the end of 2021, around 40.6 % of the financial assets were invested in "RAGS-FundMaster", a special fund managed by a capital management company pursuant to the German Capital Investment Act (*Kapitalanlagengesetzbuch* – KAGB).

By using a single custodian bank as "global custodian" and a single master capital management company for the liquid financial assets, the foundations have been laid for uniform risk controlling and transparent presentation.

As part of an annually updated asset liability study, the structures of the liabilities from the perpetual obligations are analysed, and the profile of the payment streams to be paid by the RAG-Stiftung is determined. Against this background, the capital investment strategy of the RAG-Stiftung, which is "strategic asset allocation" (SAA), is reviewed and adjusted on an annual basis.

In its own holdings, investments are made according to a buy-and-hold strategy. In addition to liquidity on the bond side, it contains both nominal securities predominantly of very good or good creditworthiness as well as bonds coupled with the development of inflation, and thus interest-income-generating bonds predominantly of sovereign borrowers. In addition to a real estate special fund set up exclusively for the RAG-Stiftung, its own portfolio also includes companies that invest in private equity investments, real estate and infrastructure.

Another EUR 300.5 million was added to the "RAGS-FundMaster" special fund managed by the master capital management company in 2021, ensuring the carrying amount totalled EUR 3.6 billion as of 31 December 2021. The market value at the same time was around EUR 4.5 billion.

The objective of risk controlling is to manage the results of investments and to avoid impairments. Regular risk reporting is made in a weekly and monthly risk report. The risk budget forms the basis for the management of the return portfolio, which is oriented to the risk-bearing capability. The capacity of the risk budget is regularly calculated and documented, while the current risk of the investment is measured using the value-at-risk (VAR) approach. In addition to the analysis of the current risk budget, the RAG-Stiftung's financial assets are analysed monthly in relation to a number of key risk indicators such as rating, duration, modified duration and credit risk.

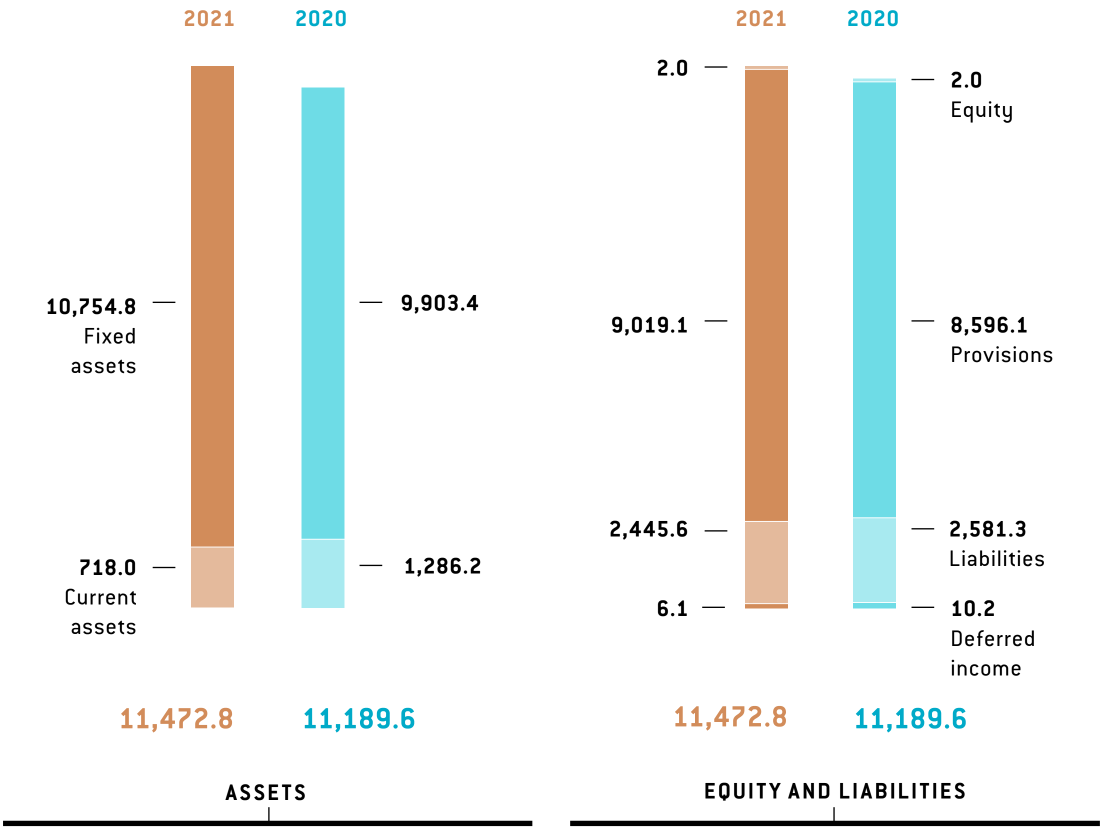
A coordinated capital investment takes place with the affiliated subsidiary RAG to optimise the available resources via the controlling and profit-and-loss transfer agreement. The same bank limits therefore apply to the term deposit investments of the RAG-Stiftung and RAG, and are regularly reviewed. The RAG-Stiftung's risk reporting system was also extended to the financial assets of RAG.

Capital structure

As of the end of 2021, the RAG-Stiftung recognised financial liabilities from three exchangeable bonds on Evonik shares of EUR 1.5 billion. The liabilities side of the balance sheet is dominated by the provision for perpetual obligations amounting to EUR 8.9 billion as a result of the business model of the RAG-Stiftung. The term of this obligation is infinite. The increase in the provision for perpetual obligations amounted to EUR 400.5 million compared with the previous year.

BALANCE SHEET STRUCTURE

In EUR million



Investments

The RAG-Stiftung invested EUR 852.6 million in the financial assets in 2021. The RAGS-FundMaster special fund was endowed with EUR 300.5 million.

Liquidity

Liquidity was ensured at all times due to securities that could be sold at short notice.

Assets

At the end of the reporting year, the total assets of the RAG-Stiftung amounted to EUR 11,472.8 million. This represents an increase of EUR 283.2 million in total assets over the previous year's value.

ASSETS – FIXED AND CURRENT ASSETS

In EUR million

	31/12/2021	31/12/2020	Change
Fixed assets	**10,754.8**	**9,903.4**	**+851.4**
Property, plant and equipment and intangible assets	54.2	55.4	−1.2
Financial assets	10,700.6	9,848.0	+852.5
Current assets	**718.0**	**1,286.2**	**−568.2**
Receivables and other assets	336.6	317.2	+19.4
Securities	381.4	406.7	−25.3
Flüssige Mittel[b]	0.0	562.3	−562.3
Aktive Rechnungsabgrenzungsposten	**0.0**	**0.0**	**+0.0**
Summe Aktiva	**11,472.8**	**11,189.6**	**+283.2**

[b] Liquid assets including the financial account of RAG.

At the end of 2021, financial assets of EUR 4,243.8 million were attributable to companies through which the RAG-Stiftung invests in private equity, real estate, infrastructure and the SME sector. Of this amount, EUR 3,643.6 million was attributable to the special investment fund managed by the master capital management company. The 40 % holding in Vivawest GmbH, with acquisition costs of EUR 1,390.2 million, was also reported in fixed assets.

Shares in Evonik Industries AG in the amount of 25.1 % are reported at EUR 305.5 million under financial assets due to the planned long-term retention of these shares. The remaining Evonik shares (31.7 %) are reported under securities held as current assets, as these shares are being held for sale.

Receivables and other assets primarily include receivables for imputable tax of EUR 320.1 million and a total of EUR 5.4 million in receivables due from affiliated companies.

EQUITY AND LIABILITIES – EQUITY, PROVISIONS AND OBLIGATIONS

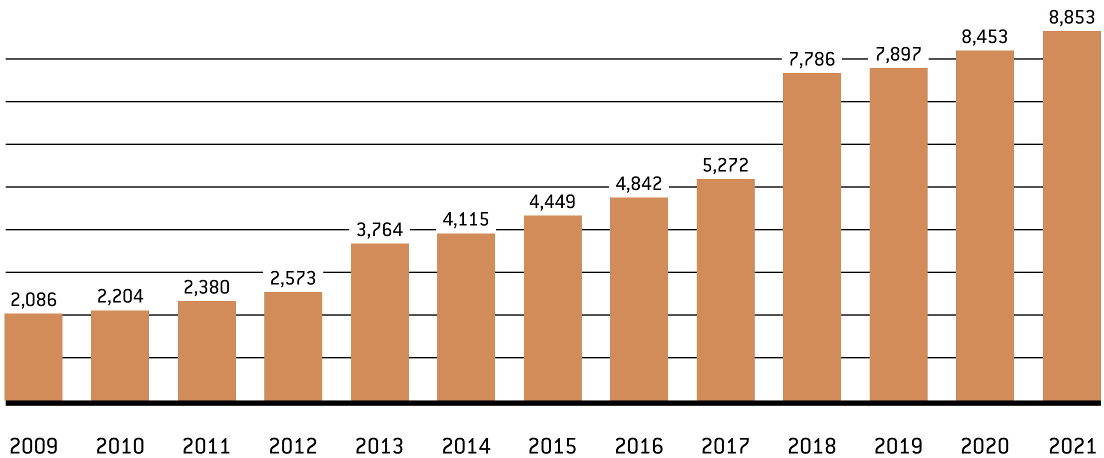
In EUR million

	31/12/2021	31/12/2020	Change
Equity	**2.0**	**2.0**	**+0.0**
Endowment capital	2.0	2.0	+0.0
Provisions	**9,019.1**	**8,596.1**	**+423.0**
Pension provisions	16.9	13.2	+3.7
Tax provisions	126.9	107.6	+19.3
Provisions for perpetual obligations	8,853.0	8,452.5	+400 .5
Other provisions	22.3	22.8	–0.5
Liabilities	**2,445.6**	**2,581.3**	**–135.7**
Bonds	1,500.0	1,586.2	–86.2
Trade accounts payable	0.0	0.1	–0.1
Liabilities to affiliated companies	942.3	945.7	–3.4
Other liabilities	3.3	49.4	–46.1
Deferred income	**6.1**	**10.2**	**–4.1**
Total equity and liabilities	**11,472.8**	**11,189.6**	**+283.2**

When the RAG-Stiftung was established, it was endowed with an endowment capital (basic assets) of EUR 2.0 million, which has been retained in full.

PROVISIONS FOR PERPETUAL OBLIGATIONS

In EUR million



For its obligations to RAG for the financing of perpetual obligations, the RAG-Stiftung reports a provision of EUR 8,853.0 million as of 31 December 2021. This corresponds to a net increase of EUR 400.5 million over the previous year's figure of EUR 8,452.5 million. The allocation from the net annual profit of EUR 665.0 million was offset by a utilisation of EUR 264.5 million. This was composed of payments to RAG for perpetual obligations in the amount of approximately EUR 252 million and a payment to RAG in the amount of nearly EUR 12.5 million for the interest element of the investments made by RAG in pit water management.

Other provisions mainly include provisions for services received but not yet billed.

The liabilities of EUR 2,445.6 million as of the 2021 balance sheet date mainly include EUR 1,500.0 million in three exchangeable bonds on Evonik shares and EUR 942.3 million in liabilities to affiliated companies. These include in particular liabilities for a loan of EUR 620 million from RAG AG and the assumption of losses by RAG in the amount of EUR 239.3 million.

Significant non-financial matters

Employees

There were 24 employees at the RAG-Stiftung at the end of 2021; in the previous year, there were 25. The average number of employees during the year was 24 (previous year: 25).

Occupational health and safety

We have a modern corporate health management programme which goes beyond traditional occupational health promotion. In addition to the medical check-ups available to employees, the care provided includes individual consultation and innovative prevention schemes. Qualified cooperation partners – in particular Evonik's occupational health services – offer a comprehensive range of preventive measures and health promotion.

No occupational accidents occurred during the reporting period.

Risks and opportunities report

Risk and opportunities management (or simply: risk management) at the RAG-Stiftung is a continuous and dynamic process that begins with planning and consistently reaches all areas. The risk management system integrates all systematic measures into an overall approach for the purpose of identification, analysis, assessment, management and control of risks that could hinder achievement of the RAG-Stiftung's objectives.

The standards for risk management are set out in the Risk Management Guidelines. In addition to organisational security measures, internal control systems and division-specific risks, the RAG-Stiftung's risk management also includes RAG's internal audit department as a process-independent supervisory authority.

The division head nominated by the Board of Executives assumes the role of risk manager. This person monitors the risk management system and coordinates reporting to the Board of Executives at the RAG-Stiftung on the opportunities and risks of the strategic holdings and of the RAG-Stiftung itself. The respective division heads of the RAG-Stiftung are responsible for the identification and assessment of risks, as well as the formulation and implementation of measures for risk management. The divisions of the RAG-Stiftung are charged with the following tasks and responsibilities with regard to risk management: reporting on opportunities and risks as part of the monthly report, presentation of opportunities and risks in the scope of medium-term planning and immediate reporting to the Board of Executives where necessary.

In order to determine which risks most likely represent a threat to the objectives or the existence of the RAG-Stiftung, the risks are classified according to their probability of occurrence and their effects on net assets, financial position and earnings position. The scales for assessing both of these indicators are presented in the table below.

The RAG-Stiftung classifies the assessment of the probability of a risk occurring according to the criteria "rather unlikely", "possible" or "probable".

Probability of occurrence	Description
0 %–32 %	Rather unlikely
33 %–65 %	Possible
66 %–100 %	Probable

The possible effects are assessed according to qualitative criteria of increasing value: "low", "moderate" and "significant".

Degree of impact	Definition of impact
Low	Low negative impact on net assets, financial position or earnings position
Moderate	Moderate negative impact on net assets, financial position or earnings position
Significant	Significant negative impact on net assets, financial position or earnings position

According to their estimated probability of occurrence and their effects on the net assets, financial position and earnings position of the RAG-Stiftung, risks are classified as "low", "medium" or "high".

RISK CLASSIFICATION MATRIX

Probability of occurrence				
	66 % to 100 %	Low	Medium	High
	33 % to 65 %	Low	Medium	Medium
	0 % to 32 %	Low	Low	Medium
Degree of impact		Low	Moderate	Significant

The following major risk categories arise from the RAG-Stiftung's main risk areas:

RAG investment risk

The RAG-Stiftung and RAG concluded a controlling and profit-and-loss transfer agreement on 24 September 2007. RAG's business risks therefore affect the RAG-Stiftung directly.

RAG has its own risk management system, as this is where the original risk responsibility for the business risks and their management lies. As a public limited company, RAG is subject to statutory monitoring requirements. This means that in accordance with section 107, paragraph 3, of the German Stock Corporation Act (*AktG*), the Supervisory Board is responsible not only for monitoring the accounting process, but is also obliged to address the effectiveness of the internal controlling system, the risk management system and the internal audit system. These requirements are met by representatives of the RAG-Stiftung on RAG's Supervisory Board. The RAG-Stiftung is kept informed by regular reports and checks the effectiveness of the risk management system by analysing risks and measures.

Risks for the RAG-Stiftung have included the operating result risks from RAG's business activities and the cash outflows for perpetual obligations since 2019. They are dependent on the development of costs and official approvals for the planned optimisation measures in the field of pit water management. Developments in interest rates and costs are decisive factors determining the amount of provision required at RAG. Unfavourable economic developments may lead to a situation where the funds approved for RAG in 2019 for the financing of residual pollution and other perpetual obligations are not sufficient.

In 2021, losses of EUR 239.3 million were balanced by the RAG-Stiftung pursuant to section 3 of the controlling and profit-and-loss transfer agreement. The main factor with an adverse impact on RAG's earnings was the interest-related requirement for allocation to non-current provisions.

From today's perspective, we assume that use will likely be made of the controlling and profit-and-loss transfer agreement to balance RAG's earnings every year from 2022 to 2025. This is mainly the result of higher charges due to the persistently low interest rate and the resulting higher additions to non-current provisions.

Overall, the risks arising from the holding in RAG are significant. Due to the German Hard Coal Financing Act, the underlying coal policy contract and the agreements made and approvals received, the risk should be manageable. However, following the end of German coal production, the accounting countermeasures available to RAG have been significantly reduced. As a result, we allocate the probability of occurrence of the risks described to the category "probable". Overall, we therefore continue to classify this as a "high risk". Nevertheless, despite this classification, we consider the risk to be manageable due to the financial resources available to the RAG-Stiftung.

Evonik investment risk

The RAG-Stiftung is the majority shareholder in Evonik Industries AG. The Evonik Group's business risks therefore also indirectly affect the RAG-Stiftung. As a listed company, Evonik Industries AG has an independent and Group-wide risk management system. In accordance with section 107, paragraph 3, of the German Stock Corporation Act (AktG), the Supervisory Board of Evonik Industries AG is responsible not only for monitoring the accounting process, but is also obliged to address the effectiveness of the internal controlling system, the risk management system and the internal audit system. These requirements are met by Evonik Industries AG's Supervisory Board. It is kept informed by regular reports and checks the effectiveness of the risk management system by analysing risks and measures. The RAG-Stiftung's employees support the Chair of the Supervisory Board in their analysis.

The RAG-Stiftung's holding in Evonik Industries AG of around 57 % (31 December 2021) remains a key asset. For every change of one euro in the Evonik share price, there is a change in the assets of the RAG-Stiftung of around EUR 264 million. There is therefore a significant concentration risk associated with the Evonik holding. The RAG-Stiftung intends to meet this concentration risk by further reducing its investment in Evonik. This will be done with due regard to the market. For example, the issue of exchangeable bonds on Evonik shares, a block sale or a dribble-out are instruments with which this is possible.

Because of its areas of activity, the Evonik Group is constantly confronted both nationally and internationally with ever-changing political, societal, demographic, legal and economic conditions. Market risks occurring as a result of volatility and cyclicality in the markets can generally arise in all segments. These can have a significant impact on the earnings situation. The occasional regional changes in economic demand can influence price and sales opportunities with a corresponding impact on results. Evonik confronts these risks by anticipating market developments and consistently developing its portfolio in accordance with its Group strategy.

Overall, the Executive Board of Evonik has arrived at the following assessment: the risks identified across the Group, taking into account the measures taken and planned, pose no threat to the existence of Evonik as a whole, either individually or in conjunction with other risks; this includes Evonik Industries AG as the Group holding company. This assessment is shared by the RAG-Stiftung.

The dividends the RAG-Stiftung receives from Evonik are a significant component of the RAG-Stiftung's income. A worsening in Evonik's economic situation which might limit Evonik Industries AG's ability to pay dividends is a risk with significant ramifications for the RAG-Stiftung. Due to Evonik's diversified orientation as a medium-sized speciality chemicals company, we see the probability of this risk occurring as "possible". Overall, we therefore continue to classify the Evonik investment risk as a "medium risk".

Vivawest investment risk

The RAG-Stiftung has a direct holding of 40 % in Vivawest GmbH. RAG also indirectly holds an additional 18.2 % of the shares in the company. Vivawest's business risks therefore affect the RAG-Stiftung both directly and indirectly.

Vivawest has its own risk management system, as this is where the original risk responsibility for the business risks and their management lies. Vivawest GmbH's Supervisory Board not only monitors the accounting process but also addresses the effectiveness of the internal control, risk management and internal auditing systems. These tasks are carried out by representatives of the RAG-Stiftung on Vivawest GmbH's Supervisory Board. The RAG-Stiftung is kept informed by regular reports and checks the effectiveness of the risk management system by analysing risks and measures.

Due to its area of activities, Vivawest is highly dependent on the housing market in North Rhine-Westphalia and the underlying conditions for the housing sector.

The distributions of profits the RAG-Stiftung receives from Vivawest GmbH are a not insignificant component of the RAG-Stiftung's income. A worsening in Vivawest's economic situation is a risk with moderate repercussions for the RAG-Stiftung. Due to the non-volatile nature of Vivawest's business, we see the probability of occurrence as being "rather unlikely". Overall, we therefore continue to classify the Vivawest investment risk as a "low risk".

Investment risk

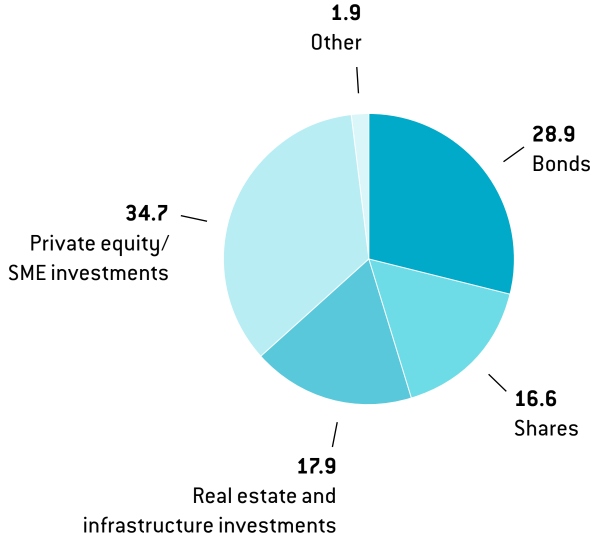
The RAG-Stiftung's Board of Trustees approved the "General Investment Guidelines for the RAG-Stiftung" (KARL) in 2008 and approved occasional amendments, most recently with a resolution of 10 May 2021. The guidelines set the standards for investment – with the exception of investments in Vivawest and Evonik – and define the principles of the investment policy as well as investment risk controlling.

As of the end of 2021, approximately 29 % of the RAG-Stiftung's financial assets were invested in bonds, another approximately 17 % in shares and 18 % in real estate and infrastructure. Altogether, some 35 % were attributable to international private equity investments and SME investments. Around 2 % were liquidity. This asset allocation results in a high level of interest sensitivity: rising market interest rates lead to negative market value changes, while falling rates lead inversely to price gains.

Financial risks at the RAG-Stiftung generally concern borrowing and market price risks arising from the investment of financial resources to cover the provision for perpetual obligations. The aim of the company's policy is to limit these risks through systematic risk management. Though this cannot mean financial risks are totally excluded, it does mean they are managed within defined limits. Monitoring its financial assets is an integral component of the RAG-Stiftung's daily business activities. The basis for managing financial assets is the respective risk budget, which is oriented to the risk-bearing capacity and is set by the RAG-Stiftung's investment committee. The capacity of the risk budget is regularly calculated, documented and reported to the Board of Executives, while the current risk of the investment is measured using the value-at-risk (VAR) approach. In order to reduce financial risks, to carry out currency hedging and to flexibly adjust the asset classes in a risk-oriented way, derivative financial instruments at the RAG-Stiftung are also employed in the RAGS-FundMaster special fund.

STRUCTURE OF FINANCIAL ASSETS (31/12/2021)

In %



As of the end of 2021, around 41 % of our financial assets were invested in "RAGS-FundMaster", a special fund managed by a capital management company pursuant to the German Capital Investment Act (KAGB). Various asset managers have received specific investment mandates from the RAG-Stiftung for this special fund. Each of these investment mandates is subject to investment guidelines that must conform with the RAG-Stiftung's General Investment Guidelines (KARL). The capital management company is also obliged to ensure that these investment guidelines are adhered to at all times. All liquid securities of the RAG-Stiftung are held in safe custody by a single global custodian bank, which creates the basis for uniform risk controlling and transparent presentation of the RAG-Stiftung's total holdings.

Of the remaining approximately 59 % of financial assets, some are held directly in liquid securities. The rest are attributable to non-liquid investments in real estate and infrastructure funds on the one hand, and private equity funds and direct company investments on the other.

Private equity funds as well as real estate and infrastructure investments are characterised by a very low level of liquidity. This liquidity risk, which we can manage well due to our obligation structure, is offset by a corresponding illiquidity premium. The principle of a high level of diversification also applies to illiquid investments, as it does to all our investments. The RAG-Stiftung invests in different managers, different areas of the private equity market, different size categories and different regions. In particular, it invests consistently in order to mitigate risks through wide diversification across the individual fund ages, or “vintage years”. Similarly, with real estate and infrastructure investments, different managers are tasked with investing in different countries, regions and cities, and in different classes of real estate (residential, office, hotel, high street, logistics, specialist stores, etc.).

The statements on limited liquidity also apply to the investments in the SME sector by RSBG SE. The management attempts to compensate for the higher risk resulting from significantly less granularity by exercising intensive due diligence prior to the purchase of a holding and by expanding investment controlling further; it also exercises greater influence over the Supervisory Board or Advisory Board with regard to non-controlling interests and takes direct influence on the management of majority holdings.

The RAG-Stiftung uses the professional service provider RMC Risk-Management-Consulting GmbH, Frankfurt, to assess and calculate investment risk.

When assessing investment risks overall, we classify the probability of occurrence as “possible” in view of the measures taken and the degree of impact as “moderate” given the wide diversification. Overall, we therefore continue to classify the investment risk as a “medium risk”.

Perpetual obligations risk

On 14 August 2007, a legacy agreement relating to the socially responsible discontinuation of subsidised coal mining in Germany (legacy agreement) was concluded between the states of North Rhine-Westphalia, Saarland and the RAG-Stiftung. This agreement regulates the guarantees made by the states (and one-third by the federal government) in case the assets of the RAG-Stiftung are not sufficient to finance the perpetual obligations. It also defines the perpetual obligations of the mining operations of RAG. Perpetual obligations in this sense mean measures for the implementation of pit water management, groundwater purification at contaminated sites and measures for the management, processing or elimination of permanent damage in the form of subsidence of the ground surface caused by mining.

On 13 November 2007, an agreement was signed between RAG and the RAG-Stiftung regarding financing of the perpetual obligations arising from the mining operations of RAG (agreement on perpetual obligations). With this agreement, the RAG-Stiftung pledges to RAG that it will finance its perpetual obligations from 2019. The future development of the perpetual obligations and the resulting risks and opportunities are therefore especially important. This development is primarily determined by the premises on which the authoritative report is based and which may develop a significant leverage effect, such as price index, interest rate and technical state. Under section 4, paragraph 2, of the agreement on perpetual obligations, RAG is to develop a concept for the long-term optimisation of pit water management. On the basis of this concept, steps were taken to apply for the necessary measures so as to subsequently implement them. Applications for approvals are delayed or have not yet been granted. However, approvals are a mandatory prerequisite for the implementation of the necessary withdrawal activities.

The economic value of the perpetual obligations at the end of 2021 is, simply put, the present value of a perpetual series of payments which grows in line with the respective inflation rate beginning in 2022. The cash value of a perpetual annuity is calculated by dividing the initial regular payment by the interest rate, while taking the price increases resulting from the real interest rate – that is, the difference between interest rate and price inflation – into account. The amount of the perpetual obligations is therefore dependent in particular on the future development of price and interest rates, in addition to the development of the assessment bases.

For each perpetual obligation, a series of expenditures is calculated from the respective balance sheet date for each of the next 61 years.

The total obligation for each perpetual obligation is the sum total of the series of expenditures for 60 years discounted to the balance sheet date and the present value of the perpetual annuity from the 61st year discounted to the balance sheet date. The present value of the perpetual annuity is calculated using the seven-year average interest rate of the ultimate forward rate (UFR) of 3.84 %, which is set and published annually by the European Insurance and Occupational Pensions Authority (EIOPA) (taking into account a price rise of 2.0 %, this results in a real interest rate of 1.84 %).

The first 50 years of the series of expenditures for the respective perpetual obligations are discounted as of the balance sheet date using the commercial yield curve published by the Deutsche Bundesbank for the respective balance sheet date with interest rates of between 0.30 % and 1.52 % (previous year: interest rates of between 0.44 % and 1.80 %). A ten-year convergence phase to avoid a jump in interest rates is used to transition to the UFR. During this convergence phase, the interest rates for discounting as of the balance sheet date are determined using linear interpolation between the HGB interest rate with a maturity of 50 years and the UFR.

An inflation rate of 2.0 % is always used to index the expenditure for perpetual obligations. This follows the method used for determining the ultimate forward rate. As such, the inflation rate corresponds to the inflation target of the European Central Bank (ECB) for the eurozone.

The total perpetual obligation determined using this method is EUR 28.4 billion. The previous year's figure was EUR 25.0 billion. The rise is chiefly due to the continuing decline in interest rates.

In the overall assessment of the risks arising from perpetual obligations, we classify the probability of occurrence as "probable" but the degree of impact as only "moderate". The provision requirement for perpetual obligations will first increase slightly over the coming years, then prospectively move at a constant or even a slightly falling level. However, our ability to finance the cash outflow, which will increase with inflation for the sustainable financing of perpetual obligations from investment income and financial assets, is independent of this. Overall, we therefore continue to classify the perpetual obligations risk as a "medium risk".

Coronavirus pandemic

The coronavirus crisis led to highly volatile rates of return on the global financial markets during the reporting period.

At the present time, it is not possible to make accurate forecasts regarding economic consequences for the RAG-Stiftung, as the duration and extent of the crisis cannot be determined. There is a risk that the earnings position of the RAG-Stiftung, and thus its ability to allocate amounts to the provision for perpetual obligations, may deteriorate in the future.

According to current forecasts drawn up by the RAG-Stiftung, the Foundation's supply of cash and ability to pay its perpetual obligations are secured.

To counteract the risks of infection from the coronavirus outbreak, the RAG-Stiftung developed an emergency plan in 2020. In 2021, the RAG-Stiftung once again dispensed with meetings that were not absolutely necessary or held them online and/or as conference calls. More people also worked from home, and departments were divided into groups that work in different locations.

Russia–Ukraine War

Russia's invasion of Ukraine has been met with disgust in Europe and the United States and has sent shock waves through the financial markets. Against this backdrop, the RAG-Stiftung carried out a review of its financial assets and investments to determine the extent to which they are subject to risks associated with the situation.

Assets with Russian issuers in the area of financial assets and investments are currently at a non-significant level.

There is a possibility that changes in supply chains and on distribution markets could adversely impact the business operations of Evonik. In respect of the Evonik share price, these developments could lead to a decline in market capitalisation and, for the RAG-Stiftung, a risk of a reduced dividend payment. No significant risks are identified for Vivawest, as its letting operations are mainly centred on North Rhine-Westphalia. It is expected that ancillary rental costs will rise on account of higher energy prices, but that this will not affect dividend payments.

RAG may be exposed to a risk due to changing stock market prices and a long-term increase in energy costs. In respect of RSBG SE, risks are currently only identified for individual investments that have business relations with Russia on a small scale. In a more general sense, there is a risk that the conflict could dampen growth prospects or cause a significant hike in inflation, which could prompt falling prices on capital markets and in terms of private equity investments.

Overall assessment of the risk and opportunities situation

The RAG-Stiftung must finance the perpetual obligations of subsidised coal mining of RAG in Germany following its discontinuation. From a current perspective, the cash inflows from the disposal of other shares in Evonik Industries AG, from Evonik dividends and from dividends of the Vivawest holding and RSBG SE, as well as from the income from financial assets, are all sufficient to cover the expected cash outflows. Opportunities could result from a good trend in the Evonik share price and from successful investments.

The overall assessment of the RAG-Stiftung's risk situation shows that the existing risks pose no threat to the existence of the RAG-Stiftung, either individually or in conjunction with other risks, given the measures taken and planned.

Outlook

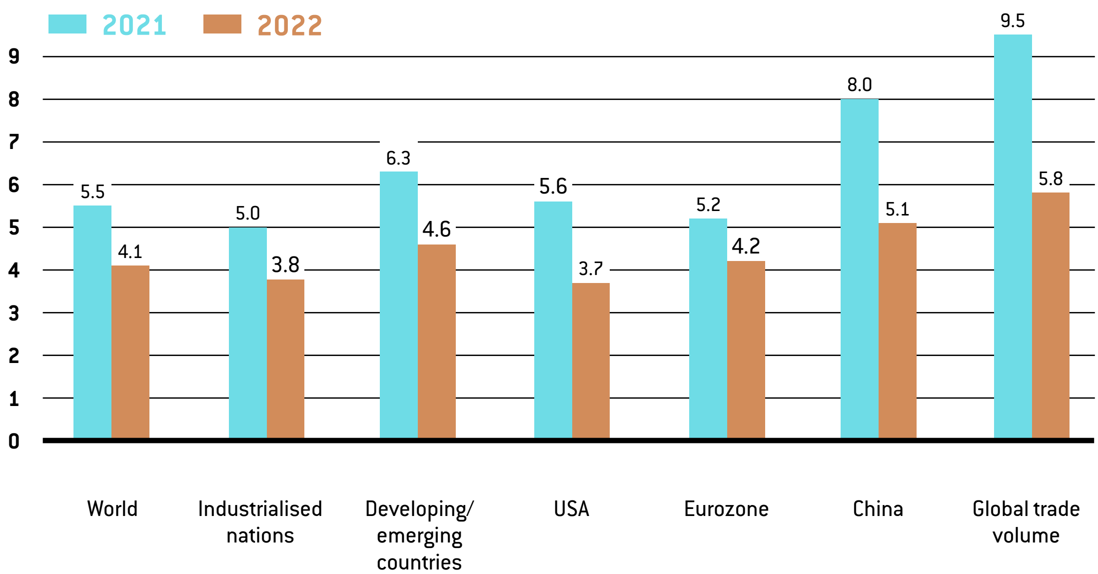
Global economic outlook

The global economy has weathered the deepest recession since the 1970s and is currently back on course for growth thanks to colossal fiscal and monetary policy measures. According to forecasts of the World Bank, global growth will slow down from 5.5 % in 2021 to 4.1 % in 2022. This is due to waning political support, rising inflation and ongoing supply chain interruptions.

According to forecasts of the World Bank, growth in the developed economies will decline from 5 % in 2021 to 3.8 % in 2022; among other factors, this is attributable to decreasing fiscal policy measures and lower pent-up demand on the part of consumers.

The World Bank forecasts that the gross domestic product of the United States will grow by 3.7 % in 2022, with the reduction linked to decreasing fiscal and monetary policy measures.

GDP GROWTH RATES, WORLD AND COUNTRIES FOR 2021, AND FORECAST FOR 2022
in %



Source: World Economic Prospects

Forecasts indicate that growth in Europe and central Asia will cool down to 3 % in 2022, with demand hampered by tighter macroeconomic policy and recurring outbreaks of Covid-19. The World Bank anticipates growth of 4.2 % for the eurozone in 2022.

In contrast to the developed economies, the World Bank expects that the majority of developing countries will suffer considerable drops in production due to the pandemic. It estimates that growth in emerging nations will slow down from 6.3 % in 2021 to 4.6 % in 2022, with the recovery in domestic demand dampened by the ongoing decrease in macroeconomic support, coupled with the emergence of new virus variants and ongoing vaccination difficulties. In a third of developing and emerging countries, many of which are reliant on tourism, production will probably come in lower this year than in 2019. It is anticipated that growth in China will slow down to 5.1 % in 2022. This is due to the ongoing impacts of the pandemic and an increasing tightening of regulations. Growth in the low-wage economies will probably come in at 4.9 % in 2022 and therefore below the historical average, with limited political room to manoeuvre and high inflation, even extending to food prices, depressing demand.

Russia–Ukraine War

The Russia–Ukraine conflict, which first began in February 2014, descended into an all-out war with the invasion of Ukraine by Russian troops in February 2022. Russia's invasion of Ukraine has been met with disgust in Europe and the United States and has sent shock waves through the financial markets. Although Ukraine and Russia only play a minor role in terms of global economic growth, energy prices may nonetheless rise, impacting the global economy and the capital markets. As things stand, the capital investments and strategic holdings of the RAG-Stiftung are only affected by the conflict to a minor degree. However, it is not currently possible to fully foresee the economic consequences for the RAG-Stiftung.

Outlook for the company

We expect Evonik Industries AG to pay a stable dividend. Given the fact that our holding in the company is lower than in the previous year, the dividend inflow will be somewhat less in absolute terms than last year. We expect dividends for Vivawest GmbH and RSBG SE in 2022 to be on par with the previous year's level. At RAG, we expect to see a significant adverse impact on earnings from the profit-and-loss transfer agreement. We expect the RAG-Stiftung's investment income in 2022 to be up slightly on the 2021 level.

PERFORMANCE INDICATORS FORECAST FOR 2022

In EUR million

	Forecast for 2022	2021
Financial performance indicators		
Net profit for the year	Stable	0
Addition to provision for perpetual obligations	Approx. 260	665

Overall, we once again expect a balanced budget for the RAG-Stiftung in 2022. We plan to be able to allocate about EUR 260 million to the provision for perpetual obligations.

Current analyses indicate that the RAG-Stiftung's supply of cash, and thus its ability to pay the perpetual obligations, will remain secure.

Essen, 14 March 2022

This report contains forward-looking statements relating to the current expectations, assumptions and forecasts of the Board of Executives, as well as any information currently available to it. These forward-looking statements are not to be understood as guarantees of future developments or the events they describe. Rather, these future developments and events are dependent on a number of factors; they contain risks and uncertainties and are based on assumptions that may prove inaccurate.