Annual Report 2023

TRANSFORM TO PERFORM

covestro

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REPORT PROFILE

FORWARD-LOOKING STATEMENTS

This Report may contain forward-looking statements based on assumptions and forecasts made by the management of Covestro AG, Leverkusen (Germany), at the time the report was prepared. Various known and unknown risks, uncertainties, and other factors could lead to material differences between the actual future results, financial situation, development, or performance of the Group and the estimates given here. The various factors include those discussed in Covestro's public reports, which are available at **www.covestro.com**. The company assumes no liability whatsoever to update such forward-looking statements or to conform them to future events or developments.

INCLUSIVE LANGUAGE

Diversity, equity, and inclusion are important to Covestro. To ensure better readability, we therefore strive to use gender-neutral language and avoid gender-specific terms in this Report. All terms should be taken to apply equally to all genders.

EXTERNAL AUDIT

KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (Germany), audited the Consolidated Financial Statements of Covestro AG and the combined management report during the financial statement audit required by law, and issued an unqualified audit opinion. In addition, the compensation report forms an integral part of this Annual Report. This report was subjected to a substantive audit, including the formal examination required by Section 162 of the German Stock Corporation Act (AktG), and likewise issued with an unqualified audit opinion.

The supplementary sustainability information that is not part of our statutory audit of the Consolidated Financial Statements was subjected to a separate review with limited assurance pursuant to the International Standard on Assurance Engagements (ISAE) 3000 by KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (Germany). This information is identified in this document as follows: **[ ]**.

Contents not covered directly by the above reports, such as information provided on websites, is not part of the substantive audit conducted by the auditor.

REFERENCES

References in this report are identified by → References to the supplementary sustainability information were subjected to a review with limited assurance. Any references to contents not covered by the combined management report, the supplementary sustainability information, the compensation report, or the consolidated financial statements were not part of the external audit.

ROUNDING AND PERCENTAGE DEVIATIONS

As the indicators in this Report are stated in accordance with commercial rounding principles, totals and percentages may not always be exact. If a deviation changes from positive to negative or vice versa, or if it is greater than 1,000%, this is shown by a period.

PUBLICATION

In addition to publication in this report, components subject to disclosure requirements in accordance with Section 328 (1) sentence 4 of the German Commercial Code (HGB) are published in the Federal Gazette, in compliance with the provisions of the European Single Electronic Format (ESEF) Regulation. They are accessible via the website www.unternehmensregister.de.

This Annual Report was published on February 29, 2024. It is available in German and English. The German version is binding.

KEY DATA

COVESTRO GROUP

EXPLORE ONLINE:
Interactive Key Figures

	2022	2023	Change
Sales	**€17,968 million**	**€14,377 million**	**–20.0%**
Change in sales			
Volume	–5.0%	–6.8%	
Price	10.1%	–11.0%	
Currency	5.9%	–2.2%	
Portfolio	2.0%	0.0%	
Sales by region			
EMLA[1]	€7,600 million	€5,941 million	–21.8%
NA[2]	€4,639 million	€3,735 million	–19.5%
APAC[3]	€5,729 million	€4,701 million	–17.9%
EBITDA[4]	**€1,617 million**	**€1,080 million**	**–33.2%**
Changes in EBITDA			
Volume	–10.0%	–23.7%	
Price	51.8%	–122.5%	
Raw material price	–95.3%	96.8%	
Currency	4.7%	–4.7%	
Other[5]	1.2%	20.9%	
EBIT[6]	€267 million	€186 million	–30.3%
Financial result	(€137 million)	(€113 million)	–17.5%
Net income[7]	**(€272 million)**	**(€198 million)**	**–27.2%**
Earnings per share[8]	(€1.42)	(€1.05)	–26.1%
Cash flows from operating activities[9]	€970 million	€997 million	2.8%
Cash outflows for additions to property, plant, equipment and intangible assets	€832 million	€765 million	–8.1%
Free operating cash flow[10]	**€138 million**	**€232 million**	**68.1%**
Net financial debt[11,12]	€2,434 million	€2,487 million	2.2%
Return on capital employed (ROCE)[13]	2.0%	1.5%	
Weighted average cost of capital (WACC)[14]	7.0%	7.6%	
ROCE above WACC[13,14]	**–5.0% points**	**–6.1% points**	
Employees[12,15]	17,985 FTE	17,520 FTE	–2.6%
Greenhouse gas emissions (CO_2 equivalents)[16]	**4.7 million metric tons**	**4.9 million metric tons**	**4.3%**

1 EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.
2 NA: North America region (Canada, Mexico, United States).
3 APAC: Asia and Pacific region.
4 Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on property, plant and equipment and intangible assets.
5 Other changes in EBITDA such as changes in provisions for variable compensation.
6 Earnings before interest and taxes (EBIT): income after income taxes plus financial result and income taxes.
7 Net income: income after income taxes attributable to the shareholders of Covestro AG.
8 Earnings per share: according to IAS 33 (Earnings per Share), net income divided by the weighted average number of outstanding no-par value voting shares of Covestro AG. The calculation for fiscal 2023 was based on 189,262,192 no-par shares (previous year: 190,933,438 no-par shares).
9 Cash flows from operating activities according to IAS 7 (Statement of Cash Flows).
10 Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.
11 Excluding provisions for pensions and other post-employment benefits.
12 As of December 31 in each case.
13 Return on capital employed (ROCE): ratio of EBIT after imputed income taxes to capital employed. Imputed income taxes are calculated by multiplying an imputed tax rate of 25% by EBIT.
14 Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company's equity and debt capital.
15 Employees calculated as full-time equivalents (FTEs).
16 Greenhouse gas (GHG) emissions (Scope 1 and Scope 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).

FOREWORD

HOW WE PUSHED FORWARD OUR TRANSFORMATION IN 2023

EXPLORE ONLINE

Dr. Markus Steilemann,
Chief Executive Officer

Christian Baier,
Chief Financial Officer

Dr. Thorsten Dreier,
Chief Technology Officer

Sucheta Govil,
Chief Commercial Officer

Dr. Markus Steilemann, Chief Executive Officer

SHAPING TRANSFORMATION

Building a sustainable and, above all, climate-neutral world must continue intensively, despite all the acute crises and problems. One key to this is the circular economy. Covestro intends to be fully circular and achieved success again at all levels in 2023.

Ambivalent. That's how I would summarize my view of 2023. A mixture of consternation and concern, but also confidence. Dismay at the increase in violence, hatred and division in the world. Concern that a global spiral of pessimism is accelerating, as the latest Global Risk Report suggests. I counter this with critical optimism. Because the past year has once again shown that humanity is making progress in solving many major tasks. For example, the annual report of the International Energy Agency made me sit up and take notice. According to the report, renewable energies could account for almost half of global electricity generation by 2030. And the COP28 climate summit paved the way for this: by then, global capacities for renewables are to be tripled and energy efficiency doubled. This reinforces two of my convictions. Firstly, because a better, sustainable future does not have to remain a utopia. And secondly, because we must continue the green transformation with all our might – regardless of all the acute crises and problems. The best lever for this is the circular economy as the key to resource conservation, environmental protection and climate neutrality. And a driving force here is the chemical and plastics industry.

We at Covestro see ourselves as pioneers by completely aligning the entire company with circularity. Here we were successful again at all levels in 2023 – which also fuels my fundamental optimism. We have made further progress in converting our production to renewable energy. We are also turning our backs on the fossil era with regard to raw materials. We have reached another milestone here by setting up a pilot plant to produce the chemical aniline from plant biomass in future. Another sustainable source of raw materials is used plastic, which is still not recycled enough. Covestro wants to change that. Our contribution of the year 2023: a research breakthrough to chemically recycle the high-performance plastic polycarbonate. So there are many successes that show that our company is strategically on the right path. And not just in the long term, but also with regard to immediate challenges. We are counteracting the weak economy by setting numerous levers in motion that noticeably improve our performance: improve plant utilization, increase margins, save costs. Consistent digitalization helps us with everything, as does a workforce that demonstrates special commitment and solidarity, especially in difficult times. This reinforces my third conviction: There is no way around Covestro in the transformation to a sustainable world.

»There is no way around Covestro in the transformation to a sustainable world.«

Dr. Markus Steilemann,
Chief Executive Officer

Christian Baier, Chief Financial Officer

FOCUS ON SUSTAINABLE GROWTH

Sustainable growth is a central element of Covestro's "Sustainable Future" strategy and crucial for becoming fully circular. Covestro also set a decisive course for this in 2023, and once again became faster and more efficient.

When I took up the position of Chief Financial Officer at Covestro in October 2023, I was particularly impressed by the company's "Sustainable Future" strategy and its clear focus on sustainable growth. This forward-looking orientation has proven to be a central pillar of its resilience in a year that was again characterized by economic challenges, subdued demand in all regions, and high inflation. Covestro continues to stand on a stable foundation with a solid balance sheet. Our Group sales of around EUR 14.4 billion and EBITDA of around EUR 1.1 billion for fiscal 2023 were within the expected range that we had already forecast in the first half of 2023. We therefore invested around EUR 800 million in our plants, the expansion of innovative technologies, and the development of sustainable projects in the past year. At the same time, we are becoming significantly more efficient in all areas of the company in line with our strategic alignment. One important success in 2023 was the reduction of our fixed costs in the mid three-digit million euro range compared to the previous year. We will continue this cost consciousness in 2024 and consistently tap into further efficiency potential.

One component of this is integrating artificial intelligence and digital solutions into our processes. In 2023, forexample, we were able to improve the accuracy of our liquidity forecasts through machine learning and thus deploy our resources more effectively. We also made further progress in continuously linking our financing and sustainability strategy, for example by fully allocating the financing funds from our green bond, issued for the first time in 2022, to sustainable projects such as the expansion of alternative raw materials. So, when I look back on 2023, I see the approximately 17,500 colleagues around the world who have consistently driven Covestro's transformation forward. This is one of the reasons why I am full of energy as we look ahead to 2024. I am convinced that now is the time for us to set the course for future success. In particular, the ongoing demand for sustainable materials in growth areas such as electromobility and energy efficiency offers huge opportunities. I am therefore looking forward to continuing Covestro's transformation journey with our dedicated employees around the world and to growing sustainably together.

»I am full of energy as we look ahead to 2024. I am convinced that now is the time for us to set the course for future success.«

Christian Baier,
Chief Financial Officer

Dr. Thorsten Dreier, Chief Technology Officer

RELIABLE FOUNDATION, ENERGY-EFFICIENT FUTURE

One thing is essential on the path to climate neutrality: a safe, reliable and energy-efficient production for which sufficient renewable energy is available.

Full steam ahead toward climate neutrality – that's how I would summarize the year 2023 in one sentence. After all, our goal is clear: We want to achieve climate-neutral production at Covestro by 2035. Admittedly, this is an ambitious plan, but I am convinced that we will achieve it. And a look back at 2023 confirms my view, because we made great strides last year toward this goal. Firstly, by significantly increasing the proportion of renewable energy used in our production, with several major power purchase agreements for electricity from wind and solar power that we concluded in all regions. Since 2023, 45 percent of our electricity for the site in Shanghai has come from renewable energy sources, and we have also significantly increased the proportion of renewable energy used at production sites in Europe and the United States. Secondly, by using innovative process technology that significantly reduces our emissions during production. At our site in Tarragona, Spain, for example, we commissioned a large-scale chlorine production plant that uses the innovative oxygen depolarized cathode (ODC) technology developed by Covestro and our partners. It is the world's first plant with ODC technology on this scale, and the technology enables us to save up to 25 percent electricity during the production process.

However, at Covestro we not only think about our sustainability goals in terms of production processes, but also have our vision to become fully circular and climate-neutral in mind with every step and every decision. Sustainable growth is our strategy for the long-term success of the company. We also base our investment decisions on that. In the fall of 2023, for example, we completed a new production facility for water-based polyurethane dispersions in Shanghai. This will meet the growing demand for more sustainable coatings and adhesives for industries such as automotive, construction, furniture, shoes and packaging and help our customers reduce their carbon footprint. At the same time, we are constantly working hard to develop new recycling technologies and bio-based raw materials. With success: In 2023, we were able to develop a process for the chemical recycling of polycarbonate, which is currently being tested on a pilot scale. And we are making great progress in preparing our innovative bio-based alternatives for the raw materials HMDA and aniline for large-scale production. The year 2023 proved that transformation is not a future scenario. We are right in the middle of it. And we're making really good progress!

»With our significantly increased share of renewable energy and our leading innovative process technology we reduced our emissions in production in 2023.«

Dr. Thorsten Dreier,
Chief Technology Officer

Sucheta Govil, Chief Commercial Officer

DRIVING INNOVATION TOGETHER

Plastics are the key to a climate-neutral world, be it in daily life, construction, or mobility. As a leader in the transformation, Covestro is the best possible partner for our customers to speed up the transition to a circular economy.

There is a headline from the year 2023 which immediately springs to mind: Grow through constant change and challenges. The power to take on global challenges like climate change or the persistent ripples of economic fluctuation lies in our commitment to make the world a brighter place. As I reflect on the past year, we have taken a step forward in steering Covestro toward greater efficiency and resilience. Our dedication to aligning ourselves more closely with the evolving needs of our customers has been paramount. We recognize that today, more than ever, the pursuit of innovative high-performance materials is not just a choice but a necessity. Plastics are core for a climate-neutral global economy, embodying a unique value proposition for both our customers and stakeholders: Covestro materializes the circular economy.

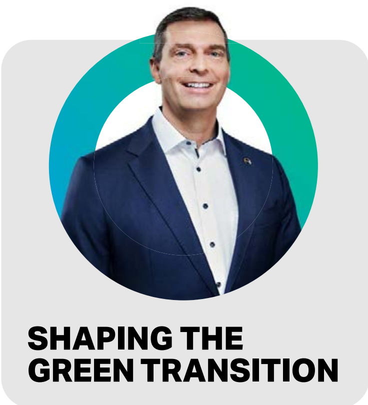
During the year, we reached significant milestones in sustainability and innovation. Notably, our investments and collaborations led to a wider range of cutting-edge CQ materials containing renewable feedstock – proof of our commitment to reducing carbon footprints and advancing the circular economy. Take, for instance, the inauguration of our mechanical recycling facility for polycarbonate, an embodiment of our commitment to meeting the rising demand for recycling grades across various industries. The development of Makrolon® RE, comprising around 90 percent recycled content, underscores our dedication to reducing our customers' carbon footprints. The joint innovation doesn't stop there. Our contributions to the automotive industry – like the development of lightweight, durable, and esthetically appealing components for autonomous driving – underscore our commitment to sustainable mobility solutions. But this journey isn't one we embark upon alone. It is together, through unwavering collaboration with industry pioneers, scientific communities, and, above all, our customers, that we can accelerate progress. An example close to my heart is our continued partnership with Team Sonnenwagen: The students are extremely motivated and have the know-how to develop and optimize new ideas for solar-powered, light-weight electric vehicles. Together with the young minds, customers, and innovative partners, we foster creativity and an entrepreneurial spirit. Together, we have the power to catalyze change, to shape an environment where sustainability and innovation interact harmoniously. Let's accelerate together.

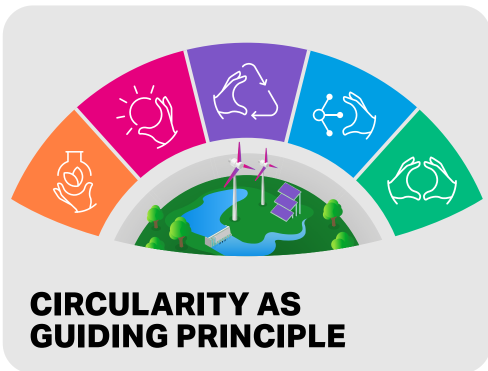
»Plastics are the key to a climate-neutral world economy, embodying a unique value proposition for both our customers and stakeholders.«

Sucheta Govil,
Chief Commercial Officer

STORY HIGHLIGHTS 2023

The world is changing and we are changing with it. At Covestro, we take responsibility, push forward ideas and projects and continue to evolve every day in order to remain a strong partner in the future. It is only in this way and only together that we can achieve our vision of becoming fully circular and grow sustainably. We are already doing this today – efficiently and close to the needs of our customers. This is exactly what our motto for this year's annual report reflects: Transform to perform.





SHAPING THE GREEN TRANSITION

Violence in the Middle East, the ongoing war in Ukraine, more and more people fleeing their homes – the world continued to be dominated in 2023 by many acute crises. But the long-term risks have not diminished either: According to one study, six out of nine of the Earth's limits have now been exceeded. That includes the increasing concentration of greenhouse gases in the atmosphere. The Intergovernmental Panel on Climate Change has once again issued an urgent warning: This decade will decide the future of humanity.

Circular economy as guiding principle. It is therefore clear that the green transformation, which has already been initiated in many areas, must be continued with the utmost intensity. This requires innovative technologies and materials – a case for the chemical industry, and for Covestro. In 2023, we therefore expanded our range of sustainable plastics for numerous industrial sectors, also enabling them to improve their own carbon footprint. That is how we are laying the foundation for sustainable growth. But it takes more than individual products! To make the world more sustainable, smarter and fairer, comprehensive and consistent systemic change is essential, which is why Covestro is committed to making the circular economy a guiding global principle.

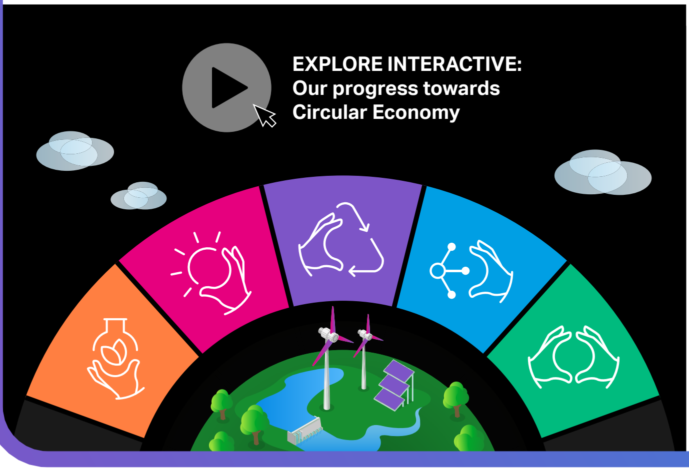
»The world's green transformation must be accelerated, despite all the acute crises and problems. The goal is a circular economy and climate neutrality, and Covestro is doing everything it can to achieve it.«

Dr. Markus Steilemann,
Chief Executive Officer

CIRCULARITY AS GUIDING PRINCIPLE

The chemical and plastics industry accounts for roughly six percent of global greenhouse gas emissions, equivalent to the combined contributions of Germany, France, the UK and South Korea. This substantial environmental impact is primarily attributed to the industry's continued heavy reliance on crude oil as the starting point for its products, which primarily releases CO_2 during processing and utilization. This must and can change! Covestro sees itself as a driving force and is fully focused on the circular economy. This must become the global guiding principle to put a stop to the waste of resources, environmental degradation, and climate change.

Full speed ahead. As part of our transformation toward circularity, we therefore made further progress in our focus areas in 2023: In the switch to non-fossil raw materials, for example, we are now testing a new process on a pilot scale to produce the important chemical aniline entirely from plant biomass. At the same time, we have expanded the use of renewable energies and concluded a direct contract for the supply of solar power from the provider Ørsted for our site in Baytown (United States). We also achieved a research breakthrough in our work on innovative recycling technologies: The high-performance plastic polycarbonate can now be chemically recycled. But nothing works without strong partners: Together with other international players, we have therefore agreed to establish a research and development center for processing plastic waste as part of the World Economic Forum 2023. These are all important milestones that will bring us closer to our vision of a circular economy, step by step. This journey is a marathon, not a sprint, and we are forging ahead!



QUIZ

The transport sector contributes significantly to climate change. How high is its share of global energy-related CO_2 emissions?

- 13 percent
- 23 percent
- 33 percent

Answer: 23 percent

SUSTAINABLY ON THE MOVE

Feeding the world's growing population; transforming cities into liveable centers; providing everyone with good education and medical care – the challenges of our time are immense. Despite their diversity, they do share a common thread: the increasing need for innovative, sustainable and smart materials.

This is where we come in! One example? Mobility of the future. It will be shaped by three major developments: electromobility, autonomous driving, and the need for individualization. The number of electric vehicles is expected to rise dramatically this decade – from 26 million at present to a global total of around 240 million in 2030. At the same time, experts predict that around 50 million vehicles worldwide could be on the road, some of them autonomously, while car interiors will increasingly become networked, stylish living and working areas.

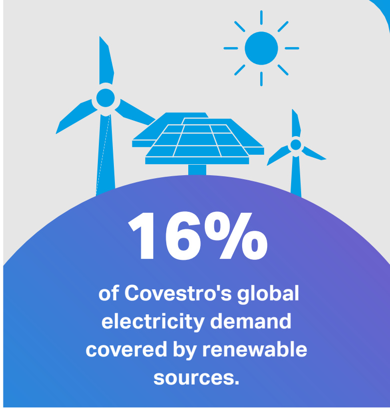
Stronger together. Covestro is responding to this with intelligent, low-carbon material solutions. To this end, we have teamed up with Chinese e-car manufacturer HiPhi, among others, and put a joint laboratory into operation in 2023. But even now, Covestro products are already on the road, for example in a luxury electric SUV from HiPhi. The highlight: Headlight lenses based on the high-performance plastic polycarbonate from Covestro become a projector that displays signs and patterns to pedestrians and other vehicles.

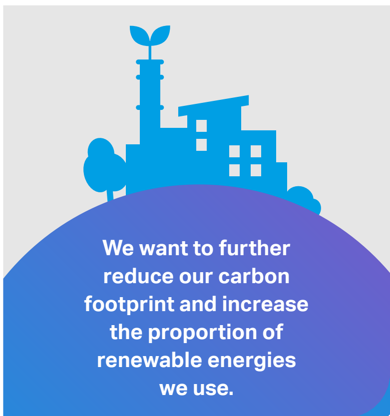
DON'T WAIT, ACT

Climate neutrality is an essential element for becoming fully circular – and important for the goal of limiting global warming to 1.5 degrees Celsius. Energy-intensive industries such as the chemical industry are particularly important in this respect: If they reduce their energy requirements and switch to renewable energies, it will save millions of tons of greenhouse gas emissions.

We want to use this leverage and have set ourselves the ambitious goal of being operationally climate-neutral by 2035 – in other words, reducing our own emissions (Scope 1) and those from external energy sources (Scope 2) to net zero.

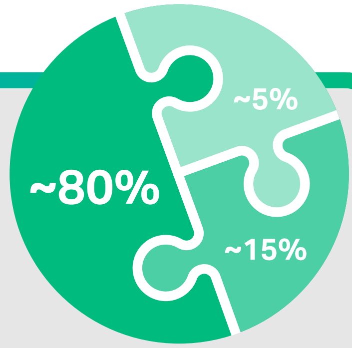
Taking initiative. To achieve this, we have already concluded a large number of power purchase agreements (PPAs) with a total volume of several hundred gigawatt hours. By the end of 2023, around 16 percent of Covestro's global electricity demand were already covered by renewable sources. We are thus reducing our own CO_2 footprint on the way to climate neutrality, and at the same time supporting the construction and expansion of wind and solar parks. That's because they gain important planning security through purchase agreements. In turn, our products are used in thousands of end applications, including composite resins for solar panel frames. So the more sustainable our products are, the more sustainable all these end products will be.





THE MISSING PUZZLE PIECE

Covestro has set itself climate neutrality targets for scope 3 emissions: –10m metric tons CO_2-equivalents (–30 percent vs. 2021[1]) by 2035 as short-term target and climate neutrality for 2050 as long-term target. A further step towards transformation and its long-term vision of becoming fully circular. Scope 1 emissions originate from Covestro's own production processes, while scope 2 emissions stem from purchased energy. Scope 3 emissions cover all other greenhouse gases generated upstream and downstream in the value chain. They account for roughly 80 percent of Covestro’s total greenhouse gas emissions.



- **Scope 1:** Emissions from own production
- **Scope 2:** Emissions from external energy sources
- **Scope 3:** Emissions that arise in the upstream and downstream value chain

Covestro identified four big levers to reach climate-neutrality for scope 3 emissions: **1.** Suppliers reduce their scope 1- and scope 2-emissions **2.** Profitable sales of products based on alternative raw materials **3.** MAKE projects: investment projects with which Covestro produces alternative raw materials with a lower carbon footprint, such as bio-based feedstock production, e.g. biobased aniline **4.** A variety of other supporting factors, e.g. increasing recycling rates to reduce emissions from waste incineration, changes to logistics. By finalizing the scope 3 target-setting and the overall climate neutrality strategy, Covestro reaffirms its ambition to lead the transformation of the chemical industry.

[1] Partially compensation of growth-related emissions included

INVESTING IN A SUSTAINABLE FUTURE

A more sustainable future. We believe that this is something worth investing in! That's why we continued to invest in the expansion of our global production capacities and innovative technologies in 2023. A total of around 800 million euros. In 2023, we have also further strengthened our European production network for MDI (diphenylmethane diisocyanate), a precursor for the production of rigid foam, which is used to insulate refrigerators and buildings: The construction of a plant for the production of aniline in Antwerp (Belgium) is progressing, and we have commissioned a new chlorine plant in Tarragona (Spain). Thanks to the use of state-of-the-art technology, this saves up to 25 percent more energy compared to existing processes.

Ongoing investments. We also have our sights firmly set on future investments: By 2025, for example, we want to further strengthen the sustainability and competitiveness of our TDI (toluene diisocyanate) production for the manufacture of flexible foams in Europe and modernize our production plant in Dormagen (Germany) to achieve this. This is great news as the plant expected to consume up to 80 percent less energy and reduce greenhouse gas emissions by a further 22,000 tons per year after the modernization. However, it is not only the production of materials that is important, but also their recyclability, as too many plastic products still end up as waste at the end of their useful life.

We are therefore driving forward the development of innovative recycling processes and testing various solutions in parallel. In 2023, for example, Covestro started planning the construction of a pilot plant for the chemical recycling of polycarbonate in Leverkusen (Germany), and commissioned a plant for the compounding of mechanically recycled polycarbonate at its site in Shanghai (China). A collaboration with potential.

GETTING THE MOST OUT OF IT

Energy efficiency. An absolute key issue for Covestro. The aim is to obtain as much energy from renewable sources as possible, while reducing the total amount of energy required.

How does that work? For example, through the intelligent use of energy that is already generated at the plants. We reached further important milestones in 2023, like at our site in Brunsbuettel (Germany): A steam pipeline was completed here that allows high-pressure steam from aniline production to be used in the neighboring MDI plant. This significantly reduces the amount of steam that has to be generated for MDI production. And that saves energy: around 40 gigawatt hours, which is more than 2,000 average households need per year. A great achievement, for which we were awarded the VCI Nord (German Chemical Industry Association) sustainability prize.

Increasing energy efficiency. Energy is also being saved at our sites in Leverkusen and Uerdingen (Germany). Equipment has been installed at two plants that allows waste process heat to be used for internal steam generation. Together, the two plants save around 60 gigawatt hours of primary energy. We are also working intensively at our site in Dormagen (Germany) to increase the efficiency of our TDI production there. By 2035, we aim to reduce our specific energy consumption in North Rhine-Westphalia by 25 percent compared to 2020 through efficiency measures. A further step toward the circular economy.

Modern technology, high efficiency

Dr. Thorsten Dreier, Chief Technology Officer

EXPLORE ONLINE

MAXIMIZING OUR POTENTIAL

The Potential of AI in the Chemical Industry

Nils Janus, Head of Artificial Intelligence

EXPLORE ONLINE

Artificial intelligence (AI) is developing rapidly. And that also opens up far-reaching opportunities for the chemical industry! Covestro has recognized and is successfully exploiting this opportunity. Where exactly? In production, research & development, or administration, for example. Sustainability also plays a major role here. Because, with the help of AI, we can continue to pave the way toward a fully circular economy and create more innovations.

Small changes with great potential. The impact on the world of work is extensive: Assistance systems, chatbots, and autonomously controlled systems will fundamentally change our everyday working life as we know it today. That is why humans and artificial intelligence are working ever more closely together at Covestro: AI-controlled production systems are already ensuring greater energy efficiency in our plants and increasing production capacity, among other things.

And the journey continues: Covestro employees will have a virtual assistant at their side in the future. The aim is to improve knowledge management and make day-to-day work more effective. And all of this shows just a fraction of the activities with which we are playing a leading role in shaping a sustainable chemical industry. Sounds exciting? We think so too!

A STRONG FOUNDATION FOR STRONG PARTNERSHIPS

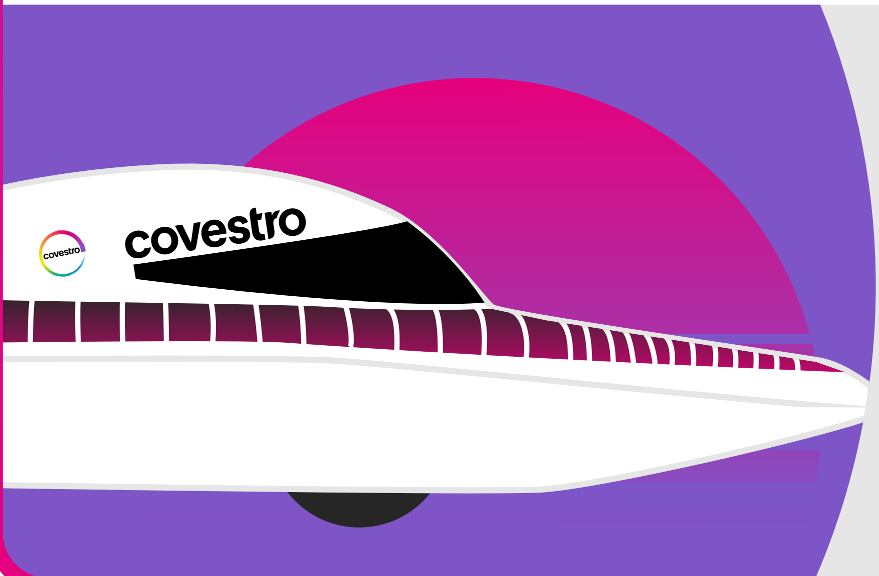
The world is constantly changing. And we are actively shaping this change – for example through strong, innovative partnerships, as with Team Sonnenwagen. Around 50 students from RWTH Aachen University and Aachen University of Applied Sciences are developing solar cars that will pave the way for more sustainable mobility in the future. They generate energy while driving, using only the power of the sun.

And that's not all: The racing cars regularly prove themselves in international competitions, above all the Bridgestone World Solar Challenge, the toughest solarrace in the world. We share this enthusiasm, which is why we are supporting Team Sonnenwagen as the main sponsor with our innovative material solutions and as a professional sparring partner.

A strong foundation. Our employees worldwide are a strong foundation for such successful partnerships. Together, they are driving forward the vision of a circular economy. That requires a comprehensive transformation. To enable our colleagues to actively shape this transformation, Covestro launched "Expedition C", a holistic training initiative, in 2023. The focus is on six core topics, which are explored in depth using a variety of different learning formats. The topic include sustainability, digitalization and innovation as key areas of transformation at Covestro. We are convinced that only a strong workforce can shape a more sustainable future together with partners!

»"Expedition C" is a training initiative that prepares our employees for transformational topics and thus enables them to participate. The focus is on six core transformation topics. Internal experts impart knowledge and tools for each individual field and promote dialog and exchange.«

Sophie von Saldern,
Global Head of Human Resources



»Our current solar car, the Covestro Adelie, is the result of a great deal of work, which we have invested alongside our studies and in our free time, and a great deal of commitment and passion.«

Lina Schwering,
1st Chairwoman of Team Sonnenwagen

CAPITAL MARKET

Report of the Supervisory Board

Dr. Richard Pott, Chair of the Supervisory Board of Covestro AG

Dear Shareholders,

Fiscal 2023 was again a challenging year for Covestro. Continuous geopolitical uncertainty, e.g., the Russian war against Ukraine or the conflicts in the Middle East, impacted on global economic development. Other factors, such as high inflation and low demand from Covestro's main customer industries, weighed on the company's 2023 fiscal year.

The Board of Management analyzed this extremely complex and difficult overall global situation very closely and reflected it in the strategy in order to secure Covestro's business and its long-term future. Alongside continuing to implement the strategic goals, the Board's efforts focused on improving operational performance. We, the Supervisory Board, closely accompanied the Board of Management and supported it in its deliberations and decisions.

In terms of strategy, it is also our view that Covestro continues to be on the right track and is well-positioned for the future with its focus on establishing the circular economy and overall on innovations for more sustainability. In this regard, the company also reached further milestones and achieved business successes last year. In the course of its internal transformation, these include the continuing shift in production to sustainable raw materials, renewable energy sources, and recycling as well as the ongoing digitalization with the focus on artificial intelligence. With regard to customers, Covestro has also further expanded its range of circular, climate-neutral products and solutions as the basis for sustainable growth.

During this period, the Supervisory Board took important decisions to set the course for the continuity of Covestro's management: After the termination, agreed at the start of reporting year, of the Board of Management contract with CFO Dr. Thomas Toepfer as of August 31, 2023, the Supervisory began the search for a new CFO, and successfully recruited Mr. Christian Baier for this role, who took over his new position as of October 1, 2023. Dr. Thorsten Dreier, who had already been appointed as Chief Technology Officer (CTO) in the year before, took up office as a member of the Board of Management as of July 1, thus succeeding Dr. Klaus Schäfer. The new Board of Management team works very well together, especially given the current challenging tasks.

Important issues in fiscal 2023 were defining Scope 3 targets for the company, preparing a sustainability component relating to "Social" topics for the compensation of the Board of Management, and reviewing the strategic options for the company in detail, including deliberations on the interest expressed by the Abu Dhabi National Oil Company (ADNOC), Abu Dhabi (United Arab Emirates) in relation to Covestro AG.

During the reporting period, the Supervisory Board of Covestro AG performed its duties with due care in accordance with the law, the Articles of Incorporation, and the rules of procedure. During fiscal 2023, it monitored the conduct of the company's business by the Board of Management with regular frequency based on detailed written and oral reports received from the Board of Management, and also acted in an advisory capacity. The discussions between the Supervisory Board and Board of Management were always constructive and were conducted in the spirit of openness and trust.

The Supervisory Board Chair was in regular contact with the Board of Management outside of Supervisory Board meetings and remained informed about current developments in the company's business performance and material transactions. In addition, the Chair of the Supervisory Board was in close contact with the Chair of the Board of Management to discuss important questions and decisions one on one. The full Supervisory Board was informed in detail about the content of these discussions no later than during the next meeting.

In this way, the Supervisory Board was kept regularly and fully informed in the respective meetings about the company's intended business strategy, corporate planning (including financial, investment, and human resources planning), profitability, the state of the business, and the situation of the company and the Group (including the risk situation, risk management, and the compliance situation). Where Board of Management decisions or actions required the approval of the Supervisory Board during the reporting period, whether by law, or under the Articles of Incorporation or the rules of procedure, the draft resolutions were inspected and discussed in detail by the members of the Supervisory Board at its meetings, sometimes after preparatory work by the responsible committees, or approved in writing on the basis of documents circulated to the members. The Supervisory Board was always directly involved in decisions of material importance to the company. It discussed in detail the business trends described in the reports from the Board of Management and the prospects for the development of the Covestro Group as a whole, the individual segments, and the regions. The Supervisory Board continually ensured that the actions of the Board of Management were lawful, due and proper, and appropriate.

Meetings of the Full Supervisory Board and Member Attendance

In fiscal year 2023, the Supervisory Board held a total of ten meetings, all of which were also attended by at least one member of the Board of Management, except where issues were discussed that required them to be absent. In addition, the various committees of the Supervisory Board convened a total of 21 meetings. The Supervisory Board and the Presidial Committee held more meetings in fiscal 2023 than in prior years because of additional extraordinary meetings in connection with ADNOC's expression of interest in relation to Covestro AG.

The regular Supervisory Board meetings were held physically, while the extraordinary meetings convened at short notice were held by video conference. Most of the committee meetings were held as video conferences, unless they took place on the same day as one of the Supervisory Board meetings held physically. The Audit Committee meeting for the half-year financial statements was also held physically.

The members of the Supervisory Board attended the meetings of the Supervisory Board of Covestro AG and its committees, as follows:

	Supervisory Board	**Presidial Committee**	**Audit Committee**	**Human Resources Committee**	**Nomination Committee**	**Sustainability Committee**	**Overall amount of meetings[1]**	
Supervisory Board member	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	Meeting attendance	%
Dr. Christine Bortenlänger	10/10	–	4/4	–	–	–	14/14	100.0
Dr. Christoph Gürtler	10/10	–	–	5/5	–	5/5	20/20	100.0
Lise Kingo	10/10	–	–	–	–	5/5	15/15	100.0
Petra Kronen (Vice Chair)	10/10	7/7	4/4	5/5	–	–	26/26	100.0
Irena Küstner	10/10	–	4/4	–	–	–	14/14	100.0
Frank Löllgen[2]	9/10	–	–	–	–	–	9/10	90.0
Dr. Richard Pott (Chair)	10/10	7/7	–	5/5	–	–	22/22	100.0
Petra Reinbold-Knape	10/10	7/7	4/4	–	–	–	21/21	100.0
Dr. Sven Schneider[2]	9/10	–	4/4	–	–	–	13/14	92.9
Regine Stachelhaus[2]	10/10	5/7	–	5/5	–	–	20/22	90.9
Marc Stothfang[3]	9/10	–	–	–	–	4/5	13/15	86.7
Patrick Thomas[4]	10/10	–	4/4	–	–	4/5	18/19	94.7
Total	**117/120**	**26/28**	**24/24**	**20/20**	**0/0**	**18/20**	**205/212**	**96.7**

1 Five Supervisory Board and 16 committee meetings were held as video conferences, five Supervisory Board and five committee meetings were held physically.
2 Absence solely for extraordinary meetings convened at short notice due to not being available at that time.
3 Absence due to longer-term illness during the first half of the year.
4 Absence for personal reasons.

In total, Supervisory Board members attended meetings of the Supervisory Board and its committees with a 96.7% attendance rate. In addition, some Supervisory Board members attended meetings of the Sustainability Committee intended for guest attendance (the Chairman of the Supervisory Board attended all five meetings, Petra Kronen and Irena Küstner each attended four, Petra Reinbold-Knape three, and Regine Stachelhaus one). Moreover, Dr. Richard Pott attended all four meetings of the Audit Committee as a guest. The Chairman of the Audit Committee, Dr. Sven Schneider, attended as a guest five meetings of the Presidial Committee held to deal with ADNOC's expression of interest; Frank Löllgen attended one of those meetings as a guest.

Based on its composition and experience, the Supervisory Board as a whole has in-depth industry expertise in the polymer sector in which Covestro operates.

The members of the Supervisory Board once again participated in continuing personal education in the reporting year 2023 in order to enhance the expertise of the Supervisory Board as a whole. A workshop organized by the Board of Management in connection with the strategy meeting was held in October 2023, at which Covestro-specific and other topics of relevance for Covestro were highlighted and discussed: influence of the people strategy on the successful transformation of the company, influence of research and development and of artificial intelligence on the sustainable growth of the company, and achieving climate neutrality through the circular economy.

The Chairman of the Supervisory Board was also available during the past fiscal year for discussions with investors. At one such discussion in October 2023, topics were discussed that fall within the Supervisory Board's tasks and responsibilities. The special focus here was on Environmental, Social, and Governance (ESG) aspects and the strategy process.

Principal Topics Discussed by the Supervisory Board

The deliberations of the Supervisory Board focused on the Board of Management's regular reports on business activities, which contained detailed information on the development of the sales and earnings for the Group and the segments as well as on the strategy, opportunities and risks situation, and personnel matters at Covestro.

The current challenging economic situation in connection with the acute crises and their impact on the company were part of every Supervisory Board meeting in the year 2023. At these meetings, the Supervisory Board received very detailed reports, dealt extensively with the existing challenges and the measures adopted by the Board of Management. In addition, the Supervisory Board concentrated on the following topics in individual meetings and also through circular resolutions:

On January 15, the Supervisory Board discussed the issue of bonuses (Covestro Profit Sharing Plan) for the Board of Management for the year 2022 and set them to zero by way of a circular resolution on the recommendation of the Human Resources Committee. A corresponding resolution had been adopted by the Board of Management for the employees.

In a further circular resolution, the Supervisory Board acceded to the request of CFO Dr. Thomas Toepfer for the early termination, on August 31, 2023, of his current contract, which was due to expire on March 31, 2026, in order to give Dr. Toepfer the opportunity to accept a new position as CFO at the European aircraft manufacturer Airbus.

At its two-day meeting on February 28 and March 1, 2023, the Supervisory Board dealt with strategic issues and the topics concerning the Financial Statements. The first day focused on the topic of the corporate strategy, and the Supervisory Board continued its discussions on strategic options under the current prevailing trends and general conditions that had begun in November 2022. On day two, the Supervisory Board discussed in detail the Financial Statements and Consolidated Financial Statements for fiscal 2022, and the Combined Management Report including the nonfinancial Group statement. It also reviewed in detail the audit report and the auditor's oral report concerning the material results of the audit. In addition, the Supervisory Board examined internal risk reporting, which sets out the material risks for the Group and current developments in this regard, as well as the relevant countermeasures. Furthermore, the organization, statistics, training efforts, processes, and effectiveness of the Group's compliance management system were reviewed in depth. In addition, items on the agenda and resolution proposals for the 2023 Annual General Meeting were updated or added. Various compensation issues were also discussed, and the Compensation Report of the Board of Management and the Supervisory Board for fiscal 2022 was approved. At this meeting, the Supervisory Board also dealt with its self-assessment regarding the effectiveness and efficiency of its work in fiscal 2022, in which an external review had additionally been carried out. On the whole, members found the Supervisory Board's activity effective and efficient. They particularly valued the detailed discussions and exchanges with the Board of Management on issues relating to strategy, for which sufficient time was allowed at Supervisory Board meetings and the annual strategy workshop.

At the Supervisory Board meeting on April 19, 2023, the main focus was on the virtual Annual General Meeting taking place on the same day, which was held in the current virtual format in accordance with the amendments to the German Stock Corporation Act (AktG) of July 2022.

A major issue at the Supervisory Board meeting on June 15, 2023 was the continuation and conclusion of the strategy discussions conducted at the previous two Supervisory Board meetings, including the corresponding priorities regarding the next steps. The analysis of the Annual General Meeting held in April and future optimization measures were also discussed. In addition, the Supervisory Board approved the extension of a long-term purchasing contract for a crucial raw material at the meeting.

The Supervisory Board met on August 16, 2023, to appoint a successor for the position of CFO and to discuss the successor for the role of Labor Director. On the recommendation of the Human Resources Committee, the Supervisory Board resolved to appoint Christian Baier for the period from October 1, 2023 as CFO for Covestro AG. For the transition period from September 1 to 30, arising after CFO Dr. Thomas Toepfer stepped down on August 31, 2023, the Supervisory Board appointed Chief Executive Officer Dr. Markus Steilemann as interim CFO. In this context, the Supervisory Board discussed the adjustment of the schedule of duties for the Board of Management.

On the recommendation of the Human Resources Committee, the Supervisory Board resolved on August 18, 2023, by way of circulation to appoint Chief Technology Officer Dr. Thorsten Dreier as Labor Director. Furthermore, the Supervisory Board approved the schedule of duties proposed by the Board of Management from October 1, 2023 and the schedule of duties for the transition period from September 1 to 30.

At the Supervisory Board meeting on October 11, 2023, the focus was on the regularly scheduled topic of the corporate strategy, after the Supervisory Board had, as in previous years, addressed strategy issues in depth on the day before in a strategy workshop organized by the Board of Management. The workshop dealt with updating the corporate strategy after delving deeper into topics such as people strategy, growing digital, climate neutrality and circularity. Another important item of the agenda for this Supervisory Board meeting was looking in more depth at the issue of safety: In addition to the current occupational safety situation at the company, which is always discussed at every Supervisory Board meeting, in-depth analyses and statistics, findings and measures were presented and discussed.

At its meeting on December 6, 2023, the Supervisory Board considered various compensation issues. As regularly scheduled, it reviewed the Board of Management's fixed compensation and considered the long-term variable compensation for the Board of Management. It decided, in accordance with the existing compensation system, to include a sustainability component relating to "Social" topics in the long-term variable compensation, comprising two metrics relating to occupational safety and employee engagement. The metrics for this sustainability component had been developed in the course of the year on a cross-committee basis and agreed with the Human Resources Committee, the Sustainability Committee, and the Audit Committee. In another important agenda item, the Supervisory Board looked in detail at the corporate planning for fiscal 2024 proposed by the Board of Management and the medium-term outlook also presented. It approved both the corporate plan and the financing framework proposed for fiscal 2024. In addition, it approved the Scope 3 targets adopted by the Board of Management and the accompanying publication schedule, after the Sustainability Committee had issued its corresponding recommendation. At this meeting the Supervisory Board also discussed the agenda and proposed resolutions for the Annual General Meeting 2024. After completion of the share buyback program and the Board of Management resolution on the retirement of the shares bought back and the resulting reduction in the capital stock and in the number of shares, the Supervisory Board approved the corresponding amendment to the Articles of Incorporation. At this meeting, the Supervisory Board also voted to issue an unqualified declaration of conformity with the German Corporate Governance Code (GCGC).

In addition, the Supervisory Board held four extraordinary meetings in the year 2023, on August 16, September 8, September 26, and October 2, and passed circular resolutions on August 23 and October 23, 2023. The extraordinary meetings of the Supervisory Board were used to give this body comprehensive information on the state of affairs of ADNOC's expression of interest in relation to Covestro AG as well as for extended consultations following the relevant discussions at Presidial Committee meetings. At all four extraordinary Supervisory Board meetings, the Board of Management reported in detail on the state of affairs and on its assessment of the situation, as it had already done at each of the Presidial Committee meetings. On this basis, the Supervisory Board held in-depth discussions, including with the involvement of external advisers, and, as the Presidial Committee before it, agreed the next steps in close consultation with the Board of Management. By way of a circular resolution of August 23, 2023, the Supervisory Board transferred additional decision-making powers on matters of takeovers to the Presidial Committee and took a decision on Dr. Sven Schneider's attendance at corresponding Presidial Committee meetings. The circular resolution of October 23 was about Frank Löllgen's attendance at corresponding extraordinary Presidial Committee meetings.

Covestro AG Supervisory Board (as of December 31, 2023; from left to right):
First row: Dr. Richard Pott, Petra Kronen, Dr. Christine Bortenlänger, Dr. Christoph Gürtler
Second row: Lise Kingo, Irena Küstner, Frank Löllgen, Petra Reinbold-Knape
Third row: Dr. Sven Schneider, Regine Stachelhaus, Marc Stothfang and Patrick Thomas

Committees of the Supervisory Board

In the past fiscal year, the Supervisory Board had five permanent committees set up so that it can continue to exercise its duties effectively and efficiently. The committees prepared resolutions by the full Supervisory Board and provided information on other topics to be discussed by this body. Moreover, certain decision-making powers of the Supervisory Board were delegated to the committees to the extent legally permissible. The Supervisory Board currently has the following permanent committees: Presidial Committee, Audit Committee, Human Resources Committee, Nominations Committee, and Sustainability Committee.

The tasks and responsibilities of the standing committees and their current composition are described in greater detail in “Declaration on Corporate Governance” under “Committees of the Supervisory Board” in the Combined Management Report.

The meetings and decisions of all committees, and especially those of the Audit and Sustainability Committees, were prepared on the basis of reports and explanations provided by the Board of Management. The committee chairs regularly provided comprehensive reports on the work of the committees to the full Supervisory Board.

The **Presidial Committee**, on which shareholders and employees are equally represented, convened for one ordinary meeting in the year 2023. At this meeting on December 6, 2023, the Presidial Committee discussed the annual review of the Qualification Matrix of the Supervisory Board implemented in fiscal 2022. The review showed that the Qualification Matrix continues to be up to date since there were no changes in the composition of the Supervisory Board in the year 2023, and no changes to the qualifications of the individual Supervisory Board members.

In addition, the Presidial Committee held six extraordinary meetings in the year 2023, on July 19, August 15, August 24, September 22, October 18, and October 31, and passed one circular resolution on August 31, 2023.

The subject of all extraordinary meetings of the Presidial Committee, as well as of the four extraordinary Supervisory Board meetings, was in-depth discussion of the respective state of affairs of ADNOC's expression of interest in relation to Covestro AG. The extraordinary meetings of the Presidial Committee were also used to prepare for the subsequent extraordinary meetings of the Supervisory Board. As reported already, five of these extraordinary meetings were attended by the Chairman of the Audit Committee, Dr. Sven Schneider, as a guest participant and expert adviser, and one by Mr. Löllgen as guest participant and expert adviser, in addition to the members of the Presidial Committee, on which shareholders and employees are equally represented. At all extraordinary meetings, the Board of Management reported in detail on the state of affairs of ADNOC's expression of interest and on its assessment of the situation. On this basis, the Presidial Committee held in-depth discussions, including with the involvement of external advisers, and agreed the next steps in close consultation with the Board of Management. The circular resolution of the Presidial Committee taken on August 31 related to a decision to engage external consultants.

The **Audit Committee** met a total of four times in the year under review: on February 28, April 26, July 28, and October 26, 2023, each time in the presence of the CFO and the auditor. At a working meeting on June 15, only members of the Audit Committee were present. The Audit Committee conducted a preparatory review of the Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, and the Combined Management Report for the Supervisory Board. In particular, it also discussed in detail the respective audit report and the oral report by the auditor on the material results of the audit. The Combined Management Report also included the Group's nonfinancial statement. In conducting its review, the Audit Committee found no grounds for objections. It recommended to the Supervisory Board to approve the Financial Statements and Consolidated Financial Statements for fiscal 2022 as well as to consent to the Combined Management Report. In addition, the Audit Committee discussed with the Board of Management the half-year financial report in light of the results of the review by the auditor, and the Q1 and Q3 2023 quarterly statements prior to their publication.

The Audit Committee monitored the accounting and financial reporting process and the appropriateness and effectiveness of the internal control system, the risk management system, and the internal audit system, including sustainability-related aspects, and deliberated on the audit of the financial statements and compliance. In doing so, the Committee received reports, including from the heads of Corporate Audit and the Corporate Law, Intellectual Property & Compliance functions and from the auditor. No material weaknesses were identified in the internal control system for financial reporting purposes or the risk early warning system.

The Audit Committee additionally undertook preparations for the Supervisory Board's proposal for the appointment of the financial statement auditor by the AGM, the engagement of the auditor, and agreement on the auditor's fee. It monitored the quality of the audit and the independence of the auditor as well as the supplementary non-audit services provided in addition to the financial statement audit. In this context, the committee had the auditor confirm their independence.

The Audit Committee discussed the audit risk assessment, audit strategy, audit planning, key audit matters, and audit results with the auditor. The Chairman of the Audit Committee had regular feedback sessions with the auditor on the audit progress and reported on this to the Audit Committee.

Special topics discussed by the Audit Committee in the fiscal year under review were aspects of opportunities and risks as well as of regulatory requirements, such as the Chemicals Strategy for Sustainability (CSS), the Corporate Sustainability Due Diligence Directive (CSDDD), the cyber risk specifically with regard to the security of production and technical IT systems, and an update on tax positions and tax risks. Other special topics were the results of a readiness assessment of the risk management and internal control system, and dealing with the issue of a sustainability component relating to "Social" topics for the Board of Management compensation with the focus on checking the auditability of the selected metrics.

Furthermore, the Audit Committee obtained information on an ongoing basis on enhancements to the compliance management system (particularly regarding anti-corruption measures), the handling of suspected compliance violations, progress in significant litigation, new legal and regulatory risks, and the risk situation, risk tracking, and risk monitoring in the Group. The Corporate Audit function provided regular reports about risk assessments. The heads of the relevant corporate functions also participated in meetings of the Audit Committee on selected agenda items, reported on these, and answered questions. In addition, the Chair of the Audit Committee discussed important matters between meetings, particularly with the Supervisory Board Chair, the CFO, and the auditor. The key results of these discussions were reported regularly to the Audit Committee and the Supervisory Board. The Audit Committee continued its practice of closed sessions in the year under review. They allow the auditor and the committee during the meeting to have a discussion without the Board of Management being present.

The **Human Resources Committee** convened for a total of five meetings in the reporting year. Topics of particular importance that year were the search for and appointment of a successor for the position of CFO to replace Dr. Thomas Toepfer, who was stepping down, and the design of a sustainability component relating to "Social" topics for the compensation of the Board of Management with effect from the year 2024.

At its first meeting on January 13, 2023, the Human Resources Committee discussed the issue of bonuses (Covestro Profit Sharing Plan) for the Board of Management for the year 2022 and recommended that the Supervisory Board set it to zero, after the Board of Management had previously adopted a corresponding resolution for the employees.

In a circular resolution on January 15, 2023, the Human Resources Committee dealt with the request of CFO Dr. Thomas Toepfer for the early termination of his Board of Management contract, and recommended that the Supervisory Board agree to conclude a termination agreement with Dr. Toepfer.

At its meeting on February 21, 2023, the Human Resources Committee dealt, among other things, with an amendment to a metric with relevance for the Board of Management compensation that had become necessary, and recommended that the Supervisory Board agree to this amendment.

On August 10, 2023, the Human Resources Committee dealt with the successors for the positions of CFO and Labor Director. It recommended that the Supervisory Board appoint Christian Baier for the period from October 1, 2023 as CFO for Covestro AG. For the transition period from September 1 to 30, arising after CFO Dr. Thomas Toepfer had stepped down on August 31, 2023, the Human Resources Committee recommended the appointment of Chief Executive Officer Dr. Markus Steilemann as interim CFO. It also discussed the successor for the position of Labor Director.

On August 18, the Human Resources Committee recommended by way of circulation that the Supervisory Board appoint Dr. Thorsten Dreier, Chief Technology Officer, as Labor Director from September 1.

At the meeting on October 11, the Human Resources Committee dealt with the human resources planning and succession planning for the Board of Management, and with the design of a sustainability component relating to "Social" topics for the Board of Management compensation starting from 2024.

On December 6, 2023, the Human Resources Committee addressed the final proposal for this sustainability component for the compensation of the Board of Management, after the Sustainability Committee and the Audit Committee had also previously checked the concept, and recommended that the Supervisory Board accordingly approve this component for the variable long-term compensation. Other topics at this meeting included the annual review of the appropriateness of Board of Management compensation, long-term variable compensation of the Board of Management, and short-term variable compensation for the current year.

The **Sustainability Committee** convened for a total of five meetings. The main topics of their deliberations were the circular economy and the formulation of Scope 3 targets for the company.

At its first meeting on February 14, 2023, the Sustainability Committee dealt with its own targets for fiscal 2023 regarding circular economy and Scope 3 targets, and agreed an appropriate action plan. The current procedures in the industry regarding Scope 3 and the upstream side of Covestro (suppliers) regarding transformation to the circular economy were then examined at this meeting. The corresponding analysis of the downstream (customer) side then followed at the second meeting on March 31, also with initial feasibility studies and potential estimates. Elaboration of the details continued over the course of the year.

One focus of the meeting on May 31, 2023, was on the issue of human rights and corresponding due diligence obligations in the Supply Chain Act. The meeting on September 22, 2023, discussed the concept for the sustainability component relating to "Social" topics for the compensation of the Board of Management requested by the Supervisory Board and developed on a cross-committee basis. At this meeting, the Scope 3 targets were then presented and subsequently adopted, after elaboration of the accompanying implementation recommendations, at the Sustainability Committee meeting on November 20, 2023, and recommended for approval by the Supervisory Board. In addition, the committee looked at the sustainability reporting for the year 2023 at its November meeting.

At all the meetings during the year, current developments and requirements regarding EU chemicals policy, regulations, ratings, and rankings were discussed in addition to the specific topics mentioned. Where relevant, the discussion of all the topics addressed in the Sustainability Committee also included the discussion of company-specific impacts, risks, and opportunities associated with them.

The members of the **Nominations Committee** did not meet for any official meetings in the reporting year 2023. The aspects of the Qualification Matrix of the Supervisory Board that had still been developed in the previous year by the Nominations Committee were continued by the Presidial Committee. The members of the Nominations Committee will deal in fiscal 2024 with the upcoming elections of shareholder representatives for the 2025 Annual General Meeting since the periods of office for several of the representatives will expire on the day of the Annual General Meeting.

Financial Statements/Audit

The Financial Statements of Covestro AG were prepared in accordance with the requirements of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), and the German Energy Industry Act (EnWG). The Consolidated Financial Statements of the Covestro Group were prepared in accordance with the German Commercial Code and the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The Combined Management Report including the Group’s nonfinancial statement was prepared in accordance with the German Commercial Code. The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the financial statements of Covestro AG, the consolidated financial statements of the Covestro Group, and the Combined Management Report including the Group’s nonfinancial statement. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Covestro’s financial statements since fiscal 2018. Marc Ufer and Dr. Kathryn Ackermann signed the Independent Auditor’s Report for fiscal year 2023. Both of them signed the Independent Auditor’s Report for first time on December 31, 2022. The conduct of the audit, key audit matters, and results of the audit are explained in the auditor’s reports. The auditor finds that Covestro has complied, as appropriate, with the German Commercial Code, the German Stock Corporation Act, and/or the IFRS regulations as adopted by the EU, and issues unqualified opinions on the Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, the Combined Management Report, including the nonfinancial Group statement. The Compensation Report was subjected to a substantive audit and issued with an audit opinion, which confirms that the report, including the related disclosures, complies in all material respects with the financial reporting requirements of Section 162 AktG.The Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, the Combined Management Report including the Group’s nonfinancial statement, and the audit reports were submitted to all members of the Supervisory Board. The Audit Committee and the Supervisory Board reviewed the financial statement documentation in depth after the auditor’s report was presented. The auditor attended both meetings.

The Supervisory Board examined the Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, and the Combined Management Report including the Group’s nonfinancial statement. It had no objections and thus concurred with the result of the audit.

The Supervisory Board approved the Financial Statements of Covestro AG and the Consolidated Financial Statements of the Covestro Group prepared by the Board of Management. The financial statements of Covestro AG are thus adopted. Since no net income was generated, there is no proposal for the use of distributable profit. The Board of Management and Supervisory Board jointly prepared the annual compensation report.

Corporate Governance and Declaration of Conformity

During the reporting year, the Supervisory Board again extensively addressed Covestro’s corporate governance, taking into account the German Corporate Governance Code and, together with the Board of Management, submitted an unqualified declaration of conformity in accordance with Section 161 of the German Stock Corporation Act in December 2023 based on the Code in the April 28, 2022, version. This declaration has been posted on Covestro’s website.

Expression of Appreciation from the Supervisory Board

The Supervisory Board would like to thank the Board of Management and all of Covestro’s employees for their unwavering dedication in the 2023 fiscal year. The Supervisory Board wishes all of them success in dealing with the current economic and geopolitical challenges in a time of multidimensional crises.

The Supervisory Board would also like to thank Covestro’s shareholders for the trust they have placed in the company.

Leverkusen, February 28, 2024

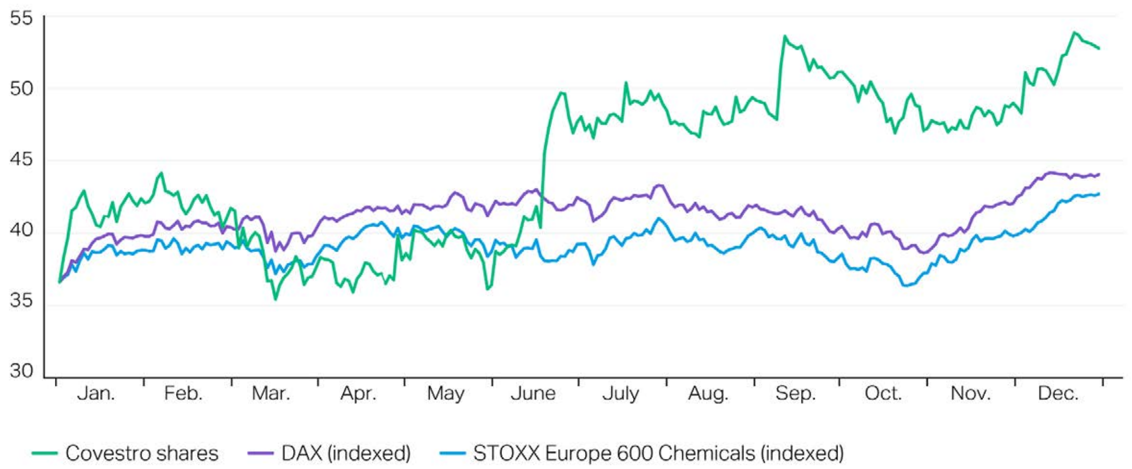
For the Supervisory Board

Dr. Richard Pott
Chair

Covestro Shares

Performance of Covestro shares versus market in fiscal year 2023

€ (Covestro shares)



Xetra closing prices for Covestro; source: Deutsche Börse AG

Performance of Covestro Shares Exceeds Increase in Benchmark Indices

Similar to the previous year, fiscal 2023 was affected by the consequences of the Russian war against Ukraine and, to a small extent, by the effects of the global coronavirus pandemic. The energy crisis caused by Russia's war of aggression on Ukraine continued to weigh on global economic performance and, in combination with a considerable rise in inflation, led to significant declines in the manufacturing industry. The services industry, on the other hand, benefited from the lifting of all coronavirus measures and the regained freedom of travel and association. The DAX therefore did not reflect this negative trend in the manufacturing industry directly, rising by 19.6% to 16,751.64 points in the course of the year. Despite two intervening periods of weakness, the European benchmark index EURO STOXX 50* increased by 19.2% year-over-year, to 4,521.65 points, driven by significant gains in the course of the fourth quarter of 2023.

The weaker trend of European chemical stocks in particular in the course of 2023 compared with the DAX and EURO STOXX 50 benchmark indices was attributable to the impact of the energy crisis and low demand from the processing industry. Most of the benefits of significantly lower raw material prices in the course of 2023 had to be passed on to customers. The challenging earnings situation therefore continued. By December 31, 2023, the STOXX Europe 600 Chemicals** index was up by only 16.6% from its level at the beginning of the year.

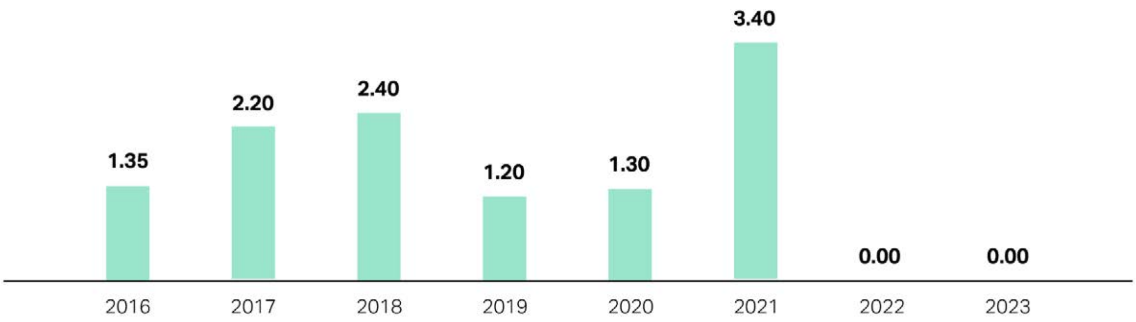
At a Xetra closing price of €52.68, Covestro's share price had gained 44.1% at the end of the year 2023 compared with December 31, 2022, thus significantly outperforming the DAX and the STOXX Europe 600 Chemicals indices. The share price started the year 2023 with an upward movement, but then declined in the course of the first quarter of 2023, reaching a low of €35.36 on March 15, 2023. During the second quarter of 2023, Covestro's share price trended slightly higher, interspersed by brief periods of price weakness. Since the beginning of June 2023, the share price has been on an upward trajectory, preceded mainly by market rumors of an intended takeover by the Abu Dhabi National Oil Company (ADNOC), Abu Dhabi (United Arab Emirates). On September 8, 2023, Covestro reported that it was starting open discussions with ADNOC, and in response the share price increased above the €50 threshold. In the fourth quarter of 2023, the share price declined briefly, but broke again through the €50 mark at the beginning of December 2023. Following renewed rumors in connection with the ADNOC discussions, it reached its high for the year at €53.74 just before the close and largely retained this price level until the end of the year.

* EURO STOXX 50: European stock index that reflects the share price performance of the 50 most important and highest-revenue companies in Europe.
** STOXX Europe 600 Chemicals: Sector index by index issuer STOXX; the STOXX Europe 600 comprises 600 European companies.

Compared with the closing price of €36.55 for the year 2022, this corresponds to a share price performance (without dividend reinvestment since no dividend was paid for fiscal 2022) of 44.1%.

Dividend performance

Dividend per share carrying dividend rights (€)



At the end of the reporting period, Covestro's market capitalization stood at €9.9 billion based on 188.7 million shares outstanding. The average daily Xetra trading volume was 1.1 million shares.

Covestro share at a glance

		2022	2023
Average daily turnover	million shares	1.3	1.1
Closing date (Dec. 31)	€	36.55	52.68
High	€	57.48	53.74
Low	€	28.85	35.36
Outstanding shares (closing date)	million shares	189.9	188.7
Market capitalization (closing date)	€ billion	6.9	9.9
Share price change	%	(32.6)	44.1
Share price performance (with dividend reinvestment)	%	(27.1)	44.1

Xetra closing prices for Covestro; source: Deutsche Börse AG

Dividend Policy

Since the 2020 Financial Statements, Covestro AG's dividend policy has been more closely linked to the Group's overall business situation. The policy specifies that Covestro AG should distribute between 35% and 55% of the Group's net income to shareholders of Covestro AG. The Group's net income was negative in the reporting period, showing another net loss of €198 million. Under the dividend policy, this means that, again, no dividend will be distributed to shareholders of Covestro AG for fiscal year 2023.

Moody's Confirms Covestro Rating

On June 21, 2023, Moody's Investors Service, London (United Kingdom), confirmed Covestro's Baa2 investment-grade rating with a stable outlook. Covestro intends to continue to maintain financing structures and financial ratios that support a solid investment-grade rating in the future.

Annual General Meeting on April 19, 2023

Covestro AG's 2023 Annual General Meeting (AGM) was held on April 19, 2023. Taking account, in particular, of legislation, the ownership structure, expected costs, the pandemic situation at the time, and the experience made in recent years, Covestro had resolved at the end of the year 2022 to hold a virtual AGM.

The AGM ratified the actions of the Board of Management and Supervisory Board for the past fiscal year 2022 with a large majority. The Group's net income was negative for the first time in fiscal 2022, showing a net loss of €272 million. Under the current dividend policy, this means that no dividend was distributed to shareholders of Covestro AG. Similar to the resolution proposals on ratification of the actions of the Board of Management and Supervisory Board, all other proposed resolutions were passed with large majorities.

Share Buyback Program

Based on the resolution adopted at the 2019 AGM, Covestro AG's Board of Management on February 28, 2022 resolved a share buyback program totaling around €500 million (excluding transaction costs), which was expected to be completed within two years.

By the end of the first half of 2022, 3,479,956 shares worth €150 million had already been bought back in two tranches at an average price of €43.08 per share. Due to the weakening economic outlook, the Board of Management resolved in the second half of 2022 to pause the share buyback program temporarily.

In view of the revised guidance of April 2023 and the sequential improvement in earnings and volumes, the current program resumed in the second quarter of 2023. The third tranche, which had a volume of €49 million, was completed at the end of June 2023 and resulted in the buyback of 1,208,035 shares at an average price of €40.81 per share.

On October 26, 2023, the Board of Management resolved to terminate the share buyback program early. Covestro AG had thus acquired a total of 4,687,991 shares valued at €199 million in three tranches. In December 2023, 4,200,000 of the repurchased shares were retired and the capital stock was reduced accordingly.

Covestro is planning to request a renewal of the corresponding authorization at the AGM 2024 in order to be able to carry out more share buybacks in the future. All repurchased shares are subsequently expected to be retired and the capital stock reduced accordingly.

ADR Program

The American Depositary Receipt (ADR) program grants global investors simplified access to Covestro shares. Covestro ADRs are traded over the counter in the United States under the COVTY ticker symbol. At the end of fiscal 2023, the total number of outstanding ADRs reached 7.4 million (previous year: 6.7 million).

Seven Analysts Issue Buy Recommendation for Covestro Shares

At the end of the year 2023, Covestro was covered by 14 securities brokers. Of these, seven analysts issued buy recommendations and seven were neutral. The average share price target was approximately €54 at the reporting date.

Basic Covestro share information

Capital stock	€189,000,000
Outstanding shares (year-end)	188,740,330
Share class	No-par ordinary bearer shares
ISIN	DE0006062144
WKN	606214
Ticker symbol	1COV
Reuters symbol	1COV.DE
Bloomberg symbol	1COV GY
Market segment	Regulated market
Transparency level	Prime standard
Sector	Chemicals
Index	DAX

COMBINED MANAGEMENT REPORT

MANAGEMENT REPORT PROFILE

Combined Management Report of Covestro AG

The Combined Management Report pertains to both the Covestro Group and Covestro AG, which has its registered office in Leverkusen (Germany). This report covers the period from January 1 to December 31, 2023. The presentation of the results of operations, financial position, and net assets as well as the expected development, including the principal opportunities and risks, relate to the Covestro Group, unless otherwise noted. The results of operations, financial position, and net assets of Covestro AG are presented in a separate chapter of the Report on Economic Position. In addition, the nonfinancial statement pursuant to Sections 315b and 315c in conjunction with Sections 289c through 289e of the HGB is integrated into the sustainability report, which is part of the Group Management Report. The sustainability report also includes the statements in accordance with the European Union's Taxonomy Regulation (2020/852).

Alternative Performance Measures

In its financial reporting, Covestro uses alternative performance measures (APMs) to assess the business performance of the Group. These are not defined in the International Financial Reporting Standards (IFRSs) adopted by the European Union (EU). The alternative performance measures of relevance to the Covestro Group include earnings before interest, taxes, depreciation, and amortization (EBITDA), return on capital employed (ROCE), free operating cash flow (FOCF), and net financial debt. The calculation methods for the APMs may vary from those of other companies, thus limiting the extent of the overall comparability. These alternative performance measures should not be viewed in isolation or employed as an alternative to the financial indicators determined in accordance with IFRSs and presented in the Consolidated Financial Statements for purposes of assessing Covestro's results of operations, financial position, and net assets.

→ Explanations of the definition and calculation of these alternative performance measures can be found in the "Management" section.

FUNDAMENTAL INFORMATION ABOUT THE GROUP

Company Profile

Business Model

Covestro is one of the leading global suppliers of high-tech polymer materials and application solutions developed for these materials. In its core business, Covestro produces precursors for polyurethane foams and the high-performance plastic polycarbonate as well as precursors for coatings, adhesives, sealants, and specialty products, including films. Other noncore precursors in Covestro's product portfolio include chlorine and by-products like styrene.

The company's materials are used in many areas of modern life. Covestro offers its clientele innovative and sustainable solutions that enable improved performance on the one hand and help reduce carbon footprints on the other. The array of products ranges from insulation for refrigerators and entire buildings, laptop and smartphone cases, and medical technology to scratch-resistant and fast-drying vehicle coatings and film coverings for personal identification cards. In addition, materials by Covestro are used to manufacture medical equipment, safety barriers, and sneeze and splash guards. Covestro therefore serves a wide variety of sectors: The company's main customers are from the automotive and transportation; construction; furniture and wood processing; and electrical, electronics, and household appliances industries. The products are also used in sectors such as sports and leisure, health, as well as in the chemical industry itself.

Global megatrends play a considerable role in this process: Advancing climate change, rising environmental pollution, the growing global population, increasing urbanization, and new forms of mobility, or the transition to renewable energies are changing the lives of billions of people. Consequently, the polymer industry will also have to develop continuously. The materials produced by companies such as Covestro contribute to finding innovative solutions to these global challenges. With its goal of becoming fully circular, Covestro also contributes to developing a climate-neutral, resource-conserving economy. The focus of Covestro's long-term strategy is on alternative raw materials, renewable energy, innovative recycling, and joint solutions. Covestro's aim is to pave the way and support these trends with its materials. By replacing traditional materials, such as glass, steel and aluminum, with durable, light, environmentally compatible and cost-effective materials, Covestro makes significant contributions in areas such as lightweight construction in the automotive industry, increasing the energy efficiency of living spaces through the use of new insulating materials, promoting sustainable energy with specialty materials, and improving the shelf-life of food through better insulation along the entire refrigeration chain.

→ See "Circular Economy."

→ Additional information is available at: solutions.covestro.com/en/industries

Covestro monitors developments in its sales and consumer markets and orients its activities to support customers' growth. Together with customers as well as with business and scientific partners, the company works continuously to further advance products, technologies, and application solutions. Covestro's main competitors are BASF, Dow Chemical, Huntsman, Mitsubishi, Saudi Basic Industries Corporation (SABIC), and Wanhua Chemical.

→ Additional information is available at: solutions.covestro.com/en/brands

Organization

Covestro AG, the parent company of the Covestro Group, is headquartered in Leverkusen (Germany). It is listed on the stock exchange in Germany and is included in the DAX, Germany's leading index. Covestro has two reportable segments, Performance Materials (PM) and Solutions & Specialties (S & S). While the Performance Materials segment forms one separate business entity, the Solutions & Specialties segment breaks down into six business entities. Covestro has set these business entities up according to their respective success factors. All business-related operations along the value chain are incorporated into these entities. Covestro has thus focused its businesses perfectly on the requirements of individual markets and aligned them with its customers' needs.

→ See "Group Strategy."
→ See note 4 "Segment and Regional Reporting" in the Notes to the Consolidated Financial Statements.

Segments

Performance Materials

The Performance Materials segment forms a separate business entity comprising the development, production, and supply of high-performance materials such as polyurethanes and polycarbonates, as well as base chemicals. This includes diphenylmethane diisocyanate (MDI), toluene diisocyanate (TDI), long-chain polyols, and polycarbonate resins, among others. These materials are used in sectors such as the furniture and wood processing industry, the construction industry as well as the automotive and transportation industry, for example in roof structures, insulation for buildings and refrigerators, mattresses, and car seats, among other applications. The focus in the Performance Materials segment is on reliably delivering standard products at competitive cost.

Solutions & Specialties

The Solutions & Specialties segment combines Covestro's solutions and specialties business; it has six business entities: Engineering Plastics; Coatings & Adhesives; Tailored Urethanes; Thermoplastic Polyurethanes; Specialty Films; and Elastomers. In this segment, Covestro combines sophisticated products with a high pace of innovation, complementing its offering with application technology services and customer-specific system solutions. A fast pace of innovation is a key success factor since customer requirements change quickly. Covestro's Solutions & Specialties business comprises a variety of polymer products including polycarbonates, precursors for coatings and adhesives, MDI specialties and polyols, thermoplastic polyurethanes, specialty films, and elastomers. They are used in sectors such as the automotive and transportation industry; the electrical, electronics and household appliances industry; the construction industry; and the healthcare industry. These materials include composite resins for solar panel frames; precursors for coatings and adhesives; high-quality specialty films; or cases for laptops, floodlights, and electric vehicle batteries.

→ See "Segment Strategy."

In addition, central corporate functions work toward the further long-term development of Covestro (Build), for instance permanently ensuring the Group's competitiveness and supporting efficient corporate governance (Run).

Group structure

COVESTRO
Board of Management

Segments and business entities	Corporate functions
Performance Materials • Performance Materials **Solutions & Specialties** • Engineering Plastics • Coatings & Adhesives • Tailored Urethanes • Thermoplastic Polyurethanes • Specialty Films • Elastomers	Build • Strategy • Portfolio Development • Group Innovation & Sustainability • Process Technology • Engineering • Information Technology & Digitalization • Group Health, Safety & Environment • Group Procurement • Central administrative functions (Accounting; Communications; Controlling; Corporate Audit; Finance & Insurance; Human Resources; Investor Relations; Law, Intellectual Property & Compliance; Taxes) • Supply Chain & Logistics EMLA, NA, APAC Run

As of December 31, 2023, the Covestro Group comprised 57 consolidated companies in 21 countries in addition to Covestro AG, and employed 17,520 people*. Covestro AG, the parent company of the Covestro Group, is listed on the stock exchange. It directly and indirectly holds shares in the consolidated companies and also acts as a strategic management holding company.

→ See note 5.1 "Scope of Consolidation and Investments" in the Notes to the Consolidated Financial Statements.

The Board of Management of Covestro AG runs the company on its own responsibility with the goal of sustainably increasing the company's enterprise value, and determines and pursues its corporate objectives. It also defines the company's portfolio, allocates resources, and decides on both the financial and nonfinancial steering and reporting of the Covestro Group. Moreover, the Board of Management defines the long-term goals and strategy for the Group and sets forth the principles and policies for the resulting corporate policies.

Covestro's Chief Executive Officer (CEO) is Dr. Markus Steilemann. His area of responsibility includes the corporate Strategy; Group Innovation & Sustainability; Corporate Audit; Human Resources; and Communications functions.

Covestro's Chief Financial Officer (CFO) is Christian Baier. In October 2023, he succeeded Dr. Thomas Toepfer, who left the company as of August 31, 2023. Dr. Markus Steilemann, Chief Executive Officer of Covestro AG, acted in the role of CFO on an interim basis during September 2023. Christian Baier has been responsible for the areas of Accounting, Controlling, Finance & Insurance; Information Technology & Digitalization; Investor Relations; Law, Intellectual Property & Compliance; Portfolio Development; and Taxes since October 1, 2023. He is also responsible for country-specific topics in the United States and China.

Dr. Thorsten Dreier is the company's Chief Technology Officer (CTO). He took over in this role on July 1, 2023 after the previous CTO, Dr. Klaus Schäfer, retired. Dr. Thorsten Dreier is responsible for the corporate Process Technology; Engineering; Group Procurement; and Group Health, Safety, and Environment functions and coordinates the rollout of, and compliance with, global processes and standards and the rollout of initiatives in Covestro's production network. In addition, since September 1, 2023, he has held the position of Labor Director, which he took over from Dr. Thomas Toepfer. Sucheta Govil is Covestro's Chief Commercial Officer (CCO). She is

* The number of permanent or temporary employees is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours.

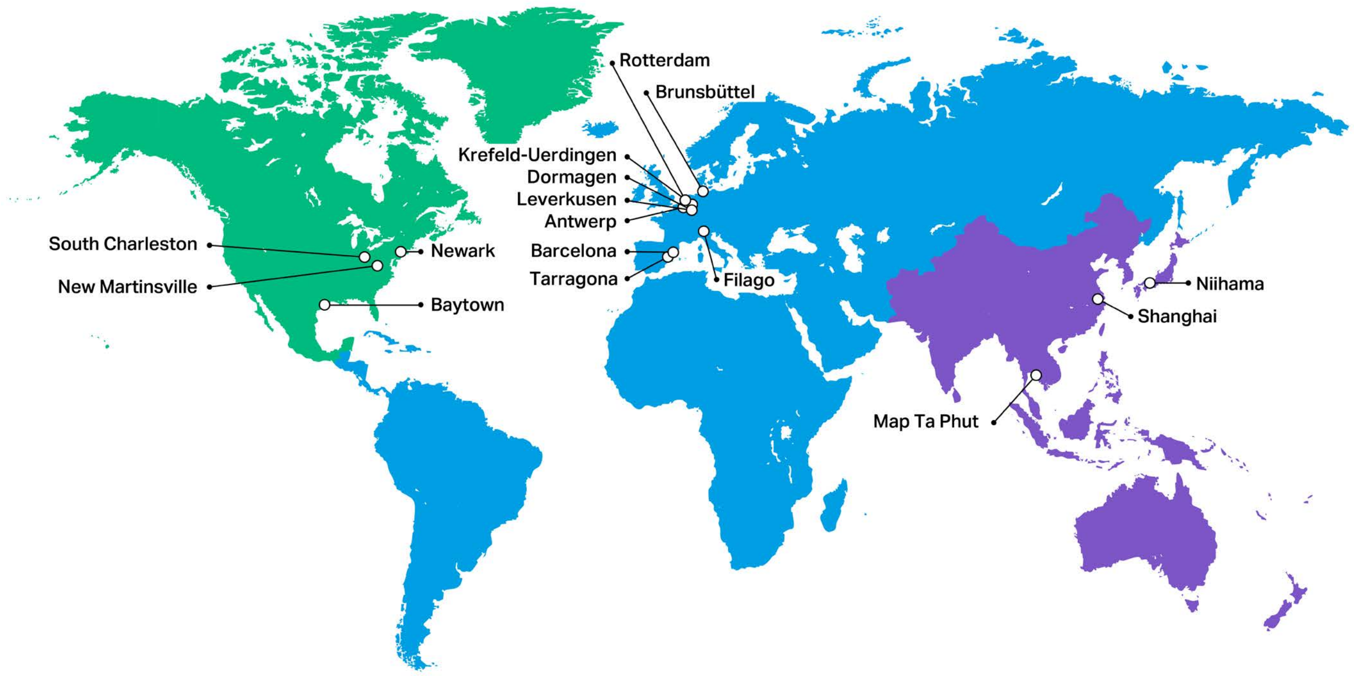
in charge of the seven business entities, including all business-related processes and areas of production, from procurement and application technology to sales. In addition, she is responsible for the three regional Supply Chain & Logistics units, which handle internal and external supply chains worldwide.

The Supervisory Board oversees and advises the Board of Management. The Supervisory Board has 12 members, half of whom are shareholder representatives and half employee representatives pursuant to the German Codetermination Act. Dr. Richard Pott is the Supervisory Board Chair and Petra Kronen is Vice Chair.
→ See "Declaration on Corporate Governance."

Sites

Covestro operates production and research and development (R&D) sites for various product groups throughout the world. The following chart shows the geographical distribution of Covestro's 48 production sites and 13 R&D sites in the EMLA, NA, and APAC regions. It does not show locations such as office and warehouse sites or sites of equity investments not included in the scope of consolidation.

Covestro's production and R&D sites



NA[1]

Mexico
Santa Clara ● | S & S

United States
Baytown ● | PM | S & S
New Martinsville ● | S & S
Newark ● | S & S
South Charleston ● | S & S
Augusta ● | S & S
Channelview ● | PM
East Providence ● | S & S
Elgin ●
Frankfort ● | S & S
Pittsburgh ●
South Deerfield ● | S & S
Wilmington ● | ● | S & S

EMLA[2]

Belgium
Antwerp ● | ● | PM | S & S

France
Fos-sur-Mer ● | PM
Romans-sur-Isère ● | S & S

Germany
Brunsbüttel ● | PM
Dormagen ● | ● | PM | S & S
Krefeld-Uerdingen ● | ● | PM | S & S
Leverkusen ● | ● | S & S
Bomlitz ● | S & S
Meppen ● | S & S

Italy
Filago ● | S & S

Netherlands
Rotterdam ● | PM
Geleen ● | ● | S & S
Hoek van Holland ● | S & S
Schoonebeek ● | S & S
Waalwijk ● | ● | S & S
Zwolle ●

Spain
Barcelona ● | S & S
Tarragona ● | PM
Parets ● | S & S
Santa Margarida ● | S & S

United Kingdom
Cheadle Hulme ● | S & S

APAC[3]

China
Shanghai ● | ● | PM | S & S
Guangzhou ● | S & S
Kunshan ● | S & S
Qingdao ● | S & S
Shenzhen ● | S & S
Shunde (Foshan) ● | S & S
Tianjin ● | S & S

India
Ankleshwar ● | S & S
Cuddalore ● | S & S
Greater Noida ● | S & S

Japan
Niihama ● | PM | S & S
Amagasaki ●
Sakai ● | S & S
Tsuchiura ● | S & S

Taiwan, Greater China
Changhua ● | S & S
Pingtung ● | S & S
Taoyuan City ●
Zhangbin ● | S & S

Thailand
Map Ta Phut ● | PM | S & S

SITES & FACILITIES: O→ **Main production sites** ● Production site ● R&D site

SEGMENTS: PM Performance Materials S & S Solutions & Specialties

1 NA: North America region (Canada, Mexico, United States).
2 EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.
3 APAC: Asia and Pacific region.

In pursuit of our objective to supply customers reliably and efficiently, we make the Performance Materials segment's products at large-capacity production facilities in the respective regions. Additional plants in selected countries manufacture polyurethane precursors and products for the Solutions & Specialties segment. Moreover, we operate production plants in certain countries for customer-specific compounding of polycarbonate resins.

Thanks to the integration of upstream production stages (backward integration), e.g., in its own production of chlorine, Covestro has continually optimized the value chain. In addition, we have put in place wide-ranging programs and initiatives to ensure plant safety and availability and steadily improve cost efficiency.

We invest continuously in our global production network in order to maintain our production sites and their infrastructure, to optimize manufacturing processes, and to expand capacities in line with market developments. To do so, Covestro relies on advanced and environmentally friendly production processes and continually optimizes the technologies it uses.
→ See "Cash Flows from Investing Activities."

Covestro primarily conducts research and development at three major centers in Germany, the United States, and China. Customer-oriented applications are generally developed in the relevant regions, while global, fundamental research and technology development are mainly conducted in Germany. Our global presence allows us to respond to regional trends and customer requirements in the best possible ways.
→ See "Innovation."

Strategy

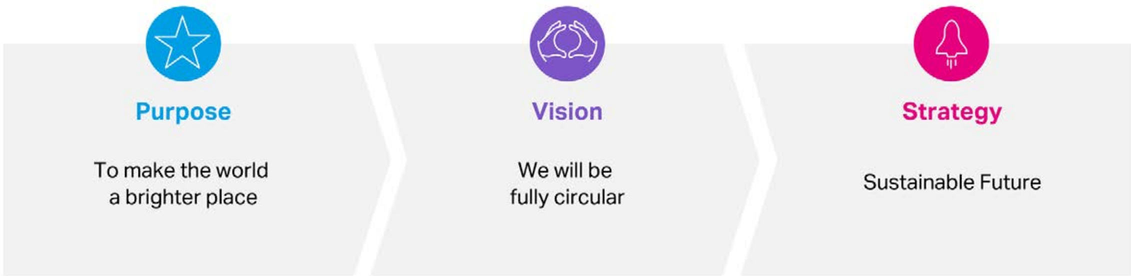
Purpose and Vision

Our environment again changed substantially in the past reporting year, and uncertainties such as geopolitical developments, and the volatile economy posed fresh challenges. Furthermore, advancing climate change, increasing environmental pollution, the growing global population, rising urbanization, and new forms of mobility, or the transition to renewable energies are issues requiring global solutions. Covestro faces these challenges, thus combining profitability with sustainability. The goal is to realize Covestro's purpose: "to make the world a brighter place."

Our aim is to provide solutions to global challenges with our high-performance polymer materials. In pursuing it, we rely on technologies that reduce energy usage and emissions in our production processes. The products and solutions we develop are replacing traditional materials such as glass and metal, which are manufactured less sustainably or have a less sustainable life cycle. We are convinced that our long-term strategy of pursuing a circular economy will bring us closer to achieving our purpose.

Building on our purpose, the implementation of our vision of becoming fully circular forms the basis of our Group's Sustainable Future strategy. Our vision sets a clear direction for our company's future development.

Purpose, vision, and strategy



Our corporate values and corporate culture are major factors in putting our purpose, vision, and strategy into action.

→ See "Corporate Values and Corporate Culture."

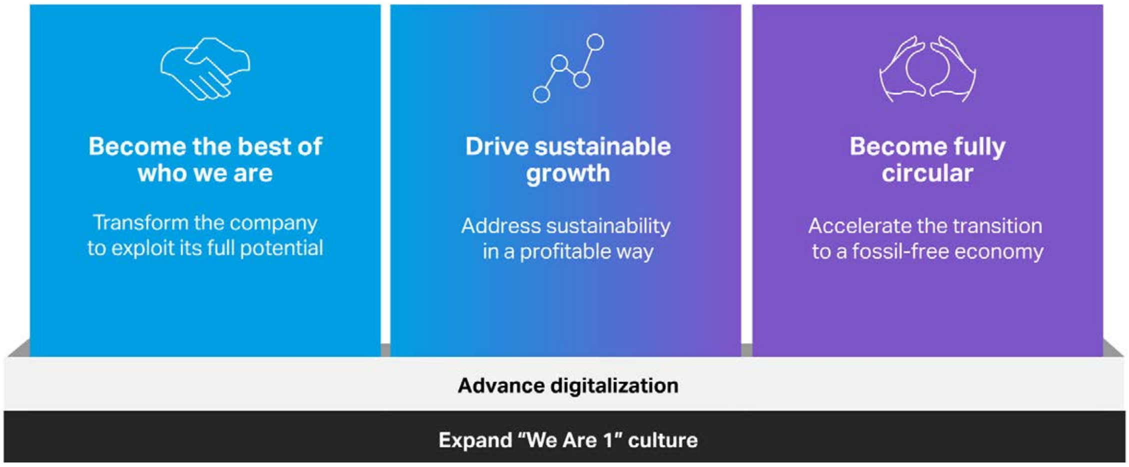
Group Strategy

Strategic Goals and Activities

Our overarching goals derived from our purpose and our vision set the course for our Group's Sustainable Future strategy, which incorporates the changing external and internal dynamics, such as shifts in climate policy, in markets, and in digital transformation. Our Group strategy comprises three strategic chapters: We want to "Become the best of who we are," while we "Drive sustainable growth," and "Become fully circular." Our strategy is based on a solid foundation; its implementation is being enabled by the acceleration of Covestro's digital transformation and expansion of our "We Are 1" culture.

→ See "Corporate Values and Corporate Culture."

The Group's Sustainable Future strategy



"Become the Best of Who We Are"

"Become the best of who we are" is the first strategic chapter to transform our company in the best possible way to exploit its full potential, thus creating the basis for sustainable and profitable growth. The first strategic chapter is driven by a clear understanding of our business: We deliver a broad portfolio of standard and specialty products and, at the same time, stand out with our strong innovation, research, and development capability. In this context, we focus even more on the factors that make our core business a success.

Our customers are our top priority. We optimize processes that make our customers successful, improve workflows within our organization, and concentrate entirely on the needs of our customers. Depending on each customer's focus, we deliver high-quality standard products fast, or assist with our technical expertise in improving or developing (specialty) products.

In fiscal 2021, we launched a global transformation program to implement the first strategic chapter. This program realigns structures, processes, and control mechanisms to position our company to the best extent possible. The measures under the transformation program began in fiscal 2021 and implementation was largely completed in the year 2023. Our organization, workflows, and responsibilities had, however, already been restructured in the year 2021. For example, we now structure our business into standard products (Performance Materials) and specialty products (Solutions & Specialties). Furthermore, the program aimed to bundle central aspects of certain areas of competence, with the primary objective of profitably furthering our business with a view to sustainability and the circular economy.

Another important core element of the first strategic chapter is the Customer Centricity concept, with which we intend to focus even more on the needs of our customers. At Covestro, Customer Centricity is based on three pillars:

- Knowing the Customer: We need to know our customers so well that we understand exactly what added value we can provide for their business activities.
- Thinking Customer First: Every single function in our organization must be focused on what our customers need.
- Co-Creating Customer Value: We must join forces with our customers to create added value in the marketplace. By remaining focused on the entire value chain, we maintain close contact with our customers, partners, and suppliers.

One example of successful collaboration in terms of customer centricity is our detailed support for BMW in the development of an innovative front module concept for the BMW iX electric vehicle.

Additionally, we are streamlining processes and procedures as part of our Sales Force Effectiveness initiative. This aims to enable our sales team to dedicate more time to supporting customers and collaborating on developing innovative solutions. We consistently monitor and assess customer satisfaction through the Net Promoter Score (NPS), reflecting our customers' willingness to recommend Covestro.
→ See "Marketing and Sales."

"Drive Sustainable Growth"

"Driving sustainable growth" – and therefore bringing together sustainability and economic success – is part of the second strategic chapter of our Group strategy. With this in mind, we align our processes and products consistently with customer needs and market requirements. To ensure that our portfolio is fit for the future, we invest in market segments that are attractive and sustainable for the long term. The focus of all activities that promote organic and inorganic growth, i.e., investments, acquisitions, research and development (R&D) activities, and our strategic venture capital initiative (Covestro Venture Capital, COVeC), is already heavily geared toward sustainability. Another area that is increasingly gaining importance is digital research and development.

The most important elements include managing and steering the product portfolio toward greater sustainability and circularity. A product sustainability assessment method is currently being developed to manage our portfolio.
→ See "Sustainable Products."

In order to generate value with the capital invested, we are analyzing and managing our investment portfolio according to profitability and sustainability criteria. We support investment projects with a return on capital employed (ROCE) above certain thresholds that generate the lowest possible GHG emissions or even bring about a reduction.
→ See "Management."

Moreover, we work continuously toward achieving faster and more cost-effective plant construction to increase the efficient use of our investment capital without sacrificing the reliability or safety of our facilities. Against this backdrop, we continually expand our global network of partners specializing in plant construction, equipment, and services; optimize in-house processes and the use of resources; and increasingly use completed construction projects as a blueprint for future projects. An example of implementing this approach is the expansion of our production capacities for polycarbonate films at our site in Map Ta Phut, Thailand.

We also revised the way in which we process our investment projects and developed new approaches to planning and implementing projects much more in line with demand. Existing methods, processes, and skills were adapted and revised in this context. Thanks to new, leaner processes – with fewer formal requirements and more discretion for the project teams to take decisions – the planning time for low-complexity projects can in future be cut by at least two months.

"Become Fully Circular"

The third strategic chapter comprises measures to allow Covestro to "become fully circular." As part of that, we intend to accelerate transformation to a climate-neutral and resource-conserving economy. We see this orientation as an opportunity for Covestro to add solutions to global challenges – our circular products – along the entire value chain. Under our global Circular Economy strategy program, which pools activities for implementing a comprehensive global structure, as well as through other Group-wide strategic initiatives, we continue to drive the realization of circular economy activities at Covestro. In the reporting year under review, our focus was on developing a target for reducing Scope 3 greenhouse gas emissions that is closely aligned with achieving a circular economy. To this end, we consider both the upstream and the downstream value chain while anticipating changes in the availability of raw materials, pending regulatory impacts, and corresponding shifts in market demand. These insights are to serve as a basis for, among other things, preparing and updating business development at Covestro in areas such as innovation, investment planning, procurement, marketing, and sales. As early as in the year 2022, Covestro developed a program to transform the production sites to achieve climate neutrality and published sustainability targets for reducing CO_2 emissions.

→ See "Circular Economy."
→ See "Climate Neutrality."

We also want to drive the circular economy by developing and using innovative recycling options. In this context, we consider chemical recycling particularly promising as an effective tool for reclaiming considerable quantities of feedstocks for reuse. It is suitable primarily for materials and waste that cannot be mechanically recycled due to their properties or when the recycling process must produce like-new materials.

We are aware that shifting our production activities and our product portfolio to circular economy is a major, long-term undertaking that we cannot accomplish alone. For this reason, we continue to redouble our efforts to establish collaborative partnerships and networks with our customers, suppliers, research institutes, and other solution providers throughout the value cycle.

→ See "Circular Economy."

Digitalization and Corporate Culture

Our Sustainable Future strategy rests on a solid foundation, with digitalization and our "We Are 1" corporate culture as key elements. We are focused on tackling digital transformation and the associated opportunities by implementing an extensive range of measures along the entire value chain, in the corporate functions, and at all points of contact with our customers. This involves Covestro promoting the use of digital technologies and leveraging the potential of artificial intelligence. At the same time, Covestro encourages an open climate at work that spurs employees to question existing concepts and develop new approaches for our business.

The digital transformation of our business aims to generate competitive advantages for Covestro. This includes expanding our digital R&D activities and collaborations with major corporations such as Google. Insights provided by data science additionally support the corporate functions in profitably deploying algorithms and machine learning. We drive the development and implementation of our digital products and business models.

→ See "Digital Innovation."

We have embedded our "We Are 1" culture firmly in our company to fully leverage internal potential and meet our corporate goals. The key here is our employees who bring this culture to life. We work consistently on developing our corporate culture and simplifying implementation by deriving specific measures from our four cultural dimensions.

→ See "Corporate Values and Corporate Culture."

Segment Strategy

Performance Materials Segment Strategy

The Performance Materials segment comprises mainly polyurethanes and polycarbonates product groups. The segment's standardized products are marketed to outside customers and also transferred to the Solutions & Specialties segment, where many of the products are further processed or sold with additional, customer-focused services. Intersegment transactions are conducted at arm's length and reported separately as intersegment sales.

The Performance Materials segment exclusively manufactures standardized products, aiming mainly to increase efficiency through cost management, high plant availability, and process innovations. One future focal point will be sustainable products, such as renewable toluylene diisocyanate (TDI) and climate-neutral diphenylmethane diisocyanate (MDI).

In line with global megatrends, demand for polyurethanes is expected to grow sharply in the medium to long term. This trend may benefit our company, as we manufacture the precursors for flexible and rigid foams required for the production of polyurethanes. Strategically important sectors include the construction industry and the furniture industry, where we already occupy a strong position, which we want to expand further at least in line with the market. Global efforts to meet the United Nations Sustainable Development Goals (SDGs) are also reflected in short- and long-term demand for our products. For instance, growing calls for energy-efficient living space are expected to increase long-term demand for particularly effective insulation solutions in the construction industry.

The market for standardized polycarbonates is, however, very likely to grow only minimally in the coming years because of a current lack of impetus for increased demand from sectors such as the construction and consumer goods industries. We are therefore working toward passing a growing proportion of our polycarbonate volume on to the Solutions & Specialties segment for further processing and sale in high-growth markets, such as electromobility and 5G infrastructure.

The Performance Materials segment is home to most of our production facilities, and as such is key to implementing our circularity strategy. The focus here is on steps such as continually optimizing our production facilities, procuring and using sustainable energy, procuring alternative raw materials, and developing more sustainable product solutions, e.g., for MDI and TDI. The use of alternative raw materials enables us to produce these diisocyanates with a smaller carbon footprint, which is demonstrated and certified by way of mass balancing and the ISCC PLUS certification for end products of some of our production sites, e.g., Dormagen (Germany) (TDI) und Krefeld-Uerdingen (Germany) (MDI).

Solutions & Specialties Segment Strategy

The Solutions & Specialties segment covers a broad range of customer-specific solutions and specialty products in the following business entities: specialty polycarbonates (Engineering Plastics), precursors for coatings and adhesives (Coatings & Adhesives), polyurethane specialties and solutions (Tailored Urethanes), Thermoplastic Polyurethane, high-quality films (Specialty Films), and specialty elastomers (Elastomers).

We continually update our product portfolio to generate further growth in the Solutions & Specialties segment with a particular focus on sophisticated, sustainable solutions for which there is strong demand in promising applications. These include smart homes, medical technology, holography, and materials for electric vehicles and wind turbines.

The continual development of innovative products and applications with significant customer benefit is therefore a central element of our segment strategy. Other crucial factors for the success of our growth strategy in this segment are the respect and appreciation of our customers for our strong technological competence, standing apart from the competition based on our global leadership in consulting on application technology and carrying out complex projects for customers. In addition, our expertise in chemical formulations and compounding, the efficient expansion of our capacities, customer-focused product development, and the continual improvement of our customer-centric pull supply chain play a critical role in ensuring success in this segment.

Management

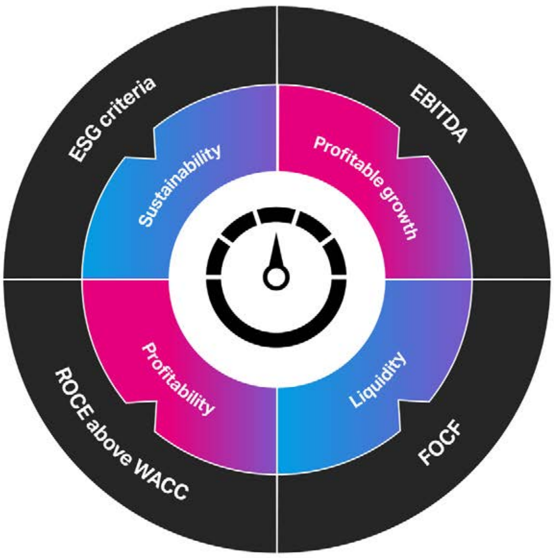
Management System

Covestro's management system is oriented toward long-term, profitable growth, continuous value creation, and sustainability. The Board of Management is the chief operating decision maker responsible for our global business and approving the planning derived from our Group strategy. In order to plan, manage, and monitor the development of our business, we use key management indicators, which enable the Group's business performance to be evaluated in a comprehensive and holistic manner, while driving its sustainable orientation. The Board of Management manages this orientation on the basis of defined sustainability goals and selected sustainability metrics.

Key Management Indicators

The Covestro Group assesses its performance using the following four elements: Profitable growth measured in terms of EBITDA (earnings before interest, taxes, depreciation and amortization), liquidity measured in terms of free operating cash flow (FOCF), profitability measured in terms of return on capital employed (ROCE) above the weighted average cost of capital (WACC), and sustainability measured in terms of selected environmental, social, and governance (ESG) criteria.

Key Management Indicators



These key management indicators are incorporated into Covestro's Group-wide bonus system (Covestro Profit Sharing Plan), which applies to almost all Covestro employees worldwide, including the Board of Management; any exceptions are essentially due to collective bargaining arrangements. The four areas of profitable growth, liquidity, profitability, and sustainability each account for one quarter of the calculation formula used to measure target attainment. As a result, employees can share in the company's success.

→ See "Overall Assessment of Business Performance and Target Attainment."

→ See "Short-Term Variable Compensation" section of the Compensation Report.

EBITDA

EBITDA is used to assess profitable growth of Covestro. It represents EBIT (Earnings before Interest and Taxes) plus amortization and impairment losses on intangible assets, and depreciation and impairment losses on property, plant and equipment, less impairment loss reversals.

→ See "Results of Operations."

FOCF

The ability to generate a cash surplus is measured by FOCF. FOCF is an indicator of the company's liquidity and ability to finance its activities. It corresponds to cash flows from operating activities less cash outflows for additions to property, plant and equipment and intangible assets. A positive FOCF allows dividends and interest to be paid and debt to be repaid.

ROCE above WACC

The ROCE above WACC key management indicator, which is used to assess profitability, measures the amount by which the return on the Group's capital employed exceeds the weighted average cost of capital. If ROCE exceeds WACC, i.e., the minimum return expected by equity and debt capital providers, Covestro has created value. ROCE above WACC is calculated annually at the end of each fiscal year.

ROCE is calculated as the ratio of net operating profit after taxes (NOPAT) to average capital employed. The imputed income taxes are determined by multiplying the imputed tax rate of 25% by EBIT. ROCE is also used as a standalone variable, in addition to ROCE above WACC, to measure Covestro's profitability.

Calculation of the Return on Capital Employed

NOPAT	/	Avg. capital employed	=	**ROCE**

The weighted average cost of capital (WACC) is relevant to the calculation of ROCE above WACC and reflects the expected return on Covestro's capital comprising both equity and debt. The cost of equity factors used in WACC is calculated by adding the risk-free interest rate to the risk premium for an equity investment. Covestro uses the returns on long-term German government bonds as the risk-free interest rate. We derive this risk premium from capital market information for comparable listed companies. The cost of debt factors is calculated by adding the risk-free interest rate to a risk premium on debt capital that Covestro calculates using the financing costs of comparable companies, and subtracting the tax benefit arising from the legal deductibility of interest on borrowed capital. Calculation of the cost of capital generally has a long-term perspective; short-term fluctuations are evened out. WACC is calculated at the end of the fiscal year for the subsequent fiscal year on the basis of historical capital market data.

→ See "Return on Capital Employed (ROCE) above Weighted Average Cost of Capital (WACC)."

ESG Criteria

Sustainability is assessed by means of a sustainability component, which is measured according to selected ESG criteria. The sustainability component in relation to the environment is determined on the basis of direct and indirect GHG emissions (Scope 1 and Scope 2) of Covestro's main sites. Other criteria relating to social and corporate governance are also to be incorporated in the future.

→ See "Climate Neutrality."

Other Relevant Financial Performance Measures

Throughout its financial reporting, Covestro uses further indicators in addition to the key management indicators to assess the business performance of the Group; details are provided below.

Sales

At Group and segment level, we regard sales as the key driver of EBIT, EBITDA, and ROCE.

EBIT
EBIT, which corresponds to income after income taxes plus financial result and income taxes, allows us to assess income without the influence of the income-dependent tax liability and/or various financing activities.

Capital employed
Capital employed, which is relevant to the calculation of ROCE, is the interest-bearing capital required by the Group for its operations. It is calculated from operating noncurrent and current assets less non-interest-bearing liabilities. Non-interest-bearing liabilities include, for example, trade accounts payable, and current provisions. The average capital employed is determined using the capital employed at the beginning and end of the relevant period.

→ See "Return on Capital Employed (ROCE) above Weighted Average Cost of Capital (WACC)."

Net financial debt
Net financial debt is used to assess the financial position and financing requirements. It equals the sum of all financial debt less cash and cash equivalents, current financial assets, and receivables from financial derivatives.

→ See "Net Financial Debt."

Corporate Policies

We have laid down important basic principles for our actions in six policies applicable throughout the Group. The text of these guidelines is publicly available. They provide our employees with guidance, including in the areas of value creation; people; innovation; compliance; sustainability; and health, safety, environment & energy and quality (HSEQ). The standards outlined in these policies must be adhered to by all employees worldwide. Additional details are provided in internal directives. Local procedures are used to implement the directives in the country subsidiaries. Compliance with the directives and local procedures is verified using internal audits and other measures. Corporate policies, directives, and local procedures together make up the corporate regulations.

→ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

[Corporate Policies
Value Creation
Covestro's primary objective is to turn development activities and products into solutions that create value for customers, society, the environment, employees, and investors. We accomplish this, for instance, by manufacturing products with superior properties, environmental performance, usability, and cost effectiveness. At the same time, we aim to make the life cycle of our products as resource-efficient as possible to extract the greatest possible value from the resources used in them.

People
Covestro's success is based on the outstanding skills and strong commitment of its employees. We aim to offer our employees a good and safe working environment and to promote their professional and personal development. Covestro values a corporate culture that is curious, courageous, and colorful, and enables employees to successfully contribute their talents to the company. The core competencies and management skills that guide our employees' further development are also oriented to these values.

→ See "Employees."

Innovation
Innovation is an essential factor in mastering the challenges of a changing world, remaining competitive, and creating value for the long term – inspired by and consistent with sustainability. Accordingly, we continually develop new products, processes, applications, and technologies that offer new perspectives. It is particularly important to us that innovation be an issue of personal concern to each and every one of our employees.

→ See "Innovation."

Compliance

Covestro's corporate governance is characterized by a strong sense of responsibility as well as adherence to ethical principles. This includes strict compliance with all statutory requirements and Covestro's voluntary commitments.

→ See "Business Conduct (Compliance)."

Sustainability

We want to bring economic success into alignment with environmental and societal goals. Doing business in this way conforms to Covestro's purpose to make the world a brighter place. In making decisions and taking actions, we therefore equally consider the three dimensions of sustainability – people, planet, profit – while trying to avoid a negative impact on any of them. Our corporate "Sustainability" policy underscores this intention. Special committees at Covestro are responsible for defining and managing important sustainability topics. These include the development and implementation of targets and packages of measures.

→ See "Sustainability at Covestro."

Health, Safety, Environment & Energy, and Quality (HSEQ)

Health, safety, environment, energy, and quality are vitally important for achieving our goals. We set high standards and continually work toward improving our performance. Our integrated HSEQ management system ensures the implementation of the specifications in our corporate HSEQ policy in orientation to or conformity with the internationally recognized standards ISO 45001, ISO 14001, ISO 50001, and ISO 9001.

→ See "Integrated Management System for Health, Safety, Environment, Energy, and Quality."

Corporate Commitments

As a company committed to operating sustainably, we take a clear stand on relevant issues. Like our corporate guidelines, the text of these commitments is publicly available. The minimum standards applicable to such efforts are governed by our voluntary corporate commitments. The corresponding Group regulations ensure that they are complied with. At present, Covestro has entered into voluntary commitments on the following: the UN Sustainable Development Goals, the Ten Principles of the UN Global Compact, Responsible Care™, human rights, slavery and human trafficking (UK Modern Slavery Act Statement), water, product stewardship, corporate compliance, responsible lobbying, responsible marketing and sales, tax transparency, and conflict minerals. In combination with comprehensive Group regulations applicable worldwide, the voluntary commitments on lobbying are aimed at creating transparency and openness in the interaction with representatives of political institutions. In addition, Covestro has voluntarily joined the European transparency register in addition to publicly publishing its voluntary commitment. We have also undertaken not to make any political donations.

→ See "Stakeholder Dialogue."

→ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments]

Value Chain

Procurement

Purchasing at Covestro is handled by the corporate Group Procurement function. Group Procurement shares responsibility with the business entities and regional hubs of the corporate Supply Chain & Logistics function for the timely global supply of goods and services to all divisions of the company on the best possible terms and conditions. This makes sure that our high quality standards are met. Furthermore, Group Procurement checks whether Covestro's social, ethical, and environmental principles are upheld throughout the entire procurement process. The basic tenets of our procurement policy are set forth in a directive that is binding on all employees throughout the Covestro Group.

→ See "Sustainability in Sourcing."

→ Additional information is available at: www.covestro.com/en/company/profile/procurement/sustainability-in-procurement/supplier-code-of-conduct

In a process aimed at creating a competitive advantage for Covestro and making a decisive contribution to overall value, Group Procurement has defined the strategic principles (cost optimization, supply chain optimization, sustainability, circular economy, and business proximity). Group Procurement contributes to realizing Covestro's vision of becoming fully circular by, among other things, purchasing renewable energy and alternative raw materials.

Strategic principles in procurement

Spend performance
Achieving permanent cost savings in cooperation with our suppliers, by sharing expertise and best practices

Sustainability and circular economy
Anchoring high sustainability standards along the entire value chain and collaborating with our suppliers in the development of new solutions for greater sustainability

Supply performance
Ensuring production continuity and strengthening competitiveness together with our suppliers through high standards for safety, quality, and time management

Business proximity
Understanding mutual needs and pooling innovative strengths to generate value for joint business activities

Covestro is an energy-intensive company and at present still depends to a large extent on gas. It is predominantly used as a source of energy and as process gas in chemical reactions and there is no comprehensive short-term substitute for gas in the production processes. For this reason, Covestro, along with large parts of the chemical industry, is very majorly affected by prices in the procurement of sources of energy, which have been persistently high and volatile since the year 2021. Although there have already been sharp falls from the extreme price levels of the year 2022, energy prices in the year 2023 continued at a high level compared with the period before the year 2021. Given the nature of the energy markets, it will only be possible to influence this effect in future by switching to sources of energy other than gas. In this context, Group Procurement is planning to procure alternative sources of energy, such as green power or steam, and is considering the use of carbon capture and storage. We have thus redoubled our efforts to actively develop new long-term supply plans and signed purchase contracts for renewable energy (particularly electricity).

→ See "Electricity from renewable sources."

Upstream GHG emissions in connection with the procurement of raw materials account for the majority of Covestro's indirect GHG emissions (Scope 3 emissions). Group Procurement therefore plays a key role in achieving our new Scope 3 reduction target, which we defined in the reporting year. In the year 2022, we launched our Supplier Engagement Program (SEP), which is aimed at developing joint measures to achieve net-zero emissions in the long term in category 1 "Purchased goods and services" of Scope 3 emissions. To this

end, we identified the main sources in this category and, based on a heatmap, started to contact the parties driving these emissions. We discuss the emissions reduction programs and targets jointly with our suppliers and analyze how they impact on our Scope 3 emissions. Under the SEP, we have initiated discussions with suppliers that cover most of our raw materials and are actively gathering their feedback on the supplier-specific product carbon footprint (PCF). In addition, the corporate Group Procurement function promotes the digitalization of purchasing processes and systems in the interest of improving procurement efficiency and effectiveness for Covestro and its suppliers.
→ See “Climate Neutrality.”

In fiscal 2023, goods and services were procured from some 15,000 suppliers (previous year: some 16,000) for €11.6 billion (previous year: €14.5 billion). In fiscal 2023, the procurement spending of Covestro’s main sites in Germany, the United States, and China accounted for 76% of Covestro’s global spending. Most of this amount – 85% – went to local suppliers in the individual countries.

The most important raw materials for our products are petrochemical substances such as phenol, benzene, propylene/propylene oxide, toluene, and acetone – which collectively account for 32% of our purchasing value (previous year: 40%). Moreover, the operation of our production facilities requires large amounts of energy, which we primarily procure from external sources in the form of power and steam. We endeavor to procure raw materials essential for operations which are difficult for Covestro to obtain from external supply sources from within the Group or through joint ventures. To name just two examples: Covestro produces part of its chlorine in-house and procures propylene oxide through a joint venture. Operations, logistics, and investment projects require technical goods and services in addition to raw materials and energy. These activities are consolidated by the corporate Group Procurement and Supply Chain & Logistics functions. We also regularly monitor the sustainability and quality of our suppliers and ensure that they comply with internal and external standards.
→ See “Process Technology Innovations” for further information.

Production

Covestro produces, among other things, precursors for polyurethane foams and the high-performance plastic polycarbonate. In these processes, we use an extensive network of sites in our EMLA, NA, and APAC regions. In fiscal 2023, Covestro had production operations at 48 sites in 14 countries. At the production sites, there are both smaller plants for regional purposes and large-capacity production facilities that are used particularly to meet the needs of customers with global operations efficiently and reliably. We always keep an eye on optimizing the technology used in the plants and processes while focusing on quality, efficiency, and safety in production. With our sustainable technologies and processes, we want to achieve climate neutrality in our own production (Scope 1 emissions) by the year 2035.
→ See “Sites.”
→ See “Climate Neutrality.”

In addition to optimizing existing production processes, Covestro focuses on developing new process technologies, implementing leading technologies in the process design for new production facilities, and taking the production processes of newly developed products to industrial scale. The most important growth projects in fiscal 2023 included the new chlor-alkali facility at our site in Tarragona (Spain), where oxygen depolarized cathode technology is used for the first time on a large industrial scale. This plant’s energy needs are significantly lower than those of a conventional plant. Other examples are the new production line for the manufacture of thermoplastic polyurethanes for paint protection films in Changhua (Taiwan, Greater China) as well as the construction of a first plant for mechanical recycling of polycarbonates and a new elastomers plant in Shanghai (China).
→ See “Process Technology Innovations.”

Marketing and Sales

To serve our customers' needs as best possible, we have industry-specific marketing and sales teams who are responsible for developing new business with prospective customers and expanding business relationships with existing customers, as well as for continually analyzing markets and trends. Each business entity engages in sales and marketing activities for its own products through its own sales organization as well as through trading houses and local distributors. Major customers with global operations are an exception to this, as these are serviced directly by our key account managers. All activities are conducted in close cooperation between marketing, sales, and application development teams. At Covestro, marketing activities are comprehensively managed by the business entities.

As part of our Sustainable Future strategy and the Customer Centricity concept described there, we use the Net Promoter Score (NPS) to measure our customers' willingness to recommend Covestro. To this end, we are conducting a survey to which all customers are invited with whom there has been an active business relationship or interaction in the previous 12 months. Central to this is the question of how likely it is that customers would recommend the company to employees or business partners. Covestro uses the NPS score, which ranges between –100 and +100, as a measure of customer satisfaction. An NPS of +42 was measured for fiscal 2023 (previous year: +42). According to those surveyed, the main reasons for this high willingness to recommend Covestro are the company's customer service, product quality, and the good business relationship.
→ See "Group Strategy."

Our global marketing and sales activities continue to focus on progressive digitalization, the circular economy, and collaboration. At Covestro, we are confident that, through digital transformation, we can produce unique experiences that provide added value to our customers and partners. In this way, we create personalized experiences at each of our digital points of contact to further optimize the interaction with Covestro. We also continued to standardize and intensify the use of omnichannel campaigns to make our digital marketing measures even more efficient and effective.

Initially launched in 2022, the rollout of the Circular Intelligence(CQ) label for products – a key module on our path to becoming fully circular – continued on an expanded scale as a result of adding innovative recycling technologies. The positioning of these CQ solutions in the marketplace was accompanied by a corporate campaign. In addition, the business entities conducted campaigns on specific individual solutions, such as the better buildings campaign run by the Performance Materials business entity. At industry events and through various social media channels, the benefits to the construction industry of low-carbon insulation on the basis of climate-neutral MDI were demonstrated along the entire value chain.
→ See "Labeling of Circular Solutions in the Product Portfolio."
→ See "Innovation."

The corporate Supply Chain & Logistics function with its regional hubs in EMLA, NA, and APAC is responsible for deliveries to customers and efficient order processing. Supply Chain & Logistics owns the process – from order acceptance to site logistics, and from shipping planning to invoicing and complaints handling. Via customer-oriented support within the individual regions, orders can be processed quickly and smoothly. Covestro prioritizes the use of channels such as e-commerce platforms for order entry and processing. Our customers can submit orders and check the status of their orders at any time in the Order@Covestro self-service portal. The portal is not used to initiate new business, but rather complements the services we provide to our existing customers and helps us handle routine inquiries independently of our customer service and sales staff's business hours. Covestro is improving its options for shipment tracking solutions in all regions, providing customers with a transparent overview of their orders and deliveries.

Covestro operates a global production network and produces in EMLA, NA, and APAC, in particular for customers within the respective regions. Our products are transported to the customer by logistics service providers with safety, environmental, and quality criteria being part of awarding the contract. On the basis of this foundation, delivery reliability is particularly important to us. Our foremost quality goal is therefore to eliminate errors in all our processes to guarantee a high level of customer satisfaction. This is regularly measured in a global management system: We take into account customer satisfaction analyses in which we are rated as a supplier, as well as supplier assessments that we originate, in which we evaluate our transport service providers on the basis of the responses from our customers. We use this data as well as reliability, availability, and process adherence performance indicators to derive corrective and preventive actions for the purpose of continually increasing quality and customer satisfaction and lowering the error rate and the incidence of complaints. When choosing the transport route, we pay particular attention to resource efficiency and the associated reduction in GHG emissions. Particularly in Europe, intermodal transport, which uses a combination of rail and waterways, is preferred for longer-distance shipments of bulk product. Projects on drives with alternative sources of energy and on the use of alternative fuels are the main focus of cooperation with our logistics partners. At the same time, we are driving further automation and digitalization of our business processes.

Fiscal 2023 as a whole was affected by high energy costs and a decline in new orders. In the reporting year, we received 5.30 customer complaints (previous year: 5.11) per 1,000 deliveries. Complaints caused by logistical problems are included in Covestro's assessment of the performance of the freight forwarders and are discussed in the regularly held review meetings.
→ See "Sustainability in Sourcing."

Innovation

Innovation as a driver of greater sustainability in line with our corporate vision of becoming fully circular is a core element of our Group strategy and an integral partuelof our identity. Our understanding of innovation is broadly defined: We base our actions on the SDGs and do not rely on traditional research and development (R&D) alone, but also on the great potential for creativity throughout the company. We encourage all employees to promote innovation at Covestro.

We work at all levels in close partnership with the Chief Executive Officer (CEO), who is responsible for Innovation. The aim is to maintain and reinforce our position in the global arena by developing new products, refining established ones, and optimizing manufacturing and processing procedures. Likewise, application areas, business models, and business processes are subject to ongoing review.

Covestro has split innovation activities into three core areas: In the first core area, we conduct business-related R&D in the business entities, focusing on specific, short- and medium-term R&D issues. As for the second area, the corporate Group Innovation & Sustainability function mainly deals with medium- and long-term sustainability, circular economy, and digital transformation issues. Issues of strategic importance, such as chemical recycling or applications of alternative raw materials for our product portfolio, are promoted on what we refer to as innovation platforms. Group Innovation & Sustainability is also responsible for the third core area, which entails providing a globally harmonized R&D infrastructure and supporting the business entities in research and development.

The corporate Process Technology function acts firstly by improving existing production processes with R&D projects that have a short- or medium-term focus and secondly by promoting process developments related to sustainability, the circular economy, and digitalization, many of which are medium- to long-term in nature. Group-wide steering committees chaired by the CEO network and coordinate the three core innovation areas. To ensure that innovation topics are coordinated with sustainability and digitalization topics, the head of the corporate Group Innovation & Sustainability function is a member of the relevant cross-functional steering committees, such as the ESG Governance Body (ESG GoB) or its successor, the Sustainability & Innovation Governance Body (SI GoB).

→ See “Process Technology Innovations.”
→ See “Product Innovations.”

Innovation Management

By managing innovation across functions throughout the Group, we ensure that our ongoing and planned activities always satisfy the needs of our user and consumer industries. Covestro uses a wide variety of tools to achieve this: For example, we use a standardized method to assess every R&D project and incorporate the resulting findings into ongoing and future projects. The global, digital platform “idea.lounge” is available for discussing and working on new, creative ideas from all parts of the company. Apart from that platform, an additional digital platform called “Covestro Ideenmanagement” (Idea Management) is available to employees in Germany and is used to manage all suggestions for improvement throughout the company. Furthermore, innovation management covers the systematic establishment and control of local and global alliances for acquiring skills that are strategically relevant and complementary to Covestro.

→ See “Strategic Partnerships and Collaborations.”

In fiscal 2023, our total R&D expenditure amounted to €374 million (previous year: €361 million). This mainly went toward developing new application solutions for our products and optimizing products and process technologies. As of December 31, 2023, 1,338 employees* (previous year: 1,477) worked in research and development, most of them at the three major R&D sites in Leverkusen (Germany), Pittsburgh, Pennsylvania (United States), and Shanghai (China).

* The number of permanent or temporary employees is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours. The figures do not include employees in vocational training.

Strategic Partnerships and Collaborations

Research and Teaching

Covestro wants to increase the efficiency of its research with in-house activities and strategic collaboration with industrial and scientific partners. Alliances and collaboration in large, publicly funded consortia characterize our partnerships with research facilities and universities as well as with companies along the value chain.

The Three Most Important Alliances with Universities

		FOCUS	EXAMPLES
EMLA	RWTH Aachen University	• Process development • Basic research	• Chemical catalysis in various projects (CAT Catalytic Center, QuinCAT, NEnzy group of young researchers on enzyme catalysis) • Electrochemistry (endowed professorship)
NA	University of Pittsburgh	• Academic • Research • Innovation	• Courses on modern design and innovation for greater sustainability • How can products be developed so that they are circular in future? Incubator centered on technology development for the circular economy
APAC	Tongji University	• R&D projects on sustainable materials • Incubator for start-ups and promotion of talent	• Commercialization of products developed and events with industrial and education partners • Open innovation competitions (Make-a-thon, Hackathon)

Partnerships with universities
Important tool for recruiting talent and implementing the innovation strategy

R&D effectiveness and efficiency

The QuinCAT – Quick Incubation in Catalysis incubator at RWTH Aachen University, which is subsidized by the German state of North Rhine-Westphalia and supported by Covestro, was successfully brought into operation in the year 2023. The incubator will be a place for developing ideas involving chemicals to enable the establishment of a company as a second step. Covestro provides consulting on this process, and will be represented by our CEO on the steering committee when it convenes. The group of young researchers on enzyme catalysis, or NEnzy for short, deals in particular with the biodegradability of plastics and wastewater purification in plastics production.

Open Innovation and Joint Projects with Partners along the Value Chain

To transition to a circular economy, we need the involvement of our suppliers and customers. In pursuit of this, Covestro firstly taps into existing ecosystems, following an open innovation approach by providing or taking part in cooperation platforms. Secondly, in real-life projects, recycling technologies are transitioned from research to industrialization.

Since fiscal 2023, we have worked with partners from research and industry on LUCRA, a project subsidized by the European Union (EU) to convert organic waste and residue materials into succinic acid. Succinic acid, one of the most important base chemicals, is used by Covestro, e.g., in the manufacture of isocyanates.

Through the Hubs4Circularity knowledge community, another initiative supported by the EU, we are collaborating with a number of European partners on implementing circular concepts with a regional reach. The community intends to contribute to harnessing insights from existing initiatives and concepts and transferring them to other projects. The creation of a joint knowledge base will accelerate the implementation of circular concepts such as industrial symbiosis, where by-products can be used as raw materials, for example. Covestro's contributions include, e.g., findings from the CIRCULAR FOAM project. By collaborating on Hubs4Circularity, we get insights into how circular economic models can be designed in the future.

With partners in the network around the RAPID Manufacturing Institute, New York (United States), we are working on more efficient processes for the chemical industry. The Institute enjoys an excellent reputation for optimizing production processes that are relevant to Covestro – especially energy-intensive processes.

In China, Covestro has established itself as operator of an open-innovation platform in Shanghai. As part of the regional government's Group Open Innovation initiative, it provides access to a comprehensive network of 34 major companies in total, a large number of startups, as well as small and medium-sized enterprises with activities in areas such as medical applications or handheld electronics.

To meet growing demand for greater supply chain transparency, many of our customers are developing solutions such as digital product passports (DPPs), and our materials will be part of these DPPs. The information and datasets of the materials we sell will be exchanged with customers using digital software solutions. To generate this data for DPPs, we will also need materials data from our suppliers. This is why Covestro is working on digital platforms and policies not only on the customer side, but also on the supplier side. We are piloting the development of DPPs with key customers and in projects to improve the future ability to track and trace materials and contents using digital software solutions in each phase of the product lifecycle.

Digital Innovation

Covestro is committed to driving the digital transformation in all business areas and functions, tapping into the associated potential in the process. The digital transformation comprises several action areas, ranging from the application of modern digital technologies through qualified data generation down to ways of working and cross-functional collaboration among employees. Empowering employees for the topic of digital transformation in these action areas is an important building block, which is also reflected in a transformation program for the workforce worldwide.

→ See "Employee Training and Continuing Development."

Beyond the internal processes, there is also a need to progress all stages of the chemical and plastics industry's value chain with a particular view to sustainability. In the year 2023, Covestro established a cloud-based application that digitalizes product-specific lifecycle assessment (LCA). It will allow Covestro not only to speed up calculations, but also indicate where greenhouse gas (GHG) emissions – and specifically the product-specific carbon footprint – can be reduced. The calculation method was certified by TÜV Rheinland Energy GmbH, Cologne (Germany), in the reporting year. This gives Covestro an innovative software solution for conducting LCAs on its products. The data calculated will be validated by the end of the year 2024 so that the data for sales products will be available to customers in stages throughout the year 2024.

By increasingly improving the integration of digital solutions, especially artificial intelligence (AI), at Covestro, the internal processes can continuously be enhanced. One example of how opportunities created by AI can benefit administrative functions has been implemented in connection with liquidity risk management. On the basis of past and current data and with the help of machine learning, it was possible to improve forecasts of our short-term operating cash flows. The data is processed fully automatically in this context. The improved forecast accuracy allowed us to reduce the liquidity buffer maintained for short-term operational management considerably in the reporting year. Since the beginning of 2023, Covestro has also been driving the implementation of generative AI. Our Covestro Virtual Assistant already gives hundreds of employees central access to the first AI developments for different cases of application, ranging from the simple use of large language models (LLMs) in a secure environment to special applications in Procurement and for corporate policies.

For our data-centric R&D approach at Covestro, the use of powerful data-science methods is of critical importance. The combination of domain knowledge in material chemistry, customer focus, and predictive data modeling led to a number of outstanding digital products. Some help our customers, e.g., to select the right wording for certain material properties, while others allow easy access to complex optical materials data.

Our cooperation with Google Ireland Ltd., Dublin (Ireland), selected startups, and top universities for the development of quantum algorithms for computational chemistry continued with resolute determination.

In addition to assessing current quantum hardware, dedicated research results were developed and published in some cases.

Covestro makes extensive use of simulations in all areas of research and development as well as in process technology to research, develop, and optimize materials and processes as efficiently as possible. The methods used cover the whole spectrum, from atomic to macroscopic scales. The calculations run locally on state-of-the-art mainframe computers in Leverkusen (Germany). In addition, elastic cloud computing resources are deployed to increase the flexibility of the computing power and cushion peak loads. with a particular focus on application cases from the circular economy and new materials research. Our realistic simulation of polyurethane foam processing is already used very successfully in customer projects for polyurethane application development and to ensure rapid formulation approval for machine trials.

The data-centric R&D approach described above requires high-quality data from all R&D-relevant process steps in laboratories and technology centers. To get a steadily increasing volume of high-quality data, we have for years worked toward the goal of fully digitalizing the R&D processes. In the past year, we pushed the rollout of digitalized laboratory processes in all key research and development centers in Germany, China, and the United States, whose data can in turn be stored on our global R&D knowledge platform.

Moreover, the establishment of a Group-wide team is aimed at continuing to drive digitalization in the production facilities. In addition to identifying value-creating application cases and projects, there is particular focus on harnessing synergies to accelerate the digitalization in a cost-efficient manner. This is facilitated by the use of harmonized infrastructure and cloud services. One example is more effective presentation of current energy usage in the facilities of the German sites. This allows better control of energy usage and helps to further optimize the energy efficiency of process methods.

Process Technology Innovations

Another key driver of innovation at Covestro is process technology. The designated corporate function is responsible for process technology in Covestro's production activities and supports operations in the segments. The key targets are to optimize existing production processes, develop new process technologies, implement leading technologies in the process design for new production facilities, and take the production processes of newly developed products to industrial scale.

The optimization of existing production processes is a key element in meeting our sustainability target of becoming climate-neutral by the year 2035. One example is the chlor-alkali production facility at our site in Tarragona (Spain), which was successfully brought into operation in the year 2023. This is where oxygen depolarized cathode technology is now used for the first time on a large industrial scale.

→ See "Production."

Another contribution to reducing emissions is the improved process integration at the site in Krefeld-Uerdingen (Germany), which has led to lower steam consumption. Also, an improvement of the design in chlorine production at the Brunsbüttel (Germany) site has achieved a considerable reduction in energy usage.

Another significant element in meeting our sustainability targets is to reduce waste streams, something that has been achieved in our HDI production in Shanghai (China).

→ See "Climate Neutrality."

Thanks to digitalization, production facilities can be controlled more predictively. For example, the catalyst volume used in the production of Desmodur® N 3900 at the Dormagen (Germany) site has been reduced. The use of digital simulations, such as the operating training simulator (OTS) in Tarragona (Spain), to train the operating team helped ensure that our new facility was brought into operation efficiently and safely.

Statistical analysis of the process and product quality data resulted in further optimization of polycarbonate compounding at Engineering Plastics, which meant that downtime and the volume of rejects due to quality problems were reduced and capacity was increased.

→ See "Digital Innovation."

The development of new production processes to help us achieve circularity also brought success in other respects. For example, research is conducted into innovative recycling technologies in order to close the raw material cycle. At laboratory scale, feasibility was demonstrated for the chemical and thermal decomposition of plastics into individual components for MDI-based rigid foams and polycarbonates. Moreover, a flexible foam sample was produced from fully recycled polyol and fully recycled toluene diisocyanate (TDI) for the first time. Both raw materials were obtained at Covestro's pilot plant in Leverkusen (Germany).

The development of bio-based raw materials is another important building block for the vision of becoming fully circular. For example, industry-relevant quantities of biobased hexamethylenediamine (HMDA), an important precursor for manufacturing coating raw materials, were produced in a pilot plant. This development is being undertaken in cooperation with the US-based Genomatica, San Diego, California (United States). Moreover, the process for the production of bio-based aniline as part of a publicly subsidized project was progressed from laboratory scale to pilot scale and successfully brought into operation.

To enable these and other innovations, Covestro remains committed to investing in the expansion of its research infrastructure. For example, to improve processes, a pilot plant for polycarbonate is under construction at the site in Antwerp (Belgium), while a miniplant for modified isocyanates and a new technology center opened its doors in Leverkusen (Germany). Measuring over 1,300 m², this center has room for high-viscosity technology and other circular-economy and process-optimization projects. Another pilot plant for polycarbonate is being planned in Leverkusen (Germany), with a focus on chemical recycling of the plastic.

Product Innovations

In Covestro's two segments, Performance Materials and Solutions & Specialties, product innovations are under way for a number of industries, in particular our main customer industries.

Automotive and Transportation Industry

The automotive and transportation industry continues to transition to an electrified and autonomous future. We want to be actively involved in shaping and driving this transition with customer-centric innovations. Thanks to Makrolon® Ai – a polycarbonate with very high optical purity – engineers benefit from enhanced creative freedom. The Makrolon® Ai display technology has glass-like transparency and enables maximum functional integration with human-machine interface (HMI) systems and other integrated sensors.

Among the trends we are observing in vehicle interiors is the introduction of new patterns for vehicle surfaces by original equipment manufacturers. Above all natural materials and surfaces with an authentic look and feel are trending – such as wood grains, fabric-like woven textures and textiles, cork, and stone. To allow designers to create these surfaces with polycarbonates that can be backlit, Covestro has developed a dedicated material that can balance the stiffness of glass and the ductility of polycarbonate while retaining the transparency effect; this material is Makroblend® OM 845G.

Furniture and Wood Processing Industry

Covestro is also continuously developing new, more sustainable product innovations for the furniture and wood processing industry. Not only is this a way of driving our vision of becoming fully circular, it also enables our customers and partners to manufacture more sustainable products.

One example is Arfinio®, which was launched on the market in October 2022. It allows reaction injection molding (RIM) to be used to process aliphatic polyurethanes. This enables manufacturers to produce seamless shapes without sheets and establish new combinations of beneficial properties in this process, ranging from mechanical resistance, light stability, and repairability down to low product weight, quick production, and improved design freedom. Covestro and its partner Arcesso Dynamics won the "Best of the Best" award for Arfinio® in May 2023. This international award organized annually by Koelnmesse and Red Dot honors outstanding design achievements that set new industry standards in form, function, and sustainability.

Moreover, our partnership with Sinomax and The Vita Group led to a new generation of polyurethane foams made partially from our TDI Desmodur® CQ, which is produced from renewable raw materials. Covestro's TDI is manufactured from ISCC PLUS-certified raw materials, which means that Sinomax and The Vita Group do not need to change any of their proven formulations, equipment, and processes.
→ See "Labeling of Circular Solutions in the Product Portfolio."

Covestro’s Evocycle® CQ initiative is another step that brings us closer to the climate-friendly mattress. For the first time, we successfully recovered both polyether and toluene diamine (TDA), a precursor of TDI, from old mattresses. Through chemical recycling, we bring them back into the value chain to create high-quality renewed polyurethane foam that also delivers top performance. We have developed a pilot plant for this purpose as a way to transform and expand chemical recycling into an efficient industrial process.

Construction Industry

For the construction industry, our work is centered on our core application – rigid polyurethane foams. Used as an insulation material, it makes an important contribution to the energy efficiency of buildings. MDI CQ is a key material that we provide for the production of polyurethane (PU) insulation boards and sandwich panels, among other products. Thanks to the use of alternative raw materials based on plant waste, its production is climate neutral. PU insulation boards have proven their value for many years as highly efficient elements and sustainable construction materials in the thermal insulation of buildings. The heating or cooling requirements of buildings can be reduced by up to 70% through the use of PU insulation.

Electrical, Electronics, and Household Appliances Industry

In our activities for the electrical, electronics and household appliances industry, new materials were developed in the reporting year, again with a focus on sustainability.

Makrolon® RE polycarbonate is an innovative product solution that helps important customers to meet their sustainability targets without compromising on performance. One of the biggest challenges in the manufacture of the next generation of wired devices was to reduce the carbon footprint of the material while maintaining good infrared transparency. The carbon footprint of the Makrolon® RE grade selected, made of more than 87% renewable raw materials, is more than 89% smaller than that of conventional polycarbonates. The polycarbonate, which is ISCC PLUS-certified, is made from raw materials based on organic waste and residual materials, which replace fossil raw materials.

Covestro has launched a new range of Platilon® TPU films for smart skin patch applications. Smart skin patches with integrated electronics allow vital parameters to be monitored. Not only can the new TPU films be printed with standard inks, they also show good printability with silver-based inks. Printability with silver-based inks is important as they ensure good conductivity and allow sensor technology to be integrated more reliably. Additionally, the new TPU film grades can be equipped with a stiffer polypropylene carrier, which provides stability throughout the conversion process, especially during curing.

The polyurethane composite solar panel frame, jointly developed by Covestro and its partners, adds a new solution to the selection of frame materials for photovoltaic (PV) modules. The integrated solution, which uses Baydur®, made of a glass-fiber-reinforced polyurethane pultrusion composite and a waterborne polyurethane coating, gives photovoltaic module manufacturers a new material option as an alternative to aluminum alloy frames. As a result of the load-specific glass-fiber reinforcement, its axial tensile strength is more than seven times that of a typical aluminum alloy. It is also strongly resistant to salt mist corrosion and chemical corrosion.

Other Industries

Covestro’s polycarbonate (PC) films are also leading the company toward the circular economy in the area of ID documents. Covestro’s partly mechanically recycled PC film contributes to sustainability in the identity security market segment. The new Makrofol® ID357 white PC film offers properties, quality, and performance similar to Covestro’s conventional Makrofol® ID white PC film. It is used, e.g., for inlay solutions in ID documents. Linxens, a leading provider of secure component-based solutions for security and identification, will utilize Makrofol® ID357 in its latest document inlay solution.

Covestro's innovative solutions are also represented in the sportswear market. The aliphatic expanded thermoplastic polyurethanes (ETPUs) of the Desmopan® CQ range are robust, elastic, flexible, scratch-resistant, and sustainable. They allow manufacturers to create applications with biobased content and give them freedom of design and the means to combine functionality and comfort. Covestro has entered into a partnership with the leading manufacturer of foam molding, Alpha (Guangdong) Hi-tech Material Co., Ltd., Guangdong (China), to break new ground in midsole foam solutions for the footwear industry. In addition, a number of Covestro's TPU films, fibers, fleece fabrics, and partly biobased materials of the Desmopan® range meet the stringent criteria for bluesign certification. The origin of the raw materials is transparently traced and all processing steps are taken into account in the assessment.

The organization International PUR has developed a new technical solution based on mechanically upcycled core foam waste from Baynat® automotive headliner production. Instead of wasting the scrap from Baynat® headliner production, innovative ways of recycling and upgrading this precious raw material into high-quality applications such as prototypes and production support tools present a new opportunity for customers. This valuable and cost-efficient material can replace aluminum and conserve other resources while also reducing waste that arises during CNC processing of tools.

Covestro's Makrolon® 3638 is a new ultra-durable polycarbonate used in healthcare and life sciences applications. Ranging from drug delivery devices and wearable devices to single-use containers for biopharmaceutical manufacturing – they all have one thing in common: They must be tough and durable and able to withstand everyday use while maintaining their structural integrity. Since Makrolon® 3638 polycarbonate supports both closed- and open-loop recycling, it is a good fit for circular business models and, due to its attributed bio-circular content, can contribute to an improved carbon footprint.

Covestro has also developed a new type of MDI polyester prepolymer (Desmodur® MD1657) of low hardness. The target is to support our customers in the mining industry to transition from TDI prepolymers (PTMEG) to MDI polyester systems by providing a two-component system that performs better and is less demanding with regards to health and safety precautions (MOCA-free). TDI PTMEG systems are often used to manufacture mining sieves because they react less sensitively to the production parameters. The Desmodur® MD1657 system enables customers using the TDI PTMEG systems to keep their plant (normally two-component machines) and switch to a product that poses fewer health and safety challenges in the manufacture of parts with better properties for use in mining sieves.

Decovery® CQ 6010 is a partially bio-based, highly breathable solution from Covestro for paper and board food packaging. It can be used to replace packaging laminated with plastics such as polyethylene or with aluminum, and this results in significantly improved recyclability. A reduction in CO_2 emissions by up to 34% and a verifiable bio-based content of up to 37% make the product a sustainable alternative to conventional solutions.

REPORT ON ECONOMIC POSITION

Economic Environment

Global Economy

In the year 2023, the global economy expanded slightly, by 2.7%, and therefore more slowly than in the previous year, with all regions recording positive growth rates. One of the growth drivers was the robust performance of the services sector in leading industrialized countries. Geopolitical events, such as the escalation in the Middle East and the resulting difficulties in the supply chains, the Russian war against Ukraine, and continuing tensions between the United States and China, again weighed on global economic performance this year. In the NA region, strong consumer spending, especially in the United States, contributed to slight economic growth above the prior-year level, and a technical recession was avoided despite significantly tighter monetary policy. In the APAC region, particularly economic stimulus measures implemented by the Chinese government had a stabilizing effect, resulting in considerable economic growth at a faster rate than in the previous year. In the EMLA region, the economy also expanded slightly, but at a slower rate than in the other regions and in the prior year.

Economic environment[1]

	Growth 2022	Growth 2023
	%	%
World	**3.1**	**2.7**
Europe, Middle East, Latin America[2], Africa (EMLA)	**3.7**	**1.2**
of which Europe	3.3	0.9
of which Germany	1.9	–0.1
of which Middle East	6.2	1.4
of which Latin America[2]	3.9	1.9
of which Africa	3.8	2.6
North America[3] (NA)	**2.2**	**2.5**
of which United States	1.9	2.5
Asia-Pacific (APAC)	**3.2**	**4.3**
of which China	3.0	5.2

1 Real growth of gross domestic product; source: Oxford Economics, as of February 2024.
2 Latin America (excluding Mexico).
3 North America (Canada, Mexico, United States).

Main Customer Industries

As described above, the positive global economic growth recorded in the year 2023 was mainly driven by the robust performance in the services sector, although this is not reflected in all of Covestro's main customer industries.

At 10.2%, the global automotive industry grew faster in fiscal 2023 than in the previous year. Order backlogs protected the industry from the downturn in the reporting year. The APAC and NA regions recorded significant positive growth, while growth in the EMLA region was slightly positive.

In the year 2023, the global construction industry saw a negative growth rate of 2.4% and therefore lower growth than in the previous year. Rising interest rates and the high cost of building materials due to material and labor shortages continued to have a negative effect in the reporting year, leading to a slight decline of the construction industry in all regions.

In the year 2023, the growth rate in the electrical, electronics and household appliances industry was negative at 0.9% and therefore similar to the previous year. Due to continuing shifts in consumer spending from goods to services, there was weak demand for electronics and electrical components in fiscal 2023. The APAC and NA regions generated modestly positive growth in the reporting year, while there was a slight decline in the EMLA region.

In the year 2023, the global furniture industry saw negative growth of 3.7%, marking another decrease from the previous year. High inflation, rising selling prices, a slowdown in consumer demand, and lower investments in the housing sector led to a downturn in demand for furniture and significantly negative growth rates in fiscal 2023 especially in the NA and EMLA regions; performance in the APAC region was stable.

Main customer industries[1]

	Growth 2022	Growth 2023
	%	%
Automotive	7.1	10.2
Construction	0.7	–2.4
Electrical, electronics and household appliances	–0.9	–0.9
Furniture	–3.6	–3.7

[1] Covestro's estimate, based on the following sources: GlobalData Plc, B+L, CSIL (Centre for Industrial Studies), Oxford Economics. We limited the economic data of our "automotive and transportation" and "furniture and wood processing" main customer industries to the automotive and furniture segments (excluding the transportation or wood processing segments). As of: February 2024.

Business Performance at a Glance

Significant Events

Events outside the Company

Challenging Economic Environment

The situation in the European energy markets largely stabilized in the year 2023 compared with the volatile full-year 2022, mainly due to a significant decrease in gas prices. This is set against persistently weak demand, driven especially by lower spending on consumer goods. The adverse macroeconomic conditions had a negative impact on the selling price level and the volumes sold at Covestro.

War in Ukraine

The Russian war against Ukraine, which began in February 2022, has had a notable impact on the global economy. However, Covestro's business situation is not directly affected by the consequences of the war, as Covestro does not operate any sites in the countries affected by the war (Russia, Belarus, and Ukraine). As in the previous year, the sanctions imposed on Russia and Belarus by the international community therefore affected Covestro's business only indirectly.

Events within the Company

Business in Europe, the Middle East, and Africa to Be Centralized at the Leverkusen Site

In line with its Sustainable Future strategy and Group-wide initiatives to increase operating effectiveness and efficiency, Covestro has resolved to manage the business in Europe, the Middle East, and Africa centrally from Leverkusen (Germany) in the future. As a consequence, the business activities of Covestro International SA, based in Fribourg (Switzerland), are expected to be discontinued by the middle of fiscal 2024. The relocation is not expected to have any effects on the Group's sales activities or sales. The decision to relocate the business activities of Covestro International SA primarily led to a net tax expense of €29 million and restructuring expenses of €14 million in the year 2023.

Operations Start at New Chlorine Plant in Tarragona

In February 2023, Covestro successfully commissioned a new large-scale plant for the manufacture of chlorine in Tarragona (Spain). It is the world's first industrial-scale production plant using the innovative and energy-efficient oxygen-depolarized cathode technology developed by Covestro and partners. The new plant guarantees efficient, continuous, and independent supplies of chlorine for the diphenylmethane diisocyanate (MDI) production in Tarragona, thus strengthening the European MDI production network.

Sale of Additive Manufacturing Business

On April 3, 2023, Covestro successfully completed the sale of the additive manufacturing business of the Solutions & Specialties segment to Stratasys, a U.S.-Israeli manufacturer of 3D printers and 3D production systems. The sale resulted in an inflow of purchase price payments of €54 million for Covestro in fiscal 2023; the net gain on the disposal amounted to €35 million. In addition, a variable earn-out payment has been agreed, which will depend on the achievement of various success factors; the amount will be finally determined in the year 2025.

→ See note 5.2 "Acquisitions and Divestitures" in the Notes to the Consolidated Financial Statements.

Maezio® Product Line to be Discontinued

As part of its continuous Group-wide activities to optimize the portfolio, Covestro will in the future align the Engineering Plastics business entity in the Solutions & Specialties segment with its core business. As a result, the Board of Management has resolved that the manufacture of the highly specialized Maezio® products, and therefore the operations at the production site in Markt Bibart (Germany), will be discontinued. In this context, impairment losses of €31 million were recognized on goodwill, intangible assets, and property, plant and equipment in the year 2023, and restructuring expenses and valuation allowances on inventories of €7 million were recognized through profit or loss.

Changes in the Board of Management

The previous Chief Technology Officer Dr. Klaus Schäfer retired from the company as of June 30, 2023. His successor, Dr. Thorsten Dreier, took on responsibility for the corporate functions of Process Technology; Engineering; Group Health, Safety and Environment; and Group Procurement as of July 1, 2023. In addition to his duties as Chief Technology Officer, Dr. Thorsten Dreier has had the position of Labor Director since September 1, 2023.

The previous Chief Financial Officer (CFO) and Labor Director, Dr. Thomas Toepfer, left the company as of August 31, 2023 to pursue a new role as CFO at the European aircraft manufacturer Airbus. He was succeeded by Christian Baier, who took over the position of CFO as of October 1, 2023. Dr. Markus Steilemann, Chief Executive Officer of Covestro AG, acted in this role on an interim basis during September 2023.

Financing Measures

Share Buyback Program

On February 28, 2022, Covestro AG's Board of Management resolved a share buyback program totaling around €500 million (excluding transaction costs), which was launched in March 2022 and was expected to be completed within two years. Following the resumption of the program in May 2023, 1,208,035 shares with a total value of €49 million were bought back during the third tranche. On October 26, the Board of Management resolved to terminate the share buyback program early. Covestro AG had acquired a total of 4,687,991 shares valued at €199 million in three tranches. In December 2023, 4,200,000 of the repurchased shares were retired and the capital stock of Covestro AG was reduced accordingly.

Issuance of Schuldschein Loans

On October 7, 2022, Covestro issued Schuldschein loans with a total volume equivalent to around €650 million, of which the remaining €100 million was transferred to Covestro in the first quarter of 2023. Linked to an ESG rating, these Schuldschein loans were issued in tranches comprising fixed and variable interest rates with terms of three, five, and seven years. In October 2023, Covestro prematurely repaid Schuldschein loans in an amount equivalent to around €260 million.

Overall Assessment of Business Performance and Target Attainment

Persistently weak demand made fiscal year 2023 very challenging for Covestro. Sales decreased by 20.0% to €14,377 million (previous year: 17,968 million), predominantly due to the lower selling price level and a drop in sales volumes. In particular the decline in the selling price level, which was only partially offset by lower raw material and energy prices, and lower sales volumes led to a 33.2% drop in EBITDA to €1,080 million (previous year: €1,617 million). Free operating cash flow rose to €232 million (previous year: €138 million). The year-over-year rise was mainly attributable to lower cash outflows for additions to property, plant, equipment and intangible assets and higher cash flows from operating activities. In addition, ROCE above WACC was –6.1% points (previous year: –5.0% points). The decrease compared with the previous year was the result of a higher WACC and a significant drop in net operating profit after taxes (NOPAT). GHG emissions stood at 4.9 million metric tons of CO_2 equivalents, slightly up on the prior-year value (4.7 million metric tons of CO_2 equivalents), as the decline in production volumes was offset by factors such as a higher proportion of fossil sources of energy in externally procured power and steam.

In the Annual Report 2022, the Covestro Group published a forecast for key management indicators in fiscal 2023, which was adjusted on April 28, 2023 and updated on October 27, 2023.

The forecast for all key management indicators for full-year 2023 in the Annual Report 2022 was last updated in October 2023. After original expectations of a significant year-over-year decline in EBITDA, the Covestro Group projected EBITDA of around €1,100 million*. After initially projecting a significant year-over-year decrease in FOCF, the Covestro Group ultimately forecast a figure between €0 million and €200 million for the full year. For ROCE above WACC, the original forecast was for a figure significantly below the previous year; most recently, in

* This may entail a variance in the single-digit percentage range.

October 2023, a decline of around 6% points was anticipated. For GHG emissions, the Covestro Group had originally anticipated a figure on a level with the previous year*, and ultimately expected an amount between 4.2 million metric tons of CO_2 equivalents and 4.8 million metric tons of CO_2 equivalents.

The actual figures recorded by Covestro in fiscal year 2023 for EBITDA, ROCE above WACC, and GHG emissions corresponded to the forecast originally published in the Annual Report 2022. FOCF exceeded the figure originally projected.

Compared to the forecast updated in October 2023, EBITDA and ROCE above WACC were in the ranges communicated. While GHG emissions were slightly above the communicated range, FOCF, on the other hand, performed better than anticipated in the most recent forecast.

Forecast-actuals-comparison for fiscal year 2023

	2022	Forecast 2023 (Annual report 2022)	Forecast 2023 (October 27, 2023)	2023
EBITDA[1]	€1,617 million	Significantly down on previous year	Around €1,100 million[6]	€1,080 million
Free operating cash flow[2]	€138 million	Significantly down on previous year	Between €0 million and €200 million	€232 million
ROCE above WACC[3, 4]	–5.0% points	Significantly down on previous year	Around –6% points[6]	–6.1% points
Greenhouse gas emissions[5] (CO_2 equivalents)	4.7 million metric tons	Similar to previous year[6]	Between 4.2 million metric tons and 4.8 million metric tons	4.9 million metric tons

[1] Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on property, plant and equipment and intangible assets.
[2] Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant and equipment and intangible assets.
[3] Return on capital employed (ROCE): ratio of EBIT after imputed income taxes to capital employed. Imputed income taxes are calculated by multiplying an imputed tax rate of 25% by EBIT.
[4] Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company's equity and debt capital. A figure of 7.6% has been taken into account for the year 2023 (2022: 7.0%).
[5] GHG emissions (Scope 1 and Scope 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).
[6] This may entail a variance in the single-digit percentage range.

Results of Operations, Financial Position, and Net Assets of the Covestro Group

Key data

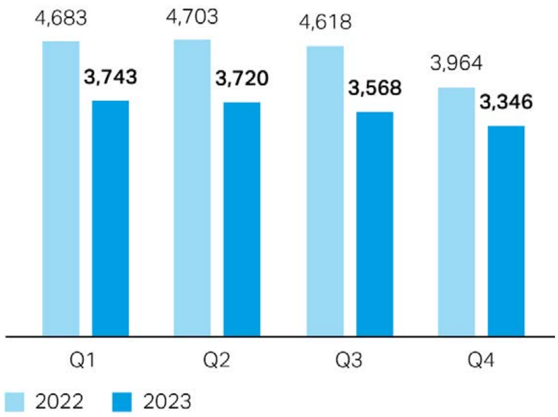
	4th quarter 2022	4th quarter 2023	Change	2022	2023	Change
Sales	**€3,964 million**	**€3,346 million**	**–15.6%**	**€17,968 million**	**€14,377 million**	**–20.0%**
Change in sales						
Volume	–13.2%	3.1%		–5.0%	–6.8%	
Price	0.8%	–15.7%		10.1%	–11.0%	
Currency	3.8%	–3.0%		5.9%	–2.2%	
Portfolio	0.0%	0.0%		2.0%	0.0%	
Sales by region						
EMLA	€1,518 million	€1,307 million	–13.9%	€7,600 million	€5,941 million	–21.8%
NA	€1,062 million	€846 million	–20.3%	€4,639 million	€3,735 million	–19.5%
APAC	€1,384 million	€1,193 million	–13.8%	€5,729 million	€4,701 million	–17.9%
EBITDA[1]	**(€38 million)**	**€132 million**	**.**	**€1,617 million**	**€1,080 million**	**–33.2%**
Depreciation, amortization and impairment losses and impairment loss reversals	€657 million	€222 million	–66.2%	€1,350 million	€894 million	–33.8%
EBIT[2]	(€695 million)	(€90 million)	–87.1%	€267 million	€186 million	–30.3%
Financial result	(€25 million)	(€13 million)	–48.0%	(€137 million)	(€113 million)	–17.5%
Net income[3]	**(€899 million)**	**(€187 million)**	**–79.2%**	**(€272 million)**	**(€198 million)**	**–27.2%**
Operating cash flows[4]	€839 million	€377 million	–55.1%	€970 million	€997 million	2.8%
Cash outflows for additions to property, plant, equipment and intangible assets	€289 million	€304 million	5.2%	€832 million	€765 million	–8.1%
Free operating cash flow[5]	**€550 million**	**€73 million**	**–86.7%**	**€138 million**	**€232 million**	**68.1%**
Net financial debt[6]				€2,434 million	€2,487 million	2.2%
Return on capital employed (ROCE)[7]				2.0%	1.5%	
Weighted average cost of capital (WACC)[8]				7.0%	7.6%	
ROCE above WACC[7, 8]				**–5.0% points**	**–6.1% points**	

[1] Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on property, plant and equipment and intangible assets.
[2] Earnings before interest and taxes (EBIT): income after income taxes plus financial result and income taxes.
[3] Net income: income after income taxes attributable to the shareholders of Covestro AG.
[4] Cash flows from operating activities according to IAS 7 (Statement of Cash Flows).
[5] Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.
[6] As of December 31 in each case.
[7] Return on capital employed (ROCE): ratio of EBIT after imputed income taxes to capital employed. Imputed income taxes are calculated by multiplying an imputed tax rate of 25% by EBIT.
[8] Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company’s equity and debt capital.

Results of Operations

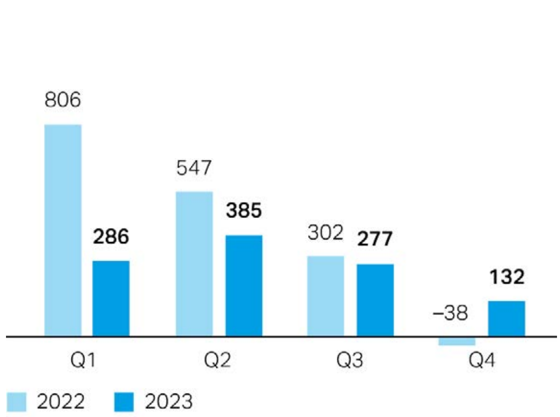
Quarterly sales

€ million



Quarterly EBITDA

€ million



Sales

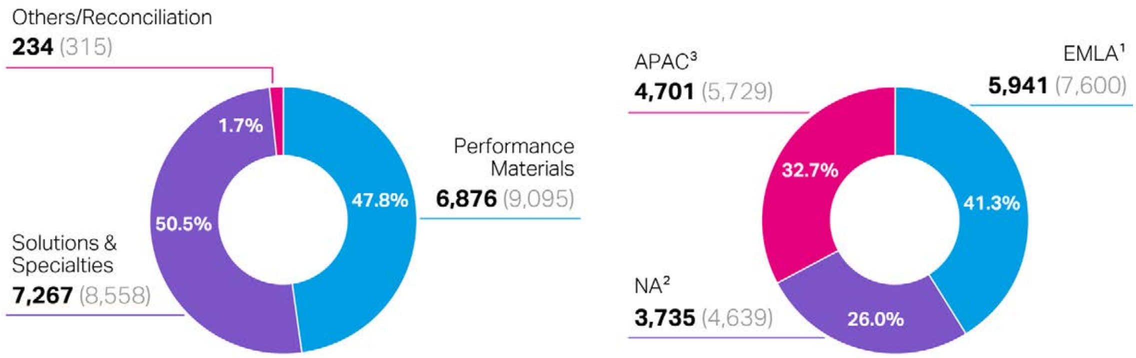
Group sales declined by 20.0% in fiscal 2023, to €14,377 million (previous year: €17,968 million). This was mainly due to a drop in the selling price level, which had a negative impact on sales of 11.0%, as well as to lower volumes sold, which had a negative effect on sales of 6.8%. Both drivers were the result of weak demand worldwide. Furthermore, exchange rate movements had a sales-reducing effect of 2.2%.

Sales in both segments were down in fiscal 2023. In the Performance Materials segment, sales fell 24.4% to €6,876 million (previous year: €9,095 million), while the Solutions & Specialties segment's sales decreased 15.1% to €7,267 million (previous year: €8,558 million).

In the EMLA region, sales were down 21.8% to €5,941 million (previous year: €7,600 million). Sales dropped by 19.5% to €3,735 million (previous year: €4,639 million) in the NA region, and by 17.9% to €4,701 million (previous year: €5,729 million) in the APAC region.

Sales by segment and region

€ million, prior-year figures in brackets



[1] EMLA: Europe, Middle East, Latin America (excluding Mexico), Africa region.
[2] NA: North America region (Canada, Mexico, United States).
[3] APAC: Asia and Pacific region.

EBIT

Summary consolidated income statement

	2022	2023	Change
	€ million	€ million	%
Sales	17,968	14,377	–20.0
Cost of goods sold	(15,404)	(12,071)	–21.6
Gross profit	**2,564**	**2,306**	**–10.1**
Selling expenses	(1,604)	(1,489)	–7.2
Research and development expenses	(361)	(374)	3.6
General administration expenses	(353)	(360)	2.0
Other operating expenses (–) and income (+)	21	103	390.5
EBIT	**267**	**186**	**–30.3**
Financial result	(137)	(113)	–17.5
Income before income taxes	**130**	**73**	**–43.8**
Income taxes	(411)	(275)	–33.1
Income after income taxes	**(281)**	**(202)**	**–28.1**
attributable to noncontrolling interest	(9)	(4)	–55.6
attributable to Covestro AG shareholders (net income)	**(272)**	**(198)**	**–27.2**

There was a 21.6% decrease in cost of goods sold – especially due to lower raw material and energy costs, a decline in impairment losses on property, plant and equipment, and a lower level of fixed costs – to €12,071 million (previous year: €15,404 million); as a result, the ratio of cost of goods sold to sales went down to 84.0% (previous year: 85.7%).

Gross profit fell 10.1% to €2,306 million (previous year: €2,564 million). This was primarily driven by a decline in selling prices, which was only partially offset by the drop in raw material and energy prices. In addition, the decline in total volumes sold and negative effects from exchange rate movements reduced earnings. On the other hand, lower impairment losses had a beneficial effect on earnings.

Selling expenses were down by 7.2% to €1,489 million (previous year: €1,604 million). The ratio of selling expenses to sales was 10.4% (previous year: 8.9%). Research and development (R&D) expenses were up 3.6% to €374 million (previous year: €361 million). As a share of sales, this produced an R&D ratio of 2.6% (previous year: 2.0%). General administration expenses were up 2.0% to €360 million (previous year: €353 million), for a ratio of administration expenses to sales of 2.5% (previous year: 2.0%).

Higher provisions for variable compensation had the effect of lowering earnings by €166 million.

Other operating income exceeded other operating expenses by €103 million (previous year: €21 million). The year-over-year change reflects, for example, the sale of the additive manufacturing business of the Solutions & Specialties segment, which had a positive effect on earnings in an amount of €35 million.

EBIT declined 30.3% to €186 million (previous year: €267 million). The EBIT margin retreated to 1.3% (previous year: 1.5%).

EBITDA

Calculation of EBITDA

	2022	2023
	€ million	€ million
EBIT	**267**	**186**
Depreciation, amortization, impairment losses, and impairment loss reversals	1,350	894
EBITDA	**1,617**	**1,080**

Depreciation, amortization, impairment losses, and impairment loss reversals decreased by 33.8% to €894 million in fiscal 2023 (previous year: €1,350 million), of which €801 million (previous year: €1,194 million) was attributable to property, plant and equipment and €93 million (previous year: €156 million) to intangible assets. The decline was mainly driven by lower impairment losses of €45 million (previous year: €463 million). There were no reversals of impairment losses (previous year: €1 million).

EBITDA decreased 33.2% year-over-year in the full-year period, declining to €1,080 million (previous year: €1,617 million). This was mainly attributable to the 39.4% fall in EBITDA, to €576 million (previous year: €951 million), in the Performance Materials segment. The Solutions & Specialties segment's EBITDA was down 1.0% to €817 million (previous year: €825 million).

Net Income

In the fiscal year under review, the financial result stood at €–113 million (previous year: €–137 million) and largely consisted of net interest expense of €90 million (previous year: €61 million). In view of the financial result, income before income taxes went down to €73 million (previous year: €130 million). Income tax expense amounted to €275 million (previous year: €411 million). It includes impairment losses of €42 million (previous year: €64 million) on deferred tax assets arising from loss carryforwards and temporary differences. Furthermore, deferred tax assets arising from loss carryforwards and temporary differences of €197 million (previous year: €191 million) could not be recognized in the fiscal year. After income taxes and noncontrolling interests, the net loss amounted to €198 million (previous year: €272 million).

Return on Capital Employed (ROCE) above Weighted Average Cost of Capital (WACC)

Calculation of the ROCE above WACC

		2022	2023
EBIT	€ million	267	186
Imputed tax rate	%	25.0	25.0
Imputed taxes[1]	€ million	67	47
Net operating profit after taxes (NOPAT)	**€ million**	**200**	**139**
Average capital employed	€ million	9,785	9,550
ROCE	**%**	**2.0**	**1.5**
Weighted average cost of capital (WACC)	%	7.0	7.6
ROCE above WACC	**% points**	**–5.0**	**–6.1**

[1] The imputed income taxes used in the calculation of NOPAT are determined by multiplying EBIT by the imputed tax rate.

The Covestro Group's NOPAT totaled €139 million (previous year: €200 million), and average capital employed amounted to €9,550 million (previous year: €9,785 million). The resulting ROCE was 1.5% (previous year: 2.0%), significantly lower than the increased WACC of 7.6% (previous year: 7.0%).

→ Additional information on the calculation of indicators is available in "Key Management Indicators."

Calculation of average capital employed

	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million	€ million
Goodwill	757	729	711
Other intangible assets	706	603	519
Property, plant and equipment	6,032	5,801	5,795
Investments accounted for using the equity method	172	185	182
Other financial assets[1, 2]	34	21	14
Other receivables[2, 3]	419	452	501
Deferred tax assets[4]	301	277	248
Inventories	2,914	2,814	2,459
Trade accounts receivable	2,343	2,011	1,898
Claims for income tax refunds	128	115	102
Assets held for sale[5]	–	18	–
Gross capital employed	**13,806**	**13,026**	**12,429**
Other provisions[6]	(843)	(349)	(548)
Other financial liabilities[2, 7]	(148)	(136)	(114)
Other nonfinancial liabilities[2, 8]	(185)	(258)	(228)
Deferred tax liabilities[9]	(293)	(307)	(251)
Trade accounts payable	(2,214)	(2,016)	(1,895)
Income tax liabilities	(337)	(175)	(77)
Liabilities directly related to assets held for sale[10]	–	(2)	–
Capital employed	**9,786**	**9,783**	**9,316**
Average capital employed	**8,598**	**9,785**	**9,550**

1 Other financial assets were adjusted for nonoperating assets.
2 Prior-year figures adjusted. See the appropriate disclosures in the Notes to the Consolidated Financial Statements for further details.
3 Other receivables were adjusted for nonoperating receivables.
4 Deferred tax assets were adjusted for deferred taxes from defined benefit plans and similar obligations recognized in other comprehensive income.
5 Assets held for sale were adjusted for nonoperating and financial assets.
6 Other provisions were adjusted for provisions for interest payments.
7 Other financial liabilities were adjusted for nonoperating liabilities.
8 Other nonfinancial liabilities were adjusted for nonoperating liabilities.
9 Deferred tax liabilities were adjusted for deferred tax liabilities from defined benefit plans and similar obligations recognized in other comprehensive income.
10 Liabilities directly related to assets held for sale were adjusted for nonoperating and financial debt.

Financial Position

Statement of Cash Flows

Summary statement of cash flows

	4th quarter 2022	4th quarter 2023	2022	2023
	€ million	€ million	€ million	€ million
EBITDA	**(38)**	**132**	**1,617**	**1,080**
Income taxes paid	(92)	(136)	(538)	(383)
Change in pension provisions	36	(9)	54	(33)
(Gains)/losses on retirements of noncurrent assets	(3)	–	(3)	(33)
Change in working capital/other noncash items	936	390	(160)	366
Cash flows from operating activities	**839**	**377**	**970**	**997**
Cash outflows for additions to property, plant, equipment and intangible assets	(289)	(304)	(832)	(765)
Free operating cash flow	**550**	**73**	**138**	**232**
Cash flows from investing activities	**(407)**	**(437)**	**(477)**	**(925)**
Cash flows from financing activities	**492**	**(363)**	**64**	**(639)**
Change in cash and cash equivalents due to business activities	**924**	**(423)**	**557**	**(567)**
Cash and cash equivalents at beginning of period	**292**	**1,052**	**649**	**1,198**
Change in cash and cash equivalents due to exchange rate movements	(18)	(4)	(8)	(6)
Cash and cash equivalents at end of period	**1,198**	**625**	**1,198**	**625**

Cash Flows from Operating Activities/Free Operating Cash Flow

Net cash flows from operating activities amounted to €997 million (previous year: €970 million). A decline in EBITDA was more than offset by funds freed up from working capital, compared with funds tied up in the previous year, and lower income tax payments. In the previous year, the change in working capital had been impacted especially by the payment of short-term variable compensation for fiscal 2021. No short-term variable compensation was paid for fiscal 2022. Higher cash inflows from operating activities and lower cash outflows for additions to property, plant, equipment, and intangible assets of €765 million (previous year: €832 million) led to an increase in free operating cash flow to €232 million (previous year: €138 million).

→ Additional information on the calculation of indicators is available in "Key Management Indicators."

Cash Flows from Investing Activities

Net cash outflow for investing activities in fiscal 2023 totaled €925 million (previous year: €477 million). This was mainly attributable to cash outflows of €765 million (previous year: €832 million) for additions to property, plant and equipment and intangible assets and net outflows of €261 million for short-term bank deposits (previous year: net proceeds of €372 million). This was set against cash received in an amount of €54 million from the sale of the additive manufacturing business to Stratasys, a U.S.-Israeli manufacturer of 3D printers and 3D production systems, as well as an inflow of €39 million from the partial reversal of the tranche of the initial funding loan drawn down in December 2022, as announced by Bayer-Pensionskasse VVaG.

Cash outflows for additions to property, plant, equipment and intangible assets

	2022	2023
	€ million	€ million
Performance Materials	547	490
Solutions & Specialties	277	270
Others/Reconciliation	8	5
Covestro Group	**832**	**765**

Capital expenditures in fiscal 2023 were targeted at maintenance and improvement of existing plants as well as new capacity in both segments. As in fiscal 2022, capital expenditure in the Performance Materials segment related to increasing capacity at the site in Antwerp (Belgium) to expand the production of aniline, a precursor for diphenylmethane diisocyanate (MDI). Investments were also made in the circular economy and in energy efficiency such as the installation of new catalysts at the site in Shanghai (China) and the modernization of the TDI plant in Dormagen (Germany). Strategically relevant capital expenditures in the Solutions & Specialties segment involved the construction of the company's largest plant for thermoplastic polyurethane (TPU) in Zhuhai (China), which is planned to reach an annual capacity of 120,000 metric tons of TPU per year in the future.

Cash Flows from Financing Activities

In fiscal 2023, the Covestro Group's net cash outflows for financing activities totaled €639 million (previous year: cash inflows of €64 million). They were mainly attributable to the early repayment of Schuldschein loans in an amount equivalent to around €260 million, payments for current liabilities to banks in China of €215 million, interest payments of €169 million (previous year: €131 million), and payments of €156 million (previous year: €160 million) for the settlement of lease liabilities. In addition, there were cash outflows in fiscal 2023 resulting from the repayment of a loan of Covestro AG in an amount of €125 million and the third tranche of the share buyback program in an amount of €49 million (previous year: €150 million). Cash inflows related primarily to current liabilities to banks in China amounting to €222 million and, in an amount of €100 million, to the last tranche of the Schuldschein loans issued in the year 2022.

→ See "Share Buyback Program."

Net Financial Debt

Net financial debt

	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million
Bonds	1,988	1,990
Liabilities to banks	922	657
Lease liabilities	746	743
Liabilities from derivatives	32	15
Other financial liabilities	1	2
Receivables from derivatives	(42)	(19)
Gross financial debt	**3,647**	**3,388**
Cash and cash equivalents	(1,198)	(625)
Current financial assets	(15)	(276)
Net financial debt	**2,434**	**2,487**

The Covestro Group's gross financial debt as of December 31, 2023 was down €259 million compared with December 31,2022, at €3,388 million (previous year: €3,647 million), predominantly due to a decrease in liabilities to banks by €265 million, which was in turn mainly attributable to the abovementioned partial early repayment of Schuldschein loans.

Cash and cash equivalents decreased in comparison with the figure on December 31, 2022, by €573 million to €625 million. This decline was mainly due to cash outflows for additions to property, plant and equipment and intangible assets of €765 million, negative cash flows from financing activities of €639 million, and net outflows for short-term bank deposits of €261 million. Conversely, higher cash flows from operating activities led to a €997 million increase in cash and cash equivalents. The abovementioned net cash outflows for short-term bank deposits drove up current financial assets to €276 million.

As a result, net financial debt increased by €53 million to €2,487 million in fiscal 2023 (previous year: €2,434 million).

Financial Management

The main purpose of financial management is to ensure solvency at all times, continuously optimize capital costs, and reduce the risks of financing measures. Financial management for the Covestro Group is performed centrally by Covestro AG.

Covestro AG operates a Debt Issuance Program with a total volume of €5.0 billion to facilitate obtaining flexible financing from the capital market. The company is thus in the position to issue fixed- and variable-rate bonds with different maturities as well as to undertake private placements. Covestro AG successfully placed several bonds from its Debt Issuance Program. The €500 million euro bond placed in March 2016 carries a fixed coupon of 1.75% and matures in September 2024. The additional €1.0 billion in euro bonds placed in June 2020 consist of one €500 million euro bond with a fixed coupon of 0.875% maturing in February 2026, and another €500 million euro bond with a fixed coupon of 1.375% maturing in June 2030. All outstanding bonds have been assigned a Baa2 rating with stable outlook by Moody's Investors Service, London (United Kingdom).

In addition, Covestro published a Green Financing Framework in May 2022, which enables green bonds or other debt instruments to be issued where the funds raised are tied to sustainable investments that we can use, e.g., to (re)finance products or projects with a clear benefit for the environment. The framework's conformity to the Green Bond Principles of the International Capital Markets Association (ICMA) has been confirmed by the independent ESG rating agency ISS ESG. The first green euro bond was issued in November 2022 under the Green Finance Framework with a fixed coupon of 4.75% and a volume of €500 million, maturing in November 2028. All the proceeds from the bond issue were used to fund sustainable projects that contribute to the circular economy and originate in areas such as renewable energy, energy efficiency, and sustainable building.

→ **Additional information is available at: www.covestro.com/en/investors/debt/bonds**

On October 7, 2022, Covestro for the first time issued Schuldschein loans with a total volume equivalent to around €650 million; the last tranche of €100 million was received in the first quarter of 2023. The issue was denominated in U.S. dollars and euros. Linked to an ESG rating, these Schuldschein loans were issued in tranches comprising fixed and variable interest rates with terms of three, five, and seven years. In October 2023, Covestro prematurely repaid Schuldschein loans in an amount equivalent to around €260 million.

In fiscal 2020, Covestro AG obtained a syndicated revolving credit facility totaling €2.5 billion with a term of five years. It included two options to extend the term by one year in each case and represents a back-up liquidity reserve. One option to extend was exercised in March 2021 to extend the term of the syndicated revolving credit facility to March 2026. Using the second of two agreed options, the term was extended in March 2022 by another year to March 2027. One feature of the credit line is its link to an environmental, social, governance (ESG) rating: The better (worse) the externally calculated ESG score is, the lower (higher) the interest component of the credit facility. The syndicated credit facility was unused as of December 31, 2023.

On August 26, 2022, Covestro additionally established a Euro Commercial Paper Programme (ECPP) with a potential total volume of €1.5 billion in order to allow the company to issue notes in different currencies and tenors of up to one year on a flexible basis. As of December 31, 2023, no commercial paper was outstanding under the ECPP.

On June 21, 2023, Moody's Investors Service, London (United Kingdom), confirmed Covestro's Baa2 investment-grade rating with a stable outlook. Covestro intends to continue to maintain financing structures and financial ratios that support a solid investment-grade rating in the future.

The Covestro Group pursues a prudent debt management strategy to ensure flexibility, drawing on a balanced financing portfolio. This is based for the most part on bonds, syndicated credit facilities, and bilateral loan agreements.

As a company with international operations, Covestro is exposed to financial opportunities and risks. These are continuously monitored within the context of Covestro's financial management activities. Instruments including derivatives are used to minimize risks.

For a detailed presentation of financial opportunities and risks as well as further explanations, please see Covestro's opportunities and risks report.

→ See "Opportunities and Risks Report."

→ See note 24.2 "Financial Risk Management and Information on Derivatives" in the Notes to the Consolidated Financial Statements.

Net Assets

Summary statement of financial position

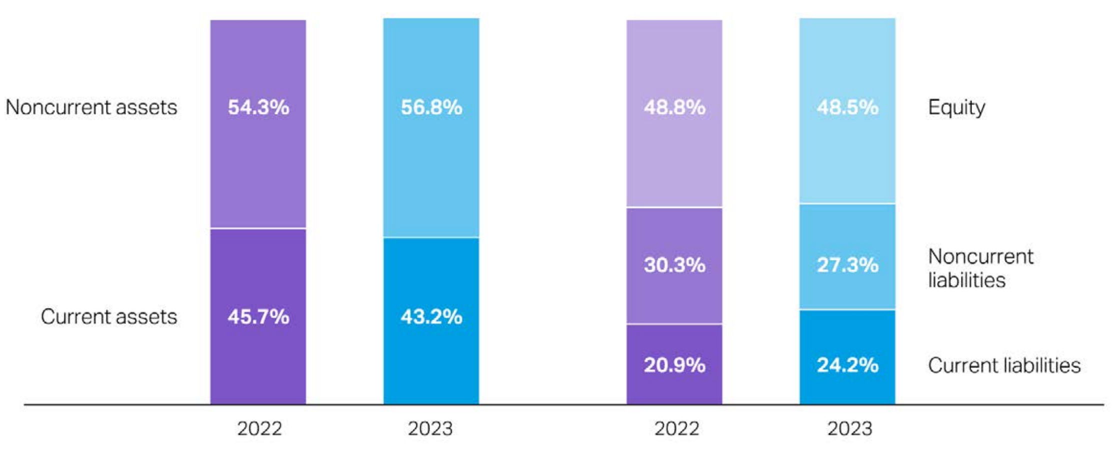
	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million
Noncurrent assets	7,916	7,746
Current assets	6,669	5,891
Total assets	**14,585**	**13,637**
Equity	**7,122**	**6,618**
Noncurrent liabilities	4,408	3,721
Current liabilities	3,055	3,298
Liabilities	**7,463**	**7,019**
Total equity and liabilities	**14,585**	**13,637**

Total assets declined by €948 million from €14,585 million as of December 31, 2022, to €13.637 million as of December 31, 2023.

Noncurrent assets decreased by €170 million to €7,746 million (previous year: €7,916 million) and accounted for 56.8% (previous year: 54.3%) of total assets, mainly due to a decline in intangible assets. The factors driving these changes included impairment losses of €31 million on goodwill, intangible assets, and property, plant and equipment, which were related to the discontinuation of production of the highly specialized Maezio® products and the resulting closure of the production site in Markt Bibart (Germany).

Current assets were down €778 million to €5,891 million (previous year: €6,669 million), and their ratio to total assets was 43.2% (previous year: 45.7%). This change is due to a year-over-year drop in cash and cash equivalents as well as lower inventories and trade accounts receivable, while current other financial assets went up.

Structure of the statement of financial position



Equity decreased by €504 million to €6,618 million as of December 31, 2023 (previous year: €7,122 million). The equity ratio at the reporting date was 48.5% (previous year: 48.8%). The main reasons for the decline in equity were negative effects from foreign exchange differences, income after income taxes for fiscal 2023, and the acquisition of treasury shares.

Noncurrent liabilities went down by €687 million to €3,721 million as of the reporting date (previous year: €4,408 million) and accounted for 27.3% (previous year: 30.3%) of total capital and 53.0% (previous year: 59.1%) of liabilities. Under financial debt, the euro bond of €500 million issued in 2016, which matures in September 2024, was reclassified from noncurrent to current financial debt.

Net defined benefit liability for post-employment benefit plans

	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million
Provisions for pensions and other post-employment benefits	486	464
Net defined benefit asset	(56)	(66)
Net defined benefit liability	**430**	**398**

The net defined benefit liability for post-employment benefits (provisions for pensions and other post-employment benefits less net defined benefit asset) was down by €32 million in the reporting year to €398 million (previous year: €430 million). The positive trend of the actual return on plan assets was set against actuarial losses and interest expense from the defined benefit obligation, which nearly offset each other. The year-over-year decline in current service cost and the rise in benefits paid by the company, combined with constant employer contributions, led to a slight decrease in the net defined benefit liability.

Current liabilities went up by €243 million to €3,298 million (previous year: €3,055 million) and therefore accounted for 24.2% (previous year: 20.9%) of total capital and 47.0% (previous year: 40.9%) of liabilities. This increase was primarily attributable to the abovementioned rise in current financial debt and higher provisions for short-term variable compensation. Lower trade accounts payable and tax liabilities had an offsetting effect.

Performance of the Segments

Performance Materials

Performance Materials key data

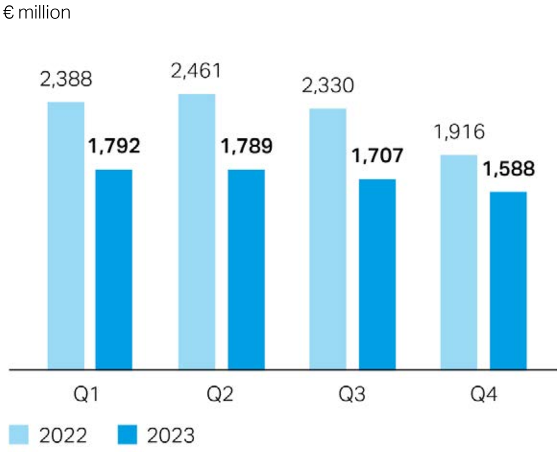
	4th quarter 2022	4th quarter 2023	Change	2022	2023	Change
Sales (external)	**€1,916 million**	**€1,588 million**	**–17.1%**	**€9,095 million**	**€6,876 million**	**–24.4%**
Intersegment sales	€644 million	€488 million	–24.2%	€2,967 million	€2,194 million	–26.1%
Sales (total)	**€2,560 million**	**€2,076 million**	**–18.9%**	**€12,062 million**	**€9,070 million**	**–24.8%**
Change in sales (external)						
Volume	–17.5%	7.7%		–5.0%	–6.7%	
Price	–1.3%	–22.0%		10.9%	–15.7%	
Currency	3.6%	–2.8%		5.8%	–2.0%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region (external)						
EMLA	€785 million	€674 million	–14.1%	€4,152 million	€3,021 million	–27.2%
NA	€516 million	€414 million	–19.8%	€2,447 million	€1,844 million	–24.6%
APAC	€615 million	€500 million	–18.7%	€2,496 million	€2,011 million	–19.4%
EBITDA[1]	**(€89 million)**	**€16 million**	**.**	**€951 million**	**€576 million**	**–39.4%**
EBIT[1]	(€600 million)	(€126 million)	–79.0%	(€28 million)	€9 million	.
Cash flows from operating activities	€563 million	€169 million	–70.0%	€1,091 million	€652 million	–40.2%
Cash outflows for additions to property, plant, equipment and intangible assets	€187 million	€190 million	1.6%	€547 million	€490 million	–10.4%
Free operating cash flow	**€376 million**	**(€21 million)**	**.**	**€544 million**	**€162 million**	**–70.2%**

1 EBITDA and EBIT include the effect on earnings of intersegment sales.

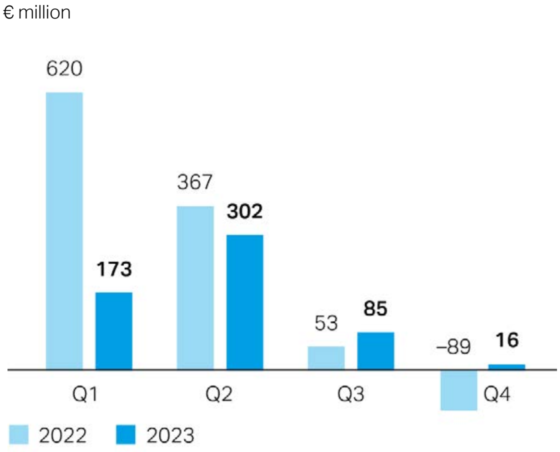
Sales in the Performance Materials segment were down 24.4% to €6,876 million in fiscal 2023 (previous year: €9,095 million). The decline was due to a 15.7% drop in the selling price level and a 6.7% decrease in volumes sold, both attributable to weak demand worldwide, as well as to negative changes in exchange rates of 2.0%.

The EMLA region's sales decreased 27.2% to €3,021 million (previous year: €4,152 million), driven by a lower selling price level and a decline in sales volumes, both of which had a significant reducing effect on sales. Exchange rate movements had no notable effect on sales. The NA region's sales dropped by 24.6% to €1,844 million (previous year: €2,447 million), principally because of a considerable decline in average selling prices. In addition, the volumes sold and exchange rate movements had a slightly diminishing effect on sales. The APAC region's sales decreased 19.4% to €2,011 million (previous year: €2,496 million), due especially to a lower selling price level and changes in exchange rates, both of which had a significant reducing effect on sales. At the same time, a decline in volumes sold had a modest sales-reducing impact.

Performance Materials
Quarterly sales



Performance Materials
Quarterly EBITDA



EBITDA in the Performance Materials segment fell by 39.4% over the previous year to €576 million (previous year: €951 million). This was mainly driven by reduced margins as a result of the weak demand situation, as lower raw material and energy prices were unable to offset the decline in selling prices. Other factors reducing earnings were a decline in volumes sold, higher provisions for short-term variable compensation, and exchange rate movements. This was offset by lower fixed costs and the recognition of insurance compensation for production stoppages, which had a neutral effect at the Group level; both factors benefited the Performance Materials segment's earnings.

→ See note 7 "Other Operating Income" and note 8 "Other Operating Expenses" in the Notes to the Consolidated Interim Financial Statements for additional information on the presentation of the insurance compensation at Group level.

EBIT rose to €9 million (previous year: €–28 million), mainly because of lower impairment losses of €2 million (previous year: €387 million), which more than offset a decline in EBITDA.

Free operating cash flow was down 70.2% to €162 million (previous year: €544 million), mainly because of lower EBITDA and a decline in funds freed up from working capital. The change in working capital was mainly due to changes in trade accounts receivable and the payment in the previous year of short-term variable compensation relating to fiscal 2021. No short-term variable compensation was paid for fiscal 2022.

Solutions & Specialties

Solutions & Specialties key data

	4th quarter 2022	4th quarter 2023	Change	2022	2023	Change
Sales (external)	**€1,975 million**	**€1,703 million**	**–13.8%**	**€8,558 million**	**€7,267 million**	**–15.1%**
Intersegment sales	€7 million	€6 million	–14.3%	€35 million	€27 million	–22.9%
Sales (total)	**€1,982 million**	**€1,709 million**	**–13.8%**	**€8,593 million**	**€7,294 million**	**–15.1%**
Change in sales (external)						
Volume	–8.9%	–0.3%		–6.3%	–6.2%	
Price	3.3%	–10.2%		9.4%	–6.4%	
Currency	4.1%	–3.3%		6.0%	–2.5%	
Portfolio	0.0%	0.0%		4.2%	0.0%	
Sales by region (external)						
EMLA	€676 million	€586 million	–13.3%	€3,198 million	€2,730 million	–14.6%
NA	€533 million	€427 million	–19.9%	€2,140 million	€1,860 million	–13.1%
APAC	€766 million	€690 million	–9.9%	€3,220 million	€2,677 million	–16.9%
EBITDA[1]	**€108 million**	**€185 million**	**71.3%**	**€825 million**	**€817 million**	**–1.0%**
EBIT[1]	(€37 million)	€107 million	.	€461 million	€497 million	7.8%
Cash flows from operating activities	€514 million	€374 million	–27.2%	€472 million	€821 million	73.9%
Cash outflows for additions to property, plant, equipment and intangible assets	€99 million	€110 million	11.1%	€277 million	€270 million	–2.5%
Free operating cash flow	**€415 million**	**€264 million**	**–36.4%**	**€195 million**	**€551 million**	**182.6%**

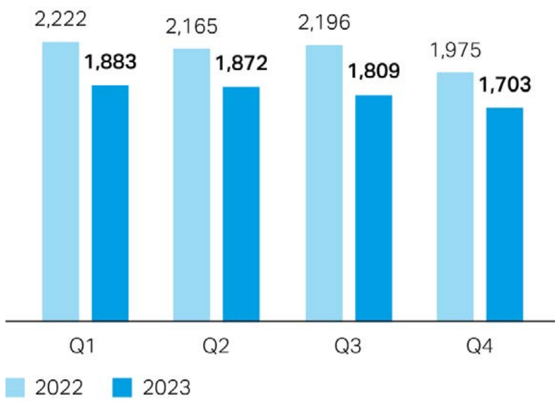
[1] EBITDA and EBIT include the effect on earnings of intersegment sales.

Sales in the Solutions & Specialties segment were down 15.1% to €7,267 million in fiscal 2023 (previous year: €8,558 million). The main drivers of this trend were a 6.4% drop in average selling prices and a decrease in volumes sold, with a sales reducing effect of 6.2%; both are mainly attributable to weak demand worldwide. At the same time, exchange rate movements had a negative impact of 2.5% on sales.

Sales in the EMLA region were down by 14.6% to €2,730 million (previous year: €3,198 million), driven by a significant drop in volumes sold and a slight decline in the selling price level. Exchange rate movements had no notable effect on sales. The NA region's sales decreased 13.1% to €1,860 million (previous year: €2,140 million), due especially to a lower selling price level and a decline in volumes sold, both of which had a significant reducing effect on sales. Here, too, exchange rate movements had no notable effect on sales. The APAC region's sales went down 16.9% to €2,677 million (previous year: €3,220 million), due primarily to lower selling prices and changes in exchange rates, both of which had a significant reducing effect on sales. The volumes sold also had a slightly negative effect on sales.

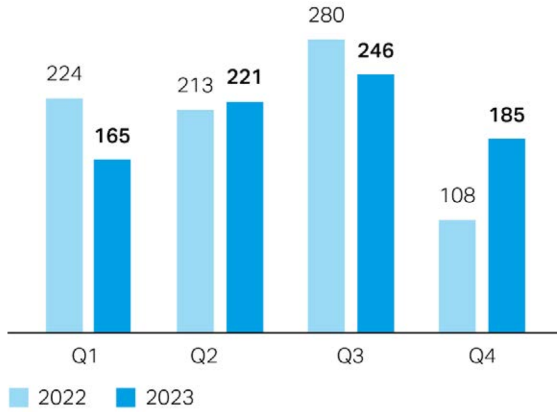
Solutions & Specialties
Quarterly sales

€ million



Solutions & Specialties
Quarterly EBITDA

€ million



The Solutions & Specialties segment's EBITDA was down 1.0% to €817 million in fiscal 2023 (previous year: €825 million). Lower volumes sold, higher provisions for short-term variable compensation, and changes in exchange rates in particular had the effect of reducing earnings. In contrast, the margins had a beneficial impact on EBITDA, since lower raw material and energy prices more than offset the decline in the selling price level. In addition, lower fixed costs and the sale of the additive manufacturing business to Stratasys, a U.S.-Israeli manufacturer of 3D printers and 3D production systems, had a positive effect on EBITDA.

EBIT rose by 7.8% to €497 million (previous year: €461 million), mainly because of lower impairment losses of €43 million (previous year: €76 million), which more than offset the decline in EBITDA.

Free operating cash flow increased by 182.6% year over year to €551 million (previous year: €195 million). The change in working capital had a particularly positive impact on free operating cash flow, as funds tied up in the previous year contrast with funds freed up in the fiscal year under review. The main reasons were the payment of short-term variable compensation for fiscal 2021 in the previous year as well as changes in inventories. No short-term variable compensation was paid for fiscal 2022.

Results of Operations, Financial Position, and Net Assets of Covestro AG

Covestro AG is the parent company and strategic management holding company of the Covestro Group. The principal management functions for the entire Group are performed by the Board of Management. These include strategic planning for the Group, resource allocation, and executive and financial management. Covestro AG's results of operations, financial position, and net assets are largely determined by the business performance of its subsidiaries.

The Financial Statements of Covestro AG are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The company, headquartered in Leverkusen (Germany), is registered in the commercial register of the Local Court of Cologne under No. HRB 85281.

Covestro AG performs energy-specific services for Covestro Brunsbüttel Energie GmbH, Brunsbüttel (Germany), (affiliated power and gas grid operator) and therefore prepares activity reports in the areas of electricity supply and gas supply pursuant to Section 6b (3) Sentence 1 Nos. 2 and 4 of the German Energy Industry Act (EnWG).

There is a control and profit and loss transfer agreement between Covestro AG and Covestro Deutschland AG, Leverkusen (Germany). All profit not subject to a prohibition on transfer is transferred in full to Covestro AG at the end of the year. Losses are absorbed in full. Other retained earnings recognized during the term of the agreement must be released upon request by Covestro AG and used to compensate a net loss for the year or transferred as profit.

Results of Operations

Covestro AG income statement according to the German Commercial Code

	2022	2023
	€ million	€ million
Income from investments in affiliated companies – net	(153)	(70)
Interest expense – net	(15)	107
Other financial income – net	(8)	(5)
Net sales	23	26
Cost of services provided	(24)	(22)
General administration expenses	(56)	(87)
Other operating income	1	–
Other operating expenses	–	(2)
Income before income taxes	**(232)**	**(53)**
Income taxes	(84)	(71)
Net loss	**(316)**	**(124)**
Retained earnings brought forward from prior year	5	–
Withdrawal from other retained earnings	311	–
Net accumulated losses	**–**	**(124)**

In fiscal 2023, Covestro AG generated a net loss of €124 million (previous year: €316 million). The change compared with the prior year was largely attributable to the net loss from investments in affiliated companies of €70 million (previous year: €153 million). The net loss from investments was made up of a loss of €107 million from the loss absorbed under the control and profit and loss transfer agreement with Covestro Deutschland AG and the profit of €37 million distributed by Covestro First Real Estate GmbH, Leverkusen (Germany).

In addition to interest expense of €44 million (previous year: €23 million) for the euro bonds issued, the interest result included mainly interest income of €176 million (previous year: €28 million) on loans extended to Covestro Deutschland AG. Interest expense of €31 million (previous year: €8 million) was incurred in the reporting year on external loans from third parties.

Other financial income and expenses mainly comprised bank fees totaling €5 million (previous year: €7 million). These included fees for the provision of credit lines and the pro rata reversal of the discount on the bonds issued.

General administration expenses totaling €87 million (previous year: €56 million) mainly consisted of personnel expenses for the employees of the Group holding company and members of the Board of Management. The rise in general administration expenses in fiscal 2023 was predominantly due to higher expenses for short-term and long-term variable compensation and for consultancy services.

The result of operations was €–53 million (previous year: €–232 million) and led to income taxes of €71 million (previous year: €84 million). This led to a net loss for the year of €124 million (previous year: €316 million), which also represents the net accumulated losses for the reporting year. This amount is carried forward to new account.

Based on the forecast from the Annual Report 2022, the net loss for fiscal 2023 was expected to be significantly lower than the figure recorded in the previous year. The net loss of €124 million for fiscal 2023 means that the business performed as forecast at the end of the year 2022. In addition to the decrease in the net loss from investments in affiliated companies, this was due to the increase in the interest result.

Net Assets and Financial Position

Covestro AG statement of financial position according to the German Commercial Code

	Dec. 31,2022	Dec. 31,2023
	€ million	€ million
ASSETS		
Noncurrent assets	**1,983**	**1,830**
Property, plant and equipment	–	–
Financial assets	1,983	1,830
Current assets	**5,361**	**4,953**
Trade accounts receivable	36	38
Receivables from affiliated companies	5,281	4,858
Other assets	44	57
Deferred charges	**13**	**10**
Excess of plan assets over pension liability	**1**	**1**
Total assets	**7,358**	**6,794**
EQUITY AND LIABILITIES		
Equity	**4,112**	**3,939**
Capital stock	193	189
Own shares	(3)	–
Issued capital	190	189
Capital reserve	3,805	3,757
Other retained earnings	117	117
Net accumulated losses	–	(124)
Provisions	**65**	**97**
Provisions for pensions	21	21
Provisions for taxes	35	34
Other provisions	9	42
Liabilities	**3,181**	**2,758**
Bonds	2,000	2,000
Liabilities to banks	907	621
Trade accounts payable	11	11
Payables to affiliated companies	155	109
Other liabilities	108	17
Total equity and liabilities	**7,358**	**6,794**

Covestro AG had total assets of €6,794 million as of December 31, 2023 (previous year: €7,358 million). The net assets and financial position of Covestro AG are dominated by its role as a holding company in managing subsidiaries and financing corporate activities. This is primarily reflected in the levels of financial assets (26.9% of total assets), receivables from affiliated companies (71.5% of total assets), and bonds and liabilities to banks.

Receivables from affiliated companies were down €423 million to €4,858 million (previous year: €5,281 million). The decline was primarily attributable to a reduction in the intercompany loan to Covestro Deutschland AG.

All receivables and other assets have maturities of less than one year.

Property, plant and equipment was immaterial. Trade accounts receivable of €38 million (previous year: €36 million) and prepaid expenses of €10 million (previous year: €13 million) were also immaterial in relation to total assets. Other assets of €57 million (previous year: €44 million) mainly included income tax and VAT receivables.

Covestro AG's equity amounted to €3,939 million (previous year: €4,112 million). This corresponds to an equity ratio of 58.0% (previous year: 56.0%). Share buybacks in the first half of the year caused the capital reserve to decline by €48 million in the fiscal year. By retiring 4,200,000 no-par value bearer shares, the capital stock was reduced from €193,200,000 to €189,000,000. The net loss for the year of €124 million led to a decline in equity.

Equity was set against provisions of €97 million (previous year: €65 million) and liabilities of €2,758 million (previous year: €3,181 million).

Provisions comprised provisions for pensions of €21 million (previous year: €21 million), tax provisions of €34 million (previous year: €35 million), and other provisions of €42 million (previous year: €9 million). The rise in other provisions includes a year-over-year increase in provisions for short-term and long-term variable compensation as well as provisions for consultancy services.

The reduction in liabilities was mainly due to the partial early repayment of Schuldschein loans and the settlement of tax liabilities. The euro bonds totaling €2.0 billion have the following maturities: €500 million matures in the year 2024, another €1.0 billion matures in one to five years, and another €500 million matures in or after the year 2029. Moreover, liabilities to banks totaling €5 million are due in the year 2024, another €592 million is due in one to five years, and €25 million in or after the year 2029. Other liabilities amounting to €15 million are due in fiscal 2024, and €2 million is due in one to five years. All other liabilities are due within one year.

REPORT ON FUTURE PERSPECTIVES AND ON OPPORTUNITIES AND RISKS

Report on Future Perspectives

Economic Outlook

Global Economy

For fiscal 2024, we expect slower, but positive, global economic growth of 2.4%. We anticipate weaker consumer spending and the continuing poor performance of industries sensitive to interest rates, such as the construction industry, to drive the slowdown.

We believe growth in the EMLA region will slightly underperform the global pace. Due to declining consumer spending, high interest rates, and higher energy prices than in other regions, we expect the economy in Europe to expand only modestly. For Germany’s export-oriented economy, we anticipate negative growth in economic output of 0.1% in the year 2024. For the Middle East, we believe that slight growth will likely outperform the global economic expansion. The oil industry is anticipated to be a driver of this development, with oil prices expected to persist at a high level for the time being. We anticipate that growth in Latin America will be below the global level. For Africa, we forecast slight economic growth, outpacing the global growth rate.

For the NA region, we believe that the economy will slow down, with a growth rate below the global level. In the United States, the impact of significant increases in the federal funds rate will noticeably weigh on companies’ profits and capital expenditure. Consumer spending is likely to decline because of higher unemployment. Against this backdrop, we expect the United States to generate economic growth of 2.3% in the year 2024.

Economic growth in the APAC region will likely outperform the global economy. We anticipate economic growth of 4.4% for China in fiscal 2024. We also anticipate that economic stimulus measures taken by the government in China will stabilize macroeconomic developments in the region in fiscal 2024, even though risks in the real estate sector will persist.

Economic growth[1]

	Growth 2023	Growth forecast 2024
	%	%
World	**2.7**	**2.4**
Europe, Middle East, Latin America[2], Africa (EMLA)	**1.2**	**1.2**
of which Europe	0.9	0.9
of which Germany	–0.1	–0.1
of which Middle East	1.4	3.0
of which Latin America[2]	1.9	0.7
of which Africa	2.6	2.8
North America[3] (NA)	**2.5**	**2.1**
of which United States	2.5	2.3
Asia-Pacific (APAC)	**4.3**	**3.6**
of which China	5.2	4.4

1 Real growth of gross domestic product; source: Oxford Economics, as of February 2024.
2 Latin America (excluding Mexico).
3 North America (Canada, Mexico, United States).

Main Customer Industries

In 2024, we forecast positive growth of 0.8% for the global automotive industry. The higher order backlogs from prior years will by then have been cleared, and this will lead to a slowdown in the industry's economic performance in the year 2024. Growth will likely be driven by the EMLA and NA regions, while slightly negative growth is expected for the APAC region.

For the year 2024, we anticipate negative growth of 2.5% for the global construction industry. Poor economic growth, the high cost of construction materials, labor shortages, high inflation and high construction loan interest rates are expected to continue to weigh on the construction industry in the year 2024. We forecast slightly negative growth for all regions.

In the year 2024, we anticipate that the global electrical, electronics, and household appliances industry will grow by 1.5%. Growth in the industry will probably continue to be weak in the year 2024, although rising demand for electronics and IT hardware in private households is expected to lead to stronger growth than in the previous year. We therefore forecast a slightly positive trend for all regions.

In 2024, we anticipate positive growth of 0.1% for the global furniture industry. High inflation, rising selling prices, a slowdown in consumer demand, and lower investments in the housing sector will again have a dampening effect on growth prospects in the year 2024. We anticipate slightly negative performance for the EMLA region and modestly positive growth rates for the APAC region, while performance in the NA region will probably remain stable.

Growth in main customer industries[1]

	Growth 2023	Growth forecast 2024
	%	%
Automotive	10.2	0.8
Construction	–2.4	–2.5
Electrical, electronics, and household appliances	–0.9	1.5
Furniture	–3.7	0.1

[1] Covestro's estimate, based on the following sources: GlobalData Plc, B+L, CSIL (Centre for Industrial Studies), Oxford Economics. We limited the economic data of our "automotive and transportation" and "furniture and wood processing" main customer industries to the automotive and furniture segments (excluding the transportation or wood processing segments). As of: February 2024.

Forecast for the Covestro Group and Covestro AG

Covestro Group

The following forecast for the 2024 fiscal year is based on the business development described in this Annual Report and takes into account the potential opportunities and risks.

In view of the continuing challenging economic conditions, the Board of Management of Covestro AG expects the key management indicators to change as presented below.

Forecast for key management indicators

	2023	Forecast 2024
EBITDA[1]	€1,080 million	Between €1,000 million and €1,600 million
Free operating cash flow[2]	€232 million	Between 0 million and €300 million
ROCE above WACC[3, 4]	–6.1% points	Between –7% points and –2% points
Greenhouse gas emissions[5] (CO_2 equivalents)	4.9 million metric tons	Between 4.4 million metric tons and 5.0 million metric tons

[1] EBITDA: EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.
[2] Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.
[3] ROCE: ratio of EBIT after imputed income taxes to capital employed. Imputed income taxes are calculated by multiplying an imputed tax rate of 25% by EBIT.
[4] WACC: weighted average cost of capital reflecting the expected return on the company's equity and debt capital. A figure of 8.1% has been taken into account for the year 2024 (2023: 7.6%).
[5] GHG emissions (Scope 1 and Scope 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).

For the Covestro Group's EBITDA, we project a figure between €1,000 million and €1,600 million. Covestro anticipates that the Performance Materials segment's EBITDA will be EUR 400 million to EUR 800 million. In the Solutions & Specialties segment, we expect EBITDA to be significantly higher than the amount of the year 2023.

The Covestro Group's FOCF is forecast between €0 million and €300 million. In the Performance Materials and Solutions & Specialties segments, we expect FOCF to be significantly lower than the amount of the year 2023.

ROCE above WACC is anticipated in a range between –7% points and –2% points.

The Covestro Group's GHG emissions, measured as CO_2 equivalents, are projected to be between 4.4 million metric tons and 5.0 million metric tons.

Covestro AG

The earnings of Covestro AG, as the parent company of the Covestro Group, largely comprise the earnings of that company's subsidiaries. As a result of the profit and loss transfer agreement with Covestro Deutschland AG, net income of Covestro AG is particularly impacted by that company's income from equity investments in Germany and abroad. Due to lower equity investment income expected in fiscal 2024, we forecast that the net loss generated by Covestro AG will be significantly higher than that of the year 2023.

Opportunities and Risks Report

Conscientious management of opportunities and risks is part of responsible corporate governance and is the foundation of sustainable growth and financial success. This includes the ability to systematically identify and take advantage of opportunities while managing risks at the same time. We regard an opportunity as an internal or external development or event that could cause a positive variance. A development or event in or outside the company that could lead to a negative deviation from the Group's forecasts or targets is considered a risk.

Group-Wide Opportunities and Risk Management

The business decisions we make daily in the course of business processes are based on balancing opportunities and risks. We therefore regard the management of our opportunities and risks as an integral part of our overall business management system rather than as the task of a specific corporate function. Risk management at Covestro also includes nonfinancial risks.

Our opportunity and risk management begins with strategy and planning processes, from which relevant external and internal opportunities and risks of an economic, ecological, or social nature are derived. Financial and nonfinancial opportunities and risks are identified by observing and analyzing trends along with macroeconomic, industry-specific, regional, and local developments.

The identified opportunities and risks are subsequently evaluated and incorporated into our strategic and operational processes. We aim to avoid or mitigate risks by taking appropriate countermeasures, or to transfer them to third parties (such as insurers) to the extent possible and economically acceptable. At the same time, we strive to take maximum advantage of opportunities by incorporating them into our business decisions. We consciously accept and bear manageable and controllable risks that are in reasonable proportion to the anticipated opportunities. Covestro regards these as the general risks of doing business. Where we expect any opportunities and risks to materialize within the next 12 months, they will be included in the statements in the Report on Future Perspectives. Opportunities and risks are continuously monitored so that, for example, changes in the economic or legal environment can be identified at an early stage and suitable countermeasures can be initiated, if necessary.

To enable the Board of Management and the Supervisory Board to monitor material business risks as legally required, the following systems are in place:

- an internal control system,
- a compliance management system, and
- a risk management system with suitable measures for early detection of developments that could endanger the company's continued existence.

The various management systems are based on different risk types, risk characteristics, and timelines. Different processes, methods, and IT systems are therefore applied to identify, evaluate, manage, and monitor risks. The principles underlying the various systems are documented in local procedures that are integrated into our central document control processes and are accessible to all employees via the intranet. Covestro's Board of Management is primarily responsible for supervising the Group's internal control system, the compliance management system, and risk management.

The statement on the appropriateness and effectiveness of the internal control system, the risk management system, and the compliance management system, which is aligned with the company's risk situation, can be found in the Declaration on Corporate Governance.
→ See "Declaration on Corporate Governance."

The main features of the various systems are described below.

Internal Control System

An appropriate, effective internal control system (ICS) is essential for successfully mitigating risk in business processes. Covestro's ICS goes beyond controls in the accounting process and takes account of all business processes with a significant impact on financial indicators and, increasingly, on nonfinancial indicators. The ICS controls for nonfinancial and sustainability indicators are applied using the same system and with the same care as for the financial indicators.

The implementation of the ICS at Covestro is based on the internationally recognized model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO; 2013 version), and on the Control Objectives for Information and Related Technology (COBIT) for IT controls.

A network of ICS and process owners has been established in the Group to identify and evaluate risk in a consistent and coordinated way and to develop and implement appropriate countermeasures. Risks are classified into different risk categories. Appropriate mitigating controls are intended to ensure that the data gathered is complete, correct, available, and timely. The ICS network, which consists of local and regional ICS specialists and process owners from all parts of the company, is managed centrally by a team of global ICS managers. Binding ICS standards have also been established throughout the Group. The management of each Covestro Group company is responsible for implementing these standards at the local level. If any issues such as process or control weaknesses are identified during the ICS cycle, they are discussed with the department/responsible owners so that appropriate measures can be taken to eliminate or safeguard against these weaknesses.

In addition to controls that have to be regularly performed, the control environment also includes self-assessments relating to the controls and the underlying process. To ensure the effectiveness of the controls, the self-assessments are conducted at different levels – from the persons directly involved in the processes, through the principal managers responsible for the various operating processes, down to the Board of Management. Both CEO and CFO and the Audit Committee of the Supervisory Board are kept up to date with the status and results of the self-assessments.

Continuous reviews and, where necessary, adjustments to the control environment ensure in this process that our ICS is consistently effective and appropriate, even when business models change, acquisitions or divestments are made, or technical specifications/IT systems are adapted.

(Group) accounting and financial reporting, which include the preparation of the Financial Statements and Consolidated Financial Statements of Covestro AG, are the responsibility of the corporate Accounting function. This function is also responsible for ensuring that all consolidated subsidiaries apply consistent accounting rules and for creating an ICS.

Accounting and financial reporting are based on a structured process with a corresponding organization and workflows and associated work instructions. In addition to the segregation of functions, the dual control principle and continual plausibility checks are fundamental control and monitoring measures in the process of preparing financial statements.

The preparation of the Consolidated Financial Statements under the International Financial Reporting Standards (IFRSs) is governed by the Covestro Directive on Consolidated Financial Statements. It specifies how the consolidated companies have to apply accounting policies in accordance with IFRSs and submit the data to the standard consolidation system.

Once submitted, this data runs through various checks to verify plausibility and accuracy. For example, system-integrated validation rules ensure on submission that the companies' data is consistent.

Appropriate controls have been implemented in the ICS to ensure proper accounting and (financial) reporting. The control environment has been designed to ensure that the requirements for reliable reporting can be met, i.e., that all relevant business processes and transactions are recorded in a correct, timely, and consistent manner. It is intended as a way to prevent material misrepresentations with reasonable assurance.

Internal Control System to Ensure Compliance

Compliance risks are systematically identified and assessed as part of Covestro's Group-wide risk management. Risk owners assess the compliance risks that have been identified. A risk matrix is used to define focal points of compliance tasks at Covestro. The findings of a risk-based analysis enabled Covestro to identify four key topics: antitrust law, corruption, data protection, and foreign trade law. The General Counsel/Chief Compliance Officer is the risk owner responsible for breaches of antitrust law and corruption, while the Global Export Control Officer oversees the risk of breaches of foreign trade law, and the Group Data Protection Officer is assigned to handling the risk of loss and improper handling of personal data. With respect to corruption, areas including gifts and invitations, interactions with government officials, and relationships with certain business partners such as sales agents were identified as being especially risk-relevant. If the risk profile changes, new controls are implemented if needed.

Many controls have been implemented at both the global and local levels to reduce the number of compliance risks. To the extent possible, we integrate the compliance controls into our internal control system. The effectiveness of the compliance controls is evaluated on the basis of a cascaded self-assessment system, as are the other ICS processes. The results of the effectiveness evaluations are documented in the global system for the ICS processes. The Corporate Audit function regularly reviews the compliance activities in independent, objective audits as part of dedicated compliance checks in the larger companies. In the smaller companies, compliance aspects are part of a general review.

Risk Management System

Covestro has implemented a structured risk management process for the early identification of any potentially disadvantageous developments that could have a material impact on our business or endanger the continued existence of the company. This process satisfies the legal requirements regarding an early warning system for risks pursuant to Section 91, Paragraph 2 of the German Stock Corporation Act, and is aligned with the international risk management standard COSO II Enterprise Risk Management – Integrated Framework (2004).

Risk management system

Corporate Risk Management defines, coordinates, and monitors the framework and standards for this risk management system, ensuring adequate risk communication and reporting to both management and the risk managers. Covestro uses risk management software that simplifies the aggregation of risks, provides displays of various interdependencies, and compares the risk exposure in relation to the risk bearing capacity.

Risks are identified, evaluated, and handled in the operating business entities and corporate functions by the respective risk managers, who are organized in various global sub-committees. The Covestro Corporate Risk Committee met three times in fiscal 2023 to review the risk landscape as well as the various risk management and monitoring mechanisms that are in place, and to take any necessary measures. Additionally, we conduct an ad-hoc process for newly identified risks throughout the year so that these are immediately incorporated into the risk management system. These ad-hoc risks are identified and their handling is determined based on risk assessments and depending on the defined thresholds. In addition, the Corporate Audit function complements the monitoring process with process-independent monitoring.

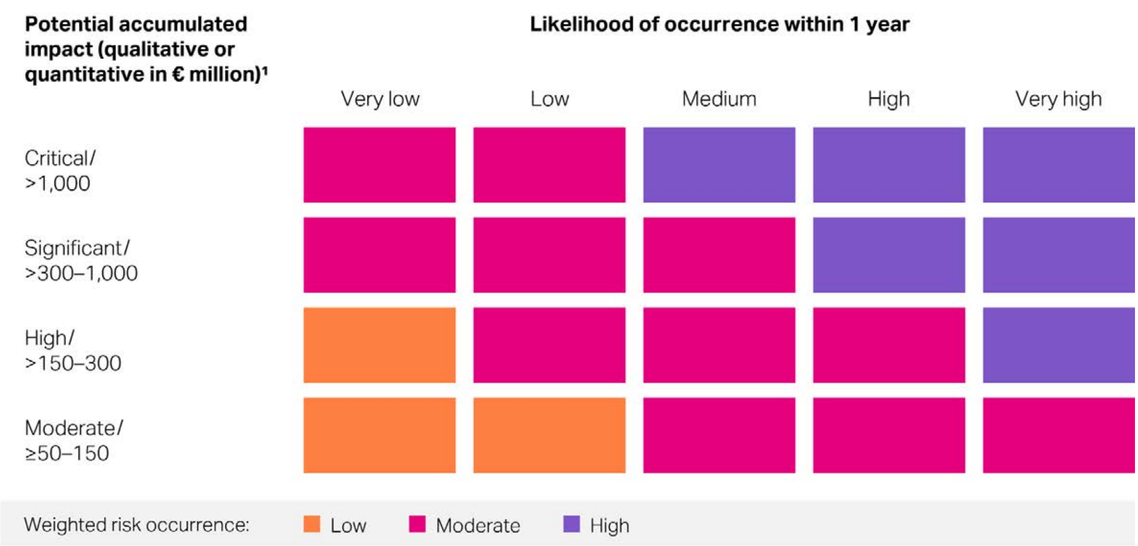
Risks are evaluated using estimates of the potential impact after taking into account countermeasures and the likelihood of their occurrence. The potential economic losses are projected using the expected EBITDA loss and, in some individual cases, the FOCF loss. If the financial impact cannot be estimated, a qualitative assessment is made of the extent of the damage on the basis of criteria such as strategic effect, influence on our reputation, or possible loss of confidence among groups of stakeholders. All material risks and the respective countermeasures are documented in the risk management software, which is used throughout the Group. The risk management system is reviewed regularly by Corporate Risk Management over the course of the year. Significant changes must be promptly entered in the software and reported to the Board of Management. In addition, a report on the risk portfolio is submitted to the Audit Committee several times a year and to the Supervisory Board at least once a year.

Risks in connection with material sustainability topics and in relation to our operating activities, business relationships, or products are reviewed as part of our Group-wide risk management. No new material risks were identified in the reporting year.

→ See "Materiality Assessment."
→ See "Nonfinancial Group Statement."

The following matrix illustrates the quantitative and qualitative criteria for rating a risk as high, medium, or low. The same applies to the classification of nonfinancial risks.

Rating matrix



1 An individual risk that could have both a direct financial and an indirect financial impact of different severities is always classified based on the higher level of risk.

Process-Independent Monitoring

The effectiveness of our management systems is evaluated at regular intervals by the Corporate Audit function, which performs an independent and objective audit focused on verifying compliance with laws and policies. Corporate Audit also supports the company in achieving its goals by systematically evaluating the efficiency and effectiveness of governance, risk management, and control processes and helping to improve them. This includes internal monitoring of the appropriateness and effectiveness of the internal control system and the risk management system. The selection of audit targets follows a risk-based approach. Corporate Audit performs its duties according to internationally recognized standards. The Supervisory Board's Audit Committee is regularly informed about the results of audits and also receives an annual report on the internal control system and its effectiveness.

Risks in the areas of occupational health and safety, plant safety, environmental protection, and product quality are assessed through specific health, safety, environment, energy, and quality (HSEQ) audits.

The external auditor assesses the early warning system for risks in accordance with Section 91 (2) of the German Stock Corporation Act (AktG) as part of its audit of the financial statements, focusing on whether the system is fundamentally suitable for identifying at an early stage any risks that could endanger the company's continued existence so that suitable countermeasures can be taken. The auditor also reports to Covestro AG's Board of Management and the Audit Committee as well as the Supervisory Board on the results of the audit and any weaknesses identified in the internal control system. Audit outcomes are also taken into account in the continuous improvement of our management processes.

Opportunities and Risks

Overall Assessment of Opportunities and Risks

Overall, Covestro was again exposed to a tense risk situation in the year 2023. The effects of geopolitical conflicts on the value chain continued to cause uncertainty. The overall opportunity and risk position of the Group has not changed significantly compared to the previous year. The latest assessment of financial and nonfinancial risks shows that none of the risks reported below endanger the company's continued existence. Nor could we identify any risk interdependencies that could combine to endanger the company's continued existence.

Based on our product portfolio, our know-how, and our innovation capability, we are confident that we can use the opportunities resulting from our business practices and successfully master the challenges resulting from the risks stated below.

Opportunities and Risks in General and in the Company's Business Environment

The risks outlined below may have material effects on EBITDA and, in individual cases, the FOCF of our Group within the one-year forecast period. In this context, risks are deemed material if the potential loss to Covestro is estimated at €50 million or more and/or they have at least a moderate potential qualitative impact. The likelihood of occurrence of the risks is used for internal management purposes to define focus areas for the Corporate Risk Committee. The risks are more highly aggregated in this report than in our internal documentation. Various individual risks are combined into risk categories we have defined for this purpose. The following overview shows the levels of risk allocated to the individual risks within each category. A risk category can therefore include more than one weighted risk occurrence level. The order in which the risk categories are listed does not reflect their significance. Unless explicit information to the contrary is provided, the opportunities and risks described below always refer to both segments of Covestro.

Financial opportunities and risks that affect neither EBITDA nor FOCF are presented separately at the end of the chapter.

Risk management considers risks that could threaten the attainment of the Group's objectives by having a negative impact on the existing business or strategic goals. They are included in our risk portfolio, which is in turn linked to the material sustainability topics and the topics of the Task Force on Climate-related Financial Disclosures (TCFD).

→ Additional information is available at: www.covestro.com/tcfd23

Risk categories by weighted risk occurrence

	Weighted risk occurrence		
Risk categories...	**Low**	**Medium**	**High**
...in the business environment			
Geopolitical tensions and social upheavals		●	
Market development	●	●	
Laws and regulations		●	
...in the company-specific environment			
Procurement	●	●	
Information security, data protection, and information technology (IT)	●	●	
Employees	●		
Production, value creation, and safety	●	●	
Product stewardship	●	●	
Law and compliance	●	●	

● The risk category includes at least one individual risk with this weighted risk occurrence.

Business Environment

Geopolitical Tensions and Social Upheavals

In the year 2023, we continued to see geopolitical tensions between regional powers. There is great general uncertainty about how existing trade conflicts and tensions will develop, including the associated macroeconomic implications, which could also have an impact on Covestro's business situation.

Market Development

General economic conditions worldwide and, in particular, in the geographic regions in which Covestro operates are a significant factor affecting the company's earnings, since their effect on the industries in which Covestro's direct and indirect customers operate affects demand for our company's products.

Negative economic developments triggered by a variety of events may have a negative impact on the global economy and international financial markets in general. As a rule, this also adversely affects the sales markets for our products, which then usually decreases Covestro's sales volumes and earnings. However, the extent of the impact of economic developments on sales volumes and earnings also depends on capacity utilization rates in the industry, which in turn depend on the balance between supply and demand for the industry's products. Downturns in demand lead to reduced sales volumes and, ultimately, to reduced capacity utilization, which negatively impacts margins. Conversely, a positive economic environment characterized by growth and upward trends normally leads to improved business success.

Historically, the markets for most of our products have experienced periods of tight supply, causing prices and profit margins to increase. Periods of significant capacity additions, however, resulted in oversupply and declining prices and profit margins. These shifting supply cycles may be caused by the exit of competitors or, conversely, by capacity additions of new production facilities or the expansion of existing production facilities, which are necessary to create or sustain economies of scale in the industry.

Laws and Regulations

The international nature of Covestro's business exposes it to substantial changes in economic, political, and social conditions and the resulting statutory requirements of the countries in which Covestro operates. The associated opportunities and risks can have both a positive and negative effect on the company's business and significantly influence its prospects.

Company-Specific Environment

Procurement

Our Supplier Code of Conduct sets forth our sustainability principles and explains what we expect from our partners along the value chain. Covestro's overarching management approach to respecting human rights, and primarily the risk analysis conducted as part of the human rights due diligence, takes account of relevant laws such as the German Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains.

→ See "Human Rights."
→ See "Sustainability in Sourcing."

This management approach requires that our suppliers comply with environmental regulations as well as occupational health and safety rules, respect human rights and therefore, for example, avoid child labor in any form. Violations of the Code may harm our company's reputation. Through supplier assessments and audits, we verify whether our partners along the supply chain actually implement and adhere to our Code of Conduct. Covestro's Supplier Code of Conduct is based on the principles of the United Nations Global Compact and our position on human rights.

Covestro requires significant quantities of different energy forms and petrochemical raw materials for production processes. Procurement prices for these forms of energy and raw materials may fluctuate significantly due to market conditions or legislation. Experience from the past has shown that higher production costs cannot always be passed on to our customers through price adjustments. Conversely, lower raw materials prices that do not directly reduce the selling price by the full amount can lead to improved margins.

We purchase important raw materials based on long-term supply agreements and pursue active supplier management to minimize procurement-related risks such as supply shortages or substantial price fluctuations.

In addition to watching energy price developments, Covestro has to make sure that it is adequately protected from power failures. Potential incidents could force energy utilities to power down their grids, which could lead to power failures at our production sites and infrastructure facilities at short notice.

Information Security, Data Protection, and Information Technology (IT)

Business and production processes as well as the internal and external communications of the Covestro Group are increasingly dependent on global IT systems. A significant technical disruption or failure of IT systems could severely impair our business and production processes. Technical precautions such as data recovery and continuity plans are defined and continuously updated in close cooperation with our internal IT organization.

Confidentiality during data processing is of fundamental importance for Covestro. A loss of data and information confidentiality, integrity, or authenticity could lead to manipulation and/or the uncontrolled outflow of data and expertise. We have measures in place to counter these risks, including a sophisticated authorization system.

Covestro's Chief Information Security Officer (CISO) and the department specially focused on this issue promote the IT security strategy and its implementation throughout the Group. These measures are designed to guarantee optimum protection based on state-of-the-art technology.

The digital transformation, which Covestro is driving in all business entities and functions, is producing many different ways to unlock potential. For example, Covestro regards this as an opportunity to optimize its portfolio, safeguard growth through better links with customers, and to tap into new and profitable business models.

Innovation

We continually analyze global trends and develop innovative solutions to address them, thereby mastering the challenges and taking advantage of the opportunities that arise from these trends.

→ See "Innovation."

Customers are increasingly choosing sustainable products as a result of a growing environmental awareness and interest in environmental protection as well as increasing demands for fair working conditions. Our product portfolio offers such solutions for different areas of everyday life. We therefore see an opportunity here to expand our relevant market shares and to grow in these segments. A key focus of Covestro's strategy is sustainability and efficient production with the goal of making Covestro fully circular. To this end, we are developing new technologies, products, and business models that reduce energy usage and carbon emissions to unlock opportunities for Covestro.

The finite nature of natural resources and efforts to protect the climate are boosting the demand for innovative products and technologies that reduce resource consumption and lead to lower emissions. This trend is being reinforced by increasingly stringent regulatory requirements and growing consumer awareness of the need to use resources sustainably. Covestro is therefore developing new materials that help to further increase energy efficiency and lower emissions. For example, the polyurethane we manufacture is used in the construction industry for thermal insulation, thus improving its positive energy balance, while our polycarbonate is used in the automotive industry to reduce vehicle weight and thus fuel consumption.

Ongoing technological advancements are changing the world we live in and the way we do business. The use of cutting-edge digital technologies will help us add value along the entire value chain by optimizing the supply chain, stimulating growth, and developing new business models.

→ See "Circular Economy."
→ See "Climate Neutrality."

Employees

Skilled and dedicated employees are essential for the company's success.

→ See "Employees."

In countries with full employment, there is keen competition among companies for highly qualified personnel and employees in key positions in particular. If we are unable to recruit a sufficient number of employees in these countries and retain them within Covestro, this could have significant adverse consequences for the company's future development. The risk of not knowing precisely when employees could leave the organization can potentially result in there not being sufficient run-up time for finding suitable replacements. We currently consider this a low-level risk.

Covestro has introduced appropriate employee recruitment and development measures based on the analysis of future requirements. We aim to convince our target groups of the advantages of working for Covestro, among other things, through comprehensive human resources marketing. Our human resources policies are based on the principles enshrined in our position on human rights, the Corporate Compliance Policy, and our corporate values. Essential elements include competitive compensation containing performance-related components as well as an extensive range of training and development opportunities. In addition, our focus on diversity enables us to tap the full potential of the employment market.

Covestro cultivates good relationships with its employees, employee representatives, and unions so that all issues concerning HR policy, working conditions, and change processes can always be resolved by management and labor in a collaborative manner.

Production, Value Creation, and Safety

We place great importance not only on product safety but also on protecting our employees and the environment. Risks associated with the production, filling, storage, or shipping of products are mitigated using an integrated health, safety, environmental, energy, and quality management system.

→ See "Health and Safety."
→ See "Integrated Management System for Health, Safety, Environment, Energy, and Quality."

If these risks were to materialize, this could result in personal injury, property and environmental damage, production stoppages, business interruptions and liability for compensation payments.

Covestro uses large quantities of hazardous substances, generates hazardous wastes, and emits wastewater and air pollutants in its production operations.
→ See "Environmental Impact of Own Operations."

Consequently, its operations are subject to extensive environmental, health, and safety (EHS) laws, regulations, rules, and ordinances at the international, national, and local levels in multiple jurisdictions. The company must dedicate substantial resources to complying with these EHS regulations and the additional voluntary commitments. Costs relating to the implementation of and compliance with EHS requirements are part of Covestro's operating costs and must therefore be covered by the prices at which the company is able to sell its products. Competitors of Covestro that are not affected by equally strict EHS requirements may have lower operating costs and, as a consequence, their products may be priced lower than those of Covestro.

Operations at our sites may be disrupted by external influences such as natural disasters, fires/explosions, sabotage, or supply shortages for our principal raw materials or intermediates. We mitigate this risk to the extent possible and economically feasible by distributing production of certain products among multiple sites and by building up safety stocks. Furthermore, a security and crisis management system has been implemented for all our production sites as a mandatory component of our HSEQ management activities. It is aimed at protecting employees, neighbors, the environment, and production facilities from the risks described. The "Corporate Security" and "Crisis Management" Group Regulations forms the foundation for this.

Covestro operates in markets in which the long-term trend is toward a balance between supply and demand. However, in the event of planned or unplanned closures, interruptions, or even the elimination of one of our competitors, Covestro may have the opportunity to capture more of the market in terms of profitability and growth in the short to medium term.

Increased ecological awareness creates opportunities for Covestro in two ways. On the one hand, the development of innovative materials for our customers opens up market potential. On the other hand, if we succeed in increasing the energy efficiency of our own production processes, we can mitigate environmental impacts and achieve cost savings at the same time. By developing new production technologies and applying internationally recognized energy management systems, we aim to help meet increasing environmental requirements, further reduce emissions and waste, and increase energy efficiency. In this way, we not only contribute to sustainable climate protection and the conservation of natural resources, but also achieve cost and competitive advantages.

Organic growth through investment projects may involve risks in relation to the overall project scope, location, and timing. These risks are addressed through established processes that involve a variety of internal and external stakeholders. A robust investment assessment process helps to ensure that we are capitalizing on organic growth opportunities at the right time. These projects are reviewed throughout the project timeline so that any potential changes in the market situation are considered, enabling us to react in a timely manner, if necessary.

Product Stewardship
The Covestro Group is exposed to the risk of negative publicity, press speculation, and potential or actual legal proceedings in connection with its business, which may harm its reputation. The development of a negative social perception of the chemical industry in general or Covestro's processes, products, or external communications in particular could additionally have a negative impact on the company. The incorrect use and handling of our products by third parties can also harm the company's reputation.

In addition, concerns about product safety and environmental protection could influence public perceptions of Covestro's products and operations, the viability of certain products, its reputation, and its ability to attract and retain employees. Due to the technical expertise required to fully understand the possible effects of the chemical constituents of our products, the company's reputation may suffer due to claims that such compounds are of a harmful nature, even if these claims can be disproved by experts. Such statements may lead to changes in consumer preferences or additional governmental regulations even before any harm is scientifically substantiated and possibly despite scientific evidence to the contrary.

→ See "Product Stewardship."

Law and Compliance

Ethical conduct is a matter of essential importance for society. Many stakeholders evaluate companies according to whether they conduct themselves not just "legally" but also "legitimately." The Covestro Group is committed to sustainable development in all areas of its commercial activity. Any violations of this corporate commitment can result in adverse media reporting and thus lead to a negative public perception of the Covestro Group. We counter this risk through responsible corporate management that is geared toward generating not only economic but also ecological and societal benefit.

The Covestro Group is exposed to risks from legal disputes or proceedings to which we are currently a party or that could arise in the future, particularly in the areas of product liability, competition and antitrust law, patent law, tax law, and environmental protection.

Investigations of possible legal or regulatory violations, such as potential infringements of antitrust law or the use of certain marketing and/or sales methods, may result in the imposition of civil or criminal penalties – including substantial monetary fines – and/or other adverse financial consequences. They can also harm Covestro's reputation and ultimately hamper our commercial success.

Legal proceedings currently considered to involve material risks are described in the Notes to the Consolidated Financial Statements.

→ See note 26 "Legal Risks" in the Notes to the Consolidated Financial Statements.

Financial Opportunities and Risks

The Covestro Group is exposed to liquidity risks, foreign currency and interest-rate opportunities and risks, credit risks, and risks resulting from obligations for pensions and other post-employment benefits. Appropriate processes to manage financial opportunities and risks have been established and documented. One component of this is financial planning, which serves as the basis for establishing liquidity needs and foreign currency risk. Financial planning comprises a planning horizon of 12 months and is regularly updated.

The section below and the Notes to the Consolidated Financial Statements present the financial opportunities and risks material to the Covestro Group – independent of their likelihood of occurrence.

→ See note 24.2 "Financial Risk Management and Information on Derivatives" in the Notes to the Consolidated Financial Statements.

Liquidity risk

Liquidity risk is the risk of not being able to meet existing or future payment obligations. The liquidity status of all material Group companies is continuously planned and monitored. Liquidity is secured by cash pooling agreements as well as internal and external financing. A syndicated revolving credit facility totaling €2.5 billion, increased and renewed with a maturity to March 2027 in fiscal 2020 offers additional financial flexibility.

Foreign Currency Opportunities and Risks

For the Covestro Group, foreign currency opportunities and risks result from changes in exchange rates and the related changes in value.

Material foreign currency exposures from operating and financial activities are fully hedged through forward exchange contracts.

Anticipated foreign currency exposures were not hedged in the reporting year. These exposures are also hedged using forward exchange contracts if the foreign currency risk increases significantly.

Interest Rate Opportunities and Risks

Interest rate opportunities and risks for the Covestro Group result from changes in capital market interest rates, which could lead to changes in the fair value of fixed-rate financial instruments and in interest payments in the case of floating-rate instruments. To minimize adverse effects, interest rate risk is managed centrally based on an optimized debt maturity structure.

Credit Risks

Credit risks arise from the possibility that the value of receivables or other financial assets of the Covestro Group may be impaired because counterparties cannot meet their payment or other performance obligations. To manage credit risks from receivables, credit managers are appointed who regularly analyze customers' creditworthiness and set credit limits.

Risk to Pension Obligations from Capital Market Developments

The Covestro Group has obligations to current and former employees related to pensions and other post-employment benefits. Changes in relevant measurement parameters such as interest rates, mortality rates, and salary increase rates may raise the present value of these obligations, resulting in increased costs for pension plans. A proportion of the Covestro Group's pension obligations is covered by plan assets. Declining or even negative returns on the investment of the plan assets may adversely affect their future fair value. Both these effects may negatively impact the company's earnings and may necessitate additional payments by the company.

We address the risk of market-related fluctuations in the value of plan assets through balanced strategic investments and by constantly monitoring investment risks with regard to pension obligations. In addition, funding measures for pension obligations are regularly reviewed, taking into account country-specific regulatory requirements and liquidity to reduce funding gaps and thereby limit this risk.

→ See note 19 "Provisions for Pensions and Other Post-Employment Benefits" in the Notes to the Consolidated Financial Statements.

CORPORATE GOVERNANCE

Covestro's corporate governance is characterized by a sense of responsibility as well as ethical principles. Covestro places great importance on responsible corporate governance. This promise to shareholders, business partners, and our employees is based on our commitment to the German Corporate Governance Code (GCGC) and Articles of Incorporation that reflect these standards. In pursuing our business activities, we follow company principles that exceed the requirements of the law and the GCGC. A key concern is combining business success with environmental and social goals, so when making any business decision, we always consider the three dimensions of sustainability – people, planet, profit. The principles guiding our actions, which are also based on these dimensions, are documented in six policies applicable throughout the Group. These provide our employees with guidance for the following topics: value creation; sustainability; innovation; people; health, safety, environment, energy, and quality (HSEQ); and compliance. The standards contained in these policies are mandatory for all employees worldwide.

→ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

The Board of Management and Supervisory Board provide information pertaining to corporate governance in the sections that follow, including a Declaration on Corporate Governance for Covestro AG pursuant to Section 289f and for the Covestro Group pursuant to Section 315d of the German Commercial Code (HGB). Pursuant to Section 317, Paragraph 2, Sentence 6 HGB, the disclosures in the Declaration on Corporate Governance are not included in the financial statement audit.

Declaration on Corporate Governance

Declaration of Conformity by the Board of Management and the Supervisory Board of Covestro AG with the German Corporate Governance Code Pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Board of Management and Supervisory Board issued the Declaration of Conformity with the GCGC pursuant to Section 161 AktG in December 2023:

Declaration of Conformity by the Board of Management and the Supervisory Board of Covestro AG with the German Corporate Governance Code Pursuant to Section 161 AktG

Covestro has complied with the recommendations of the Commission of the German Corporate Governance Code, as amended on April 28, 2022, published by the Ministry of Justice on June 27, 2022 in the official part of the Federal Gazette since the last Declaration of Conformity was issued in December 2022. Covestro AG will continue to comply with these recommendations in the future.

Leverkusen, December 2023

For the Board of Management

Dr. Markus Steilemann

For the Supervisory Board

Dr. Richard Pott

Corporate governance disclosures and supplementary information on the Board of Management and Supervisory Board, along with the declaration of conformity with the GCGC of December 2023 and those of the past five years are published on Covestro's website.

→ Additional information on the declaration of conformity is available at: www.covestro.com/en/company/management/corporate-governance

Compensation Report/Compensation System

The compensation system applicable to members of the Board of Management, which was approved by the Annual General Meeting (AGM) on April 19, 2023, and the compensation of the members of the Supervisory Board set out in Section 12 of the Articles of Incorporation of Covestro AG, which was approved by the AGM on April 21, 2022, are available on our website. The Compensation Report, the auditor's report in accordance with Section 162 Paragraph 3 AktG, and the corresponding results of the latest AGM are also made accessible there. The Compensation Report for fiscal 2023 is also part of this Annual Report.

→ Additional information is available at: www.covestro.com/en/company/management/corporate-governance

Composition, Duties and Activities of the Board of Management and Supervisory Board

Board of Management

Duties and Activities of the Board of Management

The Board of Management runs the company on its own responsibility with the goal of sustainably increasing the company's enterprise value and achieving defined corporate objectives. In doing so, it takes into account the interests of shareholders, employees, and other stakeholders. The Board of Management performs its duties according to the law, the Articles of Incorporation, the Board of Management's rules of procedure, and the recommendations of the GCGC as stated in the Declaration of Conformity. It ensures compliance with the law and internal company policies, and works with the company's other governance bodies in a spirit of trust.

→ The current rules of procedure of the Board of Management are available at: www.covestro.com/en/company/management/corporate-governance

The Board of Management defines the long-term goals and strategy for the company and sets forth the principles and policies for the resulting corporate policies. Furthermore, it coordinates and monitors the most important activities, defines the company's portfolio, develops and deploys managerial staff, allocates resources, and decides on the management and reporting of the Covestro Group. In this context, the Board of Management ensures that both, the risks and opportunities for the company associated with social and environmental factors, and the ecological and social impact of the company's activities are systematically identified and assessed. In addition to the long-term economic goals, the corporate strategy also takes ecological and social goals into account. Corporate planning incorporates appropriate financial and sustainability-related goals.

During their period of service for Covestro, Board of Management members are subject to a comprehensive non-compete clause. They are obligated to work in the company's interests at all times and may not pursue any personal interests in making decisions for the company or take advantage of the company's business opportunities for themselves. All Board of Management members are required to disclose any conflicts of interest to the Chair of the Supervisory Board's Human Resources Committee and the Board of Management Chair, and inform the other Board of Management members of this fact. Other duties, particularly holding seats on Supervisory Boards or comparable governing bodies at companies outside the Group, may only be assumed with the approval of the Supervisory Board.

The members of the Board of Management bear joint responsibility for running the business as a whole. However, the individual members manage the areas assigned to them on their own responsibility within the framework of the decisions made by the full Board. The allocation of duties among the members of the Board of Management is defined in a written schedule appended to its rules of procedure and listed in the following table. The full Board of Management makes decisions on all matters of fundamental importance and in cases where a decision of the full Board is prescribed by law or otherwise mandatory. The rules of procedure of the Board of Management contain a list of topics that must be dealt with and resolved by the full Board.

Board of Management meetings are held regularly and are convened by the Chair of the Board of Management. Any member of the Board of Management may also request that a meeting be convened, notifying the other members of the matter for discussion. The Board of Management makes decisions by a simple majority of the votes cast, except where unanimity is required by law. In the event of a tie, the Chair casts the deciding vote.

According to the Board of Management's rules of procedure, the Chair bears particular responsibility for functional coordination of all Board of Management areas. The Chair represents the Board of Management as well as Covestro AG and the Group in dealings with the public and other third parties.

Composition of the Board of Management

The Supervisory Board appoints the Board of Management of Covestro AG, its Chair, and the Labor Director. The Board of Management currently has no committees. In the fiscal year 2023, the composition of the Board of Management was as follows:

Areas of responsibility[1]

Name	Position	Areas of responsibility	Memberships[2]
Dr. Markus Steilemann	Chief Executive Officer	• Communications • Corporate Audit • Human Resources • Strategy • Group Innovation & Sustainability	• Member of the Supervisory Board of Fuchs Petrolub SE[3]
Christian Baier	Chief Financial Officer[5] (since October 2023)	• Accounting • Controlling • Finance & Insurance • Information Technology & Digitalization • Investor Relations • Law, Intellectual Property & Compliance • Portfolio Development • Taxes	• Member of the Supervisory Board of TUI AG[3]
Dr. Thorsten Dreier	Chief Technology Officer (since July 2023) Labor Director (since September 2023)	• Engineering • Process Technology • Group Health, Safety and Environment • Group Procurement	
Sucheta Govil	Chief Commercial Officer	• Performance Materials • Tailored Urethanes • Coatings & Adhesives • Engineering Plastics • Specialty Films • Elastomers • Thermoplastic Polyurethanes • Supply Chain & Logistics EMLA, NA, APAC	
Dr. Klaus Schäfer	Chief Technology Officer (until June 2023)	• Engineering • Process Technology • Group Health, Safety and Environment • Group Procurement	• Member of the Supervisory Board of TÜV Rheinland AG[4]
Dr. Thomas Toepfer	Chief Financial Officer[5] Labor Director (until August 2023)	• Accounting • Controlling • Finance & Insurance • Information Technology & Digitalization • Investor Relations • Law, Intellectual Property & Compliance • Portfolio Development • Taxes	• Member of the Supervisory Board of CLAAS KGaA mbH[4] • Member of the General Partners' Committee of CLAAS KGaA mbH[4] (CLAAS-group)

1 As of December 31, 2023, for members stepping down during fiscal year, the information relates to the leaving date.
2 Memberships on supervisory boards and memberships in comparable supervising bodies of German or foreign corporations.
3 Listed.
4 Non-listed.
5 The Chief Financial Officer (CFO) is also responsible for country-specific topics in the United States and China.

Objectives and Concept for the Composition of the Board of Management

Assisted by the Human Resources Committee and the Board of Management, the Supervisory Board arranges long-term succession planning for individual Board of Management members. It conducts a systematic process for selecting candidates for the Board of Management, while following the recommendations of the GCGC. In accordance with Covestro's corporate values, it also observes the diversity principle, i.e., balancing the Board's composition in terms of age, educational and professional background as well as a balanced gender ratio among members. Board of Management members will generally not be appointed if they are over the age of 63. The Board of Management as a whole should represent a variety of backgrounds and possess extensive experience in corporate strategy, innovation, production and technology, marketing and sales, finance, leadership and sustainability management. Members of the Board of Management are initially appointed for a maximum of three years.

When filling specific Board of Management positions, the Human Resources Committee also develops a skills profile that is based on the diversity criteria and used to evaluate candidates from within and outside the company. The Human Resources Committee conducts structured individual interviews with the eligible shortlisted candidates determined in this way. The committee then submits a proposed resolution to the Supervisory Board. Both the Human Resources Committee and the Supervisory Board make decisions in the company's interest, taking into account all the circumstances of each individual case. When necessary, external advisors support the Supervisory Board in preparing and executing specific succession decisions.

Implementation Status of the Objectives

Covestro AG's Board of Management currently has four members. The goals regarding age structure and function-specific expertise were generally met in fiscal 2023. The Board of Management additionally meets the education and professional background requirements. The Board of Management's members ranged in age from 46 to 60 in fiscal 2023. As a whole, the Board of Management features members with a range of different educational backgrounds. In particular, they possess many years of experience in the following areas: engineering, physics and chemistry, business administration, and finance. The members of the Board of Management have gathered extensive professional experience in Germany and abroad as well as in the chemical industry. In the course of their careers, they have held leadership positions in marketing and sales, innovation, corporate strategy, production and technology, and finance, among others, and possess extensive experience in human resources management and project management.

Promotion of Equal Participation of Women and Men in Leadership Positions

The Act Supplementing and Amending the Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors of August 7, 2021, (FüPoG II) requires listed companies in Germany that are subject to codetermination rules and whose boards of management have more than three members to appoint at least one woman and one man to the board in future. The obligation stipulated as a general rule by the First Leadership Positions Act (FüPoG I) as far back as 2015 remains in effect: these companies are required to define target quotas for appointing women to their Supervisory Boards, Boards of Management, and the two management levels below, and to establish dates by which this quota is to be achieved in each case. If quotas are newly set in percent since FüPoG II entered into force, they must be specified as whole numbers.

In accordance with Section 96, Paragraph 2 AktG, the Supervisory Board of a company which is both listed and subject to codetermination rules should be composed of at least 30% women and at least 30% men. Although no targets need to be specified in this case, it is in the Supervisory Board's general interest to try to achieve gender parity in the Board of Management and Supervisory Board of Covestro AG. As of December 31, 2023, the Supervisory Board of Covestro AG comprised six women and six men. The minimum legal requirement has thus been met.

At the end of the second target attainment period on June 30, 2022, the Supervisory Board resolved, in accordance with the legal minimum quota, a target quota of one woman on the Board of Management of Covestro AG, which has four members, so that women account for 25% of its members, with an implementation period through December 31, 2023. The resolution on the new target and implementation period were passed, taking account of FüPoG II and the Supervisory Board's duty to guarantee that the statutory minimum gender quota is met or to specify targets for the proportion of women on the Board of Management in compliance with legal requirements. As of December 31, 2023, one woman and three men served on the Board of Management. Women therefore made up 25% of the Board of Management at both the beginning and the end of the implementation period. Covestro AG therefore also meets the legal minimum quota in accordance with Section 76 (3a) AktG.

In the year 2022, the Board of Management set new differentiated targets for the first two management levels below the Board of Management for the period through June 30, 2027, for both Covestro AG and the Covestro Group.

Targets for proportion of women in the first two management levels below the Board of Management by June 30, 2027

	Covestro AG		Covestro Group	
	As of Dec. 31, 2023	Target by June 30, 2027[3]	As of Dec. 31, 2023	Target by June 30, 2027[3]
	%	%	%	%
Proportion of women in management level 1[1]	0.0	25.0	25.0	31.0
Proportion of women in management level 2[2]	36.8	31.6	24.1	30.2

[1] Direct reports to the Board of Management with management responsibilities.
[2] Direct reports to management level 1 with management responsibilities.
[3] The percentages are based on the employee numbers specified in the table below.

Targets for proportion of women in the first two management levels below the Board of Management by June 30, 2027, in numbers of employees

	Covestro AG		Covestro Group	
	As of Dec. 31, 2023	Target by June 30, 2027	As of Dec. 31, 2023	Target by June 30, 2027
Proportion of women in management level 1[1]	0 of 4	1 of 4	7 of 28	9 of 29
Proportion of women in management level 2[2]	7 of 19	6 of 19	40 of 166	54 of 179

[1] Direct reports to the Board of Management with management responsibilities.
[2] Direct reports to management level 1 with management responsibilities.

Covestro considers the development and promotion of women a global task – independent of individual Group companies or management levels – and strives therefore to increase the percentage of women overall.

→ See "Diversity, Equity, and Inclusion of Our Workforce."

Supervisory Board

Duties and Activities of the Supervisory Board

The Supervisory Board advises and oversees the Board of Management. The Supervisory Board is directly involved in decisions on matters of fundamental importance to the company, regularly conferring with the Board of Management on the strategic alignment of Covestro AG and the Covestro Group, and on the implementation status of the business strategy. Monitoring and consulting also include sustainability issues that are dealt with not only in meetings of the full Supervisory Board, but also in committee meetings. The Supervisory Board Chair coordinates its work and presides over the meetings. The Chair also represents the Supervisory Board outside the company and holds discussions with investors on topics that fall within the Supervisory Board's tasks and responsibilities. In accordance with the Articles of Incorporation, the Supervisory Board has issued rules of procedure governing its activity. These rules of procedure are applicable to the Supervisory Board as a whole as well as to individual Supervisory Board committees. They also include rules concerning the composition and work of the committees.

→ Rules of Procedure for the Supervisory Board are available at: www.covestro.com/en/company/management/corporate-governance

The Supervisory Board members are obligated to work in the company's interests at all times and may not pursue any personal interests in making decisions for the company or take advantage of the company's business opportunities for themselves. They are required to immediately disclose any conflicts of interest to the Chair of the Supervisory Board, in particular including those resulting from executive functions or consulting activities at customers, suppliers, lenders, or other third parties. If the conflict of interest is material and of more than a temporary nature, the Supervisory Board member must step down. In its report to the Annual General Meeting, the Supervisory Board discloses any conflicts of interest and how they were handled.

Another effectiveness and efficiency review of the Supervisory Board was performed in the 2023 reporting year. As in previous years, it was conducted in writing on the basis of a questionnaire. In the year 2022, the effectiveness and efficiency review had been externally facilitated. The Supervisory Board discussed the results of this written self-assessment, which deals with the organization and work of the Supervisory Board and its committees, at the first Supervisory Board meeting in fiscal 2023. The topics included in particular the structure and conduct of Supervisory Board meetings, cooperation with the Board of Management, the flow of information to the Supervisory Board, responsibilities, composition, and work of the committees, and cooperation among the members of the Supervisory Board. On the whole, members found the Supervisory Board's activity effective and efficient. They particularly valued the detailed discussions and exchanges with the Board of Management on issues relating to strategy, for which sufficient time was allowed at Supervisory Board meetings and the annual strategy workshop.

→ See Capital Market, section "Report of the Supervisory Board."

The Board of Management informs the Supervisory Board about business policy, corporate planning, and strategy in regular and open discussions. Further details of how the Board of Management provides information to the Supervisory Board, including ongoing information of the Chair of the Supervisory Board by the Chair of the Board of Management, are governed by the Board of Management's rules of procedure.

→ The current rules of procedure of the Board of Management are available at: www.covestro.com/en/company/management/corporate-governance

The Supervisory Board approves the corporate planning and financing framework. It also approves the Financial Statements of Covestro AG and the Consolidated Financial Statements of the Covestro Group, along with the Group Management Report, taking into account the auditor's reports and explanations. The Board of Management and Supervisory Board issue an annual compensation report in accordance with Section 162 of the German Stock Corporation Act. The Supervisory Board also regularly meets without the Board of Management in attendance. The members of the Supervisory Board representing employees regularly hold structured discussions with members of the Board of Management prior to Supervisory Board meetings. Prior meetings of shareholder representatives are held on a case-by-case basis when necessary.

Composition of the Supervisory Board

The Supervisory Board has 12 members, half of whom are shareholder representatives and half employee representatives pursuant to the German Codetermination Act. The members of the Supervisory Board representing shareholders are elected individually by the Annual General Meeting. The six employee representatives comprise four Covestro employees and two union representatives; they are elected in accordance with the provisions of the German Codetermination Act. There were no Supervisory Board elections for either the shareholder or the employee side in fiscal 2023.

The Supervisory Board discussed the requirements stipulated by Section 100, Paragraph 5 AktG. Based on its composition, the Supervisory Board as a whole has in-depth industry expertise in the chemical and polymer sector in which Covestro operates. This industry knowledge was acquired by the members either through their jobs or the requisite continuing education. In addition, the Supervisory Board has at least one member with expertise in the area of accounting and at least one other member with expertise in the area of auditing.

Supervisory Board members[1]

Name/function	Membership on the Supervisory Board	Position	Memberships[2]
Dr. Christine Bortenlänger	Member of the Supervisory Board since October 2015	• Executive Member of the Board of Deutsches Aktieninstitut e.V.	• Member of the Supervisory Board of Covestro Deutschland AG[4, 5] • Member of the Supervisory Board of MTU Aero Engines AG[3] • Member of the Supervisory Board of TÜV SÜD AG[4] • Member of the Supervisory Board of Siemens Energy AG[3] • Member of the Supervisory Board of Siemens Energy Management GmbH[4] (Siemens Energy group)
Dr. Christoph Gürtler	Member of the Supervisory Board since April 2022	• Chair of the Managerial Employees' Committees of Covestro Deutschland AG and of Covestro group • Managerial Employee of Covestro Deutschland AG	• Member of the Supervisory Board of Covestro Deutschland AG[4, 5]
Lise Kingo	Member of the Supervisory Board since April 2021	• Member of various supervisory boards, governing bodies and committees	• Member of the Supervisory Board of Covestro Deutschland AG[4, 5] • Independent Board Director of Sanofi SA[3], France • Independent Board Director of Aker Horizons ASA[3], Norway (until April 2023) • Independent Board Director of Danone SA[3], France
Petra Kronen (Vice Chair)	Member of the Supervisory Board since October 2015	• Chair of the General Works Council of Covestro • Vice Chair of Covestro-European Forum • Member of the Works Council of Covestro at the Uerdingen site • Employee of Covestro Deutschland AG	• Vice Chair of the Supervisory Board of Covestro Deutschland AG[4, 5]
Irena Küstner	Member of the Supervisory Board since October 2015	• Chair of the Works Council of Covestro at the Leverkusen site • Chair of the Group Works Council of Covestro • Vice Chair of the General Works Council of Covestro • Employee of Covestro Deutschland AG	• Member of the Supervisory Board of Covestro Deutschland AG[4, 5]
Frank Löllgen	Member of the Supervisory Board since April 2022	• North Rhine District Secretary of the German Mining, Chemical and Energy Industrial Union (IGBCE), Düsseldorf	• Member of the Supervisory Board of Covestro Deutschland AG[4, 5] • Member of the Supervisory Board of Bayer AG[3]
Dr. Richard Pott (Chair)	Member of the Supervisory Board since August 2015	• Member of various supervisory boards	• Chair of the Supervisory Board of Covestro Deutschland AG[4, 5] • Member of the Supervisory Board of Freudenberg SE[4] • Member of the Supervisory Board of SCHOTT AG[4]
Petra Reinbold-Knape	Member of the Supervisory Board since January 2020	• Secretary for IGBCE • Chair of the Board of August-Schmidt-Stiftung	• Member of the Supervisory Board of Covestro Deutschland AG[4,5]
Dr. Sven Schneider	Member of the Supervisory Board since April 2022	• Chief Financial Officer at Infineon Technologies AG	• Member of the Supervisory Board of Covestro Deutschland AG [4, 5] • Member of the Supervisory Board of Infineon Technologies Austria AG[4], Austria (Infineon group) • Member of the Board of Directors, Infineon Technologies China Co., Ltd.[4], China (Infineon group) • Member of the Board of Directors, Infineon Technologies Asia Pacific Pte., Ltd.[4], Singapore (Infineon group) • Member of the Board of Directors, Infineon Technologies Americas Corp.[4], USA (Infineon group) • Member of the Board of Directors, Infineon Technologies Japan K.K.[4], Japan (Infineon group)

Supervisory Board members[1]

Name/function	Membership on the Supervisory Board	Position	Memberships[2]
Regine Stachelhaus	Member of the Supervisory Board since October 2015	• Member of various supervisory boards	• Member of the Supervisory Board of Covestro Deutschland AG[4, 5] • Director of SPIE SA[3], France • Member of the Supervisory Board of SPIE Deutschland und Zentraleuropa GmbH[4] (SPIE group)
Marc Stothfang	Member of the Supervisory Board since February 2017	• Chair of the Works Council of Covestro at the Brunsbüttel site • Member of Covestro-European Forum • Employee of Covestro Deutschland AG	
Patrick Thomas	Member of the Supervisory Board since July 2020	• Member of various supervisory boards	• Member of the Supervisory Board of Covestro Deutschland AG[4, 5] • Non-Executive Director (Chair) of Johnson Matthey plc[3], United Kingdom • Non-Executive Director of Akzo Nobel N.V.[3], Netherlands

1 As of December 31, 2023, for members stepping down during fiscal year, the information relates to the leaving date.
2 Memberships on other supervisory boards and memberships in comparable supervising bodies of German or foreign corporations.
3 Listed.
4 Non-listed.
5 Covestro Group membership.

Committees of the Supervisory Board
The Supervisory Board currently has the following committees:

Presidial Committee: The Presidial Committee comprises the Supervisory Board Chair and Vice Chair along with an additional shareholder representative and an additional employee representative. The Presidial Committee serves primarily as the mediation committee pursuant to the German Codetermination Act. It has the task of submitting proposals to the Supervisory Board on the appointment of members of the Board of Management if the necessary two-thirds majority is not achieved in the first vote at a plenary meeting. Certain decision-making powers in connection with capital measures, including the power to amend the Articles of Incorporation, have also been delegated to this committee.In addition, the Presidial Committee is responsible for dealing with tasks of the Supervisory Board in the case of takeover matters and has decision-making powers to a certain extent.

Members: Dr. Richard Pott (Chair), Petra Kronen, Petra Reinbold-Knape, and Regine Stachelhaus

Audit Committee: The Audit Committee has six members of the Supervisory Board, with shareholders and employees equally represented. The requirements of the AktG and the GCGC for the expertise of members of the Audit Committee are met. Due to his many years of experience as Chief Financial Officer of international DAX-listed companies, the Chairman of the Audit Committee, Dr. Sven Schneider, has the required accounting expertise, i.e., special know-how and experience in the application of accounting policies and internal control and risk management systems, as well as auditing expertise. This also covers sustainability reporting and auditing. Dr. Sven Schneider meets the requirements of the GCGC for the qualifications and independence of the Chair of the Audit Committee. Dr. Christine Bortenlänger also has the required auditing expertise, primarily due to many years of experience as a member of other audit committees of international listed companies. The accounting expertise also includes know-how in relation to sustainability reporting and auditing.

The Audit Committee’s main responsibilities include auditing the accounts; monitoring the accounting and financial reporting process; monitoring the effectiveness of the internal control system, the risk management system, and the internal audit system; financial statement audits; and compliance. The accounting comprises in particular the Consolidated Financial Statements and the Group Management Report. The Audit Committee is responsible for conducting a preliminary examination of the Financial Statements, Consolidated Financial Statements, and Management Reports, including the nonfinancial Group statement, and for discussing the quarterly and half-yearly reporting with the Board of Management. On the basis of the auditor’s report, the Audit Committee develops proposals for resolutions by the Supervisory Board relating to the confirmation of the Financial Statements, the approval of the Consolidated Financial Statements, and the use of the distributable profit.

The Audit Committee is also responsible for the company's relationship with the external auditor. It submits a proposal to the full Supervisory Board concerning the auditor's appointment and is authorized to award the audit contract to the audit firm appointed on behalf of the Supervisory Board and to agree the auditor's remuneration. It also suggests areas of focus for the audit and monitors the quality of the audit as well as the independence and qualifications of the auditor. To this end, the Audit Committee has obtained a statement of independence from the auditor, who is required to immediately inform the Audit Committee about all possible grounds for exclusion or lack of impartiality arising during the audit or review, and all findings and incidents material to the Supervisory Board's responsibilities, particularly suspected accounting irregularities. The Audit Committee discusses the audit risk assessment, audit strategy and audit planning, and the audit results with the auditor. Moreover, the Audit Committee has requested that the auditor informs the Committee and make a note in the audit report if facts are identified during the financial statement audit process that indicate an error in the Declaration of Conformity with the GCGC submitted by the Board of Management and Supervisory Board. The Chairman of the Audit Committee has regular feedback sessions with the auditor on the audit progress and reports on this to the committee. During the respective meetings, the Audit Committee also has regular discussions with the auditor without the Board of Management.

Members: Dr. Sven Schneider (Chair), Dr. Christine Bortenlänger, Petra Kronen, Irena Küstner, Petra Reinbold-Knape, and Patrick Thomas

Human Resources Committee: On the Human Resources Committee, too, there is parity of representation between shareholders and employees. It consists of the Supervisory Board Chair and three other members. The Committee prepares the personnel decisions of the full Supervisory Board, which resolves on appointments or dismissals of members of the Board of Management. The Human Resources Committee resolves on behalf of the Supervisory Board on the service contracts of the members of the Board of Management. However, it is the responsibility of the full Supervisory Board, based on the recommendations submitted by the Human Resources Committee, to resolve on the total compensation of the individual members of the Board of Management and the respective compensation components, as well as to regularly review the compensation system. The Human Resources Committee also discusses the long-term succession planning for the Board of Management.

Members: Dr. Richard Pott (Chair), Dr. Christoph Gürtler, Petra Kronen, and Regine Stachelhaus

Nomination Committee: The Nomination Committee carries out preparatory work when an election of shareholder representatives to the Supervisory Board is to be held. It suggests suitable candidates for the Supervisory Board to propose to the Annual General Meeting for election. The committee comprises the Supervisory Board Chair, the other Supervisory Board member representing shareholders on the Presidial Committee, and another elected Supervisory Board member representing shareholders.

Members: Dr. Richard Pott (Chair), Regine Stachelhaus, Patrick Thomas

Sustainability Committee: The Sustainability Committee has four Supervisory Board members with parity of representation between shareholders and employees. The Chair of the Sustainability Committee is elected by the Supervisory Board from between the two shareholder representatives elected to the Committee. The committee advises the Supervisory Board, its committees, and the Board of Management, as well as working on sustainable corporate governance and the company's environmental, social, and governance (ESG) activities in particular. It supports, monitors, and issues recommendations on the Board of Management's ESG strategies, targets, and initiatives, including the environmental, social, societal, ethical, and circular economy aspects of Covestro's business along the entire value chain.

The Sustainability Committee additionally helps the Audit Committee examine sustainability-related statements in the context of the audit of the (Group's) nonfinancial statement. Furthermore, it advises the Human Resources Committee on setting ESG targets for Board of Management compensation.

Members: Lise Kingo (Chair), Dr. Christoph Gürtler, Marc Stothfang, Patrick Thomas

Details on the Supervisory Board's activities and its committees are provided by the Supervisory Board in its Report. The resumes of the members of the Supervisory Board are published on Covestro's website and updated annually.

→ See Capital Market, section "Report of the Supervisory Board."

→ Additional information is available at: www.covestro.com/en/company/management/supervisory-board

Objectives for the Composition of the Supervisory Board and Diversity Concept

The composition of the Supervisory Board should be such that its members jointly possess the necessary expertise, skills, and professional experience to properly perform their duties, and are sufficiently independent. The Supervisory Board assesses the independence of its members according to the recommendation contained in the GCGC.

Covestro AG's Supervisory Board has agreed the following specific goals for its composition that align with the recommendations of the GCGC and at the same time provide for diversity in terms of age, independence, professional experience, and expertise in the sustainability topics important to the company, including particularly the circular economy, climate neutrality, and good corporate governance:

- The Supervisory Board has resolved that 75% of its members and more than half of the shareholder representatives on the Supervisory Board are to be independent.
- Absent of special circumstances, a Supervisory Board member should not serve more than three full terms of office and should not hold office beyond the end of the next Annual General Meeting following their 72nd birthday or, at the latest, the end of the Annual General Meeting following their 74th birthday.
- The Supervisory Board should not include more than two former members of the company's Board of Management. Supervisory Board members may not perform executive functions or consulting activities for major competitors of the company or any Group company, and they must not be exposed to other significant conflicts of interest.
- At least one member of the Supervisory Board should have accounting expertise and at least one other member should have auditing expertise.
- At least two Supervisory Board members must have function-specific knowledge in each of the following areas:
  - Strategy, mergers and acquisitions, capital markets
  - Marketing, sales, supply chain
  - Research and development, innovation
  - Sustainability (environment), circular economy and new technologies
  - Digitalization
  - Human resources, change management, sustainability (social)
  - Corporate governance, compliance
- The Supervisory Board must have at least two members with experience in industries, sales markets, and/or divisions of importance to Covestro, e.g., (polymer) chemistry, production, and technology.
- Taking into account the specific situation and international operations of Covestro and its affiliated companies, the Supervisory Board should strive to ensure sufficient diversity among its members. Moreover, at least three members should have managerial experience in an international enterprise and/or experience serving on other supervisory boards or supervisory bodies, and experience in relation to corporate culture and employee engagement.

The objectives described refer to the Supervisory Board as a whole unless resolved otherwise. However, since the Supervisory Board can only nominate candidates for election as shareholder representatives, it can only consider the objectives in making these nominations.

Implementation Status of the Objectives and Qualification Matrix

The Supervisory Board has several members with international business experience and an international background. The objectives pertaining to age limits, length of service, and independence are being met. In the opinion of the Supervisory Board, the shareholder representatives Dr. Richard Pott, Dr. Christine Bortenlänger, Lise Kingo, Dr. Sven Schneider, Regine Stachelhaus, and Patrick Thomas are independent pursuant to the GCGC. In principle, the requirements relating to function-specific knowledge are met.

→ Additional information about Covestro AG's current Supervisory Board members is available at: www.covestro.com/en/company/management/supervisory-board

Qualification matrix[1]

		Supervisory Board members											
Category	Field of expertise	C. Bortenlänger[2]	C. Gürtler[3]	L. Kingo[2]	P. Kronen[3]	I. Küstner[3]	F. Löllgen[3]	R. Pott[2]	P. Reinbold-Knape[3]	S. Schneider[2]	R. Stachelhaus[2]	M. Stothfang[3]	P. Thomas[2]
Industry- and company-specific knowledge/experience	(Polymer) Chemistry												
	Production and technology												
Function-specific knowledge	Strategy, M&A, capital market												
	Marketing/sales/supply chain												
	R&D, innovation												
	Sustainability (environment)/circular economy/ new technologies												
	Digitalization												
	Human resources/change management/ sustainability (social)												
	Corporate governance/ compliance												
	Accounting												
	Financial statement audit												
Management- and leadership experience	Leadership in an international enterprise												
	Corporate culture and employee engagement (Covestro focus)												
	Membership in supervisory boards and governing bodies												
Further information													
Terms of office/ Appointments	Initial appointment	2015	2022	2021	2015	2015	2022	2015	2020	2022	2015	2017	2020
	Re-appointment	2020			2017	2017		2020	2022		2020	2022	
	Re-appointment				2022	2022							
	End of term of office	2025	2027	2025	2027	2027	2027	2025	2027	2026	2025	2027	2025
Diversity	Age (2023 reporting year minus year of birth)	57	56	62	59	57	62	70	64	57	68	57	66
	Gender (male, female, diverse)	F	M	F	F	F	M	M	F	M	F	M	M
	Nationality	D	D	DK	D	D	D	D	D	D	D	D	UK
	Independence[4]	Yes	n. a.	Yes	n. a.	n. a.	n. a.	Yes	n. a.	Yes	Yes	n. a.	Yes
Professional activity	Professional status/ "work stage" (executive vs. post-executive)	Exec	Exec	Post	Exec	Exec	Exec	Post	Exec	Exec	Post	Exec	Post
	Overboarding	No	No	No	No	No	No	No	No	No	No	No	No

[1] Based on a self-assessment by the Supervisory Board, incorporating the individual assessments of individual Supervisory Board members and the recommendations of the Nomination Committee and Presidial Committee to the full Supervisory Board. The three shades of color refer to the levels of know-how, from basic know-how (light) through extensive know-how (medium) down to profound know-how (dark).

[2] Members representing shareholders.

[3] Members representing employees.

[4] In accordance with GCGC 2022.

Securities Transactions by Members of Governing Bodies

In the reporting year, members of the Board of Management and Supervisory Board were required by law to report proprietary transactions in shares or debt instruments of Covestro AG or in related derivatives or other related financial instruments to Covestro AG and the German Federal Financial Supervisory Authority (BaFin) without undue delay, no later than three business days after the date of the transaction, if the total value of the transactions is equal to or exceeds €20,000 in the calendar year. Covestro publishes the details of reportable transactions in suitable media in the European Union and on its website without delay, but no later than two business days after receipt of the disclosure, and also provides this information to the company register for archiving.

→ Additional information on securities transactions by members of the Board of Management or Supervisory Board is available at: www.covestro.com/en/investors/share-details/disclosure-of-securities-transactions

Systematic Risk Management

Covestro's enterprise risk management system ensures early identification of any financial or nonfinancial risks. We attempt to avoid or mitigate identified risks, or to transfer them to third parties (such as insurers) to the extent possible and economically acceptable.

The internal control system (ICS) for accounting and financial reporting enables the timely monitoring of risks to prevent or correct potential errors in accounting for business transactions. It thus ensures the availability of reliable data on the company's financial situation.

However, the control and risk management system cannot provide absolute protection against losses arising from business risks or fraudulent actions.

Based on regular reports by the expert functions and audits conducted by Internal Audit (Corporate Audit function), the Board of Management is not aware of any matters that would lead to the assessment that the internal control system and the risk management system, which comprise a compliance management system aligned to the company's risk situation, are not largely appropriate and effective.

The main features of the internal control system, the risk management system, and the compliance management system, which is aligned with the company's risk situation, are described in the sections below.

→ See "Business Conduct (Compliance)."

→ See "Group-Wide Opportunities and Risk Management."

Detailed Reporting

We provide regular and timely information on the Covestro Group's position and significant changes in business activities to shareholders, financial analysts, shareholders' associations, the media, and the general public to maximize transparency. Four times a year, we report to our shareholders about the company's business performance and financial situation as well as on changes in the business prospects and risk situation. Covestro's reporting thus complies with the provisions of the GCGC.

In line with statutory requirements, the members of the company's Board of Management provide assurance that, to the best of their knowledge, the Financial Statements of Covestro AG, the Consolidated Financial Statements of the Covestro Group, and the Combined Management Report provide a true and fair view.

The Financial Statements of Covestro AG, the Consolidated Financial Statements, and the Combined Management Report are published within 90 days following the end of each fiscal year. During the fiscal year, Covestro additionally informs shareholders and other interested parties about developments by means of the half-year financial report as well as quarterly statements after the end of the first and third quarters. The half-year financial report is voluntarily subjected to a review by the auditor appointed by the Annual General Meeting.

Covestro also provides information about the current corporate strategy, important growth areas, the financial position and results of operations, and financial targets at regular press conferences and analysts' meetings. The company uses the internet as a platform for the timely disclosure of information, with major publications, such as annual reports, half-year financial reports, and quarterly statements, and the dates of events, such as Annual General Meetings, posted on the Group's website.

In line with the principle of fair disclosure, Covestro treats all shareholders and other key stakeholders equally as regards the communication of valuation-relevant information. All significant new facts are disclosed immediately to the general public. In addition to our regular reporting, we issue ad-hoc statements on developments that otherwise might not become publicly known but have the potential to materially affect the price of Covestro shares.

Shareholders and Annual General Meeting

Covestro's shareholders exercise their rights within the scope provided for by the law and the Articles of Incorporation at the Annual General Meeting and there exercise their right to vote. Each share of Covestro AG confers the same rights and carries one vote at the Annual General Meeting. Shareholders can exercise their voting rights by way of a proxy, e.g., a credit institution, a shareholders' association, or another third party. Shareholders can issue and revoke proxies in respect of the company electronically using the company's online proxy system. The company also makes it easier for its shareholders to exercise their personal rights by appointing voting proxies to cast their votes, subject to their instructions. They are also available during the Annual General Meeting. The Board of Management can enable shareholders to take part in the Annual General Meeting without in-person attendance and without a proxy, and exercise all of their rights or individual rights in whole or in part through electronic means of communication. All of the company's shareholders and interested members of the public may watch the full Annual General Meeting live online on the company's website. All legally required documents and information on the Annual General Meeting are available to shareholders on Covestro's website as well.

The Board of Management of Covestro AG, with the approval of the Supervisory Board, has decided in accordance with Section 118a, Paragraph 1, Sentence 1 AktG in conjunction with Section 26n, Paragraph 1 EGAktG to hold the Annual General Meeting on April 19, 2023, as a virtual AGM. This meant that no shareholders or their proxies (with the exception of the proxies nominated by the company) were physically present at the location of the AGM. Instead shareholders and their proxies were able to attend the meeting electronically via the InvestorPortal on the company's website and exercise their rights by way of electronic communication.

→ Additional information on the Annual General Meeting is available at: www.covestro.com/en/investors/annual-general-meeting

Takeover-Relevant Information

Disclosures Pursuant to Sections 289a, 315a of the German Commercial Code (HGB)

Investments in Capital Interest Held, Exceeding 10% of Total Voting Rights

We have received no notification nor are we otherwise aware of direct or indirect investments in the capital of Covestro AG, equal to or exceeding 10% of the voting rights.

→ Additional information on Covestro’s ownership structure is available at: www.covestro.com/en/investors/stock-details/shareholder-structure

Board of Management

Appointment and Dismissal of Members of the Board of Management, Changes to the Articles of Incorporation

The appointment and dismissal of members of the Board of Management are subject to the provisions of Sections 84 and 85 of the German Stock Corporation Act, Section 31 of the German Codetermination Act, and Article 6 of the Articles of Incorporation of Covestro AG. Pursuant to Section 84, Paragraph 1 of the German Stock Corporation Act, the members of the Board of Management are appointed and dismissed by the Supervisory Board. The maximum term of service for a Board of Management member appointed for the first time is three years. Since Covestro AG falls within the scope of the German Codetermination Act, the appointment or dismissal of members of the Board of Management requires a majority of two-thirds of the votes of the members of the Supervisory Board on the first ballot pursuant to Section 31, Paragraph 2 of that act. If no such majority is achieved, the appointment is resolved pursuant to Section 31, Paragraph 3 of the Codetermination Act on a second ballot by a simple majority of the votes of the members of the Supervisory Board. If the required majority still is not achieved, a third ballot is held. Here again, a simple majority of the votes of the members suffices, but in this ballot, the Supervisory Board Chair has two votes pursuant to Section 31, Paragraph 4 of the Codetermination Act. Under Article 6, Paragraph 1 of the Articles of Incorporation, the number of members of the Board of Management is determined by the Supervisory Board but must be at least two. The Supervisory Board may appoint one member of the Board of Management to be its Chair and one member to be the Vice Chair pursuant to Section 84, Paragraph 2 of the German Stock Corporation Act and Article 6, Paragraph 1 of the Articles of Incorporation of Covestro AG.

Any amendments to the Articles of Incorporation are made pursuant to Section 179 of the German Stock Corporation Act and Articles 10 and 17 of the Articles of Incorporation. Under Section 179, Paragraph 1 of the German Stock Corporation Act, amendments to the Articles of Incorporation require a resolution of the Annual General Meeting. Pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act, this resolution must be passed by a majority of three-quarters of the voting capital represented at the meeting, unless the Articles of Incorporation provide for a different majority. However, where an amendment relates to a change in the object of the company, the Articles of Incorporation may only specify a larger majority. Article 17, Paragraph 2 of the Articles of Incorporation utilizes the scope for deviation pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act and provides that resolutions may be passed by a simple majority of the votes cast or, where a capital majority is required, by a simple majority of the capital represented. Pursuant to Article 10, Paragraph 9 of the Articles of Incorporation, the Supervisory Board may resolve on amendments to the Articles of Incorporation that relate solely to their wording.

Capital

Composition of the Capital Stock

The capital stock of Covestro AG amounted to €189,000,000 as of December 31, 2023, and is composed of 189,000,000 no-par value bearer shares. Each share confers equal rights and one vote at the Annual General Meeting (AGM). On December 5, 2023, the Board of Management of Covestro AG resolved to retire 4,200,000 treasury shares and reduce the capital stock by €4,200,000 at the same time. By way of a resolution of the Supervisory Board of December 6, 2023, the company’s Articles of Incorporation were amended accordingly.

Board of Management’s Authorizations to Issue Shares

The AGM adopted a resolution on April 16, 2021, authorizing the Board of Management, with the approval of the Supervisory Board, to increase the capital stock of the company by up to €57,960,000 in the period through April 15, 2026, by issuing new, no-par value bearer shares against cash contributions and/or contributions in kind (Authorized Capital 2021).

On July 30, 2020, the AGM additionally authorized the Board of Management to issue bonds with conversion or exchange rights or warrants, or with conversion obligations, or a combination of these instruments on up to 18,300,000 no-par value bearer shares of Covestro AG. Based on this authorization, convertible/warrant bonds can be issued up to a total nominal value of €2,000,000,000 by the company or a Group company in the period through July 29, 2025. The 2020 AGM also resolved to conditionally increase the capital stock by up to €18,300,000 by issuing up to 18,300,000 no-par value bearer shares to grant shares to the holders or creditors of such convertible/warrant bonds (Conditional Capital 2020). New shares from Authorized Capital 2021 and the aforementioned bonds can be issued against cash contributions or contributions in kind. They must generally be offered to the shareholders for subscription. The Board of Management is authorized, with the approval of the Supervisory Board, to disapply shareholders' subscription rights when instruments are issued against contributions in kind. When issuing instruments against cash contributions, subscription rights can be disapplied with the approval of the Supervisory Board in the following cases:

- Subscription rights must be disapplied where the subscription ratio gives rise to fractional amounts.
- Subscription rights are disapplied to provide compensation for dilution in connection with convertible/warrant bonds already issued.
- The issue price of the new shares or bonds will not be significantly lower than their share market price or the theoretical fair value of the bonds calculated using recognized financial valuation methods (disapplication of subscription rights limited to 10% of the capital stock under or in accordance with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act).

Additional restrictions, which are described in greater detail in the respective authorization, may apply to the new shares issued or to be issued against cash contributions or contributions in kind while disapplying the subscription rights of shareholders. In addition, the Board of Management declared in a Corporate Commitment ending no later than April 15, 2026, that it will not increase the company's capital stock from Authorized Capital 2021 and Conditional Capital 2020 by a total of more than 10% of the amount of capital stock at the time of the AGM on April 16, 2021, insofar as capital increases are implemented from Authorized Capital 2021 against cash contributions or contributions in kind while disapplying subscription rights, or for the purpose of servicing convertible/warrant bonds issued under the authorization resolved on July 30, 2020, while disapplying subscription rights.

Acquisition and Use of Treasury Shares

By a resolution adopted by the Annual General Meeting on April 12, 2019, the Board of Management is authorized to acquire and use treasury shares, also using derivatives. The individual details of the resolution are as follows:

1. Authorization Granted to the Board of Management to Acquire and Use Treasury Shares

1.1 The Board of Management is authorized until April 11, 2024, to acquire treasury shares with a proportionate interest in the capital stock totaling up to 10% of the company's capital stock existing at the date of the resolution, or if this amount is lower, at the time the authorization is exercised, subject to the proviso that the shares acquired as a result of this authorization, together with other shares of the company that the company has already acquired and still holds, or which are attributable to it under Sections 71a et seqq. of the German Stock Corporation Act, at no time exceed 10% of the capital stock of the company. The provisions in Section 71, Paragraph 2, Sentences 2 and 3 of the German Stock Corporation Act must be complied with.

Exercising the authorization to acquire treasury shares, the Board of Management resolved on February 28, 2022, that the company would acquire treasury shares in a total amount of €500 million (excluding transaction costs).

The acquisition may only take place via the stock exchange or by means of a public purchase offer and must satisfy the principle of the equal treatment of shareholders (Section 53a of the German Stock Corporation Act). If the acquisition takes place via the stock exchange, the purchase price paid by the company (excluding transaction costs) may neither exceed, nor be lower than, the company's share price as determined by the opening auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day, by more than 10%. If the acquisition takes place by means of a public purchase offer, the offer price paid by the company (excluding transaction costs) may neither exceed, nor be lower than, the company's share price as determined by the closing auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the publication of the purchase offer, by more than 10%. If the total number of the shares tendered in response to a public purchase offer exceeds the offer volume, purchases may be made in proportion to the number of shares tendered (tender ratios); in addition, preferential acceptance of small numbers of shares (up to 50 shares per shareholder), as well as rounding in accordance with commercial principles to avoid notional share fractions, may be provided for. Any further shareholder tender rights are disapplied to this extent.

1.2 The authorization may be exercised in full, or in a number of partial amounts split across several acquisition dates, until the maximum purchase volume has been reached. The acquisition may also be carried out by Group companies that are dependent on the company within the meaning of Section 17 of the German Stock Corporation Act, or by third parties on behalf of the company or such Group companies. The authorization may, subject to compliance with the statutory requirements, be exercised for any purpose permissible in law, especially in pursuit of one or more of the purposes listed in 1.3, 1.4, 1.5, and 1.6. Trading in treasury shares is not permitted.

If the treasury shares acquired are used for one or more of the purposes described under 1.3 or 1.4, the shareholders' subscription rights are disapplied. The Board of Management is authorized to disapply subscription rights if the treasury shares acquired are used for the purpose specified in 1.6. Shareholders likewise do not have any subscription rights if the treasury shares acquired are sold via the stock exchange. In the event that the treasury shares acquired are sold by means of a public offer to shareholders, and this public offer complies with the principle of equal treatment, the Board of Management is authorized to disapply the shareholders' subscription rights for fractions.

1.3 The Board of Management is authorized to also sell the treasury shares acquired on the basis of the above or an earlier authorization in a manner other than via the stock exchange or by way of an offer to all shareholders, provided that the sale takes place against cash payment and at a price which, at the date of the sale, is not significantly lower than the market price for the same class of shares in the company. This authorization governing the use of shares is restricted to shares whose proportionate interest in the capital stock may not in total exceed 10% of the capital stock either at the date this authorization becomes effective or, if this amount is lower, at the date the present authorization is exercised. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock that is attributable to those shares which are issued or sold during the term of this authorization while disapplying subscription rights under or in accordance with Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. The upper limit of 10% of the capital stock is further reduced by the proportionate interest in the capital stock that is attributable to those shares which are to be issued to service bonds with warrants or conversion rights or obligations, provided that these bonds are issued during the term of this authorization while disapplying subscription rights in application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act, with the necessary modifications.

1.4 The Board of Management is authorized to transfer the treasury shares acquired under the above or an earlier authorization to third parties, provided this is done for the purpose of acquiring companies, parts of companies, equity interests in companies, or other assets, or to effect business combinations.

1.5 The Board of Management is authorized to retire the treasury shares acquired under the above or an earlier authorization without a further resolution by the Annual General Meeting. The shares may also be retired without reducing the capital by adjusting the proportionate interest of the remaining no-par value shares in the capital stock of the company. In this case, the Board of Management is authorized to amend the number of no-par value shares in the Articles of Incorporation.

1.6 The Board of Management is authorized to use the treasury shares acquired under the above or an earlier authorization to pay a scrip dividend.

1.7 The Board of Management may only use the authorizations in 1.3, 1.4, and 1.6 with the approval of the Supervisory Board. Moreover, the Supervisory Board may determine that the measures taken by the

Board of Management on the basis of this resolution by the Annual General Meeting may only be implemented with its approval.

1.8 Overall, the above authorizations governing the use of shares may be utilized on one or several occasions, individually or together, in relation to partial volumes of the treasury shares, or all treasury shares held in total.

Under the share buyback program, the company acquired 4,687,991 treasury shares in three tranches at a total cost of €199 million (excluding transaction costs) in the period from March 21, 2022, up to and including June 29, 2023; that corresponded to a proportional share of 2.43% of the company's capital stock registered up to that date in an amount of €193,200,000. In the period from January 1, 2023 to June 29, 2023, a total of 1,208,035 treasury shares were acquired at a total cost of €49 million. This corresponds to a proportional share of 0.63% of the company's registered capital stock in an amount of €193,200,000. In view of the overall situation and the limited time remaining until the program expires, the Board of Management resolved on October 26, 2023 to terminate the share buyback program prematurely.

2. Authorization for Acquisition Using Derivatives

2.1 Treasury shares being acquired as part of the authorization under 1.1 may also be acquired using put or call options. In this case, the option transactions must be entered into with a credit institution, or a company which operates in accordance with Section 53, Paragraph 1, Sentence 1 or Section 53b, Paragraph 1, Sentence 1 or Paragraph 7 of the German Banking Act, that is independent of the company (financial institution), provided that this financial institution, when the option is exercised, only delivers shares which were previously acquired via the stock exchange at a market-driven price in compliance with the principle of equal treatment.

2.2 The acquisition of shares using put or call options is limited to a maximum of 5% of the capital stock in existence either at the date of the resolution by the Annual General Meeting or, if this amount is lower, at the date the authorization is exercised.

2.3 The option premium paid by the company in the case of call options may not be materially higher and the option premium received in the case of put options may not be materially lower than the theoretical fair value of the options concerned calculated using accepted financial valuation methods. The exercise price agreed in the option transaction (in each case not including transaction costs, but taking into account the option premium received or paid) may not be more than 10% higher or lower than the price of the company's shares as determined by the opening auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the trading day on which the option transaction was entered into.

2.4 The term of the individual derivatives may not, in each case, exceed 18 months; it must end at the latest on April 11, 2024, and must be selected so that the shares are not acquired using derivatives after April 11, 2024.

2.5 The provisions under 1. also apply to the use of company shares acquired on the basis of the authorization under 2. using derivatives.

Material Conditional Agreements

Some debt financing instruments contain clauses that refer to cases of change of control. Such clauses grant the respective investor additional rights of termination, which may be restricted by additional conditions – such as a rating being downgraded. Our syndicated credit line and our bonds, for example, are governed by change-of-control agreements.

For the case of a takeover offer for Covestro AG, agreements are in place that impose limits on the financial benefits in the event of early termination of the service contract of a Board of Management member due to a change of control. Such payments are subject to the severance cap set out in the German Corporate Governance Code as amended on April 28, 2022, and may not exceed compensation for the remaining term of the contract.

SUSTAINABILITY STATEMENT

General Information

About This Report

Covestro aims to help protect the environment, conserve limited resources, advance society, and create value, all by firmly integrating sustainability into our Group strategy and management. Covestro reports comprehensively and transparently about topics important from the company's perspective and for our stakeholders. We measure our sustainability performance using financial indicators as well as key nonfinancial indicators published in the Group Management Report. In this way, we want to demonstrate how closely environmental, social, and governance (ESG) factors are linked to our long-term business success.

Reporting Format

Our sustainability report presents the material sustainability topics, broken down into environmental, social, and governance matters. These disclosures are supplemented with the general information on our reporting provided in this section, with sustainability topics across all ESG matters, and with disclosures under the European Union's Taxonomy Regulation (EU Taxonomy).

Our sustainability reporting in this context is based on recognized standards. We report on material topics and nonfinancial performance indicators pursuant to Section 315 (3) of the German Commercial Code (HGB) and supplement the information with additional content, which also meets the requirements of the "with reference to" reporting option of the Global Reporting Initiative's (GRI) Sustainability Reporting Standards (SRS) and is identified separately. We voluntarily report the management approaches for material topics in accordance with GRI 3-3 (2021).

This report covers the period from January 1 to December 31, 2023.

Nonfinancial Group Statement

We publish the nonfinancial Group statement pursuant to Sections 315b and 315c in conjunction with Sections 289c through 289e HGB as an integrated part of the Group Management Report. The respective sections of the sustainability report include the strategies we pursue in addressing environmental, labor, and social issues as well as protecting human rights and fighting corruption and bribery, including the due diligence processes followed and measures implemented, as well as the outcomes of these strategies. We applied the GRI standards as a framework for preparing the nonfinancial Group statement.

Key topics relevant to the nonfinancial Group statement are identified in an internal process, in consideration of their significance within the company. The starting point for this is the materiality assessment and the material sustainability topics identified or updated as a result, i.e., the topics that are at least of medium financial materiality to Covestro and at least of medium materiality in relation to impacts on people and the environment. Nonfinancial performance indicators are reported only when these are important to the Covestro Group.

The following table provides an overview of the key sustainability topics with an eye to the relevant aspects and contains references to the specific sections in the Group Management Report.

Key sustainability topics of the Group's nonfinancial statement (HGB)

Key topics of the Group's nonfinancial statement (German Commercial Code)	Relevant aspects in accordance with the Group's nonfinancial statement (German Commercial Code)	Section reference in the Group Management Report
Business conduct (compliance)	Environmental matters, fighting corruption and bribery, respect for human rights	"Opportunities and Risks Report," "Compliance"
Circular economy	Environmental matters, social matters	"Strategy," "Circular Economy," "Innovation"
Climate neutrality	Environmental matters, social matters	"Strategy," "Management," "Climate Neutrality"
Diversity, equity & inclusion in our own workforce	Employee matters, respect for human rights, social matters	"Employees"
Environmental responsibility in the supply chain	Environmental matters, social matters	"Procurement," "Sustainability in Sourcing"
Health and safety at our own sites	Employee matters, environmental matters, social matters	"Health & Safety"
Health and safety at the sites of our suppliers	Environmental matters, social matters	"Procurement," "Sustainability in Sourcing"
Inclusive business	Social matters	"Inclusive Business"
Product stewardship	Environmental matters, social matters	"Product Stewardship"
Sustainable solutions	Environmental matters, social matters	"Strategy," "Innovation," "Sustainable Solutions"
Working conditions of our own workforce	Employee matters	"Employees"
Working conditions at the sites of our suppliers	Environmental matters, respect for human rights	"Procurement," "Sustainability in Sourcing"
Worst forms of human rights violations at the sites of our suppliers	Respect for human rights, social matters	"Human Rights," "Sustainability in Sourcing"
Worst forms of human rights violations at our own sites	Respect for human rights, social matters	"Human Rights"

In order to identify and address current developments and sustainability-related opportunities and risks at an early stage, we also review whether there are any new findings relevant to opportunity and risk management. No material risks have been identified in connection with Covestro's own business activities, business relationships, or products that have or are very likely to have a severely negative impact on the nonfinancial aspects of the company's business.

→ See "Opportunities and Risks Report."

A nonfinancial statement or nonfinancial report in accordance with Sections 289c through 289e of the HGB does not have to be provided for Covestro AG at present.

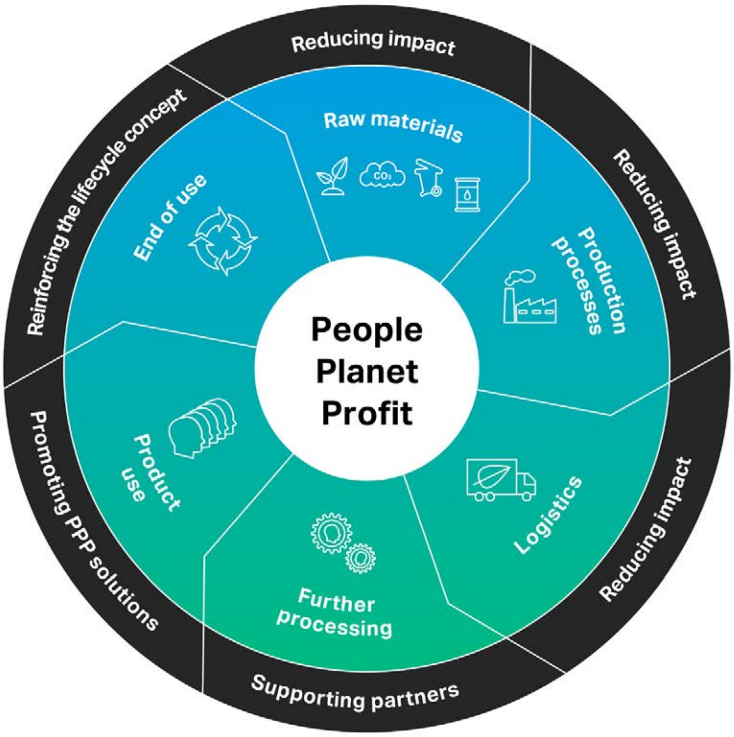
Sustainability at Covestro

Covestro is fully committed to sustainability, as shown in our purpose "to make the world a brighter place." This is underscored by our vision, "We will be fully circular," as well as by the Group's Sustainable Future strategy, which has "Drive Sustainable Growth" and "Become Fully Circular" as strategic chapters. We set sustainability targets as early as in fiscal 2016 and continually adapt these targets in line with our strategy and vision. The fact that a sustainability component has been embedded in our management system should also be considered in this context.

→ See "Covestro's Sustainability Targets."
→ See "Management System."

We integrate sustainability into our business activities, while at the same time ensuring that we deal with the topics and issues of great relevance to us and our stakeholders. In addition to our responsibility for the environment, we also want to fulfill our social responsibility within society in accordance with our purpose. This is why we strive to add value at the social, environmental, and economic levels. Our decisions and our actions should take into account the three dimensions of sustainability: people, planet, and profit (PPP). This is to ensure that every decision, every action we take, and the resulting consequences are considered holistically, that is, throughout the entire value cycle.

Sustainability approach of people, planet, and profit in the value cycle



Sustainability Management

United Nations Sustainable Development Goals (SDGs)

Against the backdrop of our commitment to sustainability, the SDGs are critically important to us as a guideline for improving living conditions worldwide. The SDGs serve primarily as a source of direction and inspiration for innovation and as a guide for the future positioning of the company.

→ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

Covestro already makes positive contributions to all 17 SDGs and many sub-goals. The majority of these relate to products in our core business that, for example, help conserve large amounts of energy during their use phase or are used in other sustainable applications. Additional contributions stem from production activities, workflows, and our business practices, from our social engagement, and from solutions for underserved markets (the inclusive business segment). In addition to evaluating the positive contributions to the SDGs that Covestro is already making, we believe that any analysis of SDGs must also aim to identify potential additional requirements that Covestro could face. By this, we mean topics that, from the perspective of stakeholders, could potentially be seen as having a negative impact on individual SDGs if there was any inactivity or neglect. We are aligning our research and development (R&D) portfolio to the SDGs to increase our contributions further.

Covestro's contributions to the SDGs

	AREAS OF ACTIVITY[1]				
	R&D projects[2]	Core business products	Production, workflows, business practices	Inclusive business	Social engagement
1 No Poverty	●	●	●	●●	●
2 Zero Hunger	●●	●		●●●	●
3 Good Health and Well-Being	●●●	●●	●●	●●	●
4 Quality Education			●	●	●●
5 Gender Equality			●●	●	●
6 Clean Water and Sanitation	●●	●	●●●	●●	●
7 Affordable and Clean Energy	●●	●●●	●	●	●
8 Decent Work and Economic Growth	●●●	●●	●●●	●●	●●
9 Industry, Innovation and Infrastructure	●●●	●●	●●	●●	●
10 Reduced Inequalities	●		●	●	●
11 Sustainable Cities and Communities	●●	●●	●	●●	●●
12 Responsible Consumption and Production	●●●	●●●	●●●	●●	●
13 Climate Action	●●●	●●●	●●	●	●
14 Life Below Water	●●		●		●●
15 Life on Land	●●		●	●●	●
16 Peace, Justice and Strong Institutions		●	●	●	●
17 Partnerships for the Goals	●●	●●	●●	●●●	●●

● Low ●● Medium ●●● High

Internal analysis from fiscal 2017; updated in fiscal 2023 with reference to "R&D projects", "core business products", "inclusive business", and "social engagement" (abridged process). The activity areas – "core business products", "production, workflows, business practices", "inclusive business", and "social engagement" – were updated using qualitative assessments.

[1] The impact of the contributions is comparable within individual areas of activity.

[2] Evaluation of R&D projects by project budget and estimated SDG contribution.

Covestro's Sustainability Targets

We have embedded sustainability-related factors in our company's management system in order to further drive the implementation of our Sustainable Future strategy. Since fiscal 2022, we have measured our business success partly on the basis of selected environmental criteria. To this end, the direct and indirect GHG emissions (Scope 1 and Scope 2), measured in terms of CO_2 equivalents, of the main sites have been integrated into the management system. In future, we also want to include social and governance criteria to cover all three of the environmental, social, and governance aspects. As from the year 2022, this sustainability component – one of a total of four – is relevant for the Covestro Profit Sharing Plan (Covestro PSP), our short-term variable compensation program, which applies to all Covestro employees worldwide, including the Board of Management; any exceptions are essentially due to collective bargaining arrangements.

→ See "Employee Compensation."
→ See "Management System."

In addition, we have introduced a sustainability component – one of a total of three – into Prisma, our long-term variable compensation system for the Board of Management and eligible senior management employees.

→ See Compensation Report, section "Long-Term Variable Compensation."

The compensation systems of the Board of Management and Supervisory Board and the sustainability components included in the Board of Management's short-term and long-term variable compensation are described in detail in Covestro AG's compensation report.

→ See Compensation Report.

The approach that we apply to our sustainability targets aims to cover the entire product life cycle, including social, environmental, and economic aspects. Our sustainability targets contribute to achieving the SDGs and reflect the aims of some of our material sustainability topics. We continually observe developments outside the company and develop our sustainability targets in line with our vision and corporate strategy. In the reporting year, we therefore added another absolute reduction target for our Scope 3 GHG emissions to our goal of climate neutrality for our Scope 1 and Scope 2 GHG emissions. We report on details of our sustainability targets and progress toward meeting them in the appropriate sections of the sustainability report:

Covestro's sustainability targets

2025 > 2035 > 2050 > Future

Sustainability in the supply chain

All of our suppliers with regular purchasing volumes of more than €1 million per year are expected to comply with our sustainability requirements by 2025.

As of 2023: 76% of target-relevant suppliers

Innovation

By the year 2025, 80% of project expenditures for R&D will take place in areas that contribute to reaching the SDGs.

As of 2023: 52% of project expenditure

Inclusive business

We want 10 million people in underserved markets to benefit from our solutions by the year 2025.

As of 2023: 6.7 million people

Climate neutrality Scope 1 + 2 | Scope 3

By the year 2035, we want to reach net-zero greenhouse gas emissions caused by our own production (Scope 1) and greenhouse gas emissions from the provision and use of external energy sources (Scope 2) at all environmentally relevant facilities[1].

As of 2023: −8.4% Scope 1 and Scope 2 greenhouse gas emissions (−0.47 million metric tons of CO_2 equivalents)[2]

By the year 2050, we want to achieve net-zero GHG emissions along our company's value chain (Scope 3).

As of 2023: −27.8% Scope 3 greenhouse gas emissions (−6.08 million metric tons of CO_2 equivalents)[3]

Circular economy

We intend to create more value sustainably and increase our carbon productivity by continually using fewer carbon-based fossil resources, taking a regenerative approach, and closing material loops.

As of 2023: We actively work on the identification of target figures and indicators for circularity.

[1] All production sites and relevant administrative sites.
[2] Compared to 2020 levels
[3] Compared to 2021 levels

Apart from the above, we pursue other sustainability goals and ambitions:

- Our production processes are intended to use 100% alternative raw materials and thus contribute to our pursuit of a circular economy and to reducing our Scope 3 GHG emissions.
  → See "Circular Economy."

- We aim to cut the specific primary energy usage by at least 50% at all material production sites by the year 2030. This is an important milestone of our energy efficiency measures. Meeting this target will therefore also make an important contribution to climate neutrality on our part.
  → See "Climate Neutrality."

- By the year 2029, we want women to account for at least 40% of the workforce in all employee categories and in this way promote diversity and equity for all genders at all levels.
  → See "Employees."

- The above ambition is underpinned further by the target for the proportion of women in the first two management levels below the Board of Management for the period through June 30, 2027.
  → See "Promotion of Equal Participation of Women and Men in Leadership Positions."

Monitoring

Sustainability is a core element of our Group strategy with an impact on our business activities. Oversight of sustainability at Covestro begins with the company's highest governing body, the Supervisory Board, whose Sustainability Committee advises the Supervisory Board, some committees, and the Board of Management in particular on issues of sustainable corporate governance and on the company's activities relating to environmental, social, and governance criteria. Shareholders and employees are equally represented on the Sustainability Committee, with two representatives each. The committee is chaired by Lise Kingo, a Supervisory Board member with proven expertise in the area of sustainability. As part of its function, the Sustainability Committee supports, monitors, and issues recommendations on the Board of Management's environmental, social, and governance (ESG) strategies, targets, and initiatives, including the environmental, social, societal, ethical, and circular economy aspects of Covestro's business along the entire value chain. The Sustainability Committee helps the Audit Committee examine sustainability-related statements ahead of the audit of the Group's nonfinancial statement. Furthermore, it advises the Human Resources Committee on setting ESG targets for Board of Management compensation. The following topics were added to the agenda of the Sustainability Committee in the reporting year: "Progress of the circular economy and climate program and of the cross-functional Human Rights Office," "Developments in the European Union (EU) on chemicals control legislation," and "Enhancement of the sustainability component of the Board of Management's long-term variable compensation by adding social criteria."

→ See Capital Market, section "Report of the Supervisory Board."
→ Additional information is available at: www.covestro.com/en/company/management/supervisory-board

Since sustainability is so important for our company, the entire Board of Management deals with sustainability, while line responsibility lies with our Chief Executive Officer (CEO). The management monitors progress, sets priorities, and, where necessary, adjusts the allocation of resources. The meetings of the Board of Management, which are regularly convened, addressed a number of different sustainability focus areas in the course of the fiscal year. The agenda featured, for example, the circular economy and climate program, the donation policy for fiscal 2023, developments in the EU on chemicals control legislation, and progress of the cross-functional Human Rights Office.

A central governance body for environmental, social, and governance (ESG Governance Body, ESG GoB) issues was set up in the year 2021 to ensure continual progress and the permanent integration of our sustainability-related activities into all corporate functions. When the corporate Group Innovation & Sustainability (GIS) function was established in September 2023, this body was merged with the Innovation Governance Body that existed previously. The objective of the new Sustainability & Innovation Governance Body (SI GoB) is to develop recommended actions for sustainability transformation, identify resources for research and development, and to manage the innovation portfolio for relevant stakeholders. The body is staffed with top-level executives from the business entities and relevant corporate functions. Depending on the topic, additional internal and external guests may be invited to participate. The Chief Executive Officer (CEO) chairs the body, and the Head of the corporate GIS function is tasked with organization and management.

The committee is responsible for Group-wide sustainability issues, oversees mission-critical projects and activities related to sustainability, and possesses the corresponding decision-making powers. In addition, in-depth discussions are held throughout the Group to identify important issues and trends and to promote the implementation of sustainability-related activities in the corporate functions and business entities. The goal here is to manage sustainability issues consistently and holistically and to accelerate the implementation of our sustainability agenda. Until September 2023, the ESG GoB held regular meetings at which it dealt with issues such as the circular economy and climate program, the EU's future chemicals control legislation, and changes to sustainability reporting, including the EU's Corporate Sustainability Reporting Directive (CSRD). The body also discussed further progress in terms of our product portfolio sustainability assessment. At the SI GoB's inaugural meeting, the topics discussed included progress toward meeting the target of reducing Scope 3 GHG emissions and enhancing the sustainability component of the Board of Management's long-term variable compensation by adding social criteria.

The head of the corporate GIS function, who also acts as Chief Sustainability Officer (CSO), reports to the CEO. Alongside business-related R&D in the business entities centered on sustainability, the circular economy, and digital transformation, GIS develops the sustainability strategy and drives cross-functional sustainability projects and programs in the company. GIS coordinates Covestro's sustainability activities and supports the other corporate functions and business entities in implementing them in operations. Furthermore, the corporate GIS function represents Covestro's interests outside the company.

[Stakeholder Dialogue

An open and continuous exchange with our regional, national, and global stakeholders is the foundation for mutual understanding and societal acceptance of Covestro's decisions. At the same time, these discussions provide new inspiration and important recommendations. We have a close and collaborative relationship with our stakeholders. They assess our company not only from a legal standpoint, but also according to whether we do business in a sustainable and ethical manner. In order to identify material sustainability topics, we continually analyze the interests, expectations, and needs of our major stakeholders and incorporate the results into our materiality analysis, our sustainability agenda, our human rights management system, and our opportunity and risk management activities throughout the Group.

→ See "Human Rights."

→ See "Material Sustainability Topics in Fiscal 2023."

The following chart provides an overview of our key stakeholder groups and the relevant dialogue formats.

Covestro's transparent dialogue with important stakeholders

Stakeholder groups	Forms of dialogue
Customers	• Regular in-person exchanges via Sales and Marketing employees • Branding and market research, customer surveys • Attendance at international industry trade shows • Webinars and digital showrooms
Employees	• Town hall meetings with members of the Board of Management and senior executives • Ad-hoc mailings and presentations, company intranet, social media, internal campaigns • Dialogue between managers and employees, regular discussions between the Board of Management and Works Council
Suppliers	• Together for Sustainability initiative • Sustainability events and workshops with suppliers • Regular exchange via staff with procurement responsibilities
Associations	• Active member in national and international associations, e.g. Association of the Chemical Industry e. V. (VCI), Plastics Europe, American Chemistry Council (ACC), and China Petroleum and Chemical Industry Federation (CPCIF)
Scientific community	• Long-standing, collaborative relationships with leading German and international universities and public research institutions
Investors, lenders, and analysts	• Annual General Meeting • Annual report, half-yearly, and quarterly reporting • Various events for investors and analysts with different focuses • Online information offered on investor.covestro.com
Regulators	• Regular exchange with government agencies, ministries, politicians
The public, neighbors, and NGOs	• Ad-hoc dialogue, e.g., in the event of investment projects in the community • Chempark neighborhood offices (Germany), community advisory panels (CAPs) (United States)
Media	• Press releases, press conferences, background discussions, individual interviews • Communication through social media channels such as LinkedIn, X, Facebook, and YouTube • Annual report, half-yearly, and quarterly reporting, as well as presentations and speeches from conferences and meetings (also available on our website)

Depending on the topic and its relevance, we identify and prioritize our stakeholders and select the appropriate dialogue format and frequency of contact in each case. We have a number of different channels available to facilitate our dialogue.

Our sales and procurement employees, for example, use various digital and personal channels to stay in touch with our customers and suppliers.
→ See "Marketing and Sales."
→ See "Procurement."

In addition, site-specific functions look after the interests of local communities in the proximity of our sites. To report suspected or potential human rights violations in the supply chain, we also use our existing whistleblower tool, which consists of a worldwide hotline and an online tool.
→ See "Business Conduct (Compliance)."
→ See "Human Rights."

We use our involvement with associations to share our expertise on certain topics where there are specific legal issues. In terms of lobbying, we have laid down clear and binding rules for our engagement in the political arena. We have undertaken not to make direct donations to political parties, party-affiliated institutions, persons holding or standing for political office – regardless of the country. We have published this voluntary commitment on our website. The associations of which we are a member make donations under their own responsibility – always with due regard to the legal provisions, in particular laws governing political parties. Likewise, our employees may make private donations under their own responsibility and without our influence.

→ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

Materiality Assessment

We identify material sustainability topics to create a foundation for Covestro's worldwide sustainability efforts and define focal points for our sustainability management activities. Specific targets, measures, and management approaches for the respective material sustainability topics are specified in the detailed information of the relevant chapters of the sustainability report.

Materiality Assessment Process

Regularly conducted materiality assessments help us to identify and prioritize the sustainability topics most important to the company and potentially affected groups of stakeholders. We perform both comprehensive materiality assessments every three to five years and annual reviews, an abridged process with reduced scope and effort. Prompted by the EU Corporate Sustainability Reporting Directive (CSRD), whose reporting requirements become effective for Covestro from 2024 onward, a comprehensive materiality analysis was conducted in the reporting year. In this context, the method for conducting the materiality analysis was aligned in the reporting year to fit more closely with the requirements of the European Sustainability Reporting Standards (ESRSs). This alignment involved providing more detailed guidance for the materiality dimensions already used in prior years – "impacts on people and the environment" and "financial materiality" – as well as a number of additional assessment points, such as the value chain – to the extent that information was already available, time horizons, or stakeholder groups affected.

Topics were identified and assessed from the Group perspective. Any differences, e.g., in relation to regionality or segments, were documented and did not lead to divergent assessments. The assessment of impacts on people and the environment has been harmonized with the risk assessment method in the human rights management system. The assessment of the financial materiality of a topic on the basis of risks and opportunities is similar to the assessment in Group-wide risk management. In principle, each assessment is conducted on a gross basis in accordance with the double materiality requirements laid down in ESRS 1 "General Requirements."

Both comprehensive and annual reviews of the materiality analysis are conducted in four steps: identify, assess, validate, implement.

Steps in the materiality assessment process

Identify

We complete a comprehensive analysis every three to five years to identify the material sustainability topics that could be relevant for Covestro and compile an extensive list of topics from internal and external sources. As a minimum, the external sources contain the matters proposed in ESRS 1 "General Requirements, Appendix A Application Requirements." Other sources comprise professional experts and internal representatives of relevant stakeholder groups or other external sources. Potential material sustainability topics are identified on the basis of the business model and Group strategy described in the Company Profile. At the annual review, we assess the previous year's material issues using an abridged process and adapt them or add new issues.

Assess

For both the comprehensive materiality assessment and annual reviews, experts from various relevant expert functions assess the material sustainability topics for their relevance to Covestro and potential impacts on people and the environment. This process takes feedback and opinions of external and internal stakeholders into account. To assess the sustainability topics material to Covestro, we apply the two dimensions of materiality: “impacts on people and the environment” and “financial materiality.”

The impacts on people and the environment also refer to impacts relating to environmental, social, and governance aspects. To determine the impacts of a topic on the environment and people, including human rights, the first step is to determine where – based on the information available to the professional experts – they could occur along the value chain, how they could be linked to Covestro’s business activities, business model, and/or products, and which stakeholder group could be impacted. This is followed by an assessment of actual or potential, positive or negative impacts on the basis of severity and likelihood of the impact. Severity is measured according to the criteria of scale, scope, and irremediability of the impacts. The assessment also takes into account the extent to which it must be expected that the impact of the respective topics will change over short-, medium-, or long-term time horizons. Topics whose impacts on people and the environment are rated at least medium on a scale from very low to very high are considered material.

To determine the financial materiality of a topic, the opportunities and risks were determined on the basis of the size of the financial impacts on Covestro and the likelihood of occurrence. The size is determined on a quantitative or qualitative basis; the latter also considers the ability to continue using or procuring the resources required as well as dependence on business relationships. Assessments already available in the Group-wide risk management system are used as the basis for this assessment. Where relevant, they take account of financial impacts, e.g., in the form of potential claims or reputational damage due to impacts on people and the environment, if there is a risk that could be related to our business activities and the impacts on people and the environment were to be confirmed. Another consideration is to establish the extent to which the opportunities or risks associated with the respective topics should be expected to change over short-, medium-, or long-term time horizons. Topics whose financial impact on Covestro is rated at least medium on a scale from very low to very high are considered material.

In an initial alignment with the CSRD, sustainability topics are considered material if they have at least medium relevance in one of the two materiality dimensions. The reporting is based on current applicable law. The final materiality assessment under the CSRD for fiscal 2024 may deviate from this.

Validate

The material topics and their assessment are reviewed and acknowledged annually by the Chief Sustainability Officer (CSO) and the Board of Management.

Implement

The material sustainability topics are handled and managed by the topic owners from the respective corporate functions according to the need for action identified and their potential impacts on people and the environment. This also includes the respective financial and nonfinancial opportunities and risks as well as any measures required that are mapped in the Group-wide risk management system. In accordance with the company’s internal rules on Group-wide risk management, the relevant corporate function also reports to the Board of Management and Supervisory Board.

→ See “Opportunities and Risks Report.”

Details of the material sustainability topics and the corresponding management approaches are provided in the nonfinancial section of the Group Management Report.

→ See “Nonfinancial Group Statement.”

As part of the methodical revision in the reporting year, all topics specified in ESRS 1 “General Requirements, Appendix A Application Requirements” and other topics identified were first examined and pre-assessed together with experts and then grouped according to the company’s internal management approaches. Each topic was initially assessed according to the double materiality principle with representatives of the relevant corporate functions, which represent the Group perspective. This was supplemented with insights from surveys of the Board of Management, ESG GoB, the management team of the corporate Sustainability & Public Affairs function, which existed until August 2023, and internal representatives of relevant external stakeholder groups, such as the capital market, customers, the media and the general public, policymakers and lawmakers. The individual inputs were calibrated together with representatives of the relevant corporate functions and submitted to the CSO and Board of Management for approval.

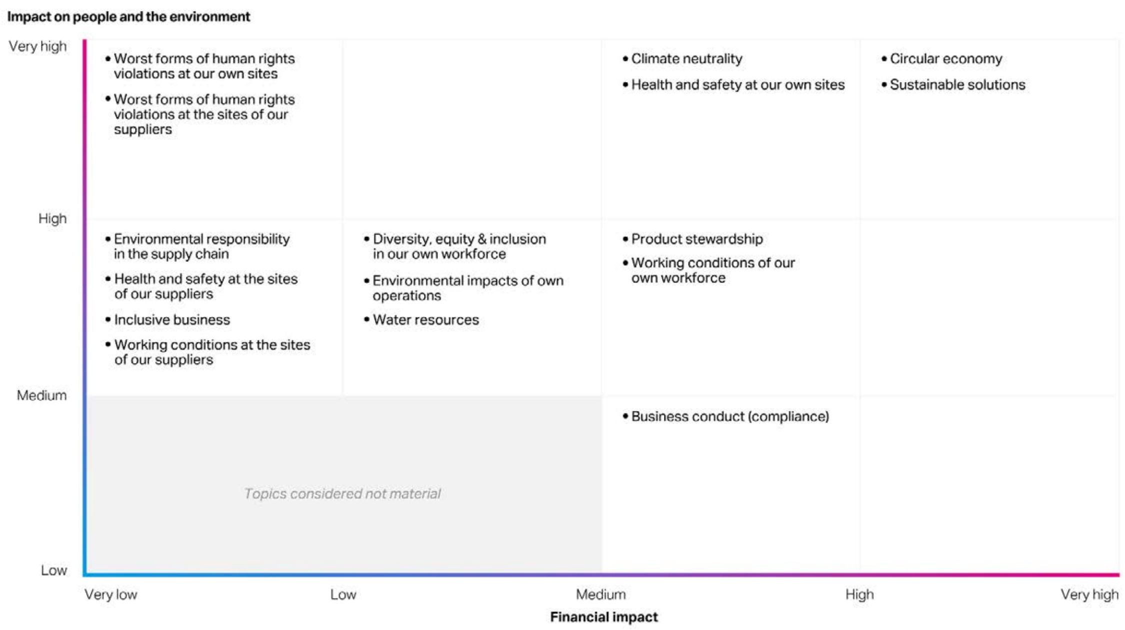
Material Sustainability Topics in Fiscal 2023

The comprehensive materiality assessment conducted in the reporting year confirmed the material sustainability topics most relevant to Covestro. As in the previous year, they reflect our Sustainable Future strategy.

Changes in other material sustainability topics related, e.g., to the definition of the topic concerned or the assessment of the topic on the basis of adjusted assessment criteria.

The “Corporate governance” topic was no longer managed as a separate sustainability topic in the reporting year, as the different governance structures are found in the respective descriptions of the other material sustainability topics. The “Sustainable finance” topic was no longer classified as material since activities in this area are not the central focus of our business activities. One of the objectives of sustainability reporting is to achieve transparency for sustainability in finance. In the reporting year, we identified GHG emissions and other environmental impacts as direct impact drivers for biodiversity loss and assessed these impacts as relevant; we report on them in the subsequent sections of the sustainability report. The “Biodiversity” topic, with its significantly more restrictive definition in relation to (industrial) land use change and soil sealing, is not material for us.

Materiality matrix[1]



[1] Axes truncated. Topics listed alphabetically within quadrants.

Due to its strategic significance, the “Circular economy” topic continues to be of particular relevance for us. In relation to resource inflows, alternative raw materials play an important role for us. As for resource outflows, both our products, their recyclability, and end-of-life solutions and the waste generated by our business activities take a high priority in our efforts to become fully circular. Another focus is on new business models, since partnerships and initiatives help us make progress in the areas mentioned earlier.

→ See “Circular Economy.”
→ See “Innovation.”
→ See “Sustainable Solutions.”

The material sustainability topic of “Climate neutrality” covers Scope 1, Scope 2, and Scope 3 GHG emissions as well as our energy usage. It reflects the components of our goal to become climate neutral by the year 2035 in our own production (Scope 1 emissions) and in the purchase and use of energy produced outside the company

(Scope 2 emissions) at all environmentally relevant sites. Moreover, we set ourselves a new target in the reporting year, of achieving net zero GHG emissions by the year 2050 for our Scope 3 GHG emissions. We acknowledge that GHG emissions contribute to the loss of biodiversity worldwide. We consider our efforts to reduce our Scope 1, Scope 2, and Scope 3 GHG emissions to be a valuable contribution to mitigating this impact driver.
→ See "Climate Neutrality."

The material sustainability topic of "Sustainable solutions" plays a key role for us in fulfilling our purpose of becoming fully circular and making our contribution to climate neutrality. In this process, we consider both our products on the market, such as our Circular Intelligence (CQ) products or climate-neutral applications, and those in the R&D pipeline that promote sustainability. Covestro's goal is to devote 80% of its R&D costs by 2025 to projects that contribute to achieving the SDGs, thus driving sustainable product development.
→ See "Sustainable Solutions."

The material sustainability topic of "Product stewardship" forms the basis for our actions. It reflects our commitment to providing products to our customers that we assess to be safe. Product stewardship refers to the risk assessments and measures that we take to make our products safe for the intended use along their life cycle. This entails thorough testing, compliance with product safety regulations, and transparent communication with our customers about product risks, and the safe handling of our products.
→ See "Product Stewardship."

The topic of "Environmental impacts of own operations" is a fixed component of our integrated Health, Safety, Environment, Energy and Quality (HSEQ) management system and therefore integrated into our management and business processes. Emissions into the air and water are included in the data we collect and assess for their environmental impact throughout the Group. The topic also addresses possible emissions into the soil of microplastics and certain other substances. We acknowledge that entries into the environment contribute to the loss of biodiversity worldwide. We manage our environmental impact by operating our plants in accordance with applicable national legislation and by systematically incorporating the production processes into the integrated HSEQ management system.
→ See "Environmental Impact of Own Operations."
→ See "Integrated Management System for Health, Safety, Environment, Energy, and Quality."

In the reporting year, we assessed the topic of "Water resources" separately for the first time. The availability and accessibility of clean water is important for our production sites. The topic covers the water withdrawn for our production, water consumption, and the volumes of water discharged.
→ See "Water Resources."

Our activities relating to the material sustainability topic of "Human rights" in the previous year are reflected in a large number of areas in the company, such as human resources, as well as in our supplier management. In the reporting year, we highlighted the topics of "Worst forms of human rights violations at our own sites" and "Worst forms of human rights violations at the sites of our suppliers" to give expression to the potential higher impact on people associated with such violations. We have established a management system to contribute to respect for all human rights in all the Covestro Group's activities and throughout global supply chains and value chains, and to the prevention of potential human rights violations.
→ See "Human Rights."
→ See "Sustainability in Sourcing."

As a chemical company, we bear a special responsibility for the health and safety of our stakeholders. Safety is a fundamental principle of our actions. The material "Health and safety at our own sites" sustainability topic also covers process and plant safety as well as transportation safety. It is an integral part of our integrated management system for HSEQ. We strive to eliminate workplace incidents and accidents and operate our plants safely to protect people and the environment.
→ See "Health and Safety."
→ See "Integrated Management System for Health, Safety, Environment, Energy, and Quality."

Our "We Are One" culture is intended to enable us to pursue our Sustainable Future strategy and therefore contributes to Covestro's success now and far into the future. This is why the material sustainability topic of "Working conditions of our own workforce" plays a critical role. Under this topic, we include offerings and arrangements for our employees relating to, e.g., working times and working time models, adequate wages, including collective bargaining agreements, education and training, and secure jobs. Against the backdrop of growing skills shortages, we continue to drive our efforts to win qualified expert staff and retain them for the long term.

→ See "Working Conditions."

"Diversity, equity, and inclusion," which are elements of our "We Are 1" culture and therefore part of the foundation of our Group strategy, play an important role in the company's sustainability position. We therefore continue to pursue innovative solutions to topics that concern our employees. Fair pay is part and parcel of our ethos, as is action against violence and harassment in the workplace and against discrimination.

→ See "Diversity, Equity, and Inclusion of Our Workforce."

Our commitment to sustainability also extends to our suppliers. With social, human rights-related, ethical, and ecological standards for new and existing suppliers, we promote "Environmental responsibility in the supply chain," "Health and safety at the sites of our suppliers," and "Working conditions at the sites of our suppliers." In addition, we campaign for measures against "Worst forms of human rights violations at the sites of our suppliers." We have set ourselves the goal of having 100% of our suppliers with regular purchasing volumes of more than €1 million comply with our sustainability requirements by the year 2025. The assessments of our suppliers in this regard are an integral part of our processes.

→ See "Sustainability in Sourcing."

We consolidate our activities around the sustainability topic of "Inclusive business" in a program under which we aim to meet needs in what are known as underserved markets. We continue to pursue the aim to have 10 million people in these underserved markets benefit from our solutions by the year 2025.

→ See "Inclusive Business."

The material sustainability topic of "Compliance" is the basis of our business practices and firmly embedded in our organization's processes. In this regard, the protection of people who blow the whistle on violations of external or internal regulations plays an important part. Ethical business practices also pertain to our conduct in dealings with suppliers.

→ See "Business Conduct (Compliance)."

External Ratings

The issue of sustainability is gaining in importance for global financial markets and investors and is becoming increasingly relevant for investment decisions. The recognition and assessment of our sustainability performance by rating agencies creates additional transparency and confirms that we are successfully implementing our strategic focus on sustainability. We actively participate in ratings that add the most significant value for our stakeholders and the company.

→ Additional information is available at: www.covestro.com/en/sustainability/what-drives-us/rating-and-indices

We took part in the following ESG ratings in the reporting year: CDP Climate, MSCI ESG, and Sustainalytics. In the reporting year, Covestro was awarded an "A–" score by the CDP organization (formerly Carbon Disclosure Project) for the third time in succession. CDP assesses the activities of companies worldwide in the area of climate protection, thus creating transparency for customers and investors. As a member of the Together for Sustainability (TfS) initiative, our Gold status, which we had attained in the sustainability ranking by EcoVadis in the year 2022, continued to apply in the reporting year. Covestro is reassessed every three years. MSCI, one of the world's most well-known index providers, awarded Covestro an MSCI ESG rating of "A." Due to a change in the rating methodology, the rating was lowered to "A" from "AA" in the previous year. In the ESG Risk Rating conducted by Sustainalytics, Covestro – assessed as medium risk by the provider – was among the leading companies in the specialty chemicals segment. Covestro was ranked 10th out of a total of 138 and named as an ESG Industry Top Rated Company.

In the reporting year, Covestro was again included in the FTSE4Good Index Series of the global index provider FTSE Russell.

Ratings by external ESG rating agencies

Rating	Rating scale	Covestro's score	Award
CDP (Disclosure Insight Action)	**A to D–** (top score: A)	**2023 A–** 2022 A–	**"Leadership" status**
EcoVadis (Sustainable Supply Management)	**0–100 points** (the higher the better)	**2022 72** 2019 80	Gold 2022 EcoVadis Sustainability Rating
MSCI	**AAA to CCC** (top score: AAA)	**2023 A** 2022 AA	
Sustainalytics	**0–100 points** (the lower the better)	**2023 20.1** 2022 21.1	Sustainalytics ESG Industry Top Rated 2022
Index			
FTSE4Good			

→ Additional information is available at: www.covestro.com/en/sustainability/what-drives-us/rating-and-indices

Overarching Sustainability Topics

Sustainable Solutions

Strategy, Management, and Implementation

A sustainable product portfolio plays a key role for us in implementing our Sustainable Future strategy. The continued expansion of such a portfolio is supported by our research- and development-based innovation portfolio. In accordance with our sustainability goals, 80% of project costs for research and development are to be allocated to areas that contribute to reaching the United Nations Sustainable Development Goals (SDGs) by the year 2025. Support will go particularly to product innovations whose contribution to the SDGs drives sustainable development, taking account of our circular and climate neutrality goals.

→ See "Sustainable R&D-Based Innovation Portfolio."

At the same time, we are revising our methodology to assess also the sustainability of our existing products, especially in relation to the circular economy and climate neutrality, and are aligning our product portfolio even more closely in this direction, while taking legal requirements into account. We also report on how and the extent to which our activities are associated with economic activities which qualify as environmentally sustainable economic activities under the European Union's Taxonomy Regulation.

→ See "EU Taxonomy."

It goes without saying that our products can only be sustainable if handling them is safe for people and the environment. For this reason, our product portfolio, too, reflects product stewardship requirements. Our activities in this area are part of the integrated HSEQ management system to ensure that our requirements and standards are met.

→ See "Product Stewardship."

While the business entities managed their product portfolios independently in the reporting year, the ESG Governance Body on environmental, social and governance (ESG) issues and its successor, the Sustainability & Innovation Governance Body (SI GOB), dealt with such matters as progress in revising the sustainability assessment methodology for our product portfolio.

→ See "Sustainability Management."

Sustainable Products

Our work is focused on aligning our product portfolio even more closely with sustainability and circular economy targets. Covestro is building a future-proof, innovative, and sustainable product portfolio using the Portfolio Sustainability Assessment (PSA) based on the methodology developed by the World Business Council for Sustainable Development (WBCSD). This process entails identifying changes in the regulatory and market environment early on with the help of the PSA and considering these as part of the decision-making processes. The results of the PSA are to be integrated in decisions about the product portfolio and in relation to corporate governance. The findings of the pilot project on the evaluation method conducted in the year 2021 were used in the reporting year to further optimize the method in collaboration with an external provider and, for example, to integrate more deeply aspects of the circular economy, climate neutrality, and impact on society. The remaining stages of the pilot and the external review of the methodology are expected to be completed in fiscal 2024. The majority of our new products are already aligned with the SDGs. To drive the development of our circular product portfolio, we want, in the long term, to offer all products in a climate-neutral version that pursues the principles of the circular economy. Our Circular Intelligence (CQ) solutions are based on alternative raw materials and sources of energy as well as chemical recycling; they currently contain at least 25% alternative or recycled raw materials.

→ See "Labeling of Circular Solutions in the Product Portfolio."
→ See "Marketing and Sales."
→ See "Strategy."

Sustainable R&D-Based Innovation Portfolio

Covestro already brings sustainable solutions to the market and, going forward, aims to develop products that are even more closely aligned with the SDGs and will in turn lead to more sustainable solutions at our customers. Attaining this goal means continually changing over our product range to sustainable solutions. For instance, in R&D we have already begun our pursuit of a much more sustainable project portfolio. This focus enables us to identify, research, and test unconventional and unique approaches early on, thus contributing to meeting the SDGs with our R&D products and technologies.

OUR INNOVATION GOAL

STATUS 2023

52%

of project expenditure

2022: 51%
2021: 54%

We want our R&D project portfolio to be aligned with the SDGs. By the year 2025, 80% of project expenditures for research and development are expected to be used in areas that contribute to reaching these goals.

To measure our ambitious goal of spending 80% of project expenditures on R&D in areas that contribute to reaching the SDGs, we are setting high standards for evaluating our projects. That is why we only consider projects that make an additional contribution to the SDGs when measuring our progress. We have implemented a Group-wide assessment process as part of the existing innovation process; it measures what the projects have added to quantify this additional contribution. This involves subjecting all R&D projects to an assessment based on internal interviews with experts in which we ask specific questions to evaluate the impact of a project and its results on all 17 SDGs. Only projects adding specifically measurable value to the SDGs over and above that of solutions currently on the market are included. This assessment matrix was again applied to Covestro’s R&D portfolio in the reporting year 2023. In this portfolio, 52% and therefore €40 million (previous year: 51% and €39 million) of R&D project expenditure exceeds our defined threshold.

Product Stewardship

To Covestro, product stewardship means comprehensively evaluating health, safety, and environmental risks in connection with the handling and use of our products. We want our products to be safe throughout their entire life cycle – from research to production and marketing to their intended use by customers and all the way to disposal. For this purpose, we provide our customers with all information needed to communicate along the value chain, right up to the end user. Product stewardship is also a focus of our human rights due diligence activities.
→ See "Human Rights."

Monitoring the quality of our products and their suitability for particular uses is anchored in our corporate functions and segments. Safe transportation, qualification for specifically regulated applications, and marketability are centrally managed at Covestro, as is the obligation to report to the Board of Management on these matters.

The safe handling and use of our products have high priority. It is very important to us to communicate product safety information transparently and comprehensively. In addition to the legally required documentation, we also provide further information and offer training in line with the Global Product Strategy of the International Council of Chemical Associations (ICCA). Furthermore, specially trained employees throughout the company work closely with suppliers, customers, industry associations, and the public. Covestro thus aims to ensure the effective communication and observance of health, safety, and environmental information along the entire supply chain.

Management of Product Stewardship

Product stewardship involves both compliance with statutory requirements and voluntary commitments. Here we also take into account the so-called precautionary principle as explained in Principle 15 of the Rio Declaration of the United Nations and communication COM(2000) 1 of the European Commission. This important means of protecting consumers and the environment may be used in special situations in which, according to an objective and comprehensive scientific evaluation, material or irreversible harm to people and the environment may occur, but the risk of this cannot be determined with sufficient certainty. In this regard, we follow the corresponding principles of the European Commission when applying the precautionary principle. These include especially the proportionality of the protective measures taken, an examination of the benefits and the disadvantages of all relevant options, as well as the review of the measures taken in light of new scientific developments. Arbitrary decisions cannot be justified by invoking the precautionary principle.

As a contribution to the safe handling and use of chemicals, risk assessments are carried out applying recognized scientific principles such as those described by the European Chemicals Agency (ECHA) in its Guidance on Information Requirements and Chemical Safety Assessment. A determination is made based on a hazard assessment and exposure estimation as to which additional information is required for the risk characterization of a product.

All product groups at Covestro undergo a multiple-step product evaluation process. At first, we identify chemicals that are subject to statutory regulations. The chemicals identified in this way include relevant hazardous substances that are legally classified in the EU by the European Regulation on Classification, Labelling and Packaging of substances and mixtures (CLP). Examples of these include substances of very high concern (SVHCs) as classified in accordance with the European Regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH). We then examine the risk potential of our products. During this process, we also identify substances for which only limited use or marketing is permitted based on the applicable laws and regulations, and provide this information to our customers. Examples of these include the substances mentioned above that are legally classified by CLP or are classified by REACH as SVHCs. Substance compositions in all regions are checked with the help of IT systems against lists of regulated substances, including relevant hazardous substances and SVHCs, so regulatory requirements can be reliably complied with. In addition, we ensure compliance with the regulatory obligations to communicate with our customers for jurisdictions where we market our products. Should the assessment or new findings reveal that it is not safe to use a certain product, we take the necessary risk mitigation measures. Those can range from technical measures such as protective equipment and revised application recommendations to the withdrawal of support for a certain application or the substitution of a substance. In this case, an adequate replacement must be sought which can be produced in an economical and technically feasible way. Finally, we produce safety data sheets and labeling for all products in up to 40 different languages, including chemicals that are not subject to any legal obligation. In this respect, Covestro also exceeds the statutory requirements by making these safety data sheets publicly available.

We collect, document, and analyze all information about the safe and compliant use of our products in a global information system, which provides the basis for further improvements. This includes product surveillance and reporting on product-related and compliance incidents. Our global regulations for the Group contain rules and guidance on when and how this information is to be used. For example, this helps us improve the information on the safe handling of our products and provide customers with specific training. Furthermore, workshops, and online training sessions for our employees contribute to solidifying the understanding and importance of product stewardship in the company.

For fiscal 2023, we know of no material incidents of noncompliance with regulations or voluntary codes – either concerning the health and safety impacts of products and services, or relating to product information and labeling.

The optimization of products and processes is a continuous task of the chemical industry and is integral to our commitments as part of the Responsible Care™ initiative. This is an initiative by the chemical industry that aims for continual improvement by companies in the areas of environment, safety, and health, regardless of the legal requirements. We also participate in the further development of scientific risk assessments through our involvement in industry associations and initiatives. International associations such as the European Chemical Industry Council (Cefic) and the International Council of Chemical Associations (ICCA) are working to improve the scientific assessment of chemicals and research new testing methods. Moreover, they monitor implementation of legal regulations. Covestro is actively involved in association activities. Furthermore, we endorse the initiatives of the World Health Organization (WHO) and the European Union (EU) to improve health and the environment, for example with the further development of human biomonitoring through an alliance with the German Chemical Industry Association (VCI) and the German Federal Ministry of the Environment.

Implementation of Regulations and Voluntary Programs Pertaining to Chemicals

Covestro adheres to the applicable regulations pertaining to chemicals, such as REACH in Europe and the Toxic Substances Control Act (TSCA) in the United States. These regulations are aimed at protecting human health and the environment from the risks posed by chemicals, and thus shape our activities as a manufacturer, importer, and user of chemicals. We have established internal regulations to adequately address the multitude and complexity of the relevant requirements. They guide our employees in how to fulfill regulatory requirements.

Substances registered according to REACH are assessed by regulators. This can result, for example, in additional testing requirements, new risk management measures, or inclusion in the REACH authorization or restriction procedure. A number of Covestro substances are affected by this procedure, which restricts the use of those substances or can lead to their substitution or prohibition. The restriction on diisocyanates published in the Official Journal of the EU in August 2020 is one example of a restriction. In this case, labeling of diisocyanates had to be modified by February 2022, but this will not affect their availability. However, all users of products containing diisocyanates at a concentration of more than 0.1% of the residual monomer had to be trained in their use by August 2023. Covestro supported this process and advocated for the practical and effective implementation of this requirement, for instance in the preparation of training materials. As part of the European chemical industry, we furthermore made a voluntary commitment to review and improve the REACH registration dossiers by the year 2026.

We ensure that substance assessments comparable to those meeting the high standards of REACH or the TSCA will also be applied at Covestro sites that are not subject to these regulations. The relevant procedure is established in the directive on “Product Stewardship” in the attachment entitled “Substance Information and its Availability.” When it comes to purchased substances, we are dependent on information provided by our suppliers.

Another example of our commitment to Responsible Care™ is the support we provide for customers for safely handling large quantities of reactive products through tank-farm safety assessments.

Covestro has also committed to compliance with animal welfare policies during toxicological and ecotoxicological testing.

→ Additional information is available at:
https://solutions.covestro.com/-/media/covestro/corporate/productsafetyfirst/resources/statement-on-animal-studies-en

We support the Global Product Strategy (GPS), a voluntary commitment by the chemical industry initiated by the ICCA. Its objective is to improve knowledge about chemical products, especially in emerging countries and countries of the Global South, and thus increase safety in the handling of these products. GPS is accessible at Covestro through the Product Safety First internet portal and is available worldwide. On this website, we inform our customers and other interest groups about safety-relevant properties and the safe handling of our products.

Substances That Are the Subject of Public Debate

Covestro is following the scientific discussion about the chemical bisphenol A (BPA), an important raw material for various plastics, e.g., polycarbonate. Critics, but also some authorities, are concerned that risks could result for people and the environment if traces of BPA are released from products.

Based on numerous scientifically valid and high-quality studies, Covestro is confident that BPA can be safely used in all areas of application supported to date. By participating in regulatory processes, Covestro works actively to dispel uncertainties and answer open questions. In addition, we continue to advocate for more objective discussions based on all of the scientific data in cooperation with the Plastics Europe association, the American Chemistry Council (ACC), and the China Petroleum and Chemical Industry Federation (CPCIF). Covestro is involved in the discussions and provides information to customers and the public on this issue through associations, on the Covestro website, and through direct contacts.

Per- and polyfluoroalkyl substances (PFAS) are a subject of public discussion due to possible undesirable effects on people and the environment. PFAS are essential chemicals in a number of mainly industrial products, including many high-tech applications, often on account of their ability to resist heat and chemicals. PFAS are a challenge for all segments of industry, including chemicals, because various regulatory initiatives intend to limit the use of PFAS.

We monitor the regulatory debate and support proportionate, implementable, and enforceable regulations based on robust scientific results and a reliable risk assessment. We already include in our safety data sheets in the EU any PFAS that are classified as SVHC by REACH and are contained in our products at a concentration of more than 0.1% by weight.

Sustainability in Sourcing

Strategy

The corporate Group Procurement function focuses on supply security, financial contributions, and qualitative requirements, acting at all times in accordance with ethical, environmental, social, and economic principles. Sustainability and circular economy is one of the four strategic principles in procurement. Covestro regards adherence to sustainability standards within the supply chain as a fundamental factor in value creation and, at the same time, an important lever for minimizing risks. Both current and new Covestro suppliers must meet not only economic standards but also social, ethical, and environmental standards as well as those related to corporate responsibility. Working conditions and health effects on people working in the supply chain are particularly important to us, which is why they are a key topic of our cross-functional Human Rights Office. Although the risk analysis conducted there as part of human rights due diligence focuses on direct suppliers, it also considers the upstream supply chain, especially if there are specific allegations.

→ See “Human Rights.”
→ See “Procurement.”
→ Additional information is available at: www.covestro.com/en/company/profile/procurement/sustainability-in-procurement/supplier-code-of-conduct

Governance

Procurement is responsible for managing our suppliers to ensure that they act in accordance with Covestro’s standards, for example, with regard to human rights, labor standards, environmental protection, product safety, transparency, and anti-corruption, as described in Covestro’s Supplier Code of Conduct. Our supplier management goal is broken down each year for the individual procurement categories and communicated by the head of our Corporate Procurement function (Chief Procurement Officer, CPO). The status of target attainment is reported internally on a regular basis.

Two designated members of the corporate Group Procurement function support the cross-functional Human Rights Office. Additionally, our CPO is the risk owner for procurement-related issues in Group-wide risk management. Procurement’s responsibilities include the identification and assessment of risks in the upstream supply chain and the implementation of appropriate measures.

The CPO reports directly to the company’s Chief Technology Officer (CTO).

→ See “Human Rights.”

Policies

Our expectations are documented in Covestro’s Supplier Code of Conduct, which will be revised and published next year. The Code of Conduct is available online in 13 languages and forms the basis for collaborative projects. The Code is derived from the principles of the UN Global Compact and our Corporate Commitment on human rights. It is integrated into the electronic ordering systems and contracts across the Covestro Group. Covestro expects its suppliers and subcontractors to agree to the principles in this Code of Conduct. We also expect our suppliers to implement these standards in the upstream supply chain. New and renewed supply agreements in particular generally contain special clauses calling on suppliers to adhere to the sustainability requirements under the three dimensions of people, planet, and profit (PPP) outlined in the Code of Conduct and entitling Covestro to verify compliance.

→ Additional information is available at: www.covestro.com/en/company/profile/procurement/sustainability-in-procurement/supplier-code-of-conduct

In addition to our Supplier Code of Conduct, we have also formulated a human rights declaration of principles that includes the basis of our human rights due diligence. It contains information on our human rights strategy, including in relation to our suppliers, and on how we comply appropriately with our due diligence obligations, taking into account the requirements of the German Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains. Zero tolerance toward child labor, forced labor, modern slavery, and human trafficking is a key component of our human rights declaration of principles and also forms part of our Supplier Code of Conduct.

→ See "Human Rights."

→ Additional information is available at: www.covestro.com/-/media/covestro/corporate/sustainability/documents-and-downloads/policies-and-commitments/documents/covestro-commitment_human-rights-policy-statement.pdf

Targets and Metrics*
Our Supplier Management Goal

OUR SUPPLIER MANAGEMENT GOAL

STATUS 2023

76%
of suppliers

2022: 80%
2021: 80%

100% of our target relevant suppliers are expected to comply with our sustainability requirements by the year 2025.

Covestro has set ambitious measurable targets through 2025 aimed at systematically promoting sustainability in supplier management. All suppliers must comply with our code of conduct, which they commit to by accepting the conditions of our purchase orders or contracts. We consider target-relevant suppliers to be suppliers with regular purchasing volumes of more than €1 million per year and suppliers belonging to a corporate group that reaches an aggregate regular purchasing volume of more than €1 million. The supplier evaluation is conducted at the individual level or at the level of the corporate group. As of the end of the year 2022, these suppliers were defined as the target-relevant basis for the remaining years. They are also evaluated and covered 84% (previous year: 90%) of our total purchasing value in the reporting year. They comply with Covestro's sustainability requirements by meeting the minimum result as defined by us in the supplier evaluations described below.

In addition, we work closely with our strategically most important suppliers to improve their sustainability performance. We have also incorporated this approach into our sustainability goals. We also added a risk-based approach on the protection of human rights to our procedure in the reporting year. A supplemental risk analysis considers all suppliers, irrespective of purchasing value, on the basis of industry and country risks with regard to potential human rights risks. Additional measures can be taken for any potentially high-risk suppliers identified with regard to human rights.

Evaluation Methods and Processes of the Together for Sustainability (TfS) Initiative

Covestro is a member of Together for Sustainability AISBL, Brussels (Belgium), a joint initiative undertaken by the chemical industry that now includes 50 companies. This industry-led initiative pursues the goal of establishing a program of global standards for responsibly sourcing goods and services and standardizing supplier evaluation methods worldwide. Covestro supports all criteria by the TfS initiative concerning the areas of ethics, labor & human rights, health and safety, and the environment.

As a member of TfS, Covestro is responsible for monitoring and auditing the sustainability performance of its suppliers. TfS supports this effort by providing the infrastructure for online assessments and on-site audits of

* The assessments provided by the external providers EcoVadis SAS, Together for Sustainability AISBL, and the European Chemical Industry Council (Cefic) were not subject to the audit by KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (Germany).

suppliers by third parties. The results of these supplier evaluations can be shared via an online platform. During the reporting year, Covestro once again played an active role in the TfS work streams in designing and improving the TfS program and the associated evaluation process.

In order to avoid duplication of audits, increase acceptance by suppliers, and save resources, TfS and the European Chemical Industry Council (Cefic) have entered into a partnership aiming to work jointly on audits of logistics service providers in particular. Cefic uses the SQAS (Safety & Quality Assessment for Sustainability) system for this purpose, a standardized assessment process for European logistics service providers and chemicals distributors that covers quality, safety, environmental, Responsible Care™, and corporate social responsibility criteria. The SQAS reports prepared by Cefic are recognized by TfS as equivalent to a TfS audit report.

Using a standardized TfS assessment process, Covestro evaluates whether the suppliers maintain the required sustainability standards. A structured prioritization process is then carried out to select the suppliers to be evaluated and either an online assessment or an on-site audit initiated for these suppliers – provided that there are no current results. In prioritizing the suppliers for these evaluations, Covestro considers a combination of country and commodity risks. The risk assessment for country and material groups that we use for our risk analysis is based on recognized external sources.

EcoVadis SAS (EcoVadis), Paris (France), an established external provider accredited by TfS, conducts the online assessments. It evaluates the degree to which suppliers' business practices are aligned with sustainability principles. The questionnaire suppliers complete for the online assessment is based on internationally recognized sustainability standards and includes 21 sustainability criteria grouped into the categories of environmental protection, labor and human rights, ethics, and sustainable procurement. The section on sustainable procurement also inquires about the extent to which the sustainability standards of upstream suppliers are considered. Certain suppliers that do not engage in wholesale trade and do not employ more than 25 people receive an abbreviated questionnaire that does not address the topic of sustainable procurement.

The questionnaire is dynamically adapted by EcoVadis depending on factors such as the industrial sector, company size, and country risk. Suppliers must document their responses to the questionnaire with corresponding supporting documents. The EcoVadis analysts assess supplier responses and supporting documents under consideration of international standards, such as the UN Global Compact, and consolidate the data into a scorecard available online that shows results by category. This scorecard information includes a detailed overview of identified strengths and areas for improvement as well as a weighted overall result for the suppliers analyzed.

External, independent auditors trained and accredited by TfS or Cefic conduct on-site audits of selected companies – and follow-up audits, if necessary, based on defined sustainability criteria. For the purpose of monitoring the quality of the audits, the initiating TfS member takes part in audits selected on a random basis and evaluates them using a standardized checklist.

The number of supplier evaluations conducted was down slightly from the previous year, totaling 956 in the reporting year (previous year: 969).

Key data from the sustainability evaluations of Covestro's suppliers[1]

	2022	2023
Supplier evaluations conducted in the reporting year	**969**	**956**
through online assessments	954	942
through on-site audits	15	14
Total supplier evaluations conducted	**1,628**	**1,590**
through online assessments	1,544	1,523
through on-site audits	84	67

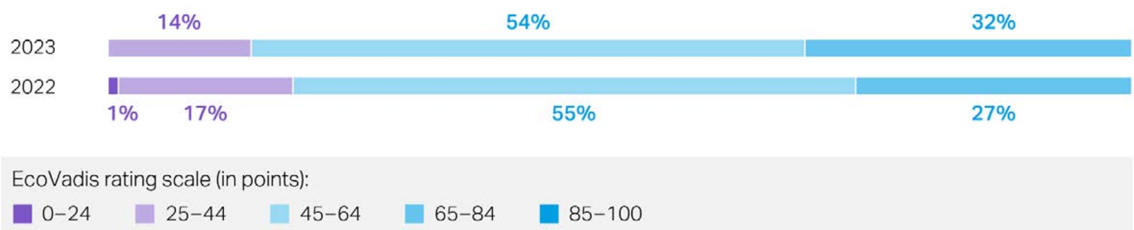
[1] Online assessments (conducted by external, independent, TfS-accredited provider EcoVadis) and on-site audits (conducted by external, independent, TfS- or Cefic-accredited auditors) of Covestro's suppliers, both initiated by Covestro and shared within the TfS initiative, are taken into account. Only assessments of our active suppliers that are no more than three years old are included.

Supplier Evaluation Results*

At the end of fiscal 2023, the number of supplier evaluations whose results met our sustainability requirements amounted to 1,289 (previous year: 1,236). Of these supplier assessments, 507 involved our target-relevant suppliers, who account for 76% (previous year: 80%) of our target-relevant purchasing value. Furthermore, 53% of our target-relevant suppliers who underwent a repeat assessment in fiscal 2023 have improved compared with their previous results.

The share of online assessments in which suppliers met the minimum result we defined (45%) was 86% for the online assessments conducted in the year under review (previous year: 82%). Thanks to our joint efforts toward continually improving our sustainability performance as well as training opportunities offered, the results of the online assessments improved year over year.

Overall results of the online assessments completed in the reporting year



The share of on-site audits in which suppliers met the minimum result we defined (45%) was 100% for the on-site audits conducted in the year under review (previous year: 93%).

[Worldwide Supplier Evaluations through the TfS Initiative*

In the year 2023, the now 50 members of TfS evaluated the sustainability performance of a total of 11,421 suppliers through online assessments and performed 492 on-site supplier audits.

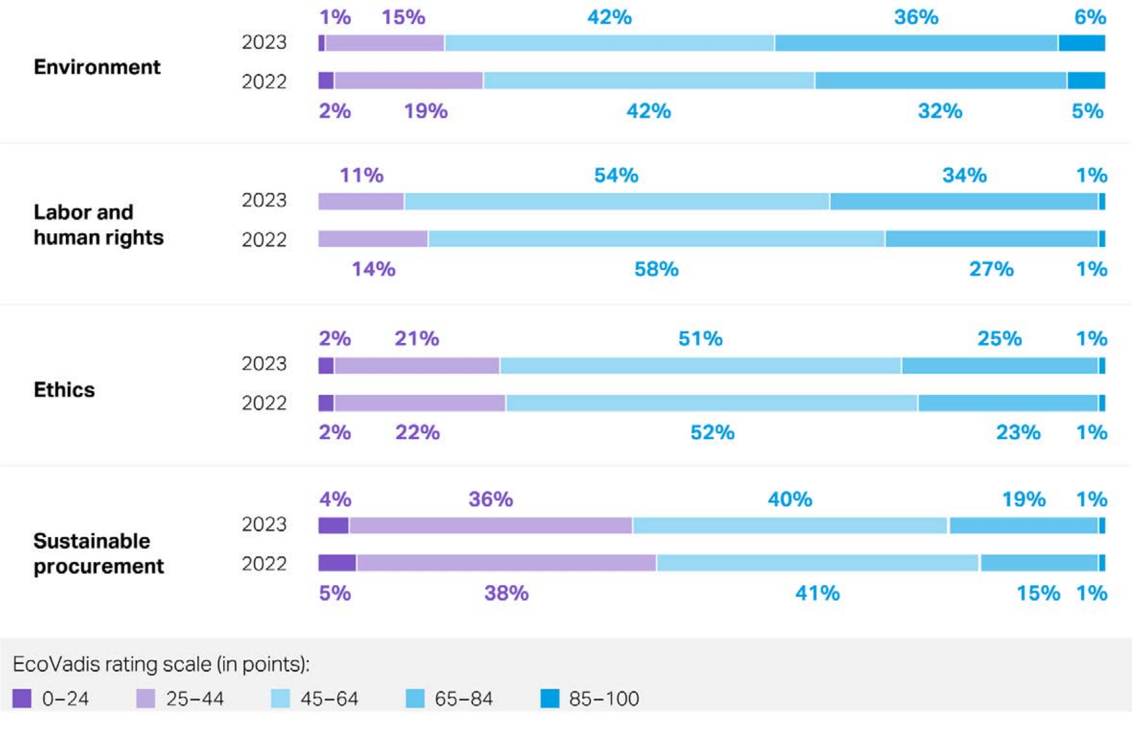
All the results from the online assessments and on-site audits are available to members of the initiative on an online platform, thereby enabling continual monitoring of suppliers with a view to improvements. The TfS initiative also benefits suppliers because their standardized evaluations can be viewed by all TfS members. This means they do not have to complete multiple evaluation surveys from various (potential) customers.

Detailed Results of the Supplier Evaluations*

We regularly analyze the results of the online assessments in the areas of environment, labor and human rights, ethics, and sustainable procurement. The results of the assessments carried out in the previous year and the reporting year are summarized in the following chart:

* The assessments provided by the external providers EcoVadis SAS, Together for Sustainability AISBL, and the European Chemical Industry Council (Cefic) were not subject to the audit by KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (Germany).

Detailed results of the online assessments completed in the reporting year



The detailed results in all areas indicate a positive trend (increased share of online assessments reaching a score of 45 or higher).

In analyzing the supplier evaluations for the year 2023, we identified deviations from our sustainability requirements in all listed areas. This was due to factors including missing documentation of policies and measures relating to waste, water, and environmental management as well as a lack of occupational safety measures such as insufficient or no signage installed at emergency exits or exceeding the weekly working hours according to the TfS standard.]

Human Rights Due Diligence – Risk Analysis Covering Direct Suppliers

Human rights due diligence and the materiality analysis performed in the reporting year identified human rights risks at direct suppliers of Covestro. The key issues we identified at our direct suppliers relate primarily to working conditions and health impacts on persons working in the supply chain. The risk analysis focuses on direct suppliers, but it also considers the upstream supply chain, especially if there are specific allegations. Conflict minerals in the upstream supply chain are one area relevant to human rights that we prioritize. They include, e.g., tin, tungsten, tantalum, and gold (3TG) from conflict or high-risk regions. Conflict minerals can enter our company's products through the upstream supply chain. To minimize the risk of including conflict minerals in our production processes, our requirements in this regard are communicated in our Supplier Code of Conduct.

→ See "Human Rights."

Actions

Corrective Actions Following Supplier Evaluations

Covestro analyzes and documents the online assessments and on-site audits. The number of supplier evaluations conducted and the overall results are reviewed regularly and reported to the Chief Technology Officer. In the event of noncompliance with our sustainability requirements, we work with suppliers to define specific improvement measures and corresponding targets, and Covestro constantly verifies the implementation of the required improvements.

In 2023, assessment results considered critical by Covestro were identified for one target-relevant supplier (previous year: one target-relevant supplier), meaning that the required minimum result was not met by a significant margin. Covestro responds to such infractions with specific action plans and demands that the suppliers in question implement appropriate corrective actions; supplier assessments will be conducted in future to verify compliance.

None of the supplier assessments conducted revealed any indication of child or forced labor. In addition, Covestro had no cause to terminate a supplier relationship in the reporting year or in the previous year solely on account of an externally determined result or a serious sustainability deficit.

Sustainability Training and Dialogue

For Covestro, it is important for our own procurement staff, in particular, to have a comprehensive understanding of the significance of sustainability in sourcing. Awareness of this issue was raised among employees again in fiscal 2023 in company-wide sustainability training plus region- and country-specific training on evaluation methods and processes. Moreover, our regional program management in the EMLA, NA, and APAC regions is working on permanently improving our sustainability program. Function-wide training events on the topic of human rights were held in the reporting year. These training events were used to teach employees of the corporate Group Procurement function the principles of human rights and to explain our human rights management approach, risk analysis of direct suppliers, including the results, and the planned future steps. Dialogue and close collaboration are essential in enabling suppliers to successfully comply with Covestro's sustainability requirements. We therefore offer our suppliers a range of opportunities for training and dialogue. This provides the foundation for building reliable relationships and enables us to identify and eliminate issues at an early stage. Continually improving our suppliers' sustainability performance is a priority for Covestro and is supported by the TfS initiative, which regularly organizes education and training courses, for example. The TfS Academy was launched in April 2022, a platform for buyers in the chemical industry and their suppliers on which they can expand and deepen their knowledge, keep up to date with trends, and make their contribution to creating more sustainable, more innovative, and more resilient supply chains. The TfS Academy is constantly expanding and currently provides access to more than 390 courses in 11 languages.

→ Additional information is available at: www.tfs-initiative.com

Integrated Management System for Health, Safety, Environment, Energy, and Quality

Covestro's stated aims are to take preventive measures to protect employees, suppliers, service providers, working communities, and residential neighborhoods surrounding our sites; to ensure uninterrupted operations; and to continually improve quality. This responsibility has been assigned to the head of the corporate Group Health, Safety and Environment (HSE) function, who reports to the CTO. The integrated system implemented throughout the Group ensures that the requirements of the health, safety, environment, energy, and quality (HSEQ) directives are carried out. It is based on internationally recognized standards governing occupational health and safety management systems (ISO 45001), environmental management systems (ISO 14001), energy management systems (ISO 50001), and quality management systems (ISO 9001).

Adherence to processes and workflows is continuously reviewed through regularly conducted internal audits, annual self-assessments, and external certifications. The insights we gain from these measures are incorporated into our annual management review. Every process is thus subject to continuous monitoring and is updated as required.

Our existing HSEQ management system corresponds to the requirements of the current ISO 9001:2015, ISO 14001:2015, and ISO 45001:2018 standards. In fiscal 2023, based on these ISO standards, it was also successfully reviewed, audited, and had its certification upheld by an external certification body. Specific targets in line with the aforementioned ISO standards have been defined.

→ See "Health and Safety."
→ See "Environmental Impact of Own Operations."

The acquisition in the year 2021 of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), resulted in new sites being added to the Covestro Group. Covestro's regulations will be applied to the new sites gradually, since different HSEQ guidelines and standards have applied to some of these locations in the past. This process will still take some time and will run for a number of years in specific cases.

The corporate Group HSE function is responsible for the integrated HSEQ management system, which comprises the following three elements: health and safety, environment and energy, and quality.

Health and Safety

In the area of occupational health and safety, globally applicable processes and workflows include detailed rules governing the safety of production facilities and manufacturing processes, the investigation of accidents and environmental as well as transportation incidents, health care and occupational safety, and emergency management at Covestro. The rules stipulated by international standards such as ISO 45001 comprise the minimum requirements applicable worldwide and are supplemented with additional regulations if needed. They are intended to prevent work-related health impacts and accidents and incidents at the workplace or on transportation routes that could have adverse consequences for people or the environment. In addition, we offer support to our customers, for example by providing training on the safe handling of our products in and outside of our facilities. We increasingly rely on the support of third-party databases to help us identify, review, and update our compliance with mandatory legal and other requirements.

→ See "Health and Safety."
→ See "Product Stewardship."

Environment and Energy

Minimum environmental and energy standards applicable worldwide were specified to ensure that our high standards for resource conservation and emissions reduction are met. These requirements are based on internationally recognized standards and rules such as ISO 14001 (environmental management systems) and ISO 50001 (energy management systems). Each year we analyze and evaluate the effects of our activities on the environment. From our environmental performance assessment, we derive measures to reduce and minimize environmental impacts. Global process and workflow descriptions help us implement these measures throughout the Group. In the reporting year the energy efficiency system at the major German production sites introduced in the 2008 fiscal year was reviewed and audited by an independent certification body, and its certification to ISO 50001 upheld.

Quality

We have very high expectations of the raw material quality we use, and we set ourselves high standards for their processing into high-performance plastics and polyurethane precursors. Within the framework of our integrated HSEQ management system, our quality management activities meet the requirements of the current ISO 9001:2015 standard. Thanks to our quality management system, we can put in place the conditions necessary for incorporating our customers' requirements and their satisfaction into our products and services.

Audits and Certifications

Our binding Group regulations that serve to achieve HSEQ goals are available to all employees in the Group's in-house databases and are reviewed annually using internal audits and external certification companies. This may require the management system to be adjusted. Our business activities are covered by certified HSEQ management systems to the degree outlined below:

Certification of HSEQ management systems according to external standards[1]

	2022	2023
	in %	in %
Certified according to various quality management standards such as ISO 9001	100	100
ISO 14001 certified/EMAS validated (environment)	95	95
ISO 45001 (formerly OHSAS 18001) certified (occupational safety)	87	87
ISO 50001 certified (energy)	44	41

[1] In % of business activity, measured according to energy usage.

Environmental Matters

Circular Economy

A key component of Covestro's Group strategy is the aim to become fully circular. This helps us address the environment-related sustainability aspects of our activities in particular. This firstly means moving away from the use of fossil-based raw materials and secondly demonstrates a holistic orientation toward regenerative production and business models in order to adjust the environmental footprint of our business activities, such as the concentration of CO_2 in the atmosphere, to within planetary boundaries. In our pursuit of a circular economy, we aim in particular to minimize our fossil footprint by replacing the use of primary raw materials with alternative raw materials.

Governance

At Covestro, the issue of the circular economy is addressed in all business entities and managed on the basis of initiatives driven by the corporate functions. This is done by providing incentives for continual implementation, planning, and target-setting in which the corporate Group Innovation & Sustainability function takes the lead on key aspects. Important fundamental decisions on environmental, social, and governance (ESG) issues are taken by the ESG Governance Body (ESG GoB) or its successor, the Sustainability & Innovation Governance Body (SI GoB), and the Board of Management. In addition, risks relevant in connection with the circular economy are taken into account in the Group-wide risk management.

Strategy

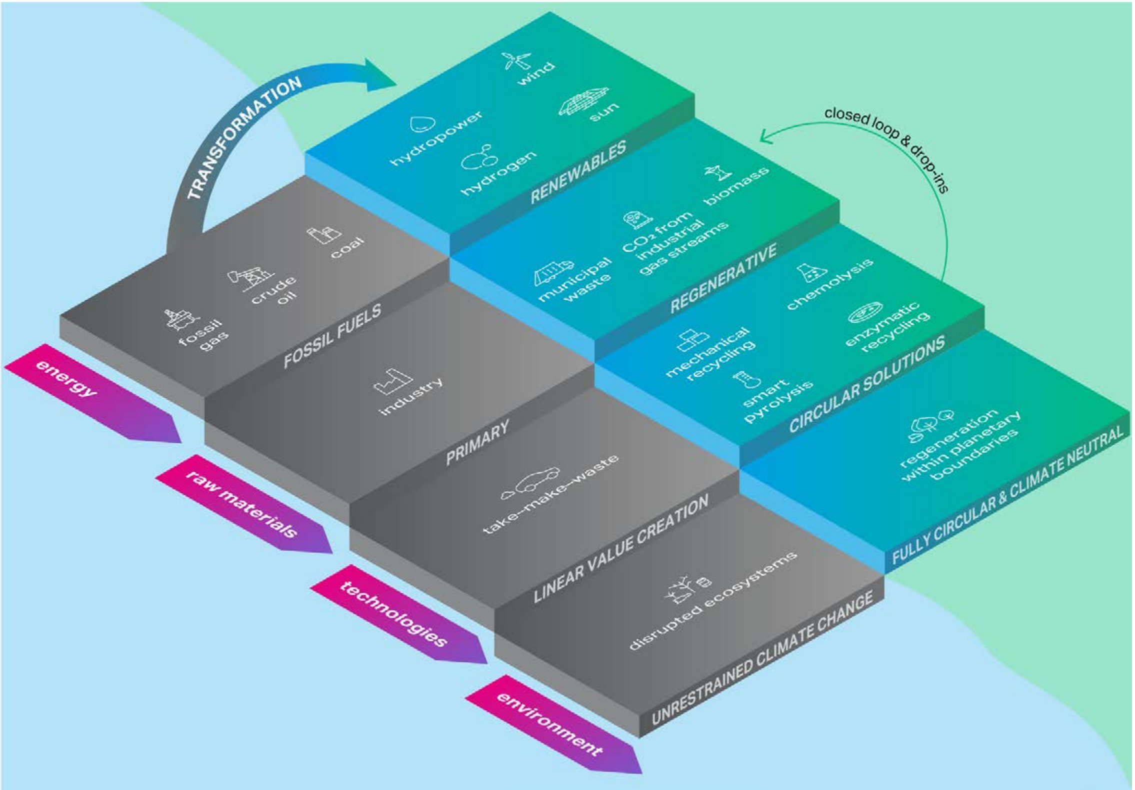
We are aware that the circular economy involves more than just switching raw material sources. As a resource-intensive company, we believe that addressing this issue is an important factor in achieving a steady increase in the use of alternative raw materials compared with the use of fossil-based primary raw materials. This is why alternative raw materials are an essential pillar of our Sustainable Future strategy. We firstly want to produce these raw materials in our own innovative processes and secondly drive their use by pursuing a procurement strategy focused on circular raw materials.

→ See "Procurement."

Another pillar on which we focus is the outflow of resources, especially products we pass further down the value chain. Our strategy in this area is aimed at enhancing the recyclability of our precursors and materials with innovative recycling technologies and forging alliances within the value chain to arrive at specific circular models. With the Circular Intelligence (CQ) label for specific solutions, we are laying the foundation for a clearly identifiable circular portfolio. An important lever we have observed in this regard is the constantly changing regulatory environment, which is leading to higher minimum recycled content in various plastics applications and will be among the factors influencing our circular strategy.
The difference between inflows and outflows of raw materials is the third strategic pillar of our circular strategy. This takes the form of losses of raw materials and waste, which we intend to minimize in future.

With regard to inflows and outflows of resources as well as waste, we are developing and establishing suitable measures and targets, strategic actions, and policies.

Transformation to the circular economy



Our target is to return products and materials to the value cycle at the end of their life cycle – as a whole, in the form of polymers, or in molecular or other chemical forms. The use of other renewable sources of carbon and the intended full conversion to regenerative methods of production, e.g., with renewable energy, are supplementary actions Covestro will take. They are aimed at helping the company become fully circular in the future and on this basis achieve climate neutrality within the company and increasingly launch products with a more climate-friendly footprint. In the reporting year, Covestro took additional steps to meet these targets.

Efforts toward building a circular economy in the company can be measured by verifying the degree to which we can replace fossil sources of carbon for production with alternative raw materials and produce renewable inorganic compounds to run each of them in loops. This also entails sales of solutions that qualify as circular in the marketplace. We are therefore working to develop suitable targets for Covestro that will increase performance in all areas that are key to the circular economy and will in the long term lead to an absolute reduction in the use of primary raw materials.

OUR CIRCULAR ECONOMY TARGET

STATUS

We are actively working on identifying suitable circularity targets and indicators.

We intend to create more value sustainably and increase our carbon productivity by continually using fewer carbon-based fossil resources, taking a regenerative approach, and closing material loops. The target is to decouple our value-generating activities from nonrenewable and noncircular raw materials such as fossil carbon.

Actions

Policies and Actions

With the global Circular Economy strategy program, which was launched in the year 2019, we have laid the foundation for Covestro to become fully circular. In the reporting year, the newly created Sustainability Transformation & Business Building department, which is part of Group Innovation & Sustainability, took on responsibility for providing additional details for this vision and for planning it and carrying it through on the basis of strategic implementation projects. This process involves all corporate functions currently undergoing transformation in order to identify key transformation steps and bring them to a point where decisions can be taken.

In fiscal 2023, Covestro managed a number of different initiatives under this program, with a special focus on market design as well as the development of technology paths and the evaluation of appropriate nonfinancial indicators. We also made waste markets a particular area of attention.

Recyclability of Production and Plastic Waste

Production Waste

Under economic considerations, Covestro's manufacturing processes apply a maximum of efficiency when it comes to the use of materials. We observe and evaluate our manufacturing processes on an ongoing basis to minimize material consumption and disposal volumes and reuse materials internally wherever possible. If waste cannot be avoided, reused, or recycled in an economically expedient way, we make a point in our waste management of applying safe disposal methods, separated by type of waste. Some of the waste created by our production processes with a high heating value is burned as fuel to generate steam for our production facilities. There may also be cases where local regulations require us to take waste to landfill. Production fluctuations, building demolition and refurbishment, and land remediation can also influence waste volumes and recycling paths.

Plastic Waste

Our core technical competence is the development and application of complex chemical procedures and processes. In particular, we want to use this expertise to establish innovative chemical and biochemical recycling and production processes for a circular economy. We want to establish specific processes that will allow us to focus on producing from plastic waste the raw materials that Covestro requires. The use of these recycled raw materials in our production processes will lead to products with a lower carbon footprint and increase the recycling rate. In addition, we also want to use raw materials that were recycled in upstream stages of the value chain. To this end, we use ISCC PLUS-certified raw materials and intermediates. On the whole, chemical recycling processes are an important tool to help Covestro in gradually replacing the use of fossil-based materials and in closing carbon loops. We therefore want to use the circular economy and our climate targets as a way to reduce the environmental footprint of our product portfolio and make it climate-neutral. These processes will continually be verified by means of a life cycle assessment (LCA), in other words, taking into account effects and contributions throughout the entire life cycle.

Covestro is currently researching recycling processes for its own products and materials in more than 20 projects. Of particular importance for Covestro are processes with which materials can be chemically or enzymatically transformed back into their molecules. The secondary raw materials obtained in this manner are of a comparable quality and have properties similar to conventionally manufactured raw materials, and can therefore be reused to manufacture products and materials.

→ See "Strategic Partnerships and Collaborations."

Both pyrolysis and depolymerization are being investigated and enhanced as possible chemical recycling technologies for polycarbonates and rigid polyurethane foams.

Covestro is already testing the thermal decomposition of chemical compounds at elevated temperatures (pyrolysis) in laboratories in Antwerp (Belgium) and Dormagen (Germany). These facilities can break down polycarbonate as well as rigid foam into high-quality molecules that can then be recycled and integrated into production processes as raw materials. Our low-temperature pyrolysis process enables us to eliminate several steps and therefore to considerably cut carbon emissions compared with conventional high-temperature pyrolysis.

In depolymerization, polymers are turned back into smaller fragments such as monomers and intermediates using solvents, catalysts, and heat, and under pressure if necessary. CIRCULAR FOAM, an EU project to research circular solutions coordinated by Covestro, was launched to this end in the year 2021.
→ See "Strategic Partnerships and Collaborations."

Another strategic option for Covestro is enzymatic recycling, which involves using enzymes to very selectively break down plastics into monomers at low temperatures. These monomers can then be reused to produce new, equally high-quality plastics. Enzymatic recycling is still in the early phase of development, but due its high selectivity (generating few to no by-products) and low processing temperatures, this technology is very promising. Covestro has identified this potential and, in addition to our own research, has entered into key partnerships to deploy this innovative technology in recycling and take it closer to an industrial scale.
→ See "Strategic Partnerships and Collaborations."

Furthermore, in the year 2023, Covestro made progress in the chemical recycling of flexible polyurethane foam from mattresses. After commissioning a pilot plant in Leverkusen (Germany) in fiscal 2020, we continued to research detailed process parameters in the reporting year and were therefore able to confirm the laboratory results to date. This innovative technology enables us to supply high-purity recycling polyol that meets customer specifications and recycled toluylene diamine (TDA), which can in turn be processed into toluylene diisocyanate (TDI). We forge alliances along the entire value chain to close product loops on an industrial scale. The convergence of the chemical and recycling industries is aimed at creating new value cycles for the circular economy.
→ See "Strategic Partnerships and Collaborations."

Covestro also provides solutions to support the expansion of wind energy, which is a crucial technology for generating power from renewable sources and for decentralizing energy supplies. The recyclability of wind turbine rotor blades is currently one of the remaining challenges on the road to a more sustainable energy industry. We are working on developing a solution to this problem on the basis of a unique polyurethane structure.

Market Design for Alternative Raw Materials

We want to be a pioneer in the circular economy of plastics and play an active role in shaping the market transformation. A key aspect in this regard is to continuously expand our product portfolio by adding sustainable products based on the use of alternative raw materials.

In addition to Covestro's own production of recycled and biogenic raw materials, the strategic alignment of our raw material and energy procurement activities is vitally important to our corporate vision. We aim to continually increase the share of alternative raw materials used in production and reach 100% in the long term. Covestro defines alternative raw materials as all raw materials made from biomass, CO_2, or waste, or manufactured on a nonfossil basis using renewable energy.

In fiscal 2023, Covestro continued the procurement of alternative raw materials. In total, we purchased over 27,000 metric tons of alternative raw materials (previous year: over 55,000 metric tons) for use in production activities in Antwerp (Belgium), Changhua (Taiwan, Greater China), Dormagen (Germany), Filago (Italy), Leverkusen (Germany), Krefeld-Uerdingen (Germany), Map Ta Phut (Thailand), and Shanghai (China). The goal here is to be able to offer a broad market a steadily growing portfolio of sustainably manufactured materials. The decline in the amount of alternative raw materials used in the fiscal year is due to a difficult market environment throughout the industry and decreases in production.

We continued the ISCC PLUS certification and auditing process of our production sites and certified additional sites to reflect the certification of these raw materials for further use along the entire value chain. The sites with new ISCC certificates are Newark (United States), Niihama (Japan), Schoonebeck (Netherlands), and Waalwijk (Netherlands). International Sustainability and Carbon Certification (ISCC) is a recognized system for certifying the sustainability of biomass and bioenergy. The standard, which covers all stages of the value chain, is widely used worldwide.

Labeling of Circular Solutions in the Product Portfolio
To enhance the transparency of circular solutions in the market, Covestro introduced new products under its Circular Intelligence (CQ) product label in the reporting year. The purpose of the CQ label is, for example, to identify products that have minimum alternative or recycled raw material content. The minimum threshold is 25%, although some products receive the cradle-to-gate* assessment on the path to climate neutrality. The "climate neutral" claim is the result of an assessment of a segment of the product's entire life cycle based on ISO standard 14040. In the reporting period, the business entities identified various products to be established under the CQ label.

Circular Economy Partnerships and Stakeholder and Value Chain Engagement

We also promote the circular economy by participating in regional and global initiatives. When we engage in dialogue with politicians and the public, we advocate for structuring the required regulatory environment for establishing a circular economy with space for innovation and, in addition to established recycling methods such as mechanical recycling, also recognizing chemical recycling processes as complementary methods. Another aim is to lower other regulatory hurdles to the integration of alternative raw materials and to increase the gradual substitution of fossil-based raw materials.

Along with companies representing the entire plastics value chain, Covestro was a founding member of the Alliance to End Plastic Waste, a global non-government and non-profit organization. This Alliance has set itself the target of preventing or minimizing the entry of plastic waste into the environment by establishing waste management and recycling systems through support for established, sustainable, and scalable projects on the road to a global circular economy. Covestro terminated its membership of the Alliance at the end of 2023. Covestro had provided financial support to the Alliance, taken an active part in projects and working groups, and conducted its own internal actions against plastic waste since the year 2019.

In the reporting year, Covestro expanded its involvement in the Global Impact Coalition to strengthen the circular economy. Initially launched as the Low Carbon Emitting Technologies Initiative (LCET) and incubated by the World Economic Forum (WEF), it evolved into the independent, nonprofit Global Impact Coalition (GIC), which is headquartered in Switzerland.

The GIC wants to drive change in the chemical industry by supporting specific projects and research and development partnerships that accelerate the transition to net zero greenhouse gas emissions.

By translating insights into action-based strategies, the Coalition intends to speed up the sustainability transformation and to this end also mobilizes the involvement of interest groups and promotes innovation across the industry. The first sub-project in this context is the R&D Hub for Plastic Waste Processing (R&D Hub), which was launched in May 2023 by Covestro and other chemical companies. The R&D Hub will primarily focus on the development of new waste processing technologies that have a smaller carbon footprint and allow plastic waste recycling on a larger scale than is possible at present. As a private-sector initiative, the R&D Hub is intended to contribute to enhancing mechanical and chemical recycling processes.

In the year 2024, we want to strengthen our stakeholder engagement further with a focus on initiatives tailored to the circularity of our material use in products.

[Metrics

We record our waste volumes for all consolidated companies. Since these metrics are calculated only at the end of the year, they include the group of companies consolidated as it stands at year-end. In this process, we incorporate data from all environmentally relevant Covestro sites, i.e., all production sites and relevant administrative sites. This data is used in addition to the environmental reporting contained in this report to communicate with various stakeholders, e.g., associations, the press, and government agencies, as well as to

* The "climate neutral" label is the result of an assessment of a segment of the product's entire life cycle. In this case, we analyzed the period from resource extraction (cradle) to the factory gate based on ISO standard 14040. The analysis was then critically evaluated for plausibility by TÜV Rheinland AG, Cologne (Germany). The analysis takes into account biogenic carbon sequestration on the basis of provisional data from the supply chain and the use of renewable electricity in the production process. Electricity usage was allocated based on what are known as guarantee-of-origin certificates. Carbon offset credits were not used.

continually improve our environmental performance. In order to comply with publication deadlines, the sites estimate the environmental data for the final weeks of the current fiscal year on the basis of established estimation methodologies that ensure accurate reporting of data as close as possible to the actual figures for the year. If, however, in the course of the following year, we become aware of material deviations based on internally defined thresholds, the figures in question are corrected retroactively. This was not required in fiscal 2023 for the preceding fiscal year 2022.

In nearly all countries, the law also stipulates exhaustive reporting on waste volumes and waste streams, a requirement complied with accordingly by Covestro's sites. In Germany, for example, there are waste-tracking procedures between the source of the waste and its disposal that enable end-to-end traceability of the waste flows. We continue in our aim to keep comparable the waste volumes generated at our sites around the world, but due to local legislation, this is not always possible. In particular the identification and disposal of hazardous waste is subject to local definitions and regulations. Based on this information, we prepare and evaluate our annual waste reporting. The total volume of waste generated remained stable in the year 2023. A total of 198,000 metric tons of waste was treated in recovery processes, which corresponds to a recovery ratio of 78% of the total waste volume.

Waste generated

	2022	2023
	1,000 metric tons p.a.	1,000 metric tons p.a.
Total waste generated	**254**	**252**
Nonhazardous waste generated	74	82
Hazardous waste generated[1]	180	170
of which hazardous waste from production	174	163

[1] Definition of hazardous waste in accordance with local laws.

Waste by means of disposal

	2022	2023
	1,000 metric tons p.a.	1,000 metric tons p.a.
Total volume of waste treated[1]	**256**	**255**
Recovery	**189**	**198**
recycled waste	57	78
thermally recycled waste (with energy recovery)	132	120
Disposal	**55**	**43**
incinerated waste (without energy recovery)	31	24
hazardous waste removed to landfill	5	6
nonhazardous waste removed to landfill	19	13
Other[2]	**12**	**14**

[1] A variance between the volume of waste generated and waste disposed of may arise due to the different times the waste is generated or disposed of and any resulting internal temporary storage.

[2] Disposal method cannot be unambiguously allocated to the above disposal/recovery methods, e.g., chemical-physical waste treatment.]

Climate Neutrality

Strategy

Covestro is fully committed to sustainability. Our intention to transform to climate neutrality is derived from our Sustainable Future strategy. This strategy also reflects our commitment to transforming Covestro so that we can prepare for the future and mitigate transitional and physical risks arising from climate change and other factors, and actively take advantage of opportunities by producing our products in a climate-neutral manner. For Covestro – an energy-intensive company with complex value chains – this means not only systematically driving energy efficiency, establishing sustainable production processes, and using climate-neutral sources of energy, but also moving away from the use of fossil-based raw materials and embracing a holistic approach toward sustainable production and business models. This transition will help us launch climate-friendly products on the market and meet specific climate targets.

→ See “Strategy.”
→ See “Sustainability Management.”

Governance

Under our climate program, which was taken over by the newly established corporate Group Innovation & Sustainability function in September 2023, the actions for reaching net-zero emissions are defined in the form of a CO_2 roadmap; progress is assessed and regularly reported to the Board of Management. The CO_2 roadmap was approved by the Board of Management in fiscal 2022 in order to align Covestro’s existing target for reducing greenhouse gas (GHG) emissions with the corporate vision and regulatory requirements. Actions to reduce emissions are identified in close collaboration between our sites and the relevant corporate functions, such as Group Innovation & Sustainability, which are tasked with developing and implementing new sustainable process technologies and energy efficiency projects. Different software solutions are used to assess the impact of investments on GHG emissions. The roadmap is reviewed and updated annually. Various corporate and decision-making bodies, consisting of managerial employees from the corporate Process Technology, Group Procurement, Engineering, Controlling, Group Health, Safety and Environment, and Strategy functions as well as from the business entities, discuss and allocate resources for the implementation of our climate program.

Transitional and physical risks arising from climate change are captured and assessed in Group-wide risk management and appropriate countermeasures are developed. Risks are reviewed on a regular basis.

→ See “Group-wide Opportunities and Risk Management.”

We regard the reduction in GHG emissions as a relevant performance indicator to be used to ensure that the Covestro Group’s business activities are aligned with its vision of becoming fully circular. For this reason, this is also reflected in the compensation policy for all employees.

→ See “Management.”
→ See Compensation Report, “Long-Term Variable Compensation” section.

Emissions data is captured by the corporate Group Health, Safety, and Environment function using a software solution and regularly discussed with the Chief Technology Officer.

Policies

A policy that is relevant alongside our corporate Sustainable Future strategy and the CO_2 roadmap is the strategy for the procurement of power from renewable energy, for which Procurement is responsible. Our Sustainable Future strategy provides the framework for our CO_2 roadmap. The CO_2 roadmap forms the basis for prioritizing specific GHG reduction actions and will fundamentally be used to address and analyze direct and indirect sources of emissions in accordance with the Greenhouse Gas Protocol (GHG Protocol).

In order to meet the climate neutrality target, we assess our company’s (Scope 1 and Scope 2) GHG emissions and investment projects as part of the investment project management process. Since fiscal 2020, we have performed sensitivity analysis on investments in excess of €5 million, in addition to calculating standard project ROCE (return on capital employed). We have used two complementary concepts since the year 2022 to create incentives for CO_2 reductions. For investment projects, we use a matrix to visualize the compromise between the financial impact (ROCE above WACC) and CO_2 impact (CO_2 equivalents per €1 million of investment) as well as a ROCE calculation, which applies an internal CO_2 price of €100 per metric ton of CO_2 equivalent. Standard sensitivity analysis uses a CO_2 price of €200 per metric ton of CO_2 equivalent instead of the previous €40 per metric ton of CO_2 equivalent. In determining prices as part of our capital allocation, we assume a 10-year timeframe in most cases. The internally applied CO_2 price is regularly reviewed and adjusted if necessary.

Targets

Greenhouse Gas Emissions

Absolute reduction targets were published in fiscal 2022 for reducing our Scope 1 and Scope 2 emissions; they apply to all environmentally relevant sites. In addition, Covestro set itself a new absolute reduction target for its Scope 3 GHG Emissions in the 2023 reporting year. Net-zero Scope 3 GHG emissions are to be attained by the year 2050. Compared with the baseline year of 2021, Scope 3 GHG emissions are to be reduced by 10 million metric tons of CO_2 equivalents by the year 2035. These targets apply to all environmentally relevant sites.

In accordance with the Intergovernmental Panel on Climate Change (IPCC) and the United Nations Framework Convention on Climate Change (UNFCCC), we understand and support climate neutrality as society's collective goal of attaining net zero GHG emissions by the year 2050. This means that anthropogenic emissions can be removed by the planet through its natural ability to absorb them and as a result no longer impact on the climate. The time horizons of our climate targets are therefore defined in such a way that they conform to international and European ambitions to limit global warming to 1.5°C.

Scope 1 and Scope 2

In the baseline year of 2020, Scope 1 emissions accounted for 22% and Scope 2 emissions for 78% of the combined Scope 1 and Scope 2 emissions. In the reporting year, the ratio was 18% Scope 1 emissions to 82% Scope 2 emissions. Net-zero Scope 1 and Scope 2 GHG emissions are to be attained at all environmentally relevant sites by the year 2035. We are currently assuming that residual emissions of 0.1 to 0.2 million metric tons of CO_2 equivalents could remain in the year 2035. We reserve the right, if necessary, to offset these residual emissions with high-quality compensation actions. The options are still being assessed. This means that our net-zero target for the year 2035 corresponds to a reduction in gross emissions by 96.5% to 98.2% compared with the baseline year of 2020. On the way to meeting this target, the company plans to reduce direct and indirect GHG emissions of 5.6 million metric tons of CO_2 equivalents in the baseline year of 2020 by 60% to 2.2 million metric tons of CO_2 equivalents by the year 2030 (excluding compensation actions).

OUR CLIMATE NEUTRALITY SCOPE 1 AND SCOPE 2 TARGET

STATUS 2023
compared to 2020 levels

–8.4%

GHG emissions[1]
(–0.47 million metric tons)

2022: –11.8% (–0.66 million metric tons)
2021: –2.8% (–0.16 million metric tons)

By the year 2035, we want to reach net-zero GHG emissions in our own production (Scope 1) and from the provision and use of energy produced outside the company (Scope 2) at all environmentally relevant sites.

[1] GHG emissions (Scope 1 and Scope 2), measured as millions of metric tons of CO_2 equivalents and portfolio-adjusted based on the GHG Protocol financial control approach; global warming potential (GWP) factors correspond to the IPCC's Sixth Assessment Report.

Covestro pursues a growth strategy, and we therefore assume that our annual Scope 1 and Scope 2 GHG emissions will gradually increase by 1.0 million metric tons of CO_2 equivalents by the year 2035. This is set against external factors that are having a beneficial effect on our climate neutrality; they are expected to make an annual contribution of 0.7 million metric tons of CO_2 equivalents by the year 2035. This includes, for example, Germany's target to reach a renewable energy share of 80% in the German power mix by the year 2030 and Germany's plans to phase out coal.

The implementation of sustainable production processes as the first action area is expected to contribute to a reduction of 1.8 million metric tons of CO_2 equivalents, while the transition to electricity from renewable sources – the second action area – should enable savings of 2.3 million metric tons of CO_2 equivalents. As for the third action area – climate-neutral steam – a reduction in emissions by 1.8 million metric tons of CO_2 equivalents is to be achieved by changing the supply of process heat.

Scope 3

In addition, Covestro set itself a new absolute reduction target for its Scope 3 GHG Emissions in the 2023 reporting year. Net-zero Scope 3 GHG emissions are to be attained by the year 2050. On the way to meeting this target, the company plans, by the year 2035, to reduce GHG emissions from upstream and downstream processes in the value chain by 30% (equivalent to 10 million metric tons of CO_2 equivalents) compared with the baseline year of 2021. The four relevant categories, "Purchased goods and services," "Fuel- and energy-related activities," "Upstream transportation and distribution," and "End-of-life treatment of sold products," are considered in setting the targets.

OUR CLIMATE NEUTRALITY SCOPE 3 TARGET

STATUS 2023
compared to 2021 levels

–27.8%

GHG emissions[1]
(–6.08 million metric tons)

2022: –22.4% (–4.89 million metric tons)

We want to achieve net-zero GHG emissions along our company's value chain (Scope 3) by the year 2050.

[1] Scope 3 GHG emissions, measured in million metric tons of CO_2 equivalents, determined in the categories set out in the financial control approach of the GHG Protocol; global warming potential (GWP) factors according to the IPCC's Sixth Assessment Report.

Energy Usage

For an energy-intensive company like ours, the reduction in the amount of energy we use plays a key role in efforts to reduce our Scope 1 and Scope 2 emissions. Covestro's energy usage includes the primary energy used in production and during self-generation of electricity and steam as well as additionally acquired quantities of electricity, steam, refrigeration energy, and process heat (secondary energy).

Under our existing energy target, we aim to halve specific energy usage at main production sites by the year 2030 compared with the baseline year of 2005. In order to bring our energy usage even more closely in line with the climate neutrality target, we are working toward adjusting the energy target with the intention to replace the existing target in the next fiscal year.

Actions

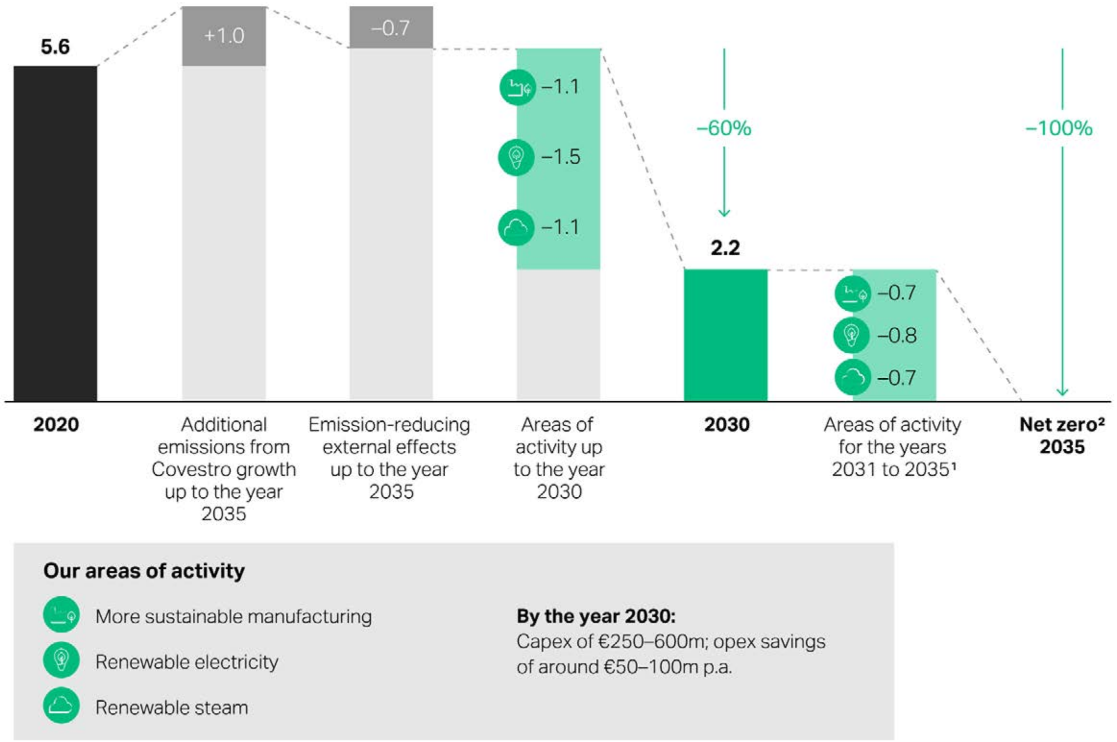
To enable the company to reach net-zero emissions, Covestro anticipates investments of between €250 million and €600 million by the year 2030. Greater energy efficiency is expected to cut operating expenses by €50 million to €100 million a year. Conversely, on the road to net-zero emissions, Covestro is anticipating higher annual operating costs in a low three-digit million euro amount. These cost assumptions are based on past experience that prices for fossil-based sources of energy are lower than for renewable energy.

On the basis of an analysis of the political support for transforming the chemical industry, we believe that the current political framework will not have any negative effect on reaching our reduction targets. The analysis was published in 2022 by the Low-Carbon Emitting Technologies initiative of the World Economic Forum (WEF), in which Covestro actively participated. The Russian war against Ukraine is not expected to have any impact on target attainment either.

We have defined three action areas to reach our net-zero target, and their implementation pertains to all environmentally relevant sites. We are planning to optimize our production processes to facilitate the sustainable and energy-efficient manufacture of our products. In addition, we intend to increase significantly the proportion of electricity from renewable sources. We will likewise aim to make greater use of green steam as a renewable source of energy in future. With a view to reducing the GHG emissions of purchased raw materials, actions such as transitioning to alternative raw materials are being investigated. In terms of possible residual emissions in the future, i.e., those that are technically unavoidable, the use of technical and natural CO_2 sinks, or compensation actions to potentially balance all GHG emissions (Scope 1, Scope 2, and Scope 3) are currently being evaluated.

Actions for reaching the Scope 1 and Scope 2 net-zero target

million metric tons of CO_2 equivalents per year; apart from the figures for the year 2020, all figures are expected values



1 Including compensation actions in the areas of activity to offset any residual emissions.
2 Achievement of net-zero GHG emissions is defined as a balance between anthropogenic production of GHG emissions (caused by the company's own production activities and by the provision and use of energy produced outside the company) and anthropogenic reduction of GHG emissions.

More Sustainable Production Processes

We will continue to invest in expanding existing and building new production capacities in the future, while committing to using state-of-the-art climate-friendly technologies. The focus here is both on reducing energy consumption through increased efficiency and on cutting process emissions during production. The projects of our long-term investment planning have already been included in formulating the climate targets and the associated roadmap. To improve energy efficiency, we established hot combination technology in the TDI production process in the reporting year. This has resulted in a 16 GWh reduction in annual energy consumption, thus reducing emissions by 4,300 metric tons of CO_2 equivalents.

Electricity from Renewable Sources

In addition to more efficient energy usage in our production processes, the transition to renewable energy is an important lever on the road to climate neutrality. In the future, Covestro therefore intends to meet all of its energy needs with renewable energy. Actions we have taken toward this goal include developing new supply plans and signing purchase contracts for renewable energy, particularly electricity. To further drive the shift toward more sustainable sources of energy (in relation to Scope 2 emissions), we will above all apply innovative collaborative models and technologies.

Alongside existing agreements to procure electricity from renewable sources, e.g., for our sites in Antwerp (Belgium) and in the German state of North Rhine-Westphalia, we entered into additional agreements worldwide in the reporting year. In this process, Covestro made use of special power purchase agreements and power certificates (e.g., certificates of origin in Europe) as a way to underpin its strategic alignment toward sustainability. Likewise, this is intended to contribute to shrinking the carbon footprint in production, in our products, and in our customers' applications.

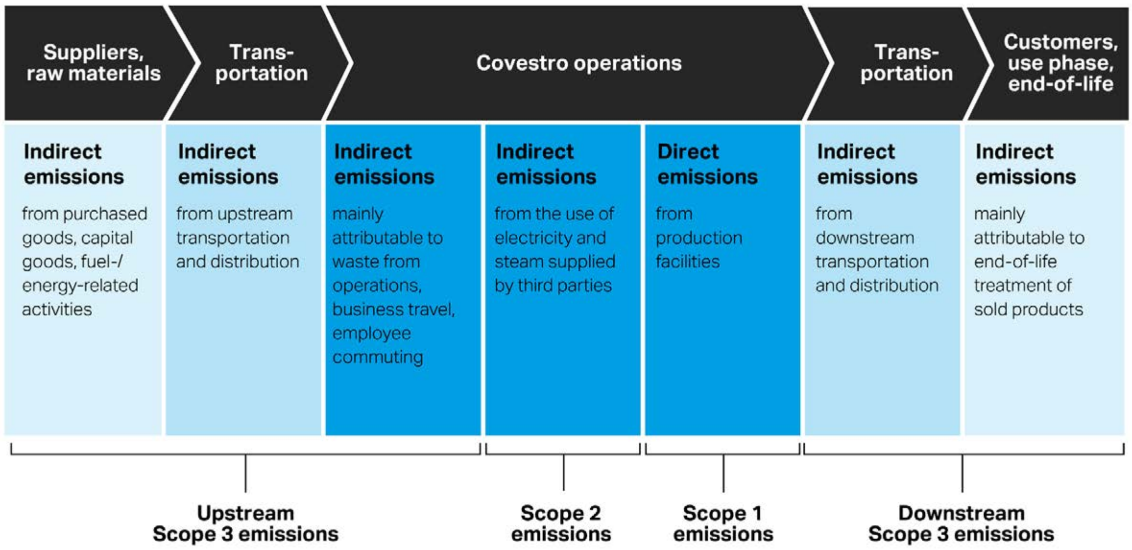
→ See "Energy Usage."
→ See "Procurement."

Climate-neutral Steam
Furthermore, we are evaluating options for using biogenic and renewable sources of energy, such as hydrogen and hydrogen derivatives or direct electrification, as well as the use of carbon capture technologies to supply climate-neutral process heat to our sites. These technologies can contribute substantially to reducing GHG emissions in the future, e.g., by using hydrogen and its derivatives for generating energy and as a production input in CO_2 conversion in the chemical industry.

Sustainable Raw Materials
Actions to attain the Scope 3 target include the procurement of climate-friendly raw materials, the use of waste-based or biobased raw materials, and process and product innovation.
→ See "Actions" in the "Circular Economy" section.

Metrics
Greenhouse Gas Emissions
Methodology
The reporting of direct GHG emissions, e.g., from burning fossil energy sources and from our production processes (Scope 1), of indirect GHG emissions from the provision and use of energy produced outside the company (Scope 2), and of GHG emissions from upstream and downstream processes in the value chain (Scope 3), is based on the requirements of the Greenhouse Gas Protocol Standard (2004 version) as well as the GHG Protocol Scope 2 Guidance (2015 version) and the Guidance for Accounting & Reporting Corporate GHG Emissions in the Chemical Sector Value Chain (2013 version).

Covestro's GHG emissions along the value chain



In addition to CO_2, the inventory of Scope 1 emissions comprises all relevant GHGs, including nitrous oxide (N_2O), methane (CH_4), partly fluorinated hydrocarbons, sulfur hexafluoride (SF_6), and nitrogen trifluoride (NF_3). They are disclosed as CO_2 equivalents using the global warming potential (GWP) factors. The relevant factors are those from the Sixth Assessment Report by the Intergovernmental Panel on Climate Change (IPCC). Scope 1 emissions comprise stationary, mobile, process-related, and fugitive sources of emissions.

Scope 2 emissions are reported using the location-based and market-based methods. Location-based emissions factors from generally accepted sources (e.g., International Energy Agency* emissions factors) were used when calculating location-based Scope 2 GHG emissions. Market-based emissions factors were used when calculating market-based Scope 2 GHG emissions; where these were not available, location-based emissions factors were used. For Covestro, the market-based method is the leading calculation method for Scope 2 GHG emissions. Market-based instruments are used at almost all major production sites; they may include specific

* International Energy Agency (IEA), document entitled "IEA Emission Factors 2022." All rights to this document reserved to the IEA.

purchasing contracts for electricity from renewable sources or the purchase of electricity or steam from fence-line partners. Moreover, some smaller production sites already purchase up to 100% of their electricity from renewable sources.

If, in our efforts to achieve climate neutrality, actions are taken to offset emissions in relation to our Scope 1 and Scope 2 GHG emissions, they are disclosed in accordance with the Greenhouse Gas Protocol.

We record our Scope 1 and Scope 2 GHG emissions for all consolidated companies. Since these metrics are calculated only at the end of the year, they include the group of companies consolidated as it stands at year-end. In this process, we incorporate data from all environmentally relevant Covestro sites, i.e., all production sites and relevant administrative sites. In order to comply with publication deadlines, the sites estimate the environmental data for the final weeks of the current fiscal year on the basis of established estimation methodologies that ensure accurate reporting of data as close as possible to the actual figures for the year. If, however, in the course of the following year, we become aware of material deviations based on internally defined thresholds, the figures in question are corrected retroactively. This was not required in fiscal 2023 for the preceding fiscal year 2022.

At Covestro, upstream and downstream GHG emissions data along the value chain (Scope 3 emissions) is determined for all sites and business activities that indirectly cause relevant GHG emissions according to the categories and methods of the GHG Protocol and the Guidance for Accounting & Reporting Corporate GHG Emissions in the Chemical Sector Value Chain by the World Business Council for Sustainable Development (WBCSD). Accordingly, all categories as defined in the GHG Protocol were reviewed for relevance in order to quantify all emissions associated with Covestro's business activities as completely as possible. Out of the total of 15 categories, 9 are relevant for Covestro and we report the appropriate emission values for them. The basis for calculating the other indirect GHG emissions (Scope 3) are internal activity data and emission factors. The six main categories reported separately in the "Metrics" section are responsible for 99.7% (previous year: 99.7%) of our Scope 3 emissions. The activity data used for these categories is based exclusively on actual operating data collected through standardized processes with system support. The emission factors used for these categories are based exclusively on commercially and publicly available sources, or sources recommended by the GHG Protocol. The individual calculations of the emissions for each Scope 3 category are described in detail in our latest Carbon Disclosure Project (CDP) questionnaire, which is publicly available. By continually improving the data basis and calculation methods used, we will further advance the accuracy of our Scope 3 emissions reporting on an ongoing basis.

Metrics

Total Scope 1, Scope 2, and Scope 3 emissions declined by 4.6% to 20.86 million metric tons of CO_2 equivalents in the reporting year (previous year: 21.87 million metric tons of CO_2 equivalents).

The Scope 1 and Scope 2 GHG emissions of all environmentally relevant sites were up 3.9% year over year to 5.11 million of CO_2 equivalents (previous year: 4.92 million metric tons of CO_2 equivalents). In this context, direct GHG emissions fell by 6.1% to 0.93 million metric tons of CO_2 equivalents (previous year: 0.99 million metric tons of CO_2 equivalents) and indirect GHG emissions increased by 6.4% to 4.18 million metric tons of CO_2 equivalents (previous year: 3,93 million metric tons of CO_2 equivalents). One main driver was a more emission-intensive energy mix for purchased power and steam at our site in Baytown, Texas (United States).

Scope 3 emissions were 7.0% lower at 15.75 million metric tons of CO_2 equivalents (previous year: 16.95 million metric tons of CO_2 equivalents), thus representing 75.5% (previous year: 77.5%) of the Group's total GHG emissions. Most of our Scope 3 emissions are attributable to categories upstream in our value chain. Categories 1 "Purchased goods and services," 12 "End-of-life treatment of sold products," and 3 "Fuel- and energy-related activities" are the main contributors to our other indirect GHG emissions. Biogenic CO_2 emission equivalents stemming indirectly from the value chain totaled 73,605 metric tons of CO_2 equivalents (previous year: 118,659 metric tons of CO2 equivalents) in the reporting period in absolute terms and are disclosed separately from the total volume of Scope 3 emissions in accordance with the GHG Protocol and the WBCSD.

GHG emissions (million metric tons of CO_2equivalents)[1]

	2020	2021	2022	2023
Scope 1 GHG emissions				
Gross Scope 1 GHG emissions	1.25	0.98	0.99	0.93[2]
Scope 2 GHG emissions[3]				
Gross location-based Scope 2 GHG emissions	4.48	4.40	3.82	4.10
Gross market-based Scope 2 GHG emissions	4.33	4.44	3.93	4.18
Significant Scope 3 GHG emissions[3, 4]				
Gross Scope 3 GHG emissions		21.84	16.95	15.75
1 Purchased goods and services		16.44	12.43	11.86
2 Capital goods		0.34	0.45	0.52
3 Fuel and energy-related Activities		1.02	0.83	0.81
4 Upstream transportation and distribution		0.49	0.53	0.52
5 Waste generated in operations		0.16	0.13	0.10
12 End-of-life treatment of sold products		3.34	2.53	1.89
Other categories		0.05	0.05	0.05
Total Gross GHG emissions				
Total location-based GHG emissions		27.22	21.76	20.78
Total market-based GHG emissions		27.26	21.87	20.86
Total Net GHG emissions				
Sold compensation actions		0.63	0.57	0.65[5]
Total market-based GHG emissions including compensation actions		**27.89**	**22.44**	**21.51**
GHG intensity[6] (million metric tons of CO_2 equivalents, location-based/€ million)		**0.0017**	**0.0012**	**0.0014**
GHG intensity[6] (million metric tons of CO_2 equivalents, market-based/€ million)		**0.0017**	**0.0012**	**0.0015**

1 Scope 1, Scope 2, and Scope 3 GHG emissions determined as set out in the financial control approach of the GHG Protocol; global warming potential (GWP) factors according to the IPCC's Sixth Assessment Report.
2 In the year 2023, 81.8% of emissions were CO_2 emissions, 17.7% were N_2O emissions, 0.3% consisted of partly fluorinated hydrocarbons, and 0.1% each were attributable to CH_4 and SF_6.
3 In combustion processes, CO_2 normally makes up more than 99% of all GHG emissions; this is why we restrict ourselves to CO_2 when calculating indirect emissions.
4 Data collected since fiscal year 2021.
Nonrelevant emissions categories: 8 "Upstream leased assets"; 11 "Use of sold products"; 15 "Investments." Estimates indicate that these categories account for <1% of Covestro's total Scope 3 emissions. Their levels are therefore insignificant according to the definition in the GHG Protocol.
Nonapplicable emissions categories: 13 "Downstream leased assets"; 14 "Franchises." Covestro does not operate any plants that are leased to third parties and whose emissions are not already included in Scope 1 and Scope 2 emissions reporting. Moreover, Covestro does not own or operate any franchises.
Unreported emissions category: 10 "Processing of sold products." Since data could not always be obtained and there are numerous applications for Covestro's products, calculating these emissions would require disproportionate effort. In this case, Covestro refers to the WBCSD guidance, according to which a chemical company whose product portfolio contains a broad range of intermediates is not required to report Scope 3, category 10 "Processing of sold products."
The calculation of emissions categories 2 "Capital goods" and 1 "Purchased goods and services," in relation to the share that is not attributable to raw materials, is based on spend-based emissions factors of the Department of Energy & Climate Change (DECC) from the year 2014, which have been updated using inflation rates according to the German consumer price index.
"Other categories" includes the following: 6 "Business travel," 7 "Employee commuting," 9 "Downstream transportation and distribution."
5 Since certification of the reductions from May to December 2023 has not yet been completed, the expected reduction volumes are presented here. The plan is to sell the emission reductions made in the fiscal year as emission credits once they have been certified.
6 Ratio of total gross GHG emissions to sales.

[In addition to absolute GHG emissions, we also continue to monitor changes in specific emissions at our main production sites*. Specific emissions are determined on the basis of direct (Scope 1) emissions of 0.87 million metric tons of CO_2 equivalents and indirect (Scope 2) emissions of 4.06 million metric tons of CO_2 equivalents, as well as a production volume** of 13.83 million metric tons. This means that in the year 2023 specific emissions stood at 0.3569 metric tons of CO_2 equivalents per metric ton of product (previous year: 0.3342 metric tons of CO_2 equivalents per metric ton of product).]

* Our main production sites are those responsible for more than 95% of our energy usage.
** All in-spec key products – which, in addition to our core products, also include precursors and by-products – manufactured at main production sites, which are responsible for more than 95% of our energy usage.

Energy Usage

Methodology

We record energy volumes using the same system as for GHG emissions, i.e., we capture our data at all environmentally relevant production sites. This includes both primary energy usage (e.g., natural gas) for production and our own energy generation and secondary energy usage from purchased electricity, steam, and refrigeration. Moreover, we record energy from renewable sources separately and only report energy volumes from renewable sources that have been specifically assigned to Covestro through contractual instruments (e.g., specific energy purchase agreements or certificates of origin). If the “renewable energy” attribute cannot be reliably proven (e.g., on the basis of Guarantees of Origin), these volumes are recorded as non-renewable energy. If a utility mix also includes a proportion of renewable energy, this is currently not explicitly reported.

→ See “Methodology” in the “Greenhouse Gas Emissions” section.

Due to the manufacture of chemical products, Covestro belongs to a group of companies attributed to the high climate impact sectors, and this requires us to make detailed disclosures on our fossil fuel consumption. They can be found next to our disclosures on renewable sources of energy in the table entitled “Energy consumption and energy mix.”

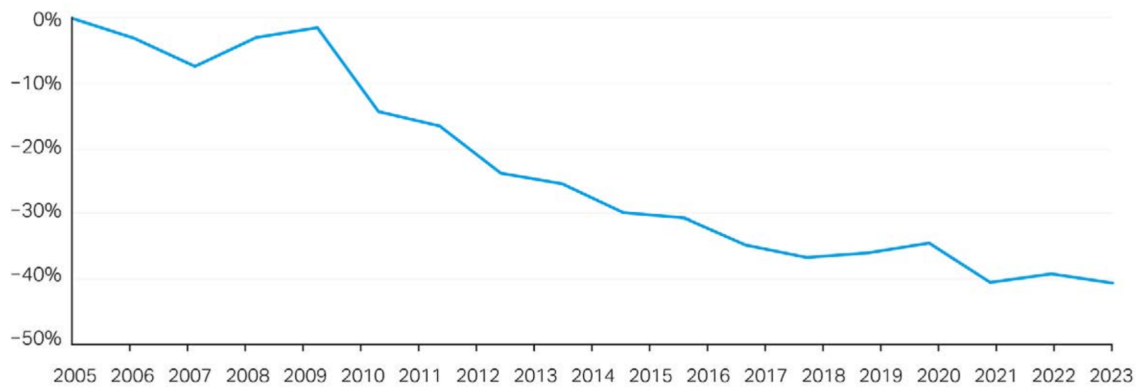
[Furthermore, since the year 2005, we have also recorded specific energy usage, as in our opinion the use of energy and materials is closely related to our production volume. We focus on the sites we define as main production sites, which are responsible for more than 95% of our energy usage. We calculate specific energy usage using equivalent primary energy usage, which maps for all sources of energy the energy required to generate them, including the energy lost while distributing these forms of energy.]

Metrics

[Our continued long-term positive trend indicates an overall 40% improvement in energy efficiency compared to the 2005 base year as shown in the following figure.

Changes in specific energy usage at main production sites

(annual change in specific primary energy usage per metric ton of product compared with the 2005 baseline year – presented in %)[1]



[1] (Equivalent primary energy usage/production volume)/(equivalent primary energy usage 2005/production volume 2005).

Compared to the previous year, equivalent primary energy usage at these sites decreased by 4.3% and the production volume by 2.1%. This means that the equivalent primary energy usage for a given production volume (energy efficiency) was down 2.2% from the previous year due to production utilization.

Energy usage in the Covestro Group at main production sites

		2022	2023
Equivalent primary energy usage[1]	in megawatt hours (MWh)	18,934,000	18,124,000
Production volume[2]	in million metric tons	14.13	13.83
Specific energy usage (energy efficiency)[3]	**MWh per metric ton**	**1.34**	**1.31**

[1] Sum of all individual energy figures translated into primary energy at our main production sites, which account for more than 95% of our energy usage

[2] All in-spec key products – which, in addition to our core products, also include precursors and by-products – manufactured at main production sites, which are responsible for more than 95% of our energy usage.

[3] Ratio of equivalent primary energy usage to production volume.

]

In the year 2023, total energy usage in the Group was down 3.3% year-over-year. The main drivers were declines at the Lower Rhine sites due to production utilization.

Energy consumption and energy mix

	2022	2023
	in MWh	in MWh
Primary energy consumption from fossil sources	**2,496,000**	**2,654,000**
Coal	–	–
Liquid fuels	52,000	70,000
Natural gas	2,468,000	2,453,000
Other fossil sources	–24,000	131,000
Secondary energy consumption from fossil sources	**11,514,000**	**10,592,000**
Electricity purchased	5,829,000	5,312,000
Less electricity sold to third parties	479,000	476,000
Electricity consumption	5,350,000	4,836,000
Steam purchased	5,692,000	5,108,000
Less steam sold to third parties	147,000	132,000
Steam consumption	5,545,000	4,976,000
Steam from waste heat (process heat) purchased	939,000	1,108,000
Less steam from waste heat (process heat) sold to third parties	412,000	404,000
Steam from waste heat (process heat) consumption	527,000	704,000
Refrigeration energy purchased	111,000	95,000
Refrigeration energy sold to third parties	19,000	19,000
Refrigeration energy consumption	92,000	76,000
Total fossil energy consumption	**14,010,000**	**13,246,000**
Share of fossil sources in total energy consumption	95%	93%
Fuel consumption from renewable sources	–	
Secondary energy consumption from renewable sources	741,000	1,017,000
Consumption of self-generated non-fuel renewable energy	–	1,000
Total renewable energy consumption	**741,000**	**1,018,000**
Share of renewable sources in total energy consumption	5%	7%
Total energy consumption	**14,751,000**	**14,264,000**
Energy intensity[1] (MWh/€ million)	**820.96**	**992.14**

[1] Ratio of total energy consumption to sales.

Environmental Impact of Own Operations

Strategy and Governance

It goes without saying that, in line with our commitment to sustainable development, we always keep an eye on the environmental impact of our own operations. In accordance with our vision of becoming fully circular and our "Sustainable Future" strategy, we try to close material cycles and reduce our impact on the environment and society.

→ See "Circular Economy."
→ See "Climate Neutrality."

Our Group-wide risk management addresses relevant opportunities and risks in connection with the environmental impact of our operations. In addition, the environmental impacts associated with our business activities are an integral part of our integrated Health, Safety, Environment, Energy and Quality (HSEQ) management system. Responsibility for this has been assigned to the head of the corporate Group Health, Safety and Environment (HSE) function, who assesses the environmental management process annually with the Chief Technology Officer (CTO). This ensures that our overall impact on the environment and society is kept to a minimum.

→ See "Integrated Management System for Health, Safety, Environment, Energy, and Quality."

Policies and Actions

Our corporate Health, Safety, Environment and Energy, and Quality (HSEQ) policy commits us to work continuously on reducing environmental impacts resulting from our activities, products, and services. This ensures that resource-conserving processes help to protect the environment and cut costs. Additionally, all of our plants are subject to permits that define minimum requirements for the operation of the plants in line with local legislation. Nevertheless, unintended releases may impact human health and the environment. The sites are responsible for compliance with the thresholds and must take measures to ensure that impacts on the environment and society remain within permissible limits.

Covestro supports initiatives such as Operation Clean Sweep (OCS), which aims to prevent plastic particles from entering waterways and oceans. We have introduced global measures to minimize the loss of plastic pellets on the way from production to the finished product at our customers' locations.

[Metrics

We record our emissions into the air and water for all consolidated companies. Since these metrics are calculated only at the end of the year, they include the group of companies consolidated as it stands at year-end. In this process, we incorporate data from all environmentally relevant Covestro sites, i.e., all production sites and relevant administrative sites. The sites also use this data to fulfill their official reporting obligations. In order to comply with publication deadlines, the sites estimate the environmental data for the final weeks of the current fiscal year on the basis of established estimation methodologies that ensure accurate reporting of data as close as possible to the actual figures for the year. If, however, in the course of the following year, we become aware of material deviations based on internally defined thresholds, the figures in question are corrected retroactively. This was not required in fiscal 2023 for the preceding fiscal year 2022.

Emissions into Air

In addition to GHGs, Covestro's business activities result in other emissions into the air.

→ See "Circular Economy."
→ See "Climate Neutrality."
→ See "Production, Value Creation and Safety."

These other emissions into the air stem mainly from burning fossil fuels in order to generate electricity and steam. Emissions into the air are also recorded and analyzed as part of determining the Group's environmental impact.

Other important direct air emissions

	2022	2023
	1,000 metric tons p.a.	1,000 metric tons p.a.
CO	0.35	0.33
NO_X	0.55	0.53
SO_X	0.05	0.05
Particulate matter	0.10	0.10
NMVOC[1]	0.17	0.13
ODS[2]	0.0002	0.0002

[1] Non-methane volatile organic compounds (NMVOC).
[2] Ozone-depleting substances (ODS).

Emissions into Water

Our goal is to minimize emissions into water that depend largely on our production volumes and the current product portfolio, as much as possible.

Emissions into water

	2022	2023
	1,000 metric tons p.a.	1,000 metric tons p.a.
Phosphor	0.03	0.01
Nitrogen	0.29	0.15
TOC[1]	0.55	0.51
Heavy metals	0.0056	0.0034
Inorganic salts	781	712

[1] Chemical oxygen demand (COD), calculated based on total organic carbon (TOC) values: 1.53 (TOC × 3 = COD).

Since the year 2021, Covestro has been involved in the collaborative “RIKovery” project, which is sponsored by the German Federal Ministry of Education and Research (BMBF) and drives salt water recycling activities. Over the three-year project term, Covestro is working with additional industrial, plant engineering, and research partners to achieve goals including taking the next technological step to increase the circular usage of process wastewater. The goal is to further increase concentrations and reduce the amount of energy required so that even more salt and water can be recovered. The process was successfully piloted at the Leverkusen (Germany) site in the year 2023. The design of an industrial-scale plant and a financial assessment of the technical and environmental aspects are currently under way to allow us to evaluate the technology’s potential in the overall context.]

Water Resources

Strategy and Governance

Covestro takes a holistic view of water as a resource: We take not only our water usage and the related problems of water scarcity and quality into consideration, but also the wastewater we generate and growing concern about the pollution of this resource and the associated potential consequences for people and the environment. The availability and accessibility of clean water are also vital for our production sites.

As a general rule, we strive to minimize the use of water and to use it several times and recycle it wherever possible. Covestro uses water primarily for cooling purposes and in production. Our wastewater is subject to strict monitoring and analysis according to the applicable local legal regulations before it is discharged into disposal channels.

Our production sites are faced with a large variety of different situations, which we address using a risk-based water program. This allows us to focus on those sites that are currently, or will in future be, exposed to a risk and to identify context-specific solutions. This is intended to reinforce the effectiveness of the Water Program and strengthen resilience for future challenges at our sites.

Responsibility for the Water Program has been assigned to the corporate Group Health, Safety, and Environment (HSE) function, which reports to the Chief Technology Officer. The relevant sites are responsible for implementing locally defined goals and measures.

Policies and Actions

The basis for our activities in this area is our Corporate Commitment on Water. All additional parameters are defined in the Covestro Water Program.

→ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

[Covestro Water Program

The availability and accessibility of clean water is vital for our production sites. As part of our Corporate Commitment on Water, we initiated and have continually refined a global risk assessment covering water availability, quality, and accessibility at all of our production sites.

The method for assessing areas with water stress was revised in the year under review. As recommended by the Global Reporting Initiative (GRI), areas with water stress were determined using the Aqueduct Water Risk Atlas of the World Resources Institute (WRI), based in Washington, D.C., (United States). In addition to physical risks such as water stress, our water risk assessment also includes potential regulatory risks at our production sites. Regulatory risks comprise, for example, access to drinking water or drinking water directives and other legal requirements. We also use other recognized tools to this end, such as the Water Risk Filter of the World Wide Fund for Nature (WWF). Sites in current areas with water stress account for 7% of our total water usage.

In order to establish a suitable format to enhance understanding of the local and future water situation, a water dashboard, which also covers physical water risks, was created in the reporting year and shared with our production sites. By analyzing the local water management at the sites, risks can be spotted at an early stage and potential for improvement can be identified. To drive water management and water protection, we have also set up a platform for regularly exchanging information and sharing best practice.

We started rolling out a new, context-based water program (Covestro Water Program) in the reporting year. The Program addresses water risks strategically and systematically at sites identified as acute or potentially at risk, based on WRI data. It helps ensure a better understanding of the site's impact on the local watershed by highlighting broader challenges such as water scarcity, water pollution, and flooding that could potentially negatively impact the local population, neighboring companies, and the ecosystem. Based on the identified risks and opportunities, the initiative is developing medium- to long-term context-specific action plans for each site. The necessary resources will be made available at both Group and site level so as to ensure effective implementation. The Program is expected to be implemented fully by 2030.

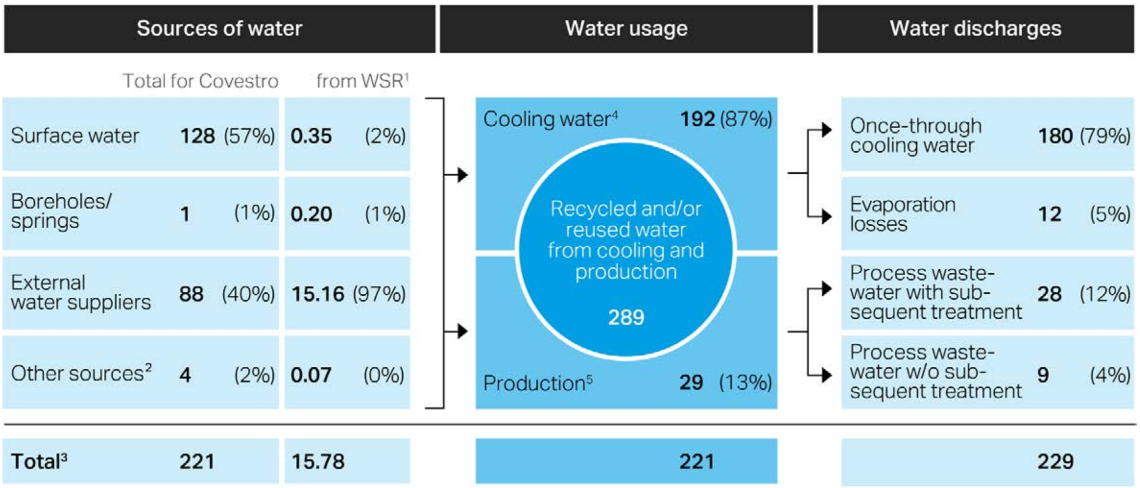
Metrics

We record our water figures to include all consolidated companies. Since these metrics are calculated only at the end of the year, they include the group of companies consolidated as it stands at year-end. In this process, we incorporate data from all environmentally relevant Covestro sites, i.e., all production sites and relevant administrative sites. In order to comply with publication deadlines, the sites estimate the environmental data for the final weeks of the current fiscal year on the basis of established estimation methodologies that ensure accurate reporting of data as close as possible to the actual figures for the year. If, however, in the course of the following year, we become aware of material deviations based on internally defined thresholds, the figures in question are corrected retroactively. This was not required in fiscal 2023 for the preceding fiscal year 2022.

At 221 million cubic meters, overall water usage in the Group is below the previous year's figure. One reason for the decline is a reduction in the amount of water used in the plants along the Lower Rhine due to lower production utilization. The majority of the total volume of water used by Covestro (79%) is once-through cooling water. This water is only heated and does not come into contact with products. It can be returned to the water cycle without further treatment in line with the relevant official permits. The total volume of once-through cooling water was 180 million cubic meters in the reporting year.

The volume of process wastewater saw a year-over-year decrease of 15%. The proportion of process wastewater purified or otherwise treated (e.g., incinerated) at a wastewater treatment plant operated by Covestro or a third party amounted to 75% worldwide. Following an analysis, another 25% was categorized as environmentally safe and returned to the water cycle. Evaporation losses went down 17% in the reporting year to 12 million cubic meters.

Use of water in the year 2023 (million cubic meters)



1 Areas with water stress taking into account overall physical risks such as water shortages, and water scarcity.
2 E.g., rainwater used.
3 Differences between the volumes of water drawn and discharged can be explained in part through unquantified evaporation, leaks, water used as a raw material in products, condensate from the use of steam as a source of energy, and unused rainwater.
4 Also includes water for irrigation purposes.
5 Total from production processes, sanitary wastewater, and rinsing and purification in production.

Total water consumption and water intensity

	2022	2023
Total water consumption (in million m^3)[1]	4	4
Water intensity (in million m^3/ € million)[2]	0.0002	0.0003

1 The difference between total water use and total water discharged (including evaporation losses, among other factors).
2 Ratio of total water consumption to sales.

Reuse

Used water can be reused in various ways. In addition to using water several times in the same process, e.g., in cooling water cycles, it can also be reused in other areas, e.g., for cleaning or to water lawns and plants, thus saving quantities of fresh water every year. The volume of reused water was 289 million cubic meters in the reporting year.]

Social Matters

Human Rights

As part of our social responsibility, we regard respect for human rights as fundamental for our business activities. Covestro is committed to respecting and safeguarding human rights on the basis of the United Nations (UN) Universal Declaration of Human Rights, the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy of the International Labour Organization (ILO), and the UN Guiding Principles on Business and Human Rights. Covestro is a member of the United Nations Global Compact and actively supports the National Action Plans and applicable national legislation governing human rights due diligence by companies. For this reason, Covestro is committed to applying due diligence to respect human rights.

Governance

Organizational Responsibility for Human Rights Risk Management

In the reporting year, the Board of Management appointed the head of the Group Quality department within the Group Innovation & Sustainability function as Group Human Rights Officer. The Group Human Rights Officer reports directly to the Board of Management and is responsible for monitoring Covestro's human rights risk management processes. In addition, the respective heads of the corporate functions who are responsible for the relevant, prioritized human rights focus areas are appointed as Human Rights Risk Owners.

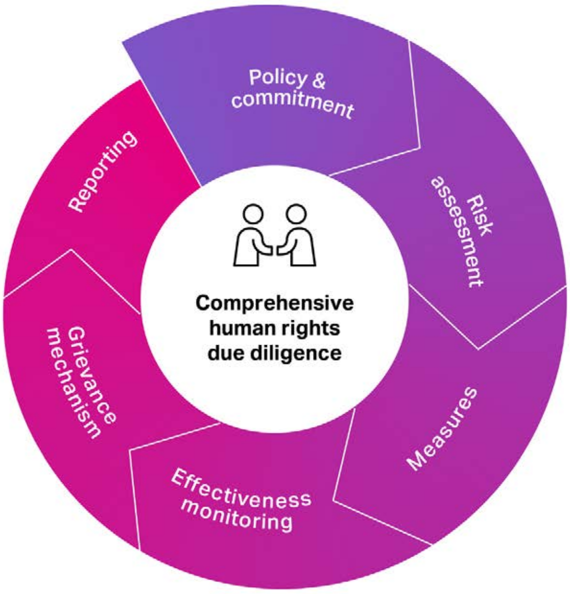
To support the Board of Management, the Group Human Rights Officer, and the Human Rights Risk Owners, Covestro has established a cross-functional working group (Human Rights Office), which is responsible for fully integrating human rights requirements into the Group's activities. The Human Rights Office, which works under the guidance of the Group Human Rights Officer, consists of permanent members from the corporate Group Innovation & Sustainability; Group Health, Safety and Environment; Group Procurement; Human Resources; and Law, Intellectual Property & Compliance functions. The human rights responsibilities of the Human Rights Office include developing and implementing the comprehensive management approach, systematically assessing risks, prioritizing and monitoring the implementation of individual measures, planning and conducting trainings, preparing reports for the Board of Management, and communicating about this issue in general. The involved corporate functions are responsible for, among other things, identifying and assessing risks as well as developing measures and monitoring their effectiveness. These measures are designed and implemented in the departments in consultation with the Human Rights Office.

Comprehensive Human Rights Due Diligence Process

Covestro has established a comprehensive due diligence process to safeguard human rights in our business activities. The overarching management approach is based on the UN's Guiding Principles on Business and Human Rights, the core elements of the German Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains, which entered into force in 2023, and the French law on human rights due diligence. We regularly monitor other national and international laws and legislative initiatives such as the proposed European Union (EU) Corporate Due Diligence Directive.

This overarching management approach is a continual process comprising the six core elements described below.

Human rights due diligence process



Policy and Commitment

The principles of our human rights due diligence are delineated in our Human Rights Policy Statement, various corporate policies, Group regulations, and in our own and our Supplier Code of Conduct. In these documents, we have specified key international conventions and principles as the basis of our conduct and our expectations of business partners worldwide. These documents are published either on Covestro's website or on our internal intranet to ensure accessibility for the relevant stakeholders.

Our corporate commitment to safeguarding human rights (human rights policy statement), which describes Covestro's human rights strategy to exercise proper regard for its due diligence obligations, is anchored in the necessary operational policies and procedures and has been published on our website. Our human rights policy statement was updated, adopted by the full Board of Management, subsequently communicated via a global intranet article, and presented to the General Works Council Committee in the year 2023. A key component of our commitment is zero tolerance toward child labor, forced labor, modern slavery, and human trafficking. In the reporting year, we once again made a public statement on slavery and human trafficking (Corporate Commitment against Slavery and Human Trafficking) to underline our position.

Within the supply chain, Covestro regards adherence to sustainability standards as a fundamental factor in value creation and an important lever for minimizing risks. Both current and new Covestro suppliers must meet not only economic standards but also social, ethical, and environmental standards as well as those related to corporate responsibility. Our standards, also in regard to human rights, are defined in Covestro's Supplier Code of Conduct.

→ See "Sustainability in Sourcing."

→ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

Risk Analysis

The starting point for our human rights due diligence is a risk analysis that identifies and assesses actual or potential negative impacts on human rights that Covestro could cause, contribute to, or which it could be directly linked to, as a result of its business activities. The due diligence covers all of Covestro's own sites, the supply chain, as well as the use phase and end-of-life of our products. The comprehensive risk analysis, which is performed every three to four years, considers all potential human rights risk areas in which Covestro's employees, contractors, suppliers, customers, consumers, or neighboring communities may be affected. The relevant risks are then discussed with the respective business entities and corporate functions on an annual and ad hoc basis and prioritized for further management, depending on the gross assessment of the severity of a potential human rights violation and its likelihood of occurrence. Potential human rights violations assigned the highest degree of severity, based on the scale, scope, and irremediability of the potential violation, always take top priority. Findings from this risk analysis are continually updated by the Human Rights Office, taking relevant information obtained from internal and external sources into account, such as from Covestro's grievance mechanism.

In the reporting year, Covestro again performed the comprehensive risk analysis in combination with the materiality analysis and identified human rights focus areas along the value chain. No grievances were reported in the previous year that could have been analyzed in the human rights-related risks analysis conducted in the year 2023. In addition, there was no need to perform an ad hoc risk analysis, e.g., due to a material change in Covestro's business activities.

→ See "Materiality Assessment."

Our identified human rights focus areas in the context of our own business activities and at the sites of our direct suppliers include the worst forms of human rights violations, working conditions, health and safety impacts on employees and contractors, and potential environmental impacts on surrounding communities at our own sites or those of our suppliers. Other focus areas in our own business activities include water resources, the diversity, equity, and inclusion of our workforce, and the safety of our products. Our focus in the use phase and at the end of life of our products includes their use in sensitive applications. Compared with the previous year, the potential environmental impact of our suppliers' business activities on their surrounding communities came into focus while the potential impact of collecting and processing waste from our products in the downstream value chain fell out of focus.

On a yearly and on an ad-hoc basis, Covestro's Human Rights Risk Owners assess and prioritize the human rights risks in their focus areas. For our suppliers, we analyze and prioritize human rights risks using a combination of country and industry or sector risks based on recognized external sources. In a second step, we considered our ability to influence our suppliers to further prioritize these risks.

For our own business activities, the human rights risks of forced labor, child labor, environmental emissions, the disposal of (hazardous) waste, the occupational health and safety of our workers, as well as product stewardship were globally prioritized in the reporting period and local human rights-related risks of our water consumption in India were prioritized for further management as part of the human rights management system. Additionally, the material risks of forced and child labor were prioritized for certain supplier industry and country combinations.

Actions

Preventive and Remedial Measures

Covestro's Human Rights Risk Owners assess the suitability of existing preventive measures in accordance with the risk-based approach recommended in the UN Guiding Principles and, if necessary, implement appropriate new measures to prevent or mitigate adverse impacts on human rights for the prioritized human rights risks. Many measures in the areas of health and safety, product safety, compliance, human resources, and sustainable supplier management have long been implemented at Covestro and aim to prevent or mitigate negative impacts on human rights. Most of these measures are already integrated into Covestro's existing Group-wide management systems, including the integrated Health, Safety, Environment, Energy, and Quality (HSEQ) management system, the compliance management system, the human resources process landscape, and other corporate governance frameworks.

→ See "Business Conduct (Compliance)."
→ See "Employees."
→ See "Health and Safety."
→ See "Product Stewardship."
→ See "Sustainability in Sourcing."

The cross-functional Human Rights Office organizes trainings on human rights aspects that are relevant to the activities of the Group and its value chain. In addition, the Human Rights Office provides regular information about human rights in the company and advises corporate functions on how to fully integrate the human rights requirements into Covestro's management systems. In the reporting year, the Human Rights Office published two global intranet articles and set up an internal SharePoint page with information for employees on Covestro's approach to human rights. In addition, a web-based training on Covestro's approach to human rights was developed and rolled out worldwide as part of the Expedition C learning initiative.

→ See "Employee Training and Continuing Development."

If there are reasonable grounds for suspicion or concrete indications of human rights violations within Covestro, the local Compliance Officer investigates the facts based on Group-wide standards which are outlined in a local procedure. If Covestro has directly caused a human rights violation, Covestro is committed to work quickly to stop or change the responsible business activities in order to end the violation. Any human rights violation caused by a Covestro employee is evaluated and organizational or disciplinary measures may be taken if necessary. There were no concrete indications of human rights violations within the Covestro organization in the reporting year.

Numerous measures are implemented with regard to suppliers in order to support sustainability in sourcing and the protection of human rights in the supply chain. These include the Group-wide integration of the Supplier Code of Conduct into the electronic ordering systems, Covestro's membership in Together for Sustainability, and the provision of opportunities for training and dialog.

→ See "Sustainability in Sourcing."

In addition, further actions were defined for suppliers where a concrete human rights risk was identified. These include targeted human rights trainings, supplier dialogues, contractual obligations, and online assessments or on-site audits. In the year 2023, these actions were published in a guidebook for supplier managers and, together with other support materials, made available on the human rights SharePoint page. Moreover, training was conducted for supplier managers on human rights in the supply chain.

If there are reasonable grounds for suspicion or concrete indications of human rights violations in Covestro's supply chain, it investigates them carefully and consistently. Covestro expects its business partners to cooperate in clarifying the surrounding facts within a reasonable timeframe. If Covestro determines that its business activities have contributed to or are indirectly linked to human rights violations through one of its direct or indirect suppliers, Covestro is prepared to take measures to address the violation. Depending on the severity of the violation, Covestro reserves the right to respond appropriately in connection with its business partners. Inadequate working conditions, especially in relation to compensation and occupational health and safety, were found at one of our suppliers. Covestro supported this supplier on the recommended remedial actions in the reporting year.

Grievance Mechanism

Covestro expressly encourages reporting of suspected human rights violations in the Group as well as at suppliers' companies. Suspected human rights violations can be reported using a whistleblower system consisting of a global hotline and an online tool. Covestro therefore enables employees and third parties to anonymously inform us of any potential violations at our direct or indirect suppliers. We investigate cases of suspected human rights violations by following a defined process based on the involvement of (potentially) affected stakeholders. To enhance the transparency of how reported complaints are handled, an operating procedure for the Group's grievance mechanism is published on our website. The accessibility of the grievance mechanism was further improved in the reporting year by optimizing its placement on our website and expanding the available languages of our grievance procedure. No confirmed human rights violations were reported through the Group-wide grievance mechanism in fiscal 2023.

→ See "Business Conduct (Compliance)."

Effectiveness Monitoring

Appropriate qualitative and quantitative indicators along with internal and external sources are used to assess the effectiveness of Covestro's human rights measures, in the existing management processes, at preventing negative impacts on human rights. In the year 2023, the corporate functions represented in the Human Rights Office reported on the implemented measures and potential findings regarding their effectiveness. Additionally, the effectiveness of the complaints procedure and remedial actions are reviewed annually and on and ad hoc basis. The appropriateness and effectiveness of the human rights risk management systems is reviewed with the Group Human Rights Officer. In addition, the Corporate Audit function complements the monitoring process with process-independent monitoring. The human rights risk management system was reviewed by Corporate Audit in the year 2023.

Reporting

Every year, Covestro communicates its human rights activities to the public in its Group Management Report. Moreover, the Group Human Rights Officer and the Human Rights Office report regularly (no less than once a year) to the Board of Management on the results of the risk analysis, the status of human rights due diligence, and the systematic integration of these requirements into Covestro's management systems. The Sustainability Committee of the Supervisory Board was also updated on the management system in the year under review. In accordance with the requirements of the German Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains, a report on Covestro's compliance with its due diligence obligations for the prior fiscal year will be published on the website in fiscal 2024.

Employees

Covestro's employees are the company's most valuable resource. The multifaceted abilities, personal efforts, and ability to change of all employees are the basis for Covestro's success, now and in the future. Covestro operates in an ever changing environment with numerous external and internal factors. To master these challenges, we aim to create a working environment that enables all employees everyone to act and contribute in line with the company's targets, values, and culture. Covestro thus promotes unconventional thinking, the effective exchange of knowledge, creative problem-solving, constructive feedback, and collegial cooperation.

Human rights are the foundation of our social responsibility as a company and employer. We are fully committed to maintaining and promoting these rights within our area of influence and to always treating each other with respect. At Covestro, our social responsibility as a company and employer also includes creating fair working conditions that are based on mutual respect and appreciation among employees and in particular attach value to safety, health, and wellbeing in the workplace.

Also, our sustainable human resources (HR) policy features a strong social responsibility for our employees. We are aiming at a working environment in which different skills, talents, experiences, and points of view are welcome, and everyone is treated with dignity and respect, both within and outside of our company. It is therefore of particular importance to us to practice diversity, equity, and inclusion as central components of our corporate culture in our day-to-day HR work.

→ See "Business Conduct (Compliance)."
→ See "Human Rights."
→ See "Diversity, Equity, and Inclusion of Our Workforce."
→ See "Working Conditions."

Strategy

Corporate Values and Corporate Culture

Covestro is proud of its corporate values, summarized as C^3: curious, courageous, and colorful. Curiosity drives us to think further and allows us to create innovative and unexpected solutions for our customers. Courage helps us identify opportunities where others see limitations. Diversity promotes employee engagement and creativity; different perspectives make us successful. These values are a guiding principle for all the Group's employees and are ideally reflected in their thoughts and actions.

Our corporate "We Are 1" culture is based on Covestro's values and behaviors, and is an integral part of our strategy. Our employees influence and shape this corporate culture. A culture that is lived by our employees enables us to pursue our strategy and therefore contributes to Covestro's success now and far into the future. Our corporate culture empowers all employees to always act responsibly, to strive for continual improvement, to nurture collaborative teamwork, and to be good leaders.

Constructive cooperation with the employee representative body on a basis of trust is an integral part of our corporate culture. It allows us to come to important decisions jointly, some of which can be difficult for the company, after considering all perspectives. Employees at all sites around the world have the right to elect their own employee representatives. Topics that affect more than one European country are dealt with in the Covestro European Forum.

Human Resources Guiding Principles and Strategy

Megatrends, such as digital transformation, artificial intelligence, demographic change, or continuous transformation in all areas of life and work, and the trend toward individualization – freedom of choice and self-determination – are changing the nature and substance of the work environment. With the overarching people strategy, the corporate human Resources (HR) function creates a link between these global trends and the targets of Covestro's business strategy. The main focus is on the development and implementation of initiatives that sustainably support our business success in view of these trends and at the same time encourage professional development and engagement by all employees. In keeping with a holistic people strategy, Covestro's Board of Management is dedicated to promoting diversity, equity, and inclusion as well as ensuring our employees are appropriately qualified. Workplace health and safety is a fundamental requirement for our work.

Our people strategy is derived from these key topics and the targets of our corporate Sustainable Future strategy. It provides guidance for enhancing the HR product portfolio and prioritizing projects, initiatives, and activities of the corporate HR function. It breaks down into five action areas: "Place to be," "committed to perform," "ready to grow," "enabled to perform," and "proud to belong."

Covestro's people strategy and its action areas

Governance

Organizationally, the corporate HR function reports to the Chief Executive Officer (CEO). The Global Head of HR is responsible for all activities of the HR function.

Our HR governance refers to a complete set of policies, processes, and practices to ensure that the corporate HR function is managed effectively and efficiently. Our HR governance ensures that personnel decisions and actions are consistent, meet the relevant requirements, and contribute to the company's long-term success.

Several HR steering committees, consisting of regional and global management teams, deal with operational and strategic issues in relation to our workforce. In addition, the Board of Management is involved in HR-relevant decisions that are of strategic relevance to Covestro. The Supervisory Board is consulted on matters such as compensation-related decisions. On compensation issues, Covestro follows the consistency principle.
→ See Compensation Report.

The policies relevant for the corporate HR function are embedded in the corporate policies. Relevant HR-related risks are considered in the Group-wide risk management.

The corporate HR function is aided in all its work by Group Health, Safety and Environment; Law; Intellectual Property & Compliance; and Corporate Audit. They ensure that all internal policies and all relevant standards and labor law requirements are met.

Actions

Working Conditions

New, Flexible Working Environments for Improved Contact and Communication

Work environments, work content, and working methods are undergoing constant changes due to digital transformation and the increasing speed of change and complexity at our workplace. In order to meet these ever-changing requirements, Covestro aims to ensure a working environment that meets work requirements and thus promotes flexible ways of working and turns our offices into genuine meeting points.

At the center of our C^3 work philosophy is the conviction that all our employees, regardless of their status in the hierarchy, need working environments suitable to their tasks and responsibilities to be able to work effectively. In this way, we want to enable changes in perspective, promote cooperation, and drive creativity in the company.

The mobile working concept, which allows working from home and on the move, gives employees a wide variety of new options, depending on operational requirements, to spend up to 80% of their working time, calculated on a monthly basis, working remotely in accordance with the company-wide works agreement and agreement with the representative committee of executive employees on “Mobile Working in Germany.” However, we continue to believe that personal interaction on site is very important for ensuring lasting collaboration and maintaining our innovation capability.

Work-Life Balance

We support work-life balance for our employees. For instance, partnerships with daycare centers and financial support for vacation care for school-age children are among the solutions we offer to make combining work with family responsibilities easier. The programs offered can differ, depending on the particular Covestro site. Provided it is compatible with operational requirements, Covestro allows employees to take extended leave from work for personal projects such as scientific research, university studies, or other personal reasons. Employees around the world take advantage of this offer.

Designing Healthy Working Conditions and Work Models

Covestro is aware that the company's future depends on the health and performance of its employees. For this reason, preventive healthcare is a key component of our corporate “We Are 1” culture and also forms part of our people strategy. Workplace health management is primarily aimed at enabling health-appropriate and health-promoting working (environmental prevention) and at strengthening the health resources and potential of individuals (behavioral prevention). This is intended to improve the work environment and health and wellbeing in the workplace and to prevent risks to health at work.

Health targets and actions are derived by identifying needs of Covestro’s employees. Concrete health targets are formulated on the basis of information, obtained through health surveys, on the health situation relating to the requirements imposed on employees and their ability to meet them (resources). The focus here is on those indicators for which the analysis has identified a clear need for action. Targeted actions are offered to improve the health situation, such as the “Healthy management” seminar for managers, workshops for analyzing the causes of high workloads, or stress management courses. All actions are therefore tailored to the prevention requirement identified on the basis of health data; they are organized holistically as required by environmental and behavioral prevention. Our basic principles include the constant improvement of working and organizational conditions and the identification of factors that either promote or are detrimental to health.
→ See “Health and Safety.”

Our management staff has a significant influence on the performance and wellbeing of our employees. Against this backdrop, we ensure that our managers are qualified to the best possible extent for healthy management at Covestro and receive advice on their duties.

We continually strive to create working conditions that take account of any burdens on individuals in a continually changing working environment. In many countries, we exceed our legal obligations, e.g., by offering solutions such as flexible working hours, part-time work, working from home, and remote work, if this is compatible with operational requirements. Direct dialogue with our employees is particularly important to us. The nature and scope of our health promotion programs differ around the world with regard to the respective country-specific need for development and access to national health systems.

Employee Compensation

We offer competitive and fair working conditions, compensation, and additional benefits in accordance with market conditions and our social responsibility. This is an essential prerequisite for recruiting, retaining, and motivating qualified employees.

Covestro combines a base salary reflecting the duties of a position with performance-related compensation components and extensive additional benefits to create an internationally competitive pay package, about which employees are informed transparently. Tasks and responsibilities are classified on the basis of a job evaluation conducted without considering the individuals in the positions. For management functions, a standardized evaluation method is used if the job evaluation has not already been stipulated by a local collective agreement. Based on this classification, the amount of the base salary in all countries is aligned with standard compensation levels in the respective region. Regular compensation benchmarking is conducted to ensure this is maintained for the long term.

In accordance with our corporate "We Are 1" culture, the compensation structure follows standard rules and regulations. The variable compensation is based on a clearly documented system with identical criteria; differences occur only in the percentages related to fixed compensation.

→ See Compensation Report, "Long-Term Variable Compensation" section.
→ See Compensation Report, "Short-Term Variable Compensation" section.

Furthermore, a global budget is available from which management-level staff can promptly grant what are referred to as individual performance awards to recognize outstanding conduct, commitment, and the performance of their employees in regard to our corporate values.

Due to the challenging economic conditions and the need to prioritize spending to focus on the essentials, the Covestment share-based participation program was temporarily suspended in the year 2023. As a result, employees were unable to buy any Covestro shares at a discount. The program is to be resumed as soon as possible.

Employee Training and Continuing Development

Well educated and trained staff is crucial for our company's continuing development and success. We want to promote talent and encourage employees to try out new possibilities for personal development.

We continued and further optimized the concept of self-directed learning in the year 2023 to meet the personal needs of our employees. In particular, we focused on the opportunities of leadership and professional development. The system of strategic training and development will concentrate on organizational learning in future and emphasize two key initiatives. Firstly, team resource management training to improve safety behavior at Covestro was pursued further. This training has its origins in the aviation industry. It has been developed on the basis of the finding that many disasters in an industry environment can be attributed to errors in human performance and teamwork. Together with experienced airplane pilots, Covestro has adapted this program to its own needs and those of the chemical industry. Key components of the program are interactive, experience-oriented, and self-directed learning as well as a defined transfer process to retain the lessons learned. Team resource management training is thus aimed at improving the safety culture at Covestro in a sustainable manner.

→ See "Health and Safety."

Moreover, the Expedition C transformation program was launched as an internal further training initiative in the reporting year. The initiative, which concentrates on people in processes of transformation, was developed by Covestro employees for Covestro employees. Under this program, we encourage exchanges around the six core goals of the transformation: "Sustainability," "financial awareness," "digital transformation" "artificial intelligence," "C³ ways of working," and "intrapreneurship." A mix of knowledge transfer and tools has been compiled by internal experts to give Covestro employees the knowhow that is critical to shaping the successful transformation of the company.

Employer Attractiveness

Covestro aims to recruit qualified employees for the company, ensure their professional and personal development, and retain talent in the long term. We strive to be perceived as an attractive employer worldwide, to reinforce our employer brand, especially through diversity in the workforce, and to raise awareness of our company among our target groups.

Since skills shortages continue to dominate the global labor market, we make efforts worldwide to recruit new talent and inspire young people to pursue a career in our company. We take responsibility worldwide for students entering the workplace and bring in university students to take part in professional internships each year. This gives them insight into our company's operations as well as personal experience with Covestro as an attractive employer. In fiscal 2023, we offered 448 internships around the globe.

In addition to opportunities to join the company after studying, Covestro offers alternative routes into working life. In Germany, for example, 185 young people were able to start their careers with Covestro in the year 2023. We offer vocational training in a number of scientific, technical, and commercial professions and guarantee trainees a position with the company if the training is completed successfully. Our particular interest in schools is aimed at raising awareness of professions in science, technology, engineering, and mathematics (STEM) and making them more attractive to young people. For example, in the year 2023, we presented career opportunities available at Covestro to a number of different (partner) schools in Germany and invited interested learners on tours of the plant.

Employee Engagement

A key aspect of attaining our target of becoming a place to be is to get a better understanding of the factors that our employees consider important to increase their engagement. To identify these factors and keep track of trends, we use the global ENGAGE survey to measure and improve employee engagement. All employees worldwide can provide feedback several times a year by filling out a voluntary, anonymous online survey on key issues in their work environment. The results are then shared transparently with the employees and appropriate improvement actions are agreed jointly by employees and line managers. Three survey rounds were conducted in the year 2023, each with a participation rate of around 70%, similar to the previous year.

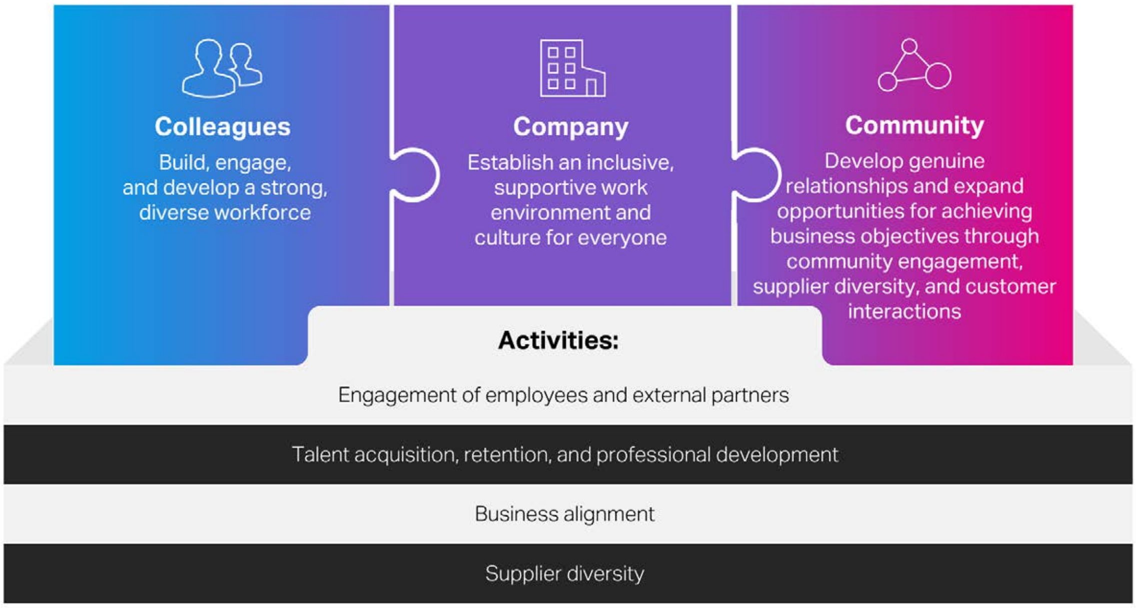
Apart from conducting global employee surveys, we provide employees with the opportunity to give feedback at any time and to submit queries on individual matters. This feedback is collected and regularly addressed and answered by the Board of Management in video messages and virtual global and local employee events (e.g., WeAre1 talks and town halls meetings).

Diversity, Equity, and Inclusion of our Workforce

Diversity, equity, and inclusion (DEI) is a key component of our corporate culture. We also believe that a diverse workforce and inclusive environment are important drivers of innovation, sustainability, employee engagement, and business success. Our target is to create an environment at Covestro in which all employees can give their best each and every day.

Covestro's DEI strategy is derived from our values and based on three core principles: Colleagues, Company, and Community. These are three essential factors for building a strong, diverse, equitable, inclusive, and innovative work culture at our sites. Our corporate targets and the culture we need for diversity, equity, and inclusion are driven by our employee networks and councils and supported by management and all members of Covestro's Board of Management.

Our diversity, equity, and inclusion strategy



The first principle, “Colleagues – build, engage and develop a strong, diverse workforce” encompasses all activities that aim to make Covestro’s workforce more diverse. Employee networks are a key factor in involving our staff in driving diversity. We want to bring people together in these networks, and promote an exchange of inspiration and ideas. Covestro has many global and regional employee networks with different focus areas worldwide. The global UNITE network focuses on all issues of concern to the LGBTIQ (lesbian, gay, bi, trans, intersex, queer) community, and the global Compass network is for employees interested in gender equity. These networks create opportunities for learning and cooperating at a regional and global level. In the year 2023, a large number of such learning opportunities were created by these networks worldwide. In addition to the employee networks, some sites also have DEI Councils, which provide support for implementing the strategy and for the activities of the employee networks.

Under the “Company – establish an inclusive, supportive work environment and culture” principle, we have bundled all efforts and initiatives aimed at promoting inclusion. Covestro is aware that companies are more successful it they encourage diversity in their workforce. We strive to promote diversity and equity for all employees at all levels. For example, Covestro is committed to gender equity worldwide and the Board of Management has therefore undertaken to reach a proportion of 40% women in Covestro’s total workforce by the year 2029. At the end of the reporting year, women made up 23.2% of our worldwide headcount (previous year: 23.4%). The above ambition is underpinned further by the target for the proportion of women in the first two management levels below the Board of Management for the period through June 30, 2027.
→ See “Promotion of Equal Participation of Women and Men in Leadership Positions.”

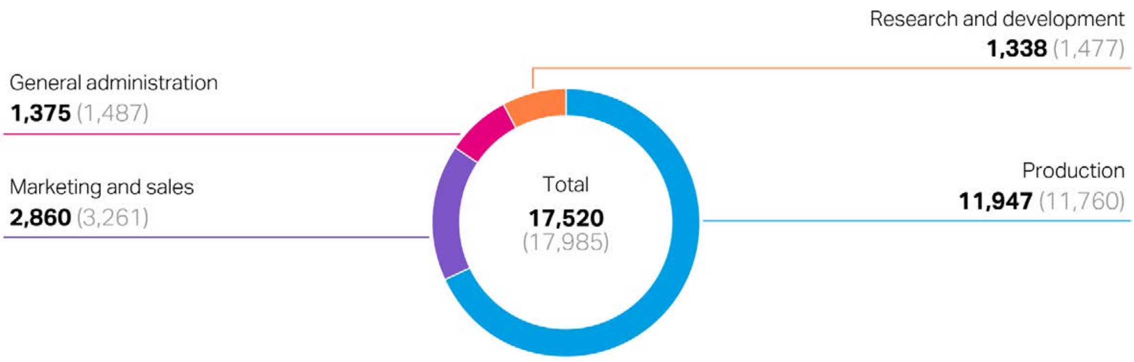
The “Community – achieving business targets through community engagement, supplier diversity, and customer interaction” principle summarizes how we, together with our partners, intend to create the basis for greater diversity in society. Covestro actively promotes diversity, equity, and inclusion in pursuing its own activities and by working shoulder-to-shoulder with outside parties. This is the only way these targets will be permanently integrated into the company as well as society. For this reason, we are further expanding our cooperation with various partners.

Metrics

As of December 31, 2023, Covestro had 17,520 employees worldwide (previous year: 17,985). At the reporting date, the Group also had 572 employees in vocational training worldwide (previous year: 575).

→ See note 9 "Personnel Expenses and Employee Numbers" in the Notes to the Consolidated Financial Statements.

Employees by division[1]



[1] The number of permanent or temporary employees is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours. The figures do not include employees in vocational training. Prior-year figures are shown in brackets.

[New Hires and Attritions

We welcome applications from all candidates, irrespective of their ethnic origin, nationality, religion, ideology, gender, age, disability, and/or sexual identity. We are committed to the principle of treating all applicants fairly and avoiding discrimination of any kind.

In the reporting year, we hired a total of 762 new employees worldwide. The number of new hires was considerably lower than in the previous year (1,330) because the tense market situation meant that new employees were hired only selectively in the reporting year.

New hires[1] by age group, gender, and region in fiscal 2023

	EMLA		NA		APAC		Total	
	FTE	%	FTE	%	FTE	%	FTE	%
Women	**104**	**13.6**	**27**	**3.5**	**28**	**3.7**	**159**	**20.8**
< 30 years	60	7.8	12	1.6	17	2.2	89	11.6
30 to 49 years	40	5.3	11	1.4	11	1.5	62	8.2
≥ 50 years	4	0.5	4	0.5	0	-	8	1.0
Men	**370**	**48.6**	**119**	**15.7**	**113**	**14.9**	**602**	**79.2**
< 30 years	197	25.9	54	7.1	62	8.2	313	41.1
30 to 49 years	144	18.9	60	7.9	50	6.6	254	33.4
≥ 50 years	29	3.8	5	0.7	1	0.1	35	4.6
Total	**474**	**62.2**	**146**	**19.2**	**141**	**18.6**	**761**	**100.0**

[1] The number and percentage of permanent or temporary employees is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours. Percentages represent the distribution of new hires, including employees in vocational training subsequently offered employment. The figures do not include new employees in vocational training. One newly hired individual did not state their gender. This information was not included in the presentation above for data protection reasons.

A total of 1,119 (previous year: 1,192) employees worldwide left the Group in fiscal 2023. Employee attritions in the different regions and age groups varied widely in some cases.

Attritions[1] by age group, gender, and region in fiscal 2023

	EMLA		NA		APAC		Total	
	FTE	%	FTE	%	FTE	%	FTE	%
Women	**136**	**6.3**	**52**	**8.6**	**86**	**6.5**	**274**	**6.7**
< 30 years	22	7.6	5	8.7	2	1.8	29	6.3
30 to 49 years	62	5.3	20	6.4	65	6.1	147	5.8
≥ 50 years	52	7.3	27	11.3	19	13.1	98	8.9
Men	**454**	**5.7**	**180**	**8.3**	**210**	**6.1**	**844**	**6.2**
< 30 years	53	5.5	17	7.4	28	8.5	98	6.5
30 to 49 years	149	4.1	69	6.6	133	5.3	351	4.9
≥ 50 years	252	7.6	94	10.5	49	8.1	395	8.2
Total	**590**	**5.8**	**232**	**8.3**	**296**	**6.2**	**1,118**	**6.3**

[1] The number and percentage of employees are calculated on the basis of full-time equivalents (FTEs). The attrition rate is calculated as the ratio of the total of all employer- and employee-initiated terminations, the end of fixed-term contracts, retirements, and deaths to the average number of employees (FTEs). The figures do not include employees in vocational training. One person who left the company did not provide gender information. This information was not included in the presentation above for data protection reasons.

Compensation

In the year under review, 68% of our employees worldwide (mainly in Central Europe, Brazil and most of our employees in China) were subject to collective bargaining or works agreements. At various country subsidiaries, the interests of the workforce are represented by elected employee representatives who have a right to be consulted on certain managerial decisions affecting the workforce.

As of December 31, 2023, 76% of the workforce had access to a company pension plan. At all locations, personnel policy is aligned with the statutory requirements, such as those for severance, pre-retirement, and support to pursue alternative career paths. For instance, in Germany employees are able to transfer salary and time components (converted into money) into a long-term account. The accumulated balance can then be used at a later date for certain legally defined purposes such as pre-retirement leave.

Diversity and Internationality

As of December 31, 2023, Covestro had 17,520 employees worldwide comprising 86 different nationalities, 76.7% of whom were male and 23.2% were female. Members of the Board of Management and of the Executive Leadership Team (executives at the two highest contract levels below the Board of Management) represented eight different nationalities.

The majority of Covestro's employees (57.2%) worked in the EMLA region. The NA region accounted for 15.9% of our employees, while 26.9% of the workforce was based in the APAC region. In each of Germany (7,158 FTEs), China (2,783 FTEs), and the United States (2,517 FTEs), Covestro employed more than 10% of the total workforce.

Most employees have a permanent contract of employment with Covestro.

Employees[1] by employment status, region, and gender in fiscal 2023

	EMLA		NA		APAC		
	Women	Men	Women	Men	Women	Men	Total
	FTE	FTE	FTE	FTE	in FTE	FTE	FTE
Employees with permanent contracts	2,120	7,741	602	2,165	1,280	3,398	17,311
Employees with temporary contracts	47	108	3	12	21	18	209
Total	**2,167**	**7,850**	**605**	**2,177**	**1,301**	**3,416**	**17,520**

[1] The number of permanent or temporary employees is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours. The figures do not include employees in vocational training. Five employees worldwide did not state their gender. In the presentation above, this information was included only in the overall total and in the line totals; as a result, the totals differ from the sum of the individual numbers by gender. There were no employees without guaranteed working hours.

Permanent employees[1] by type of employment and gender in fiscal 2023

	Women	Men	Total
Part-time	764	1,425	2,190
Full-time	3,453	12,152	15,609
Total	**4,217**	**13,577**	**17,799**

[1] The number of employees (headcount) is stated irrespective of their degree of employment. The figures do not include employees in vocational training. Five employees worldwide did not state their gender. In the presentation above, this information was included only in the overall total and in the line totals; as a result, the totals differ from the sum of the individual numbers by gender. Since the year 2023, employees with reduced working hours at full pay (e.g., on the basis of workload reductions for older employees specified in collective bargaining agreements) have no longer been counted as part-time employees. This has led to a significant decrease in the number of part-time employees reported, especially among the male workforce.

The percentages of male and female employees by employee group have remained largely constant.

Employees[1] by employee group and gender in fiscal 2023

	Women	Men	Total
	%	%	%
Board of Management and Executive Leadership Team	0.1	0.2	0.3
Middle management	2.7	9.1	11.9
Junior management	7.2	17.2	24.4
Skilled workers	13.2	50.2	63.5
Total	**23.2**	**76.7**	**100.0**
Employees in vocational training	22.4	76.9	100.0

[1] The information was determined from the number of permanent or temporary employees, stated in full-time equivalents (FTEs). Part-time employees were included on a pro-rated basis in line with their contractual working hours. Employees in vocational training are disclosed separately in this KPI. Five employees and four trainees worldwide did not state their gender. In the presentation above, this information was included only in the total; as a result, the total number of employees differs from the sum of the individual numbers by gender.

Employees[1] by employee group and age group in fiscal 2023

	< 30 years	30 to 49 years	≥ 50 years	Total
	%	%	%	%
Board of Management and Executive Leadership Team	–	0.1	0.2	0.3
Middle management	–	5.6	6.2	11.8
Junior management	0.7	15.6	8.1	24.4
Skilled workers	10.3	34.0	19.2	63.5
Total	**11.0**	**55.3**	**33.7**	**100.0**

[1] The information was determined from the number of permanent or temporary employees, stated in full-time equivalents (FTEs). Part-time employees were included on a pro-rated basis in line with their contractual working hours. The figures do not include employees in vocational training.

Health and Safety

For Covestro, safety is an essential foundation of its business activities. The continuous improvement of a safe work environment is a key component of our corporate responsibility and a topical focus of our human rights due diligence activities. Covestro adheres to the applicable standards, domestic regulations, and laws. These regulations aim to prevent injuries, equipment breakdowns, and transportation incidents, as well as preserve the health of our employees in the workplace and during work-related activities. This also applies to contractors who work for our company within the scope of operational activities. Detailed regulations and regular inspections contribute to this, as do safe production processes, plant and transports.

Actions

In the year under review, our employees were encouraged for the 15th time to take part in the CEO Safety & Health Award and submit suggestions for improving occupational health and safety. A proposal that involved preventing accidents by visualizing past incidents won first place in the internal vote. Condensed presentation and identifying what happened and where can increase safety awareness among employees.

Occupational Health and Safety

Covestro is committed to the well-being and health of its employees and offers a range of preventive education, counseling, and medical services. In Germany, we rely on cooperation with an external service provider that makes the various prevention services available to our employees in an app.

We have been recording our healthcare performance since 2022. An employee survey enables us to capture the needs of our employees and proactively support their health by implementing targeted measures.

→ See "Designing Healthy Working Conditions and Work Models."

Occupational Health and Safety Management

Our integrated Health, Safety, Environment, Energy, and Quality (HSEQ) management system is a major contributor to fulfilling our vision of an accident-free and health-appropriate workplace. Our external standard ISO 45001 and internal guidelines were reviewed by internal and external auditors in the reporting year. The ISO 45001-certified sites employ around 13,000 persons.

Our safety management activities take into account requirements and standards applicable Group-wide, and apply to all Covestro companies worldwide. To support of our goal of "zero accidents," the health and safety of our employees are the focus of our safety and health management system, which we are continuously refining in line with our corporate culture. Here are some examples of the elements of our system:

Health and Safety

Leadership	• Healthy management – self-management and self-care to reflect on personal health situation • Safety presence – leadership by means of walkthroughs
Control and mitigate risks	• Analysis of psychosocial risks • Learn from incidents – safety and reliability telegrams; track corrective actions
Initiatives and involvement	• Proactive vs. reactive – risk classification of near-accidents; "Take care of yourself!" • LifeSaver – 10 things that could prove fatal

→ See "Safety and Accident Prevention."

An integrated information management system (IIMS) implemented throughout the Group exists for reporting and processing potential hazards, work-related accidents, illnesses and incidents. The IIMS makes it possible to identify trends in a timely manner so that corresponding short-term corrective and long-term improvement actions can be implemented if necessary. The company's safety experts, supported by external expertise if needed, analyze the background circumstances and the impact. The results of the root cause analysis conducted after an incident occurs and the corrective actions taken are published throughout the Group in order to raise employees' safety awareness. As a result, everybody can better assess comparable hazards and situations and proactively remedy them. Our Group-wide Health & Safety Day was held on September 21, 2023 under the banner of "See something, say something."

Team Resource Management training to further increase safety awareness and safe conduct among our staff continued in the year 2023.

→ See "Employees."

Safety during transportation

We work continually toward maximum safety during transportation of our products. We report all incidents at all sites operated by Covestro worldwide in line with our internal directives. These are documented according to defined criteria such as quantity of loss of containment, material hazard class, degree of personal injury, and blocked transportation routes. In the case of certain dangerous goods quantities of five kilograms or more that have been spilled are recorded and categorized in accordance with our voluntary Commitment. Group-wide events on transportation safety are held at regular intervals. Here, corrective actions are developed and implemented based on actual incidents, and information is exchanged on tried-and-tested approaches.

Process and Plant Safety

We aim to ensure the safety of processes and plants in a way that avoids unacceptable risks to our employees, our neighbors, and the environment. We therefore conduct extensive, systematic safety assessments at regular intervals. The indicator for all Covestro Plants is the globally uniform indicator for the release of chemical substances due to the failure of the primary containment system (LoPC). It is integrated into the Group-wide reporting system IIMS.

Hazard Avoidance

Maintenance and inspections, as well as technical modifications often require work that is associated with potential hazards. Such jobs are performed individually or pooled and performed at one time during plant downtimes, which are planned well in advance. A work permit process is applied here. In addition to a precise description of the work to be performed, this includes a hazard assessment and a determination of the required safety and protective measures. All persons involved in the work are informed of these parameters and must confirm acknowledgement of this information by signing. The responsible plant, participating technical crews, and, if necessary, additional safety posts monitor adherence to the measures and safe work performance.

Metrics

Safety and Accident Prevention

We evaluate safety events according to criteria defined by us, also with regard to their potential impact, which could have led to a major event (High Potential Event, HPE) under different conditions. Events classified as HPEs are treated similarly to events that have actually occurred and require detailed root cause analysis and communication. Further promoting safety awareness among employees is essential for minimizing dangerous situations during day-to-day operations. Over the long term, we want to prevent all workplace accidents and occupational illnesses. For this reason, we regularly analyze the accident data by site as well as by region and type of accident. The fluctuations observed indicate to us the structural differences that are discussed in analyzing and determining measures to be taken with the sites and segments, and adapted to local requirements.

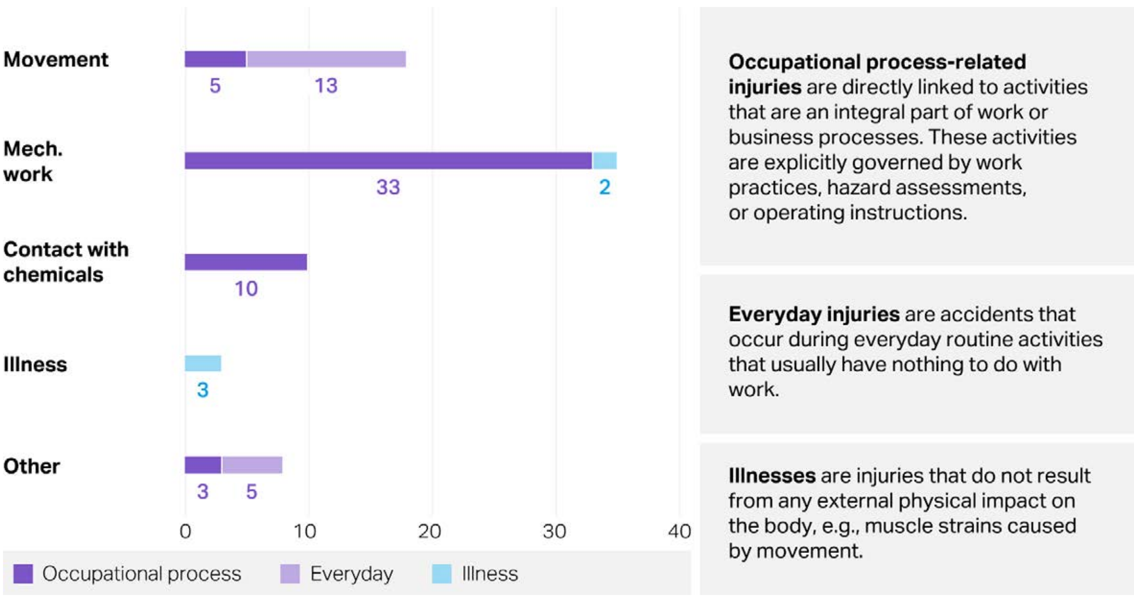
Activities that led to accidents

	Movement (stumbling/ falling)		Mechanical work		Chemical contact		Traffic and transpor- tation		Illnesses		Other		Total	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Employees	19	14	31	19	10	7	2	0	–	3	7	7	69	50
Contractors	13	4	15	16	3	3	1	0	–	0	4	1	36	24
Total	**32**	**18**	**46**	**35**	**13**	**10**	**3**	**0**	**–**	**3**	**11**	**8**	**105**	**74**

One focus of accident was mechanical work, especially hand accidents. To counter this trend, we rolled out "hand safety" throughout the Group as a particular focus area, as we had already done in the third quarter of 2022. To avoid serious incidents, we rely on what we call “life savers.” These set out in detail the safety concepts to be observed for certain activities. These “life savers” were again explained to employees as part of a Group-wide HSE campaign called “Do you know all 10?”

To focus special attention on process-related accidents, we began classifying our accidents into three categories in the year under review: “Accidents related to work processes,” “Everyday accidents,” and “Illnesses.”

Process-related Accidents (Absolute Numbers)



We process recordable workplace accidents and illnesses involving employees and contractors as part of the recordable incident rate (RIR) and lost time recordable incident rate (LTRIR), with reference to Standard 1904 issued by the U.S. Occupational Safety and Health Administration (OSHA). The RIR is calculated as a ratio of the total number of recordable workplace accidents and illnesses to hours worked (standardized to 200,000 working hours per year). The LTRIR is calculated as a ratio of lost time in days to the same hours worked figure. We calculate the number of hours worked by our employees based on the number of employees in the Group and multiply this figure at country level by the average working hours in the member states of the Organisation for Economic Co-operation and Development (OECD) or the International Labour Organization (ILO). If no OECD or ILO data is available, then we use the average number of hours worked at Group level.

The number of hours worked by our contractors’ employees is calculated using a methodology that includes various categories for recording working hours, broken down by electronic and manual timekeeping, or working hours are recorded on the basis of supplier invoices. The figure can also be calculated based on valid assumptions (estimates). The numbers of hours for November and December of the reporting year were estimated on the basis of valid assumptions. At sites with fewer than 50 Covestro employees, no contractor working hours are counted, so these are not included in the incident rates calculation. We apply controls and other measures at the global level as well as individual site level to prevent possible errors in calculating contractor working hours. As a result of the methods used, the reported data may vary from the actual data by <5%.

In the year 2023, we recorded 32.2 million total hours worked (THW) for our employees (previous year: 33.1 million THW) and 15.8 million THW were recorded for our contractors (previous year: 17.5 million THW) were reported. This results in the following data according to OSHA:

Work-related accidents[1]

	2022	2023
Recordable incidents		
in relation to Covestro employees	69	50
in relation to contractor employees[2]	36	24
Recordable incident rate (RIR)		
in relation to Covestro employees	0.42	0.31
in relation to contractor employees[2]	0.41	0.30
Recordable incidents in connection with days lost		
in relation to Covestro employees	37	32
in relation to contractor employees[2]	20	16
Lost time recordable incident rate (LTRIR)		
in relation to Covestro employees	0.22	0.20
in relation to contractor employees[2]	0.23	0.20
Lost Calendar Days		
in relation to Covestro employees	1,345	795
in relation to contractor employees[2]	589	506
Fatal injuries		
in relation to Covestro employees	1	0
in relation to contractor employees[2]	0	0
Illnesses (as part of recordable incidents)		
in relation to Covestro employees	–	5
in relation to contractor employees[2]	–	1

[1] Includes work-related accidents and illnesses taking into account all fully consolidated companies, provided that they are part of the consolidation scope.
[2] Employees of contractors engaged by Covestro whose accidents occurred on one of our company premises.

In the reporting year, the number of workplace accidents involving our employees went down by 19 to 50 (previous year: 69), reducing our employees' RIR by 0.11 points. The number of accidents involving employees of our contractors also went down by 12 to 24 (previous year: 36), reducing the RIR of our contractors' employees by 0.11 points.

Loss of Primary Containment

Covestro applies the German Chemical Industry Association's (Verband der Chemischen Industrie, VCI) guidelines on documenting plant safety performance indicators. The reporting criteria are thus aligned with the updated and globally harmonized definition by the International Council of Chemical Associations (ICCA). An LoPC event is defined as

- the release of chemicals classified according to the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) exceeding the defined quantity thresholds within one hour,
- the injury of a Covestro or contractor employee due to product leakage or energy release, which must be reported according to OSHA criteria,
- the release of energy (e.g., fire, explosion) that leads to damage with direct costs totalling more than €2,500, and
- an evacuation officially declared outside the plant.

We use the LoPC incident rate (LoPC IR) to determine the number of LoPC incidents per 200,000 TWH per year by Covestro employees and contractors. We applied these internationally harmonized volume thresholds at Covestro so that our statistics would be comparable within the chemical industry and the benchmark. Due to very low quantity thresholds, even smaller LoPC events are systematically recorded and investigated. In the reporting year, our LoPC IR was 0.74 (previous year: 0.57).

Every LoPC incident as well as minor and near-miss incidents are carefully analyzed to determine their causes, and the results and corrective actions taken are publicized throughout the Group. The criteria (e.g., lower thresholds or nonhazardous substance releases) were selected so that even releases of substances or energy that have no impact on employees, neighbors, or the environment are systematically recorded. This contributes to maintaining the integrity of our facilities. The global exchange of experiences relevant to safety is intended to help maintain the existing high standard of procedural and plant safety within the company. Globally binding standard processes and their uniform implementation also contribute to this effort.

Inclusive Business

Strategy and Governance

Our Inclusive Business activities are another aspect of our sustainability management. This business model focuses specifically on unmet needs of communities in underserved markets. Our collaborative approach offers scalable solutions to reach as many people as possible in these markets. We collaborate with our customers as well as governmental and nongovernmental organizations to develop solutions based on our technologies and products to benefit disadvantaged communities and regions by improving living conditions. Our employees focus on three regions – the Indian subcontinent, Southeast Asia, and Eastern and Southern Africa – with the main goal of implementing innovative solutions in the fields of food security and biosolids management. In terms of food security, one of the areas we are actively engaged in is to fight against post-harvest losses, which are all losses that occur after the harvest (e.g., as a result of improper storage). They are an economic challenge particularly for smallholding farms. Solar greenhouse dryers and cold storage, which are developed with industry partners within Inclusive Business, make a positive contribution to improving the financial situation of these farms by reducing post-harvest losses. In addition, these innovative solutions are intended to help develop new sales markets for Covestro. Biosolids management is another key action area. Biosolids are defined as human feces processed in drying facilities, which can then be used as organic fertilizer in agriculture. The solar drier technology used in our work on food security is also deployed in this process.

In the year 2023, we once again concentrated on collaboratively developing new, affordable solutions with partners who passed a due diligence review in advance. Our work in consortia – always preceded by our standard due diligence process for new partners – also ensures that the relevant segments of the population profit from the jointly developed end products.

Covestro's Board of Management is informed annually about these global activities.

Actions

Indian Subcontinent

In the Indian Subcontinent, our Inclusive Business activities concentrated on biosolids management in the reporting year. Under the Clean India Mission, an initiative of the Indian government, we installed additional solar dryers for treating human feces in the Indian state of Telangana. The announced joint study with the Administrative Staff College of India (ASCI) is expected to be completed in the first quarter of 2024. The results of the study, which captured data required from biosolids processing, are now helping the state governments in the creation of legal frameworks for treating biosolids.

In step with the Indian government's program for doubling farmers' income, our food security activities continued. The program is aimed at promoting ways to improve the incomes of farmers' cooperatives. The digital platform announced in the previous year went live in the fourth quarter of 2023. It provides information on innovation, potential partnerships, financing opportunities, and agricultural products. The platform is intended to enable all people involved in the post-harvest value chain to support Indian farms in optimizing food security efforts.

Southeast Asia

Inclusive Business activities in Southeast Asia continued in the reporting year. The positive experience made during the implementation of projects in the year 2022 – funded by the Agri Innovation Fund of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Bonn (Germany) – led to further funding for projects in Vietnam by the GIC Vietnam (Green Innovation Centre for the Agriculture and Food Sector). The GIC Vietnam program is part of the special "ONE WORLD – No Hunger" initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ). At a training workshop organized by Covestro, small farmers' cooperatives were taught how to use devices for drying mangoes. Additional solar dryers were used during this initiative, thus benefiting the households of small local farmers.

Eastern and Southern Africa

As in the previous year, the main focus in Africa was on food security in the year 2023. Our collaboration with Community Forest International and the installation of the solar dryer system financed by the European Union in Mtambwe Daya (Tanzania) continued. For example, further solar dryers were commissioned in the reporting year, giving support to other local spice growers and their families.

As announced in the Annual Report 2022, the operational implementation of the agreement with GIZ under the BMZ's develoPPP program started in the 2023 reporting year. The dryers delivered to Ethiopia in the previous year were commissioned in different regions and have been able to provide future support to coffee growers in improving their harvest by increasing the quality of the coffee beans. Under the agreement signed with GIZ as part of the develoPPP program, the next step is to identify potential operations and then, through technology transfer, support them in independently manufacturing drying systems in Ethiopia. Triggered by the develoPPP program, another order for drying units was placed by Moyee Coffee Roasting PLC, Bole (Ethiopia), Ethiopia's first multinational end-to-end processor of coffee beans, which has vertically integrated operations from harvesting the beans through processing down to marketing.

Targets and Metrics

Our target is to improve the living conditions of 10 million people in underserved markets by the year 2025. Covestro calculates this figure by including people who potentially benefit from our actions as part of their work or daily life, such as people working on smallholdings and their family members as well as other people who are positively impacted by the completion of our projects or the installation of our solutions. Participating governmental and nongovernmental organizations helped us collect the data. The data collected as part of a defined process is reviewed at local and global level, and the processes are continuously refined.

OUR INCLUSIVE BUSINESS GOAL

STATUS 2023

6.7 million

people

2022: 5.6 million people
2021: 3.2 million people

We want 10 million people in underserved markets to benefit from our solutions by the year 2025. The goal is to improve their standard of living primarily through affordable housing, sanitation, and food security.

By the end of the reporting year, we reached 6.7 million people with inclusive business solutions (previous year: 5.6 million people).

Governance Matters

Business Conduct (Compliance)

Our corporate conduct is characterized by a sense of responsibility as well as ethical principles. Compliance with legal and regulatory requirements is integral to our operations. It is only in this manner that we can sustainably increase the company's enterprise value and safeguard our reputation.

Governance

Compliance Culture and Targets

In its Corporate Compliance Policy, Covestro has specified a Group-wide code of conduct that mandates fundamental principles and rules for all employees. This code of conduct details our commitment to fair competition, integrity in business dealings, the principles of sustainability and product stewardship, data protection, upholding of foreign trade and insider dealing laws, the separation of business and private interests, proper record-keeping and transparent financial reporting, as well as to providing fair, respectful, and nondiscriminatory working conditions. The Code of Conduct was revised in the reporting year and the new version will be rolled out in the year 2024

These requirements apply within the company as well as to all interactions with external partners and the general public. Our code of conduct provides a framework for all decisions by the company and our employees. The Corporate Compliance Policy is available on our intranet and on our website, and is part of an information packet distributed to new employees when they are hired.

→ Additional information is available at: www.covestro.com/en/company/profile/procurement/sustainability-in-procurement/supplier-code-of-conduct

Covestro is aware that employees will likely embrace and exhibit integrity if managers are excellent role models. The Board of Management states very clearly in its Corporate Compliance Policy for all staff that, above and beyond any legal requirements, Covestro elects not to conduct any business activities that would violate our rules and that management staff is prohibited from instructing employees otherwise. In this way, management continuously fosters our compliance culture by, for example, regularly drawing employees' attention to compliance topics and their significance to the company. At Covestro town hall meetings, for example, Board of Management members regularly present recent compliance cases to employees and underscore the importance of complying with statutory requirements and internal regulations.

→ See "Corporate Commitments."

We want to utilize our compliance management system in order to:

- Foster and reinforce conduct per compliance requirements,
- Minimize or even eliminate compliance violations,
- Identify risks for potential violations,
- Implement preventive measures, and
- Uncover, halt, and proactively eliminate a repeat occurrence of any compliance violations committed by individuals acting without authorization and in breach of clear rules.

We have taken steps to meet our targets, including implementing an internal control system to ensure compliance rules are followed. The insights gained from our annual evaluation of effectiveness are leveraged in our efforts to continually improve our compliance management system.

→ See "Internal Control System to Ensure Compliance."

Compliance Organization

The Chief Compliance Officer is in charge of all compliance activities at Covestro, and in this function reports directly to the Board of Management. The corporate Law, Intellectual Property & Compliance function is the single point of contact that coordinates Group-wide compliance activities. Chaired by the Chief Financial Officer (CFO) of Covestro, the Compliance Committee is the Group's top-level decision-making body on these issues. The Committee's responsibilities include the following: exercising a Group-wide compliance governance function, initiating and approving compliance-related regulations, and approving the annual training plan. In the reporting period, the Compliance Committee met a total of four times. The suitability and effectiveness of compliance activities are regularly reviewed by the Corporate Audit function in independent, objective audits.

→ See "Process-Independent Monitoring."

Data privacy is under the responsibility of the corporate Law, Intellectual Property & Compliance function and is coordinated Group-wide. By defining controls and processes, the function works to ensure compliance with legal requirements (in particular the EU General Data Protection Regulation, GDPR) and legal judgments to protect personal data of employees, as well as of business partners, media representatives, etc. Local Data Privacy Officers have been appointed for each country in which Covestro has employees. They serve as local points of contact for employees on all questions regarding data privacy. The Board of Management is informed regularly about activities in the company relating to data privacy law.

A local Compliance Officer has also been appointed for each country in which Covestro has employees. This person serves as a local point of contact for employees on all questions regarding legally and ethically correct conduct in business situations. The country organizations also have local compliance committees.

Covestro expressly encourages its employees to openly address any doubts about proper conduct in business situations and to solicit advice. We inform all employees whom they can contact if they have any doubts or questions. Covestro has also set up a whistleblowing tool. Employees and third parties can report potential compliance violations through a hotline accessible worldwide or use an online tool that also permits anonymous reports. In addition, employees can also report any compliance incidents to their supervisors or to the Compliance organization.

→ Additional information is available at: www.covestro.com/en/company/management/compliance

An internal policy sets out the principles for handling compliance incidents at Covestro. All suspected compliance incidents are recorded in a central database. Confirmed violations are evaluated, and organizational, disciplinary, or legal measures are taken if necessary.

Compliance incidents are regularly reported to the Supervisory Board, the Board of Management, and the business entities' management teams. Moreover, a current overview of incidents, including additional information on various aspects and developments related to this topic, is published in a monthly Compliance Telegram on the intranet. This ensures a high degree of transparency for all employees.

On a quarterly basis, all companies document risks arising from pending or current legal or administrative proceedings. Relevant cases are reported on a regular basis to the Board of Management and to the Audit Committee of the Supervisory Board. The material legal risks are disclosed in the Notes to the Consolidated Financial Statements.

→ See note 26 "Legal Risks" in the Notes to the Consolidated Financial Statements.

Actions

Covestro systematically conducts training courses on compliance. Once focus areas have been specified, target groups are defined for each content category and the employees (including managerial staff) are invited.

→ See "Opportunities and Risks Report."
→ See "Internal Control System to Ensure Compliance"

[Tax Compliance

Principles and Strategy

Covestro takes seriously its responsibility to pay the statutory tax liability in accordance with the rules set by each government as well as to meet all registration, documentation, disclosure, and licensing requirements in all the applicable countries and/or tax jurisdictions. Ensuring that tax payments are made in the appropriate amount is a core element of Covestro's responsibility to society, because this is a major source of revenue for governments that is used to carry out economic and social policies.

Our tax principles are as follows:

- Zero tolerance for violations, especially tax fraud/evasion;
- Tax payments in line with the value created in the relevant countries/territories;
- Cooperation with tax authorities.

These principles are also published online.

→ Additional information is available at: www.covestro.com/en/sustainability/service-downloads/policies-commitments

Our principles are at the heart of a tax policy applicable to the entire Group, which was reviewed and approved by the corporate Taxes function and the Chief Financial Officer (CFO). The tax policy also includes our tax strategy in alignment with our Group strategy and our C^3 corporate values. The tax strategy is discussed and amended as necessary in regular exchanges with the CFO.

→ See "Strategy."

In addition, we are interested in keeping abreast of ongoing developments in tax law and therefore participate in political discussions in trade association committees. All of our activities rest on compliance with our ethical principles. The aim of our participation in trade associations is fair, transparent, and administratively streamlined evolution of tax law.

Governance

Responsibility for implementing and continually improving the appropriate tax processes lies with the corporate Taxes function, which reports to the CFO. Local tax experts in Covestro's subsidiaries implement tax processes or support this effort. To the extent that third-party professionals are tasked with tax-related responsibilities in certain countries, they agree to adhere to our principles and compliance rules.

Actions

Covestro expressly encourages employees to openly discuss any concerns about proper conduct by the company, including regarding taxes, with their supervisors or local tax departments, and to obtain assistance or advice. Our whistleblower tool is also available to employees and third parties.

→ See "Compliance Organization."

A standardized process is used to report tax risks worldwide to the corporate Taxes function once a year. Tax risks are monitored on an ongoing basis in cooperation with the subsidiaries and, if necessary, the risk reports are amended. Financial reporting comprises tax risks, which are integrated into the internal control system for the (Group) accounting and financial reporting process and the risk early warning system.

→ See "Internal Control System to Ensure Compliance."
→ See "Risk Management System."

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Cybersecurity and IT Security

Strategy

IT security is very important for Covestro and is designed to ensure data confidentiality, integrity, and availability. At the same time, a global increase in cyber threats is evident. Cybersecurity is aimed at ensuring a robust defense against attacks.

In addition to the safety and security of employees and plants, information security and uninterrupted workflows are particularly important to Covestro. We therefore systematically focus our security strategy on these targets, paying attention to the attacker groups.

The attacker profile has changed significantly in recent years, with attackers from the organized crime sector now representing the largest group, often attacking people or systems exposed on the internet, i.e., accessible from the internet. Due to the current geopolitical situation, the focus has also shifted to the group of state actors.

Governance

Covestro has established a central information security committee to ensure close consultation among the relevant departments (Corporate Security, Information Technology and Digitalization, and Information & Operational Technology Security, including Cyber Security and production).

Further decision-making and management bodies focusing on risk, compliance, and crisis management as well as on information security management are firmly established at Covestro.

Security is already taken into account during system and software development (security by design) and Covestro's security requirements (standards, policies) are based on international standards such as ISO 27001 and IEC 62443.

Actions

A central anchor point of our security architecture is to raise awareness among employees and train them by conducting global campaigns and compulsory web-based training on topics such as phishing or the secure use of web browsers.

We use modern IT tools in continuous security monitoring processes to detect any attempts to attack our IT systems, and continually improve these tools. Monitoring is performed by an in-house team of security experts at our Security Operation Center (SOC). The aim is to detect anomalies and suspicious events in our IT infrastructure in real time, and these may also be indications of cyberattacks. We carefully analyze and assess such indications and, if necessary, appropriate countermeasures are taken promptly.

Every month, our central security email inbox receives a triple-digit number of reports by employees about suspicious emails, so that any current attack campaigns that may have evaded the technical measures can additionally be detected.

For our cloud environment, risk-based security tests are carried out on a continual basis, as are unannounced security gap reviews (using techniques such as red teaming).

Covestro gets information on the general security situation, e.g., from security experts and by using the consultancy services of appropriate external providers, for example with regard to potential cyber threats (threat intelligence).

→ See "Business Conduct (Compliance)."

EU Taxonomy

In accordance with the European Union's Taxonomy Regulation (2020/852) (EU Taxonomy or Taxonomy Regulation) as the basis for various future and ongoing European Union (EU) initiatives relating to sustainable financial reporting, the Covestro Group is required to issue a nonfinancial statement and reports taxonomy KPIs.

In fiscal 2023, our report includes information in line with the Taxonomy Regulation and its delegated acts applicable at the reporting date. Taxonomy-aligned activities were reported for the first time for the year 2022, since the exemptions had been exercised in the year 2021 and only our taxonomy-eligible economic activities associated with the first two environmental objectives were initially reported. The publication of the new delegated acts on the EU Taxonomy on June 12, 2023, defines the economic activities and corresponding technical screening criteria for the four environmental objectives not yet addressed. These objectives include the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

This means that all six environmental objectives have since the year 2023 been covered by delegated acts. A second delegated act has also amended the Climate Delegated Act. This second delegated act comprises both the inclusion of new economic activities and the selective amendment of existing economic activities (in particular the amendment of existing technical screening criteria). Some legal concepts in the EU Taxonomy have not been defined conclusively, which leads to uncertainty regarding their interpretation.

Taxonomy-Eligible Economic Activities

As in the prior year, we identified the following taxonomy-eligible economic activities in fiscal 2023 associated with the environmental objective of "climate change mitigation" at Group level:

- Activity 3.10 – "Manufacture of hydrogen,"
- Activity 3.13 – "Manufacture of chlorine,"
- Activity 3.14 – "Manufacture of organic basic chemicals,"
- Activity 3.16 – "Manufacture of nitric acid,"
- Activity 3.17 – "Manufacture of plastics in primary form."*

In addition, in accordance with Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 (Complementary Climate Delegated Act), the following taxonomy-eligible economic activity associated with the environmental objective of climate change mitigation was identified in certain energy sectors:

- Activity 4.30 – "High-efficiency co-generation of heat/cool and power from fossil gaseous fuels."

Other taxonomy-eligible economic activities result in connection with capital expenditures (CapEx) and operating expenditure (OpEx) (categories b and c). There were changes here compared with the prior year. Other taxonomy-eligible economic activities were identified for the environmental objectives of climate change mitigation and transition to a circular economy:

* Covestro applies a narrow definition of plastics: If polymers such as polyester, polyether, and polyols require a chemical reaction to become a plastic, and require a chemical reaction with a reactive group first, they are not taxonomy-eligible. Prepolymers and oligomers are not taxonomy-eligible for the same reason.

Climate Change Mitigation

- Activity 6.2 – "Freight rail transport,"
- Activity 6.5 – "Transport by motorbikes, passenger cars and light commercial vehicles,"
- Activity 6.8 – "Inland freight water transport,"
- Activity 6.10 – "Sea and coastal freight water transport, vessels for port operations and auxiliary activities,"
- Activity 7.1 – "Construction of new buildings,"
- Activity 7.7 – "Acquisition and ownership of buildings."

Transition to a Circular Economy

- Activity 3.1 – "Construction of new buildings,"
- Activity 3.3 – "Demolition and wrecking of buildings and other structures,"
- Activity 3.4 – "Maintenance of roads and motorways,"
- Activity 4.1 – "Provision of IT/OT data-driven solutions."

Furthermore, no taxonomy-eligible economic activities associated with "climate change adaptation" were identified, since our business model in the activities covered by the Taxonomy Regulation are aimed at "climate change mitigation." Potentially, economic activity 3.1 – "Construction of new buildings" is also taxonomy-eligible for the environmental objective of "transition to a circular economy." Taking account of the technical screening criteria, (TSC), new construction projects were individually reviewed and can only be allocated to the environmental objective of climate change mitigation. This prevents double counting when calculating the metrics. Some activities in our portfolio are not covered by the EU Taxonomy, e.g., the manufacture of diisocyanates, such as diphenylmethane diisocyanate (MDI) or toluylene diisocyanate (TDI), which are required for processing into polyurethane.

The economic activities associated with the environmental objectives of "sustainable use and protection of water and marine resources," "pollution prevention and control," and "protection and restoration of biodiversity and ecosystems" were assessed by experts with regard to their implementation at Covestro. No need for additions or extensions were identified for fiscal 2023. In principle, there is a phase-in period for the environmental objectives three to six and for newly included activities under the Climate Delegated Act in the 2023 reporting year, which means that nonfinancial companies only have to provide information on taxonomy eligibility (proportion of taxonomy-eligible and taxonomy-non-eligible turnover, CapEx, and OpEx) for these activities in the 2023 reporting year.

Taxonomy-Aligned Economic Activities

The move to taxonomy-aligned activities can only be made if, in addition to the description of the activity that determines whether an economic activity is taxonomy-eligible, a testing scheme of technical screening criteria (TSCs) is be applied to each environmental objective. One component of these TSCs is criteria for making a substantial contribution to meeting the environmental objective. Secondly, it has to be ensured that no harm is done to any of the five other environmental objectives at the same time (do no significant harm, DNSH). The TSCs also contain specific details for this. A separate TSC is defined for each environmental objective. The TSCs for all six of the above environmental objectives were in force for fiscal 2023. In addition, compliance with the minimum safeguards pursuant to Article 18 of the Taxonomy Regulation must be examined.

Substantial Contribution

Following the assessment of the taxonomy eligibility of Covestro's activities in the year 2021 and the central analysis of taxonomy alignment in fiscal 2022, this status was updated in fiscal 2023 as the required substantial contribution to the environmental objective of climate change mitigation was not achieved or could not be demonstrated for any activity.

We potentially made a small material contribution to the environmental objective of climate change mitigation for selected sites for economic activity 3.10 – "Manufacture of hydrogen" in the year 2022. However we are not yet able at present to fully meet the stringent quality requirements (e.g., product-related lifecycle assessments [LCAs] that go beyond externally certified methodology assessments) that the EU Taxonomy imposes on the evidence to be provided.

Do No Significant Harm (DNSH)

For an activity to qualify as a substantial contribution to one environmental objective, the EU Taxonomy requires that it does not cause significant harm to the five other environmental objectives. In connection with the environmental objective of climate change mitigation, a climate risk and vulnerability assessment was conducted in the 2022 reporting year for activity 3.10 – "Manufacture of hydrogen" at site level, using Representative Concentration Pathways RCP 2.6, 4.5, and 8.5. With regard to the environmental objective of "sustainable use and protection of water and marine resources," a risk assessment was likewise performed in the 2022 reporting year to establish any possible environmental damage at site level. This was not repeated for the 2023 reporting year. For the environmental objective of transition to a circular economy, no criteria had been defined for the economic activity analyzed at the time of publication of this report. This means that compliance is currently not tied to any criteria. At the same time, in the year 2022, compliance with the emission values in connection with the best available techniques (BATs) was verified for the sites at which products are manufactured with which we make a substantial contribution to meeting the environmental objective of climate change mitigation. Finally, and also most recently in the year 2022, a check was performed at site level to make sure that no significant harm is done to the environmental objective of protection and restoration of biodiversity and ecosystems. As no appropriate evidence of a substantial contribution could again be provided for the 2023 reporting year, the DNSH analysis described here from fiscal 2022 was not repeated for the reporting year under review.

For the 2022 reporting year, evidence could be provided for activity 3.10 "Manufacture of hydrogen" in relation to the environmental objective of climate change mitigation that no significant harm was done to the other five environmental objectives. The only exception is Appendix C of Annex 1 of the Commission Delegated Regulation for the environmental objective of climate change mitigation due to interpretation uncertainty about the provision of evidence, especially in relation to subitem g. In the course of amendments to the Climate Delegated Act (EU) 2023/2485, this subitem was deleted and two new subitems were added. Taxonomy-eligible products that either do not make a substantial contribution to meeting the environmental objective of climate change mitigation or cause significant harm to at least one environmental objective are not classified as taxonomy-aligned. Since the criteria for a substantial contribution to activity 3.10 – "Manufacturing of hydrogen" are not yet fully met and this activity does therefore not qualify for taxonomy alignment, no additional review of the two subitems in Appendix C of Annex 1 was conducted.

Minimum Safeguards

Article 18 of the Taxonomy Regulation requires companies to establish processes and procedures to ensure compliance with different rules and regulations. They relate in particular to human rights (including labor and consumer rights), corruption and bribery, taxation, and fair competition. In the reporting year, we did not perform the review of minimum safeguards requirements specifically for the EU Taxonomy.

The requirements relating to minimum safeguards correspond to Covestro's culture, which we have made an integral part of our actions on the basis of existing Corporate Commitments, the Supplier Code of Conduct, and various Group regulations. To ensure compliance with all legal and Group-wide provisions, regulations, guidelines, and standards, we have implemented processes and controls (e.g., as part of the compliance management system, the internal control system, or the integrated Health, Safety, Environment, Energy, and Quality management system).

→ See "Business Conduct (Compliance)."
→ See "Corporate Policies."
→ See "Health and Safety."
→ See "Human Rights."
→ See "Sustainability in Sourcing."
→ See note 26 "Legal Risks" in the Notes to the Consolidated Financial Statements.

Result of the Alignment Check

In fiscal 2023, we did not identify any taxonomy-aligned economic activity associated with the environmental objectives of "climate change mitigation" and "climate change adaptation" and the environmental objectives of "sustainable use and protection of water and marine resources," "transition to a circular economy," "pollution prevention and control," and "protection and restoration of biodiversity and ecosystems."

Calculation of Taxonomy KPIs

We calculate taxonomy KPIs and report on the nature of taxonomy-eligible and taxonomy-aligned economic activities in accordance with Article 10(3) and Article 11(3) of the Taxonomy Regulation. We are required to report the share of turnover, capital expenditure (CapEx), and operating expenditure (OpEx) that are generated by taxonomy-eligible and taxonomy-aligned activities. The taxonomy KPIs are determined with system support in processes established for the purpose. The KPIs are mainly determined by allocating master data directly to the economic activities. In the case of CapEx and OpEx, this is unfortunately not always possible due to the complexity of the value flows. In these cases, the taxonomy-eligible shares are allocated on the basis of the taxonomy-eligible turnover determined for each economic activity. Validation steps are taken and the data is checked against the figures in the Group's Consolidated Financial Statements to ensure the data is complete and correct. Controls in our Internal Control System are used to support the underlying systems and processes.

→ See "Internal Control System."

Turnover

In order to determine the turnover generated by Covestro from taxonomy-eligible economic activities, we allocated the relevant Covestro products to these activities. The corresponding turnover (sales) recognized in the Consolidated Income Statement for the reporting year was then calculated for the identified products (numerator) and a ratio derived using the Covestro Group's sales reported in the Income Statement (denominator). Turnover generated from the activity of high-efficiency co-generation of heat/cool and power from fossil gaseous fuels is calculated in the same way.

→ See "Covestro Group Consolidated Income Statement."

As a result of the continued automation of calculating the metrics, the rule-based calculation was refined in the reporting year. To make the components of turnover during the reporting year more comparable to those of the previous year, individual prior-year figures in the table of KPIs were adjusted. The adjustments have been identified by means of footnotes.

Capital Expenditure

In order to determine capital expenditure (CapEx) associated with taxonomy-eligible economic activities as defined in the Taxonomy Regulation, we use the investments in and acquisitions of property, plant and equipment and intangible assets, excluding acquired goodwill, as well as additions of right-of-use assets pursuant to IFRS 16, as reported in the Notes to the Consolidated Financial Statements in this Annual Report (denominator). This must be used as the basis for determining the proportion of taxonomy-eligible and taxonomy-aligned CapEx relating primarily to additions to noncurrent assets (numerator). To this end, the products identified as originating from these economic activities were allocated to the corresponding CapEx (category a). Furthermore, taxonomy-eligible and taxonomy-aligned CapEx could be identified that is part of a plan to expand taxonomy-eligible and taxonomy-aligned economic activities or a plan to allow taxonomy-eligible economic activities to become taxonomy-aligned (category b). In addition, individual capital expenditure from the acquisition of products from taxonomy-eligible and taxonomy-aligned economic activities and individual measures implemented to reduce greenhouse gas (GHG) emissions had to be taken into account (category c). We cannot provide proof of the purchase of taxonomy-aligned category c products because we have no documentary evidence from suppliers. CapEx associated with the activity of high-efficiency co-generation of heat/cool and power from fossil gaseous fuels is calculated in the same way.

→ See note 13.1 "Goodwill and Other Intangible Assets" in the Notes to the Consolidated Financial Statements.
→ See note 13.2 "Property, Plant and Equipment" in the Notes to the Consolidated Financial Statements.

The increase in the taxonomy-eligible share of CapEx compared with the prior year was primarily due to investments relating to economic activity 3.17 – "Manufacture of plastics in primary form" and investments relating to economic activity 6.2 – "Freight rail transport," which was additionally included in the reporting year.

Operating Expenditure

In order to determine operating expenditure (OpEx) as defined in the Taxonomy Regulation, we use the Covestro Group's expenditure on maintenance and repairs, renovations, research and development, and short-term leasing costs (nominator). Of these, the share of taxonomy-eligible or taxonomy-aligned OpEx must be determined (numerator). To this end, the products identified as originating from the corresponding economic activities were allocated to the respective OpEx (category a). Furthermore, taxonomy-eligible OpEx was identified that is part of a plan to expand taxonomy-eligible and taxonomy-aligned economic activities or a plan to allow taxonomy-eligible economic activities to become taxonomy-aligned (category b). In addition, individual operating expenditure from the acquisition of products from taxonomy-eligible and taxonomy-aligned economic activities and individual measures implemented to reduce GHG emissions and renovate buildings had to be taken into account (category c). We cannot provide proof of the purchase of taxonomy-aligned category c products because we have no documentary evidence from suppliers. The OpEx data determined in this way is gathered exclusively for taxonomy reporting. OpEx associated with the activity of high-efficiency co-generation of heat/cool and power from fossil gaseous fuels is calculated in the same way.

Other Information

In fiscal 2022, Covestro published a Green Financing Framework under which the company can issue green bonds and other green debt instruments. Under this financing framework, a bond amounting to €500 million was issued in fiscal 2022. All the proceeds from the bond issue were used by fiscal year 2022 to finance products or projects with a clear benefit for the environment and/or society. No taxonomy-aligned CapEx or OpEx was financed with the green bond. No financing from this bond was available for CapEx or OpEx in the reporting year.

→ Further information at: www.covestro.com/en/investors/debt/green-financing-framework

Reporting of Taxonomy KPIs

The purpose of the EU Taxonomy is to set out details for the EU's Sustainable Finance Action Plan. It outlines objectives and steering options to inspire companies to develop sustainable products. The Taxonomy Regulation classifies the chemical industry, for example, as a sector with transitional activities because it operates at a point of transition from fossil-based raw materials toward renewable and alternative raw materials.

Covestro's portfolio contains a small proportion of potentially taxonomy-aligned activities. Some activities in our portfolio are not covered by the taxonomy at present, e.g., the manufacture of diisocyanates such as diphenylmethane diisocyanate (MDI), toluylene diisocyanate (TDI), etc., which are required for processing into polyurethane. In the case of activities relevant to Covestro in support of the environmental objective of climate change mitigation, the Taxonomy defines sustainability in particular with regard to the carbon footprint of the production process. However, this process does not consider the entire lifecycle of our products, with the result that the positive effect of our products, known as handprint, does not become apparent during application and use of the Covestro products. Low taxonomy KPIs do not mean, therefore, that we do not make any contribution to achieving a circular economy and climate neutrality. Our objectives are reflected in particular in our vision of becoming fully circular, from which our Group's Sustainable Future strategy and our sustainability targets – including a focus on climate neutrality – are derived. The review of sustainability in accordance with this vision and with our sustainability targets relates to Covestro's entire product portfolio.

→ See "Company Profile."
→ See "Management."
→ See "Sustainability Statement."

The KPIs below were calculated according to the abovementioned methods:

Proportion of turnover from products or services associated with taxonomy-aligned economic activities – disclosure covering fiscal 2023

				Substantial contribution criteria						Do no significant harm (DNSH) criteria									
Economic activities	Code(s)	Absolute turnover	Proportion of turnover in 2023	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion (A.1.) or taxonomy-eligible proportion (A.2.) of turnover 2022	Category "enabling activity"	Category "transitional activity"
		€ million	%	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E[2]	T[2]
A Taxonomy-eligible activities																			
A.1 Environmentally sustainable activities (taxonomy-aligned)																			
Turnover of environmentally sustainable activities (taxonomy-aligned) (A.1)		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
		€ million	%	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]								%		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
Manufacture of hydrogen	CCM 3.10	21	0.1	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.3		
Manufacture of chlorine	CCM 3.13	75	0.5	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.8		
Manufacture of organic basic chemicals	CCM 3.14	220	1.5	EL	N/EL	N/EL	N/EL	N/EL	N/EL								2.3		
Manufacture of nitric acid	CCM 3.16	7	0.1	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.1		
Manufacture of plastics in primary form	CCM 3.17	5,075	35.3	EL	N/EL	N/EL	N/EL	N/EL	N/EL								34.0		
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	CCM 4.30	3	< 0,1	EL	N/EL	N/EL	N/EL	N/EL	N/EL								< 0,1		
Turnover of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		5,402	37.6	37.6	–	–	–	–	–								37.5		
Total (A.1 + A.2)		5,402	37.6	37.6	–	–	–	–	–								37.5		
B Taxonomy-non-eligible activities		8,976	62.4																
Turnover of taxonomy-non-eligible activities (B)		8,976	62.4																
Total (A+B)		14,377	100.0																

[1] Y – Yes, taxonomy-eligible activity that is taxonomy-aligned with the relevant environmental objective; N – No, taxonomy-eligible activity but not taxonomy-aligned with the relevant environmental objective; N/EL – Taxonomy-non-eligible activity for the respective environmental objective; EL – Taxonomy-eligible activity for the respective environmental objective.

[2] E – Enabling activity; T – Transitional activity.

[3] Prior-year figures adjusted for activities 3.14 and 3.17 as well as for the sums A.2 and total of A.1 + A.2 due to system integration and expanded automation.

Proportion of CapEx from products or services associated with taxonomy-aligned economic activities – disclosure covering fiscal 2023

Economic activities	Code(s)	Absolute CapEx	Proportion of CapEx in 2023	Substantial contribution criteria: Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Do no significant harm (DNSH) criteria: Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion (A.1.) or taxonomy-eligible proportion (A.2.) of CapEx 2022[3]	Category "enabling activity"	Category "transitional activity"
		€ million	%	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A Taxonomy-eligible activities																			
A.1 Environmentally sustainable activities (taxonomy-aligned)																			
CapEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
		€ million	%	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]								%		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
Manufacture of hydrogen	CCM 3.10	1	**0.1**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								< 0,1		
Manufacture of chlorine	CCM 3.13	36	**3.7**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								5.5		
Manufacture of organic basic chemicals	CCM 3.14	10	**1.0**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								< 0,1		
Manufacture of nitric acid	CCM 3.16	14	**1.4**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								1.9		
Manufacture of plastics in primary form	CCM 3.17	182	**18.4**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								15.6		
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	CCM 4.30	8	**0.8**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.7		
Freight rail transport	CCM 6.2	30	**3.0**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								–		
Transport by motorbikes, passenger cars and light commercial vehicles	CCM 6.5	3	**0.3**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.1		
Inland freight water transport	CCM 6.8	4	**0.5**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								–		
Sea and coastal freight water transport, vessels for port operations and auxiliary activities	CCM 6.10	2	**0.2**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.1		
Construction of new buildings	CCM 7.1	9	**0.9**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								–		
Acquisition and ownership of buildings	CCM 7.7	28	**2.8**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								3.1		
Maintenance of roads and motorways	CE 3.4	<1	**<0.1**	N/EL	N/EL	N/EL	EL	N/EL	N/EL								–		
Provision of IT/OT data-driven solutions and software	CE 4.1	<1	**<0.1**	N/EL	N/EL	N/EL	EL	N/EL	N/EL								–		
CapEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**329**	**33.2**	**33.2**	–	–	**<0.1**	–	–								**26.9**	–	–
Total (A.1 + A.2)		**329**	**33.2**	**33.2**	–	–	**<0.1**	–	–								**26.9**	–	–

Proportion of CapEx from products or services associated with taxonomy-aligned economic activities – disclosure covering fiscal 2023

Economic activities	Code(s)	Absolute CapEx	Proportion of CapEx in 2023
		€ million	%
B Taxonomy-non-eligible activities		661	66.8
CapEx of taxonomy-non-eligible activities (B)		**661**	**66.8**
Total (A+B)		989	100

[1] Y – Yes, taxonomy-eligible activity that is taxonomy-aligned with the relevant environmental objective; N – No, taxonomy-eligible activity but not taxonomy-aligned with the relevant environmental objective; N/EL – Taxonomy-non-eligible activity for the respective environmental objective; EL – Taxonomy-eligible activity for the respective environmental objective.

[2] E – Enabling activity; T – Transitional activity.

[3] Due to the completion of the systems integration in the course of the year under review, the analysis of activities includes those of the Resins & Functional Materials business (RFM) acquired from Koninklijke DSM N.V., Heerlen (Netherlands), in the year 2021 in the numerator only from June 1, 2022, onward.

Proportion of OpEx from products or services associated with taxonomy-aligned economic activities – disclosure covering fiscal 2023

Economic activities	Code(s)	Absolute OpEx	Proportion of OpEx in 2023	Substantial contribution criteria: Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Do no significant harm (DNSH) criteria: Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion (A.1.) or taxonomy-eligible proportion (A.2.) of OpEx 2022[3]	Category "enabling activity"	Category "transitional activity"
		€ million	%	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y;N; N/EL[1]	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E[2]	T[2]
A Taxonomy-eligible activities																			
A.1 Environmentally sustainable activities (taxonomy-aligned)																			
OpEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
		€ million	%	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]	EL;N/ EL[1]								%		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
Manufacture of hydrogen	CCM 3.10	4	**0.3**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.6		
Manufacture of chlorine	CCM 3.13	48	**3.7**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								4.2		
Manufacture of organic basic chemicals	CCM 3.14	10	**0.8**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								< 0,1		
Manufacture of nitric acid	CCM 3.16	11	**0.8**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								1.3		
Manufacture of plastics in primary form	CCM 3.17	321	**24.7**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								21.1		
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	CCM 4.30	< 1	**< 0,1**	EL	N/EL	N/EL	N/EL	N/EL	N/EL								< 0,1		
Demolition and wrecking of buildings and other structures	CE 3.3	2	**0.1**	N/EL	N/EL	N/EL	EL	N/EL	N/EL								–		
OpEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**395**	30.4	**30.3**	–	–	**0.1**	–	–								**27.2**	–	–
Total (A.1 + A.2)		**395**	30.4	**30.3**	–	–	**0.1**	–	–								**27.2**	–	–
B Taxonomy-non-eligible activities		903	**69.6**																
OpEx of taxonomy-non-eligible activities (B)		**903**	**69.6**																
Total (A+B)		**1,297**	**100.0**																

[1] Y – Yes, taxonomy-eligible activity that is taxonomy-aligned with the relevant environmental objective; N – No, taxonomy-eligible activity but not taxonomy-aligned with the relevant environmental objective; N/EL – Taxonomy-non-eligible activity for the respective environmental objective; EL – Taxonomy-eligible activity for the respective environmental objective.

[2] E – Enabling activity; T – Transitional activity.

[3] Due to the completion of the systems integration in the course of the year under review, the analysis of activities includes those of the Resins & Functional Materials (RFM) business acquired from Koninklijke DSM N.V., Heerlen (Netherlands), in the year 2021 in the respective denominator and the costs of building renovation projects, short-term leases, maintenance, and repairs in the respective numerator only from June 1, 2022 onward.

Pursuant to Annex V of Commission Delegated Regulation 2023/2486 of 27 June 2023, the disclosure requirements for the turnover, CapEx, and OpEx key performance indicators have been expanded. Non-financial undertakings are now additionally required to report the scale of the taxonomy-eligible and taxonomy-aligned activities for each environmental objective. Activities that materially contribute to more than one objective must be reported for each environmental objective. The corresponding disclosures are shown in the tables below:

Proportion of turnover from products or services for each environmental objective – disclosure covering fiscal 2023

Objective	taxonomy-aligned	taxonomy-eligible
	%	%
Climate change mitigation (CCM)	–	37.6
Climate change adaption (CCA)	–	–
Water and marine resources (WTR)	–	–
Circular economy (CE)	–	–
Pollution (PPC)	–	–
Biodiversity and ecosystems (BIO)	–	–
Total	**–**	**37.6**

Proportion of CapEx from products or services for each environmental objective – disclosure covering fiscal 2023

Objective	taxonomy-aligned	taxonomy-eligible
	%	%
Climate change mitigation (CCM)	–	33.2
Climate change adaptation (CCA)	–	–
Water and marine resources (WTR)	–	–
Circular economy (CE)	–	<0.1
Pollution (PPC)	–	–
Biodiversity and ecosystems (BIO)	–	–
Total	**–**	**33.2**

Proportion of OpEx from products or services for each environmental objective – disclosure covering fiscal 2023

Objective	taxonomy-aligned	taxonomy-eligible
	%	%
Climate change mitigation (CCM)	–	30.3
Climate change adaptation (CCA)	–	–
Water and marine resources (WTR)	–	–
Circular economy (CE)	–	0.1
Pollution (PPC)	–	–
Biodiversity and ecosystems (BIO)	–	–
Total	**–**	**30.4**

Activities covered by separate reporting requirements in the Complementary Climate Delegated Act must be disclosed on the basis of templates. In this context, Covestro has identified the economic activity of high-efficiency co-generation of heat/cool and power from fossil gaseous fuels. Following completion of the alignment check, Covestro has only taxonomy-eligible activities to report here. For this reason, templates 2 and 3, which relate to taxonomy-aligned activities, are not reported separately.

Template 1: Nuclear- and fossil-gas-related activities[1]

Row	Nuclear-energy-related activities	Result
1	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	No
2	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	No
3	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	No
Row	**Fossil-gas-related activities**	**Result**
4	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	No
5	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	Yes
6	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	No

[1] Based on our understanding, the activities presented in template 1 refer to the activities defined in the Complementary Climate Delegated Act.

Template 2: Taxonomy-aligned economic activities (denominator)

Row	Economic activity	Amount and proportion of turnover						Amount and proportion of CapEx						Amount and proportion of OpEx					
		Climate change mitigation		Climate change adaptation		CCM + CCA[1]		Climate change mitigation		Climate change adaptation		CCM + CCA[1]		Climate change mitigation		Climate change adaptation		CCM + CCA[1]	
		€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
7	**Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
8	**Total applicable KPI**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

[1] Climate change mitigation (CCM) and climate change adaptation (CCA).

Template 3: Taxonomy-aligned economic activities (numerator)

Row	Economic activity	Amount and proportion of turnover						Amount and proportion of CapEx						Amount and proportion of OpEx					
		Climate change mitigation		Climate change adaptation		CCM + CCA[1]		Climate change mitigation		Climate change adaptation		CCM + CCA[1]		Climate change mitigation		Climate change adaptation		CCM + CCA[1]	
		€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
7	**Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
8	**Total amount and proportion of taxonomy-aligned economic activities in the numerator of the applicable KPI**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

[1] Climate change mitigation (CCM) and climate change adaptation (CCA).

Template 4: Taxonomy-eligible but not taxonomy-aligned economic activities

Row	Economic activity	Amount and proportion of turnover						Amount and proportion of CapEx						Amount and proportion of OpEx					
		Climate change mitigation		Climate change adaptation		CCM + CCA[1]		Climate change mitigation		Climate change adaptation		CCM + CCA[1]		Climate change mitigation		Climate change adaptation		CCM + CCA[1]	
		€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
1	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	3	< 0,1	0	0.0	3	< 0,1	8	2.5	0	0.0	8	2.5	< 1	< 0,1	0	0.0	< 1	< 0,1
6	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
7	**Amount and proportion of other taxonomy-eligible but not taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	5,399	100.0	0	0.0	5,399	100.0	321	97.5	0	0.0	321	97.5	395	100.0	0	0.0	395	100.0
8	**Total amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activities in the denominator of the applicable KPI**	5,402	100.0	0	0.0	5,402	100.0	329	100.0	0	0.0	329	100.0	395	100.0	0	0.0	395	100.0

[1] Climate change mitigation (CCM) and climate change adaptation (CCA).

Template 5: Taxonomy-non-eligible activities

Row	Economic activity	Turnover		CapEx		OpEx	
		Amount	Proportion	Amount	Proportion	Amount	Proportion
		€ million	%	€ million	%	€ million	%
1	Amount and proportion of economic activity referred to in row 1 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–
2	Amount and proportion of economic activity referred to in row 2 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–
3	Amount and proportion of economic activity referred to in row 3 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–
4	Amount and proportion of economic activity referred to in row 4 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–
5	Amount and proportion of economic activity referred to in row 5 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–
6	Amount and proportion of economic activity referred to in row 6 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	–	–	–	–	–	–
7	**Amount and proportion of other taxonomy-non-eligible economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	**8,976**	**100.0**	**661**	**100.0**	**903**	**100.0**
8	**Total amount and proportion of taxonomy-non-eligible economic activities in the denominator of the applicable KPI**	**8,976**	**100.0**	**661**	**100.0**	**903**	**100.0**

GRI Index

General Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
GRI 1 – Foundation (2021)				
GRI 2 – General Disclosures (2021)				
2-7	Information on employees and other workers	• Employees	• Employees – Metrics	
2-8	Workers who are not employees			Around the world, Covestro has about 300 temporary employees, corresponding to approximately 1.7% of our workforce. In addition, a number of people work for Covestro externally through contracts for work or service agreements. It is not possible to determine the precise number, since performance is defined via trades or in service-level agreements rather than by the number of people or the hours worked.
2-22	Statement from the most senior decision-maker	• Foreword		
2-23	Policy Commitments	• Management – Corporate Policies	• Management – Corporate Policies; Corporate Commitments	The policies applicable throughout the Group have been approved by the Board of Management. Communications are conducted via the internet, intranet, and site-specific communication channels.
2-27	Compliance with laws and regulations	• Opportunities and Risks Report – Opportunities and Risks • Business Conduct (Compliance) – Compliance Management System		In fiscal 2023, no significant administrative or court-ordered sanctions (fines, nonmonetary sanctions) for noncompliance with laws and regulations were reported through internal reporting.
2-28	Membership of associations	• Circular Economy – Actions - Circular Economy Partnerships and Stakeholder and Value Chain Engagement • Product Stewardship	• Sustainability – Sustainability Management - Stakeholder Dialogue	
2-29	Approach to stakeholder engagement	• Sustainability – Sustainability Management – Monitoring • Sustainability – Materiality Assessment – Materiality Assessment Process	• Sustainability – Sustainability Management - Stakeholder Dialogue	
2-30	Collective bargaining agreements	• Employees – Working Conditions – Employee Compensation	• Employees – Metrics – Compensation	

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
GRI 200 – Economic topics				
GRI 201 – Economic Performance (2016)				
3-3	Management Approach	• Strategy – Group Strategy • Management – Management System		
201-1	Direct economic value generated and distributed	• Consolidated Financial Statements and Notes		
GRI 204 – Procurement Practices (2016)				
3-3	Management Approach	• Value Chain – Procurement • Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Sustainability in Sourcing • Human Rights • Opportunities and Risks Report – Opportunities and Risks		
204-1	Proportion of spending on local suppliers	• Value Chain – Procurement		Since our locations in Germany, the United States and China cover most of our procurement volume, the sites located in these countries are referred to as main sites within the meaning of the GRI terminology. Local procurement is regarded as purchasing from suppliers located in the same country as the legal entity they supply.
GRI 205 – Anti-corruption (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Business Conduct (Compliance) – Compliance Management System	• Management – Corporate Policies	
205-1	Operations assessed for risks related to corruption	• Business Conduct (Compliance) – Compliance Management System • Opportunities and Risks Report – Group-wide Opportunities and Risk Management		A risk analysis was conducted for every country/every company in the year 2022. Definition of location of operations as a legal entity.
GRI 206 – Anti-competitive Behavior (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Business Conduct (Compliance) – Management System • Opportunities and Risks Report – Group-wide Opportunities and Risk Management	• Management – Corporate Policies	
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices			No actions were reported through internal reporting in fiscal 2023.
GRI 207 – Tax (2019)				
3-3	Management Approach		• Compliance – Tax Compliance	
207-1	Approach to tax		• Compliance – Tax Compliance	

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
207-2	Tax governance, control, and risk management	• Opportunities and Risks Report – Group-wide Opportunities and Risk Management	• Compliance – Tax Compliance	
207-3	Stakeholder engagement and management of concerns related to tax	• Business Conduct (Compliance) – Compliance Management System	• Compliance – Tax Compliance	
207-4	Country-by-country reporting			A country-by-country report is not currently provided.
GRI 300 – Environmental topics				
GRI 302 – Energy (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Climate Neutrality – Strategy; Governance; Policies and Actions • Opportunities and Risks Report – Opportunities and Risks	• Management – Corporate Policies	
302-1	Energy consumption within the organization	• Climate Neutrality – Metrics – Energy Usage		
302-3	Energy intensity	• Climate Neutrality – Metrics – Energy Usage	• Climate Neutrality – Metrics – Energy Usage	
302-4	Reduction of energy consumption	• Climate Neutrality – Targets – Energy Usage	• Climate Neutrality – Metrics – Energy Usage	In 2005, Covestro began to introduce a certified energy management system. This requires that we compare our performance with a designated base year, and that year was 2005.
GRI 303 – Water (2018)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Water Resources	• Water Resources – Metrics	
303-1	Interactions with water as a shared resource	• Water Resources	• Water Resources – Metrics	
303-2	Management of water discharge-related impacts	• Water Resources	• Water Resources – Metrics	The standards to be applied are oriented to local laws.
303-3	Water withdrawal	• Water Resources	• Water Resources – Metrics	Water withdrawal is measured in m^3 (cubic meters) since this is the more common approach to measurement. Here, 1 megaliter (ML) corresponds to 1,000 m^3. Usage of other than fresh water <1,000 mg of total dissolved solids (TDS)/l: Pursuant to ISO 14046, Covestro uses no water from sea water sources, thus there is no figure for this in the water balance. At some facilities, it is possible that brackish water >1,000 mg TDS/l is used as cooling water. These amounts are included in the water balance and not reported separately. It can be returned to the water cycle without further treatment in line with the relevant official permits.
GRI 305 – Emissions (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Climate Neutrality – Strategy; Governance; Policies and Actions • Opportunities and Risks Report - Opportunities and Risks		
305-1	Direct (Scope 1) GHG	• Climate Neutrality –		Biogenic CO_2 emissions are not reported because they

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
	emissions	Metrics – GHG Emissions		are irrelevant.
305-2	Energy indirect (Scope 2) GHG emissions	• Climate Neutrality – Metrics – GHG Emissions		
305-3	Other indirect (Scope 3) GHG emissions	• Climate Neutrality – Metrics – GHG Emissions		
305-4	GHG emissions intensity	• Climate Neutrality – Metrics – GHG Emissions		Disclosure as CO_2 equivalent of specific GHG. Emissions of sulfur hexafluoride (SF6) have been recorded.
305-5	Reduction of GHG emissions	• Climate Neutrality – Targets – GHG Emissions		Greenhouse gas emissions are reported separately for Scopes 1 and 2. When considering GHG reductions, the specific greenhouse gas emissions are calculated using the total emissions for Scope 1 and Scope 2 because otherwise any shifts between the categories would lessen the informative value of the results.
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		• Environmental Impact of Own Operations – Metrics – Emissions into the Air	Reporting focuses on significant air emissions; persistent organic pollutants (POPs) and hazardous organic pollutants (HAPs) are not reported. Air emissions are generally measured directly at the source of the emission or are calculated from the stoichiometric determination of the formula mass.
GRI 306 – Waste (2020)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Circular Economy – Strategy; Waste and Recycling	• Circular Economy – Metrics	
306-1	Waste generation and significant waste-related impacts	• Circular Economy – Waste and Recycling	• Circular Economy – Metrics	
306-2	Management of significant waste-related impacts	• Circular Economy – Waste and Recycling	• Circular Economy – Metrics	
306-3	Waste generated		• Circular Economy – Metrics	
306-5	Waste diverted from disposal		• Circular Economy – Metrics	The distinction of hazardous and non-hazardous waste is only drawn for landfill waste; no differentiation is made for other disposal methods.
GRI 308 – Supplier Environmental Assessment (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Sustainability in Sourcing • Opportunities and Risks Report – Opportunities and Risks		
308-2	Negative environmental impacts in the supply chain and actions taken	• Sustainability in Sourcing – Policies and Actions; Targets and Metrics	• Sustainability in the Supply Chain – Targets and Metrics – Detailed Results of the Supplier Evaluations	

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
GRI 400 – Social topics				
GRI 401 – Employment (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Employees – Strategy; Working Conditions; Diversity, Equity, and Inclusion • Opportunities and Risks Report – Opportunities and Risks	• Management – Corporate Policies	
401-1	New employee hires and employee turnover		• Employees – Metrics – New Hires and Attritions	In fiscal 2023, the gender distribution of new hires and the attrition rate was broken down into male and female, as the company was not aware of any employees with other gender identities. Reference is made in the footnote to the small number of employees who did not state their gender. If this should change, the tables will be adjusted accordingly in future.
GRI 403 – Occupational Health and Safety (2018)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Integrated Management System for Health, Safety, Environment, Energy, and Quality • Employees – Working Conditions • Health and Safety • Opportunities and Risks Report - Opportunities and Risks	• Management – Corporate Policies	
403-1	Occupational health and safety management system	• Integrated Management System for Health, Safety, Environment, Energy, and Quality • Health and Safety – Health and Safety of Our Workforce		A list of the legal requirements has been dispensed with. The integrated management system for occupational health and safety covers all our employees across the Group and in some cases also our contractors, regardless of the type of work environment or activity performed.
403-2	Hazard identification, risk assessment, and incident investigation	• Health and Safety – Health and Safety of Our Workforce • Business Conduct (Compliance) – Compliance Management System		Every employee, contractor or – as appropriate – visitor must comply with the applicable occupational safety procedures, rules, and relevant protective measures. Employees are authorized to withdraw from work situations that seem to them to represent a direct and serious threat to their lives or health. They are obligated to report such situations to their supervisors immediately. Employees may not be sanctioned for such actions.
403-3	Occupational health services	• Employees – Working Conditions – Designing Healthy Working Con-ditions and Work Models • Health and Safety – Health and Safety of Our Workforce		Depending on site-specific local circumstances, there are dedicated occupational health staff or occupational health services are provided in conjunction with external parties. A country-specific description of the functions of the occupational health services has been dispensed with.
403-4	Worker participation, consultation, and communication on occupational health and safety	• Employees – Working Conditions – Designing Healthy Working Conditions and Work Models • Health and Safety – Health and Safety of Our Workforce		Depending on legal requirements, some sites have formal employer-employee committees for occupational health and safety that hold regular meetings. In Germany, for instance, this is the occupational safety and health committee as legally required by Section 11 of the Act on Occupational Physicians, Safety Engineers and Other Occupational Safety Specialists (AsiG). All sites are networked in corresponding regional HSE communities. A country-specific list and a description of the committees has been dispensed with.

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
403-5	Worker training on occupational health and safety	• Health and Safety		Our employees receive the applicable statutorily required training as well as further training that exceeds these requirements depending on the individual circumstances at our sites. Our contractors receive site-specific safety instructions.
403-6	Promotion of worker health	• Employees – Working Conditions – Designing Healthy Working Conditions and Work Models • Health and Safety – Health and Safety of Our Workforce		Voluntary services for the promotion and maintenance of health are made available only to Covestro employees.
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	• Integrated Management System for Health, Safety, Environment, Energy, and Quality • Health and Safety • Sustainability in Sourcing		
403-9	Work-related injuries	• Health and Safety – Health and Safety of Our Workforce; Metrics		We record the most important types and frequency of work-related injuries for all employee groups according to the ASTM standard E2920-14, "Severe Incidents and Fatalities" (A. deaths, B. life-changing/life-altering cases, C. other).
GRI 404 – Training and Education (2016)				
3-3	Management Approach	• Employees – Working Conditions – Employee Training and Continuing Development • Opportunities and Risks Report – Opportunities and Risks	• Management – Corporate Policies	
404-2	Programs for upgrading employee skills and transition assistance programs	• Employees – Working Conditions – Employer Attractiveness; Employee Training and Continuing Development		
GRI 405 – Diversity and Equal Opportunity (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Employees – Diversity, Equity, and Inclusion • Opportunities and Risks Report – Opportunities and Risks		
405-1	Diversity of governance bodies and employees	• Declaration on Corporate Governance – Composition, Duties, and Activities of the Board of Management and Supervisory Board	• Employees – Metrics – Diversity and Internationality	At the end of the year, the Supervisory Board consisted of six women (50%) and six men (50%). The age structure is as follows: 0% are 30-50 years old, and 100% are over 50. Membership in a minority is not recorded for legal reasons. In fiscal 2023, the gender distribution of employees was broken down into male and female, as the company was not aware of any employees with other gender identities. Reference is made in the footnote to the small number of employees who did not state their gender. If this should change, the tables will be adjusted accordingly in future.

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
GRI 406 – Non-discrimination (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Employees – Strategy • Business Conduct (Compliance) – Compliance Culture and Targets • Opportunities and Risks Report – Opportunities and Risks		
406-1	Incidents of discrimination and corrective actions taken			For confidentiality reasons, we do not disclose the type and scope of the incidents reported.
GRI 407 – Freedom of Association and Collective Bargaining				
3-3	Management Approach	• Human Rights • Employees – Strategy – Corporate Values and Corporate Culture • Business Conduct (Compliance) – Compliance Management System		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	• Employees – Strategy – Corporate Values and Corporate Culture		In fiscal 2023, no cases were reported using formal grievance mechanisms. There was no high risk for the sites in the year 2023, as the local heads of Human Resources and the local managing directors are required by internal rules to maintain a regular exchange of information with unions and employee representatives.
GRI 414 – Supplier Social Assessment (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Sustainability in Sourcing • Opportunities and Risks Report – Opportunities and Risks		
414-2	Negative social impacts in the supply chain and actions taken	• Sustainability in Sourcing – Policies and Actions; Targets and Metrics	• Sustainability in Sourcing – Targets and Metrics – Detailed Results of the Supplier Evaluations	
GRI 415 – Public Policy (2016)				
3-3	Management Approach		• Management – Corporate Policies; Corporate Commitments • Sustainability – Sustainability at Covestro – Stakeholder Dialogue	
415-1	Political contributions		• Management – Corporate Policies; Corporate Commitments	
GRI 416 – Customer Health and Safety (2016)				
3-3	Management Approach	• Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Integrated Management System for Health, Safety, Environment, Energy, and Quality	• Management – Corporate Policies	

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
		• Product Stewardship • Business Conduct (Compliance) – Compliance Management System • Opportunities and Risks Report – Opportunities and Risks		
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	• Product Stewardship		No significant incidents were reported through internal reporting in fiscal 2023.
GRI 417 – Marketing and Labeling (2016)				
3-3	Management Approach	• Value Chain – Marketing and Sales • Sustainability – Materiality Assessment – Material Sustainability Topics in Fiscal 2023 • Product Stewardship	• Management – Corporate Policies	
417-1	Requirements for product and service information and labeling	• Integrated Management System for Health, Safety, Environment, Energy, and Quality • Product Stewardship • Business Conduct (Compliance) – Compliance Management System • Opportunities and Risks Report – Opportunities and Risks		
417-2	Incidents of non-compliance concerning product and service information and labeling	• Product Stewardship		No significant incidents were reported through internal reporting in fiscal 2023.

COMPENSATION REPORT

Compensation Report

The Compensation Report outlines the principles for determining the compensation for the members of the Board of Management and the Supervisory Board of Covestro AG and explains the compensation of the individual members. The Report was prepared by the Board of Management and the Supervisory Board in accordance with the requirements of section 162 of the German Stock Corporation Act (AktG) and complies with the recommendations of the German Corporate Governance Code (GCGC) as amended on April 28, 2022. Relevant information is published on Covestro's website. Moreover, in terms of content and structure, the report is based on the Compensation Report for the year 2022, which was approved by the Annual General Meeting (AGM) on April 19, 2023 with a majority of 92.96%.

→ Additional information on the details of the compensation system, the report on the audit of the compensation report, and the resolution of the Annual General Meeting approving the compensation system is available at: www.covestro.com/en/company/management/corporate-governance

The AGM had approved the compensation system for Board of Management members on April 21, 2022. The Supervisory Board of Covestro AG resolved in December 2022 to propose to the AGM, effective January 1, 2023, to revise the system on one point, namely to introduce the option, similar to the existing rules for short-term variable compensation, to adjust the payout percentage also for long-term variable compensation in cases where there are developments that cannot be foreseen or planned for. The revised compensation system for the Board of Management members was approved by the AGM on April 19, 2023, with a majority of 91.73%; it is available on the company's website.

→ Additional information is available at: www.covestro.com/de/company/management/corporate-governance

Compensation of the Board of Management

The following section reports the compensation of the Board of Management of Covestro AG for fiscal 2023. The members of the Board of Management of Covestro AG are the same as the members of the Board of Management of Covestro Deutschland AG, which is a wholly owned subsidiary of Covestro AG. Compensation is not paid for the members' work on the Board of Management of Covestro Deutschland AG.

Guiding Principles for Compensation

The compensation system for the Board of Management of Covestro AG is based on the corporate strategy and designed to facilitate a long-term increase in the company's value and responsible corporate governance. We aim to position Covestro as an attractive employer in the competition for highly qualified executives and, at the same time, ensure statutory and regulatory compliance. Board of Management compensation is in line with the basic principles of the Covestro Group's compensation structure, which is standardized for all Covestro employees in line with our "We are 1" corporate culture:

- The variable compensation of the Board of Management and all participating employees is based on a uniform system and identical criteria.
- Differences exist only in the target percentages related to fixed compensation.

The variable compensation is based on Covestro's corporate performance, which is measured based on financial and sustainability targets and share performance:

- The system and criteria for short-term variable compensation are closely aligned to Covestro's annual performance.
- The system and the criteria are agreed upon and binding for a three-year period. The Covestro Profit Sharing Plan (Covestro PSP) is a bonus system based on the company's average expected performance. The Covestro PSP is designed in such a way that an average payout level of 100% can be achieved over a period of up to 10 years.

- In very successful years, high payout percentages are achieved (such as 239.5% for fiscal 2021), while in challenging years they are significantly lower, or no short-term variable compensation is paid at all (such as for fiscal 2022).
- The Prisma share-based compensation program for long-term variable compensation is based on the absolute performance of Covestro AG shares, including dividends, as well as the relative performance compared with the STOXX Europe 600 Chemicals* index, and also includes a sustainability component.

The determination of variable compensation is simple, transparent, and based on objective criteria:

- The relation between target attainment and payout has been defined for the criteria used and documented in the Compensation Report.
- The payout is calculated on the basis of financial criteria and sustainability targets that are also included in the company's Management Report; the calculation is also documented in the Compensation Report.

Compensation system and structure at a glance

	% of total direct compensation[1] (figures in % rounded)	Target compensation in € thousand	Modifiers / target compensation	Further components
Approx. 30% fixed	**Approx. 30% fixed annual compensation[2]**	CEO[3]: 1,296 OBM[3]: 653–850	Fixed	Fringe benefits
Approx. 70% variable	**Approx. 30% Covestro PSP**	CEO: 1,296 OBM: 653–850	1/4 EBITDA 0–300% + 1/4 ROCE above WACC 0–300% + 1/4 FOCF 0–300% + 1/4 ESG criteria 0–300% **Cap: 250%**	Malus (100%) Clawback (up to 3 years)
	Approx. 40% Prisma	CEO: 1,685 OBM: 849–1,105	Prisma target × Total shareholder return factor × [25% CO_2 factor + 75% Outperformance factor] **Cap: 200%**	
	100%[1]	CEO: 4,277 OBM: 2,155–2,805	Severance cap: 2 times annual compensation	Share ownership guidelines: 100% of fixed annual compensation within 3 years (CEO & OBM)
	Pension benefits[4]	CEO: 352 OBM: 206–277	Pension benefits under a defined contribution plan (company pension): 8–10% of total direct compensation[1]	
	Total target compensation[5]	CEO: 4,629 OBM: 2,361–3,082	Max. compensation limit (incl. fringe benefits and pension): €9,000 thousand (CEO); €5,500 thousand (OBM)	

1 Fixed compensation plus variable target values.
2 Excluding fringe benefits.
3 Chief Executive Officer (CEO), ordinary Board of Management member (OBM).
4 Expected pension service cost (IFRSs).
5 Fixed compensation plus variable target values and post-employment benefits.

* STOXX Europe 600 Chemicals: Sector index by index issuer STOXX; the STOXX Europe 600 comprises 600 European companies.

Basic Principles for Determining Compensation

Determining Target Compensation

The Supervisory Board determines the total target compensation for the upcoming fiscal year for each Board of Management member in accordance with the compensation system. This compensation is appropriate in view of the Board of Management member's duties and takes into account Covestro's financial situation, performance, and future prospects.

As of January 1, 2023, the fixed compensation of Board of Management members was raised by 4%. Due to the unusually high increase in consumer prices, the adjustment was, unlike in previous years, not based on the consumer price trend. The Supervisory Board was instead guided by the budget that was applied to the salary round for employees in Germany not subject to collective bargaining agreements in the year 2023. The target compensation of individual Board of Management members based on the compensation system in effect is outlined below.

Total target compensation of current Board of Management members[1]

	Dr. Markus Steilemann (Chair)				Christian Baier[4] (Finance) since October 1, 2023				Dr. Thorsten Dreier[4] (Technology and Labor Director) since July 1, 2023				Sucheta Govil (Sales and Marketing)			
	2022		2023		2022		2023		2022		2023		2022		2023	
	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%
Fixed annual compensation	1,246	27.9	1,296	27.8	–		850	25.9	–		653	25.5	628	27.3	653	27.3
Fringe benefits[2]	30	0.7	30	0.6	–		200	6.1	–		200	7.8	30	1.3	30	1.3
Total	**1,276**	**28.5**	**1,326**	**28.5**	**–**		**1,050**	**32.0**	**–**		**853**	**33.3**	**658**	**28.6**	**683**	**28.6**
Short-term variable compensation																
for fiscal 2022	1,246	27.9			–				–				628	27.3		
for fiscal 2023			1,296	27.8			850	25.9			653	25.5			653	27.3
Long-term variable compensation																
2022–2025 Prisma tranche	1,620	36.2											816	35.5		
2023–2026 Prisma tranche			1,685	36.2			1,105	33.7			849	33.2			849	35.5
Pension expense[3]	328	7.3	352	7.6			277	8.4			206	8.0	198	8.6	206	8.6
Total target compensation	**4,470**	**100.0**	**4,659**	**100.0**	**–**		**3,282**	**100.0**	**–**		**2,561**	**100.0**	**2,300**	**100.0**	**2,391**	**100.0**

1 Due to commercial rounding, percentages may not always add up to exactly 100%.
2 Included: Annual mobility allowance of €24 thousand, if still contractually agreed, and costs that are usually to be expected (e.g., for installation and/or maintenance and repair of security systems already installed).
3 Expected pension service cost (employer portion) under IFRSs.
4 To make comparison easier, the compensation components for Board of Management members who were not in office for the full reporting year was extrapolated to a full year.

Total target compensation of Board of Management members who left the company in the course of the year[1]

	Dr. Klaus Schäfer[4] until June 30, 2023				Dr. Thomas Toepfer[4] until August 31, 2023			
	2022		2023		2022		2023	
	€ thou-sand	%	€ thou-sand	%	€ thou-sand	%	€ thou-sand	%
Fixed annual compensation	628	27.7	653	27.5	762	27.3	792	27.3
Fringe benefits[2]	30	1.3	30	1.3	30	1.1	30	1.0
Total	**658**	**29.0**	**683**	**28.7**	**792**	**28.4**	**822**	**28.3**
Short-term variable compensation								
for fiscal 2022	628	27.7			762	27.3		
for fiscal 2023			653	27.5			792	27.3
Long-term variable compensation								
2022–2025 Prisma tranche	816	35.9			991	35.5		
2023–2026 Prisma tranche			849	35.7			1,030	35.5
Pension expense[3]	168	7.4	192	8.1	246	8.8	257	8.9
Total target compensation	**2,270**	**100.0**	**2,377**	**100.0**	**2,791**	**100.0**	**2,901**	**100.0**

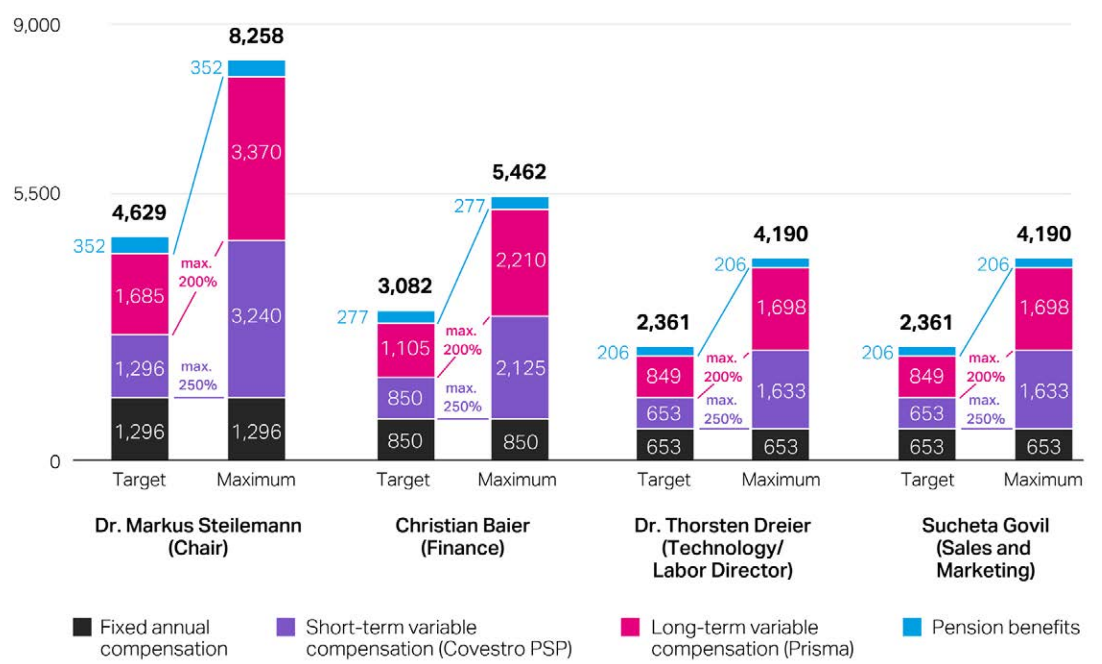
[1] Due to commercial rounding, percentages may not always add up to exactly 100%.
[2] Included: Annual mobility allowance of €24 thousand and costs that are usually to be expected (e.g., for maintenance and repair of security systems installed).
[3] Expected pension service cost (employer portion) under IFRSs.
[4] To make comparison easier, the compensation components for Board of Management members who were not in office for the full reporting year was extrapolated to a full year.

Compliance with Maximum Compensation Limit

Pursuant to Section 87a, Paragraph 1, Sentence 2, No. 1 of the German Stock Corporation Act (AktG), the Supervisory Board stipulated maximum total compensation for the Board of Management members for the first time for fiscal 2021. The absolute amount in euros for the maximum possible payout includes fixed compensation, fringe benefits (e.g., mobility allowance, payments toward the cost of security equipment, etc.), capped variable compensation components, and pension expenses. As a result, the maximum total compensation for a full fiscal year for the Chair of the Board of Management amounts to €9.0 million, while this amount for the regular Board of Management members is €5.5 million.

A report cannot be provided on compliance with this maximum compensation limit until fiscal 2025, when the Board of Management members are entitled to receive a payout from the 2021–2024 tranche of the Prisma long-term variable compensation program. The possible maximum compensation for fiscal 2023, taking into account the respective caps of 250% for short-term and 200% for long-term variable compensation, is outlined below. Based on these two caps and the fact that fringe benefits do not normally exceed an amount of €30 thousand, the aforementioned amounts are guaranteed not to exceed the maximum total compensation for Board of Management members.

Target compensation and maximum compensation for the Board of Management for fiscal 2023 (€ thousand)[1]



[1] For purposes of clarity, fringe benefits are not included, but since these generally do not exceed €30 thousand, they do not contribute to meeting or surpassing the maximum thresholds.

Review of Appropriateness

The Supervisory Board commissioned an expert opinion from an independent third-party consultant firm to ensure the compensation is appropriate compared to other companies. Since on the basis of relevant KPIs (sales, employees, and market capitalization), Covestro is positioned in the bottom quartile of DAX-listed companies and was included in the MDAX prior to its admission to the DAX in the year 2018, the entire group of DAX and MDAX companies was used as the peer group. Banks and insurance companies were, however, excluded because of their limited comparability. Based on these equally weighted KPIs, Covestro ranks 37th (out of 84), or in the 57th percentile of this group. The following Board of Management compensation components were compared with the market value for each, i.e., the compensation of board of management members in the peer group:

- Fixed annual compensation
- Target cash compensation = Fixed annual compensation + Target value for short-term variable compensation
- Target direct compensation = Target cash compensation + Target value for long-term variable compensation
- Total target compensation = Target direct compensation + Company pension plan

The costs of the company pension plan were determined by using actuarial methods to calculate a company pension plan premium. This premium indicates the amount that would have to be paid to a third-party pension provider to purchase the relevant pension benefits. Using the same parameters for the calculation, the premium amount, and therefore the costs, can be compared to the pension benefits of the board of management members of other companies.

Based on the expert opinion, the target and maximum compensation of the Board of Management was deemed appropriate within the meaning of the AktG.

Furthermore, the Supervisory Board reviewed the company's compensation structure and, for this purpose, compared the fixed annual compensation, target cash compensation, and target direct compensation of the Board of Management members with the corresponding compensation components of the Executive Leadership Team (executives at the two highest contract levels below of the Board of Management) and the workforce as a whole (employees subject and not subject to collective bargaining agreements, including the Executive

Leadership Team) at Covestro in Germany. The internal compensation structure was also determined to be appropriate in view of this comparison, which covered the period from the year 2017 to the year 2023. No adjustment was therefore made to the compensation structure or maximum compensation, except for the aforementioned increase in fixed annual compensation.

Application of the Compensation System in the Reporting Period

The application of the compensation system in fiscal 2023 is presented below.

Nonperformance-Related Components

Fixed Annual Compensation, Fringe Benefits

The adjustment to fixed annual compensation at the start of the fiscal year was described above in "Determining Target Compensation." Fringe benefits comprise maintenance and repair of security systems installed, use of the company car pool, and – for Board of Management members appointed before 2023 – a mobility allowance. Sucheta Govil additionally received reimbursement of the cost of tax preparation by an external consulting firm. Fringe benefits are reported at cost or the amount of the taxable benefit gained.

Post-Employment Benefits

Dr. Markus Steilemann and Dr. Klaus Schäfer, who were appointed to the Board of Management in the year 2015, will receive lifelong pension benefits after they step down from the Covestro Group, but not before they reach the age of 62. These pension payments will be made monthly. The arrangements for surviving dependents basically provide for a widow's/widower's pension amounting to 60% of the member's pension entitlement, and an orphan's pension amounting to 12% of the member's pension entitlement for each child.

The annual pension entitlement is based on defined contributions. From September 1, 2015, onward, Covestro has provided a hypothetical benefit amounting to 33% of the respective fixed compensation beyond the relevant income threshold in the statutory pension plan. This percentage comprises a 6% basic contribution and an additional amount of three times the personal contribution chosen by the Board of Management member. This contribution is limited to a maximum of 9% so that the matching contribution by the company can be no higher than 27%. The total annual contribution is converted into a pension module according to the annuity table for the applicable tariff of the Rheinische Pensionskasse VVaG, Leverkusen (Germany), pension fund. The annual pension entitlement upon retirement is the total amount of the accumulated pension modules, including an investment bonus.

Dr. Klaus Schäfer has additionally been granted a vested entitlement to a fixed annual pension of €126,750.

The actual pension entitlement cannot be precisely determined in advance. It depends on the development of the member's compensation, the number of years of service on the Board of Management, and the return on the assets contributed to the Rheinische Pensionskasse VVaG. Certain assets are administered under a pension trust, providing additional insolvency protection for pension entitlements resulting from direct commitments for the members of the Board of Management in Germany. As a rule, future pension payments are adjusted by at least 1% per year. Depending on the pension obligation, an additional adjustment may be made if the investment bonus of the Rheinische Pensionskasse VVaG or the consumer price index exceeds 1% per year.

Post-employment benefits for other Board of Management members are granted under a defined contribution plan. Covestro and the Board of Management members will each contribute 3% of their fixed annual compensation up to the social security contribution ceiling to a statutory pension plan. For the portion of compensation exceeding the contribution ceiling, Covestro will provide a basic contribution of 6% and a match of up to 30%, three times the Board of Management member's own contribution of up to 10%. Covestro invests the capital contributed on the capital market according to an age-based lifecycle model. The contributions made are guaranteed. On leaving the Board of Management, but not before the age of 62, the accumulated capital is paid out to the Board member, normally as a one-time payment. Sucheta Govil and Dr. Thomas Toepfer switched their company pensions to this model, which was newly introduced in 2021, on April 1, 2021. The aforementioned pension arrangement, which continues to apply for Dr. Markus Steilemann, applied to these two members for the period from the date they joined Covestro to March 31, 2021.

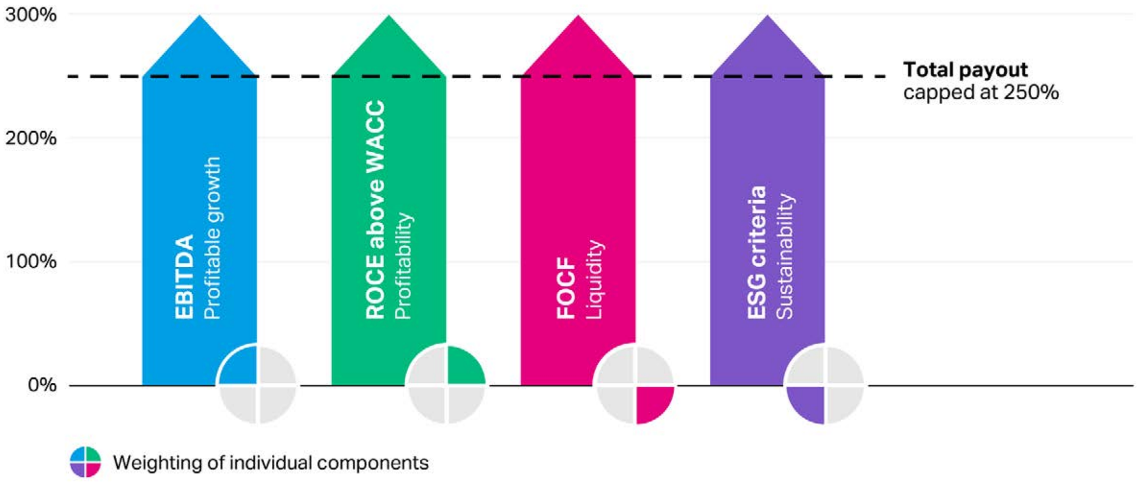
Short-Term Variable Compensation

The target value of the short-term variable compensation is currently 100% of the fixed annual compensation. The award is based on the four criteria of profitable growth, liquidity, profitability, and sustainability, which are used as part of Covestro's management system to plan, manage, control, and report on business performance. This means that short-term variable compensation is directly linked to the Covestro Group's success.

These performance indicators are applied to the Group-wide short-term Covestro Profit Sharing Plan (Covestro PSP). The Covestro PSP was introduced in fiscal 2016 and is applicable to all of Covestro's employees worldwide (with a few exceptions due to stipulations in collective bargaining agreements). Board of Management members also currently participate in the Covestro PSP. The four components are taken into account in this process on an equally weighted basis: Profitable growth measured in terms of EBITDA (earnings before interest, taxes, depreciation and amortization), liquidity measured in terms of free operating cash flow (FOCF), profitability measured in terms of return on capital employed (ROCE) above the weighted average cost of capital (WACC), and sustainability measured in terms of selected environmental, social, and governance (ESG) criteria. Since the year 2022, the sustainability component was determined by direct and indirect Scope 1 and 2 greenhouse gas (GHG) emissions (CO_2 equivalents, CO_2e) of the main sites. Other components relating to social criteria and corporate governance are also to be incorporated in the future.

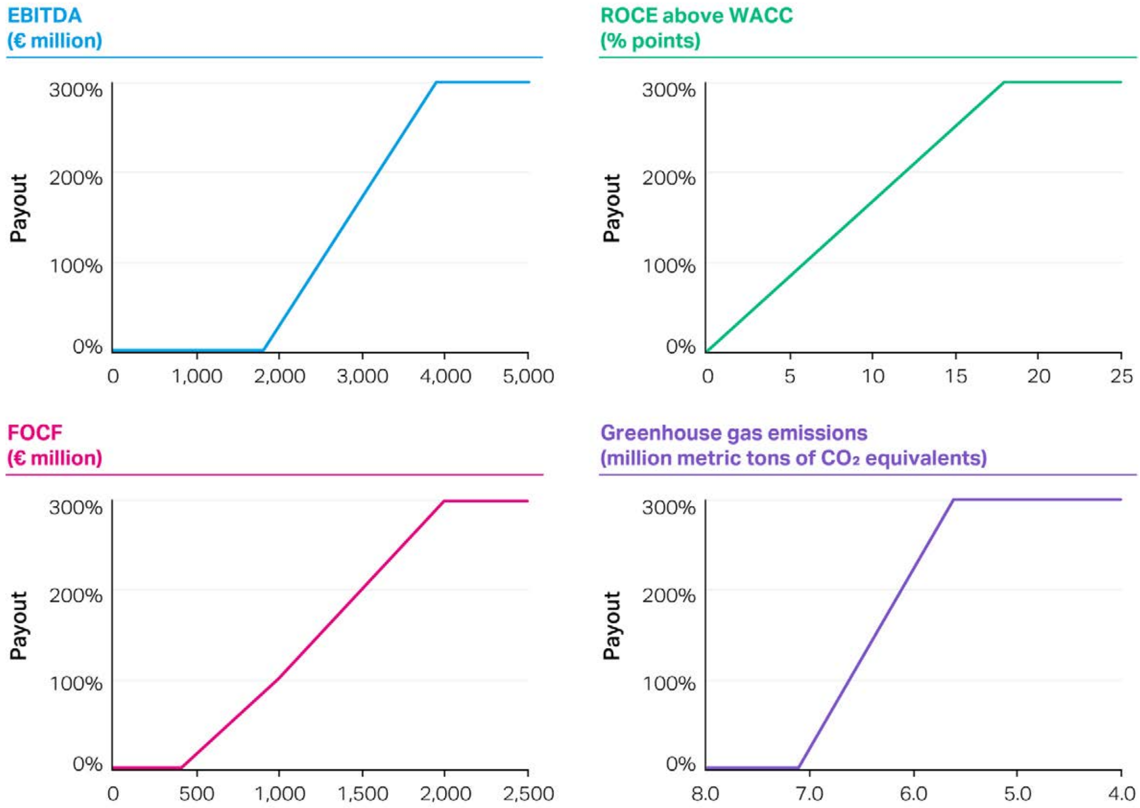
→ Information on the definition and calculation of these indicators is available in the "Key Management Indicators" section of the Combined Management Report.

Components of short-term variable compensation



In fiscal 2021, the Supervisory Board defined the global values for the threshold, 100% payout, and the maximum amount for each performance indicator, which are applied for a multi-year period from the year 2022 to the year 2024. Between these values, linear interpolation is used to determine the payout. There will be no adjustment after the fact.

Relation between payout and profitable growth (EBITDA), liquidity (FOCF), profitability (ROCE above WACC), and sustainability (greenhouse gas emissions)



For each individual performance indicator, the payout can be between 0% (failure to meet minimum requirements) and 300%. The total payout is the arithmetic mean of the individual payouts for all four components. However, it is limited to 250% of the target value corresponding to a maximum payout of 2.5 times the fixed annual compensation. This wide bandwidth ties the short-term variable compensation to the normally cyclical course of our business and ensures that successful years result in attractive payouts, while in challenging ones, it can be lower or even zero.

Components of the Covestro Profit Sharing Plan 2022–2024

	Profitable growth: EBITDA	Liquidity: FOCF	Profitability: ROCE above WACC	Sustainability: GHG emissions
Threshold (0%)	€1,800 million	Cash inflow of €400 million	0%-points	7,1 million metric tons of CO_2 equivalents
100% target attainment	€2,500 million	Cash inflow of €1,000 million	6%-points	6,6 million metric tons of CO_2 equivalents
Ceiling (300%)	€3,900 million	Cash inflow of €2,000 million	18%-points	5,6 million metric tons of CO_2 equivalents

On the basis of the values achieved for the reporting year 2023, a payout percentage of 75% would have been calculated; the table below shows how it was determined. The GHG emissions of 4.9 million metric tons of CO_2 equivalents were partly achieved through the company's own actions (optimization of production processes, energy efficiency measures), which resulted in a reduction of 1.3 million metric tons compared with the year 2020. This is set against a rise in emissions of around 0.8 million metric tons, due primarily to a less favorable composition of the energy mix of existing suppliers. Compared with the rates of volume growth assumed in the climate strategy planning from the years 2020/2021, the actual production volumes were slightly lower. In real terms, this led to a less rapid increase in total emissions than originally expected.

The thresholds of the three financial indicators were missed and the capital costs (ROCE above WACC < 0) were therefore not earned in the reporting year. The Supervisory Board again used the discretion it was given by the last criterion mentioned, since a payout of 75% did not seem appropriate given Covestro's financial situation, and reduced the payout to 50%. Following a resolution of the Board of Management, this figure was also used to calculate the bonus payout for employees.

On the basis of agreements with the employee representatives, all employees pay the solidarity contribution in the respective companies to help safeguard jobs at the German sites. For the 2023 reporting period, the contribution amounted to 0.52% of each employee's Covestro PSP award. By resolution of the Supervisory Board, it is also deducted from Board of Management compensation.

Payout of the Covestro Profit Sharing Plan for the year 2023

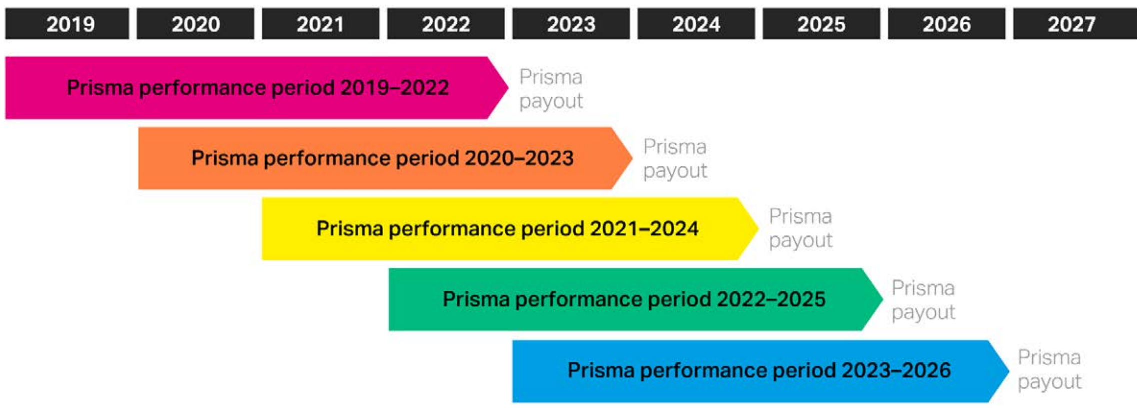
	Profitable growth: EBITDA	Liquidity: FOCF	Profitability: ROCE above WACC	Sustainability: GHG emissions
Achieved value	€1,080 million	Cash inflow of €232 million	–6.1%-points	4.9 million metric tons of CO_2 equivalents
Resulting payout	0.0%	0.0%	0.0%	300.0%
Calculated total payout (arithmetic mean)	**75.0%**			
Actual total payout (Decision of the Supervisory Board)	**50.0%**			

Long-Term Variable Compensation

The Prisma share-based compensation program for long-term variable compensation (long-term incentive, LTI) takes into account the performance of Covestro shares, including dividends (total shareholder return) and outperformance against the STOXX Europe 600 Chemicals* index over a period of four years. In fiscal 2021, the LTI plan was expanded to also include a sustainability component. The long-term variable compensation is geared toward the sustained, future-oriented, and continuous growth of the company's value and guarantees the implementation of Covestro's Sustainable Future corporate strategy, particularly since the introduction of the sustainability component. Prisma is applicable to both members of the Board of Management and to Covestro executives. The LTI target value amounts to 130% of fixed annual compensation for members of the Board of Management, and participation requires that they fulfill the share ownership guidelines applicable to them.

A new Prisma tranche with a four-year performance period is issued for each fiscal year. At the beginning of this performance period, the Supervisory Board stipulates the performance criteria for outperformance and sustainability as well as the relative weighting of these criteria, which are linked to the overall criterion of total shareholder return (TSR) as multipliers.

Prisma performance periods



* STOXX Europe 600 Chemicals: Sector index by index issuer STOXX; the STOXX Europe 600 comprises 600 European companies.

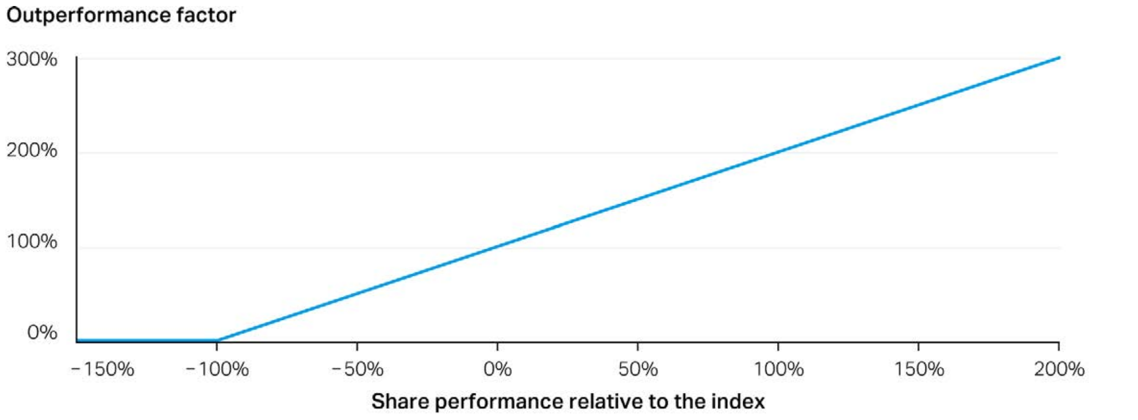
The payout is determined by calculating three factors: the TSR factor, the outperformance factor, and the CO_2 factor.

The TSR factor is the return generated by a share expressed as a percentage (total of the final price of the Covestro share and all dividends distributed per share during the four-year performance period divided by the initial price).

The outperformance factor is based on the performance of Covestro shares during the performance period relative to the performance of the STOXX Europe 600 Chemicals index. For the tranche beginning in fiscal year 2023, the following was determined:

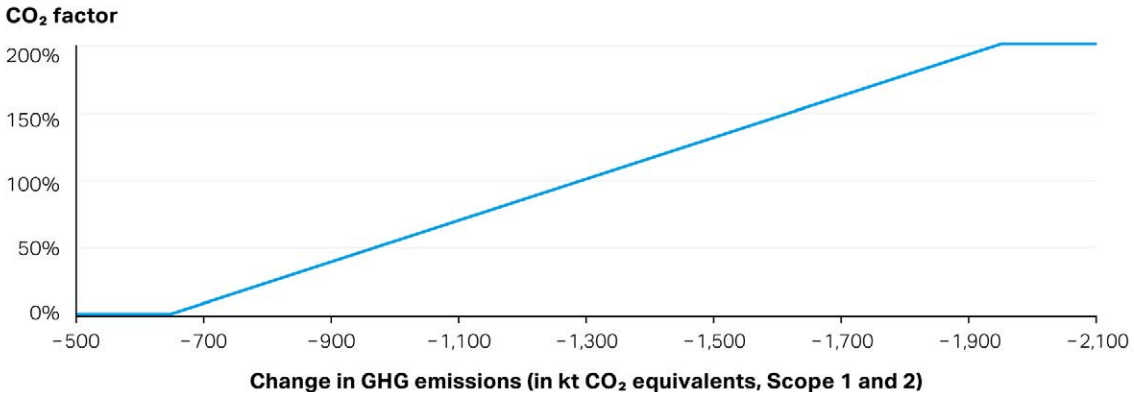
- The outperformance factor amounts to 100% if Covestro's share performance (in %) matches the performance of the index (in %).
- The outperformance factor is 0% if the performance of Covestro shares (in %) underperforms the index by 100 percentage points or more.
- The outperformance factor increases in proportion with the deviation if Covestro's share performance falls within ± 100 percentage points of the performance of the index. The same is true if it outperforms the index by more than 100 percentage points.

Relation between the outperformance factor and Covestro's share performance



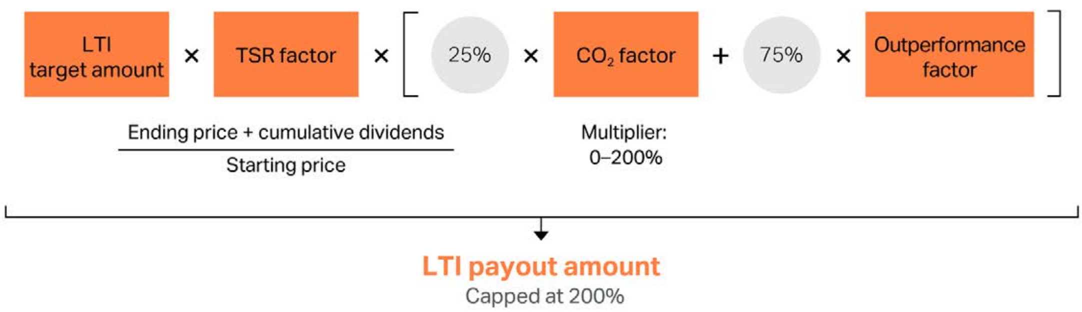
Starting with the tranche issued in fiscal 2023, the sustainability component applied is a reduction target for annual greenhouse gas (GHG) emissions (CO_2 equivalents) classified in Scope 1 and Scope 2. The CO_2 factor amounts to 100% if these emissions are reduced by 1,300 kilotons (kt) by the end of fiscal 2026 in relation to the baseline year of 2020. This corresponds to an emissions reduction of 23%. If the annual emissions are reduced by less than 650 kt, the CO_2 factor is 0%. Starting with a reduction of 1,950 kt, it reaches the maximum value of 200%. Between these values, linear interpolation is used to determine the factor. The Supervisory Board considers the defined reduction targets as significant in relation to the company's actual Scope 1 and Scope 2 emissions.

Relation between emissions and CO_2 factor



In order to calculate the total payout for the tranche beginning in fiscal 2023, the LTI target opportunity is multiplied by the TSR factor, the outperformance factor weighted at 75%, and the CO_2 factor weighted at 25%. The total distribution is limited to no more than 200% of the target opportunity. With the target opportunity being defined as 130% of the fixed compensation, the maximum payout is therefore 260% of the fixed annual compensation.

Components of the long-term variable compensation



In the case of tranches before the year 2021, which did not include a sustainability component, the payout factor is determined by multiplying the TSR factor and outperformance factor. The total payout in this case is also capped at a maximum of 200% of the target opportunity.

2019–2022 and 2020–2023 Prisma Tranche Payouts

In March of the 2023 reporting year, qualifying members of the Board of Management received payouts from the 2019–2022 Prisma tranche. The payout factor amounted to 27.0%. The 2020–2023 Prisma tranche ended on December 31 of the 2023 reporting year with a payout factor of 119.9%. The payouts for Dr. Thorsten Dreier were based on his respective compensation packages prior to becoming a Board of Management member. Christian Baier, who only joined the Board of Management in October, will for the first time participate in the 2023–2026 Prisma tranche on a prorated basis, which will be paid out in the year 2027.

The following chart and table illustrate how the aforementioned payout factors are calculated.

Calculation of the 2019–2022[1] Prisma tranche

$$\frac{\text{Ending price} + \text{Cumulative dividends 2019–2022}}{\text{Starting price}} = \text{Total shareholder return (TSR) factor}$$

$$\frac{€36.40 + €8.30}{€50.22} = 89.0\%$$

$$100\% + \left(\text{Change in Covestro share price}^{2} - \text{Change in index price}^{3}\right) = \text{Outperformance factor}$$

$$100\% + \left(-27.5\% - 42.2\%\right) = 30.3\%$$

$$\text{TSR factor} \times \text{Outperformance factor} = \text{Prisma payout factor}$$

$$89.0\% \times 30.3\% = 27.0\%$$

1 The relevant prices are calculated as the average of the applicable ending prices during the months of November and December in the years 2018 and 2022.
2 Percentage change in the ending price of Covestro share for the year 2022 (€36.40) as compared with the starting price of Covestro share for the year 2019 (€50.22).
3 Percentage change in the ending price of the STOXX Europe 600 Chemicals index for the year 2022 (€1,183.59) as compared with the starting price of the STOXX Europe 600 Chemicals index for the year 2019 (€832.55).

Calculation of the payout factors for the 2019–2022 and 2020–2023 Prisma tranches

		2019–2022 Prisma tranche	2020–2023 Prisma tranche
Starting price, Covestro	€	50.22[1]	43.36[2]
Ending price, Covestro	€	36.40[3]	49.76[4]
Change	**%**	**–27.5**	**14.8**
Starting price, index	€	832,55[1]	1,010.32[2]
Ending price, index	€	1,183,59[3]	1,226.08[4]
Change	**%**	**42.2**	**21.4**
Cumulative dividend	€	8.30	5.90
TSR factor	%	89.0	128.4
Outperformance factor	%	30.3	93.4
Payout factor	**%**	**27.0**	**119.9**

1 November/December 2018.
2 November/December 2019.
3 November/December 2022.
4 November/December 2023.

The dividend payments for individual years can be accessed on Covestro’s website.

→ Additional information is available at: www.covestro.com/en/investors/stock-performance/dividends

The amounts calculated for these two tranches, including those for the former Board of Management members Dr. Klaus Schäfer and Dr. Thomas Toepfer, are shown in the following table.

Payout amounts for 2019–2022 and 2020–2023 Prisma tranches

	2019–2022 Prisma tranche		2020–2023 Prisma tranche	
	Target value[1]	Payout in March 2023 (payout factor 27.0%)	Target value[1]	Payout in January 2024 (payout factor 119.9%)
	€ thousand	€ thousand	€ thousand	€ thousand
Dr. Markus Steilemann	1,550	418	1,573	1,886
Christian Baier[2]	–	–	–	–
Dr. Thorsten Dreier[3]	42	11	43	52
Sucheta Govil[4]	327	88	792	949
Dr. Klaus Schäfer[5]	780	211	792	949
Dr. Thomas Toepfer[6]	948	256	962	–

[1] The target value is based on the position and the corresponding fixed compensation of the respective Board Member at the beginning of each tranche.
[2] Member of the Board of Management since October 1, 2023.
[3] Member of the Board of Management since July 1, 2023; previously Head of the Coatings & Adhesives Business Unit.
[4] Member of the Board of Management since August 1, 2019 and therefore proportional payout from the 2019–2022 Prisma tranche.
[5] Member of the Board of Management until June 30, 2023.
[6] Member of the Board of Management until August 31, 2023. Dr. Thomas Toepfer is no longer entitled to any long-term compensation payout, since his service contract was terminated early by mutual agreement at his request.

Overview of Current Prisma Tranches

The three currently running Prisma tranches with their starting prices and fair values calculated as of the reporting date (market value of the relevant tranche determined with a Monte Carlo simulation) are explained below. Two additional sustainability targets relating to "Social" topics will be introduced for the 2024–2027 Prisma tranche: the response rate for the regularly held employee survey and the recordable incident rate (RIR).

Current Prisma tranches

		2021–2024 Prisma tranche	2022–2025 Prisma tranche	2023–2026 Prisma tranche
Covestro share				
Starting price	€	47.05	53.53	36.40
As of December 31, 2023	€		49.76	
STOXX Europe 600 Chemicals				
Starting price	€	1,088.78	1,336.97	1,183.59
As of December 31, 2023	€		1,226.08	
CO_2 factor[1]	%	200.00	66.00	98.00
Fair value, December 2023	%	137.0	93.1	128.5

[1] The figure used for the CO_2 factor, which was introduced with the 2021–2024 tranche, is based on the emission values forecast in October 2023 for the respective final years of the individual tranches.

Share Ownership Guidelines and Shareholdings

As a rule, the members of the Board of Management are contractually obligated to acquire Covestro shares equivalent to 100% of the fixed compensation (as set at the start of their term) on their own account within three years of their initial appointment and to hold these shares for the duration of their service on the Board of Management. If their contracts are extended, this obligation is increased to the amount of the new fixed compensation. The Board of Management member in question must acquire Covestro shares equivalent to the difference within four years of starting the new period of service.

The following table lists the number of Covestro shares held by currently serving Board of Management members as of the reporting date.

Number of shares held by Board of Management members at reporting date

Board of Management member	Number of Covestro shares held	Total value as of end of December, 2023	Number of Covestro shares held
		in € thousand	
Dr. Markus Steilemann	30,000	1,580	fulfilled
Christian Baier	0		in progress
Dr. Thorsten Dreier	4,797	253	in progress; 39% fulfilled
Sucheta Govil	14,912	786	fulfilled

Malus and Clawback Clauses

According to the malus and clawback rules introduced in the year 2021, the Supervisory Board can withhold short-term and/or long-term variable compensation or request the return of variable compensation already paid out, either in whole or in part, at its discretion in the event of serious breaches of duty or compliance violations. Moreover, a clawback is possible when the calculation and payout was based on incorrect data.

The Supervisory Board has not exercised the right to claw back variable compensation, because no circumstances arose either before or during the reporting year 2023 that would have triggered this provision.

Benefits Associated with Ending Board of Management Service

If the term of Board of Management service is terminated early without good cause, the company fulfills its commitments up to the time the member leaves the company. In this case, payments to the Board of Management member, including fringe benefits, may not exceed two times annual compensation and may not compensate more than the remaining term of the service contract (severance cap). Outstanding variable compensation components are paid out at the originally agreed times and conditions, i.e., they are not paid out in advance.

In the event of a change of control that results in a material change of status of an individual Board of Management member – e.g., change in company strategy or change in the Board of Management's job responsibilities – the Board of Management member has the right to terminate the service contract within 12 months of the change of control. When this right of termination is exercised or if the employment relationship is ended by mutual agreement on the company's initiative within 12 months of the change of control, the Board of Management member is entitled to payment of severance of 2.5 times the fixed annual compensation. The amount of the severance payments, including fringe benefits, is limited to the remaining compensation up to the expiration of the service contract and is subject to the severance cap.

Third-Party Benefits

In the reporting year, the Board of Management members were not promised nor did they receive, any benefits from third parties for their activities on the Board of Management.

Board of Management Compensation in the Fiscal Year

Compensation Awarded and Due

The compensation for the fiscal year awarded and due is outlined below in accordance with Section 162, Paragraph 1 AktG. The amounts of short-term and long-term variable compensation are given for the fiscal year in which the activity for which the compensation is paid was performed in full.

Even if the pension expense for the company pension plan is not classified as compensation awarded and due within the meaning of Section 162 AktG, to ensure transparency, we additionally disclose the pension service cost according to IFRSs in the table below.

Compensation awarded and due to current Board of Management members (AktG)[1]

	Dr. Markus Steilemann (Chair)				Christian Baier (Finance)				Dr. Thorsten Dreier (Technology and Labor Director)				Sucheta Govil (Sales and Marketing)			
	2022		2023		2022		2023		2022		2023		2022		2023	
	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%
Fixed annual compensation	1,246	73.7	1,296	33.6	–	0.0	213	66.5	–	0.0	327	55.1	628	84.2	653	33.4
Fringe benefits	27	1.6	30	0.8	–	0.0	–	0.0	–	0.0	2	0.3	30	4.0	30	1.5
Total	**1,273**	**75.3**	**1,326**	**34.4**	**–**	**0.0**	**213**	**66.5**	**–**	**0.0**	**329**	**55.4**	**658**	**88.2**	**683**	**34.9**
Short-term variable compensation																
for fiscal 2022	–	0.0											–	0.0		
for fiscal 2023			645	16.7			107	33.5			212	35.8			325	16.6
Long-term variable compensation																
2019–2022 Prisma tranche	418	24.7											88	11.8		
2020–2023 Prisma tranche			1,886	48.9			–	0.0			52	8.8			949	48.5
Total compensation awarded and due pursuant to section 162 AktG	**1,691**	**100.0**	**3,857**	**100.0**	**–**	**100.0**	**320**	**100.0**	**–**	**100.0**	**593**	**100.0**	**746**	**100.0**	**1,957**	**100.0**
Service cost[2]	835		487		–		89		–		171		248		265	
Total compensation (including service costs)	**2,526**		**4,344**		**–**		**409**		**–**		**764**		**994**		**2,222**	

[1] Due to commercial rounding, percentages may not always add up to exactly 100%.
[2] Including Board of Management members' own contributions derived from deferred fixed compensation.

Prisma Long-Term Variable Compensation

The fair value at the grant date of the long-term variable compensation (2023–2026 Prisma tranche) for current members of the Board of Management is €2,899 thousand (previous year: €3,743 thousand for the 2022–2025 Prisma tranche).

Provisions amounting to €9,994 thousand (previous year: €5,626 thousand) were recognized as of December 31, 2023 for all current tranches of long-term variable compensation in which active and former Board of Management members participate, of which €2,421 thousand (previous year: €0 thousand) was recognized for former Board of Management members.

Long-term variable compensation (IFRSs)

	Current Board of Management members									
	Dr. Markus Steilemann (Chair)		Christian Baier (Finance)		Dr. Thorsten Dreier (Technology and Labor Director)		Sucheta Govil (Sales and Marketing)		Total	
	2022	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Total expenses/revenues in the reporting period for long-term variable compensation	301	3,030		28		257	222	1,527	523	4,842

Long-term variable compensation (IFRSs)

	Former Board of Management members					
	Dr. Klaus Schäfer		Dr. Thomas Toepfer		Total	
	2022	2023	2022	2023	2022	2023
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Total expenses/revenues in the reporting period for long-term variable compensation	152	1,527	185	(1,454)	337	73

Pension Entitlements

The current pension service cost for the members of the Board of Management recognized in the reporting year totaled €1,364 thousand (previous year: €1,761 thousand) according to IFRSs. The service cost depends on the actuarial assumptions made, in particular the relevant discount rate. The contributions to pension commitments actually made are recognized as cash outflows in the operating cash flow. The service cost, present value of the pension obligations, and contributions made in accordance with pension plan rules are shown in the table below.

Pension entitlements (IFRSs)

	Service cost for pension entitlements earned in the respective year		Present value of defined pension obligation as of Dec. 31		Actual contribution made in the respective year in accordance with the pension plan	
	2022	2023	2022	2023	2022	2023
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Dr. Markus Steilemann	835	487	3,267	4,164	390	406
Christian Baier	–	89	–	117	–	69
Dr. Thorsten Dreier	–	171	–	1,154	–	130
Sucheta Govil	248	265	630	1,064	198	206
Dr. Klaus Schäfer	348	121	4,277	5,141	186	97
Dr. Thomas Toepfer	330	231	1,006	1,219	246	171
Total	**1,761**	**1,364**	**9,180**	**12,859**	**1,020**	**1,079**

Compensation of Former Members of the Board of Management

The compensation awarded and due to former Board of Management members for the fiscal year is outlined below in accordance with Section 162, Paragraph 1 AktG.

Compensation awarded and due to former Board of Management members (AktG)[1]

	Dr. Klaus Schäfer (until June 30, 2023)				Patrick Thomas (until May 31, 2018)				Dr. Thomas Toepfer (until August 31, 2023)			
	2022		2023		2022		2023		2022		2023	
	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%
Fixed annual compensation	628	72.7	327	20.8					762	73.0	528	65.3
Fringe benefits	25	2.9	14	0.9					26	2.5	18	2.2
Pensions	–	–	119	7.6	23	100.0	284	100.0	–	0.0	–	0.0
Total	**653**	**75.6**	**460**	**29.3**	**23**	**100.0**	**284**	**100.0**	**788**	**75.5**	**546**	**67.6**
Short-term variable compensation												
for fiscal 2022	–	0.0							–	0.0		
for fiscal 2023			161	10.3							262	32.4
Long-term variable compensation												
2019–2022 Prisma tranche	211	24.4							256	24.5		
2020–2023 Prisma tranche			949	60.5							–	0.0
Total compensation awarded and due pursuant to section 162 AktG	**864**	**100.0**	**1,570**	**100.0**	**23**	**100.0**	**284**	**100.0**	**1,044**	**100.0**	**808**	**100.0**
Service cost[2]	348		121		–		–		330		231	
Total compensation (including service costs)	**1,212**		**1,691**		**23**		**284**		**1,374**		**1,039**	

[1] Due to commercial rounding, percentages may not always add up to exactly 100%.
[2] Including Board of Management members' own contributions derived from deferred fixed compensation.

A provision of €12,060 thousand (previous year: €5,447 thousand) is recognized in the Consolidated Financial Statements as of December 31, 2023, for current pensions for former Board of Management members. The settlement value of direct and indirect pension obligations in the Financial Statements of Covestro AG amounted to €14,674 thousand (previous year: €7,048 thousand).

Early Termination Benefits

The members of the Board of Management who stepped down during the fiscal year, Dr. Klaus Schäfer and Dr. Thomas Toepfer, will not receive any special benefits as a result of terminating their service contracts. Under his contract, Dr. Klaus Schäfer is entitled to a proportional payout of short-term variable compensation for the year 2023 as well as payouts from the LTI tranches running at the time of his departure – on a pro rata basis for the 2023–2026 Prisma tranche. Dr. Thomas Toepfer will receive a proportional payout of short-term variable compensation for the year 2023, but is not entitled to further long-term compensation, since his service contract was terminated early by mutual agreement at his request.

Compensation of the Supervisory Board

Compensation System of the Supervisory Board

The compensation of the Supervisory Board is in line with the provisions of the Articles of Incorporation, which were approved by the Annual General Meeting (AGM) on April 21, 2022 with a majority of 99.30%.

The members of the Supervisory Board each receive fixed annual compensation of €120 thousand plus reimbursement of their expenses.

In accordance with the recommendations of the GCGC, additional compensation is paid to the Supervisory Board Chair and Vice Chair, and for chairing and membership in committees. The Supervisory Board Chair receives fixed compensation of €360 thousand, while €240 thousand is paid to the Vice Chair. This compensation includes chairmanship of and membership in committees. The other members of the Supervisory Board are entitled to additional compensation for membership in or chairmanship of committees. The Chair of the Audit Committee receives an additional €90 thousand, the other members of the Audit Committee €45 thousand each. The Chairs of the Presidial and Nominations Committees receive €30 thousand each, while members of these two committees receive €15 thousand each. Additional compensation of €60 thousand is paid to the chairs of other committees and of €30 thousand to all other committee members. Work on committees is eligible for compensation for no more than three committees. If this cap is exceeded, compensation is paid for the three highest paid positions. If changes are made to the Supervisory Board and/or its committees during the year, members receive compensation on a prorated basis. The members of the Supervisory Board also receive an attendance fee of €1 thousand each time they attend a meeting of the Supervisory Board or a committee. Attendance at a meeting is also considered to be participation by telephone or video conference or using other comparable customary means of telecommunication. The attendance fee is limited to €1 thousand per day.
→ See Capital Market, section “Report of the Supervisory Board.”

Compensation of the Supervisory Board for the Fiscal Year

The following table outlines the components of each Covestro AG Supervisory Board member's compensation for the reporting period 2023 and the prior-year period:

Compensation of the members of the Supervisory Board of Covestro AG

	Fixed compensation		Attendance fee		Total	
	2022	2023	2022	2023	2022	2023
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Dr. Christine Bortenlänger	165	165	9	12	174	177
Dr. Christoph Gürtler (since April 2022)	126	180	8	17	134	197
Lise Kingo	180	180	9	14	189	194
Petra Kronen (Vice Chair)	240	240	11	21	251	261
Irena Küstner	165	165	9	12	174	177
Dr. Ulrich Liman (until April 2022)	55	–	4	–	59	–
Frank Löllgen (since April 2022)	84	120	4	8	88	128
Prof. Dr. Rolf Nonnenmacher (until April 2022)	64	–	3	–	67	–
Dr. Richard Pott (Chair)	360	360	8	18	368	378
Petra Reinbold-Knape	180	180	10	18	190	198
Dr. Sven Schneider (since April 2022)	147	210	7	11	154	221
Regine Stachelhaus	180	180	8	16	188	196
Marc Stothfang	150	150	6	12	156	162
Patrick Thomas	210	210	15	16	225	226
Frank Werth (until April 2022)	36	–	2	–	38	–
Total	**2,341**	**2,340**	**113**	**175**	**2,454**	**2,515**

In addition to their compensation as members of the Supervisory Board, those employee representatives who are employees of Covestro Group companies receive compensation unrelated to their service on the Supervisory Board. The total amount of such compensation was €555 thousand in the year 2023 (previous year: €1,253 thousand).

No compensation was paid or benefits granted to members of the Supervisory Board for personally performed services such as consulting or agency services. The company has purchased insurance for the members of the Supervisory Board to cover their personal liability arising from their service on the Supervisory Board. The recommendation for a deductible has been eliminated from the version of the GCGC dated December 16, 2019, so the Supervisory Board's rules of procedure were amended accordingly in the subsequent year. No deductible for liability insurance has applied since then.

Comparative Presentation of Annual Changes in Compensation and Earnings

The following is the presentation of the annual changes in compensation awarded and due to current and former Board of Management and Supervisory Board members compared with the company's earnings performance and the average compensation of employees (FTEs) from fiscal years 2019 to 2023 as required by Section 162, Paragraph 1, Sentence 2, No. 2 AktG.

Five-year comparison of compensation awarded and due to Board of Management members (AktG)[1]

	2019	2020		2021		2022		2023	
	€ thousand	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%
Board of Management members as of December 31, 2022									
Dr. Markus Steilemann (Chair)	3,168	1,643	–48.1	4,285	160.8	1,691	–60.5	3,857	128.1
Christian Baier (since October 1, 2023)								320	
Dr. Thorsten Dreier (since July 1, 2023)								593	
Sucheta Govil (since August 1, 2019)	320	693	116.6	2,108	204.2	746	–64.6	1,957	162.3
Former Board of Management members									
Dr. Thomas Toepfer (until August 31, 2023)	1,014	849	–16.3	2,719	220.3	1,044	–61.6	808	–22.6
Dr. Klaus Schäfer (until June 30, 2023)	2,462	985	–60.0	2,236	127.0	864	–61.4	1,570	81.7
Patrick Thomas (until May 31, 2018)	3,260	597	–81.7	202	–66.2	23	–88.6	284	.
Frank H. Lutz (until June 2, 2017)	2,111	148	.						
Total	**12,335**	**4,915**	**–60.2**	**11,550**	**135.0**	**4,368**	**–62.2**	**9,389**	**114.9**

1 Percentage changes always refer to the change from the respective previous year.

Five-year comparison of compensation awarded and due to Supervisory Board members (AktG)[1]

	2019	2020		2021		2022		2023	
	€ thousand	€ thousand	%	€ thousand	%	€ thousand	%	€ thousand	%
Supervisory Board members as of December 31, 2023									
Dr. Christine Bortenlänger	106	111	4.7	126	13.5	174	38.1	177	1.7
Dr. Christoph Gürtler (since April 2022)						134		197	47.3
Lise Kingo (since April 2021)				84		189	125.0	194	2.6
Petra Kronen (Vice Chair)	160	152	–5.0	152	0.0	251	65.1	261	4.0
Irena Küstner	134	127	–5.2	127	0.0	174	37.0	177	1.7
Frank Löllgen (since April 2022)						88		128	45.7
Dr. Richard Pott (Chair)	309	302	–2.3	302	0.0	368	21.9	378	2.7
Petra Reinbold-Knape (since January 2020)		141		147	4.3	190	29.3	198	4.2
Dr. Sven Schneider (since April 2022)						154		221	43.8
Regine Stachelhaus	126	129	2.4	142	10.1	188	32.4	196	4.3
Marc Stothfang	106	101	–4.7	107	5.9	156	45.8	162	3.8
Patrick Thomas (since July 2020)		53		132	149.1	225	70.5	226	0.4
Former Supervisory Board members									
Dr. Ulrich Liman (until April 2022)	128	121	–5.5	129	6.6	59	–54.5		
Prof. Dr. Rolf Nonnenmacher (until April 2022)	159	153	–3.8	153	0.0	67	–56.3		
Frank Werth (until April 2022)	106	101	–4.7	102	1.0	38	–62.3		
Ferdinando Falco Beccalli (until April 2021)	106	102	–3.8	29	–71.6				
Johannes Dietsch (until July 2020)	154	86	–44.2						
Peter Hausmann (until December 2019)	153	–							
Total	**1,747**	**1,679**	**–3.9**	**1,732**	**3.2**	**2,454**	**41.7**	**2,515**	**2.5**

1 Percentage changes always refer to the change from the respective previous year.

Five-year comparison of relevant performance indicators (AktG)[1]

	2019	2020		2021		2022		2023	
Net income/(loss) Covestro AG	€623 million	(€45 million)	.	€648 million	.	(€316 million)	.	(€124 million)	–60.8%
EBITDA[2]	€1,604 million	€1,472 million	–8.2%	€3,085 million	109.6%	€1,617 million	–47.6%	€1,080 million	–33.2%
Free operating cash flow[3]	€473 million	€530 million	12.1%	€1,429 million	169.6%	€138 million	–90.3%	€232 million	68.1%
ROCE[4] above WACC[5]	1.6% points	–0.3% points		12.9% points		–5.0% points		–6.1% points	
Greenhouse gas emissions[6] (CO_2 equivalents)	–	–		5.2 million metric tons		4.7 million metric tons	–9.6%	4.9 million metric tons	4.3%
Core volume growth[7]	2.0%	–5.6%		10.0%					

1 Percentage changes always refer to the change from the respective previous year.
2 Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.
3 Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.
4 Return on capital employed (ROCE): ratio of EBIT after imputed income taxes to capital employed. An imputed tax rate of 25% has been used for calculating ROCE since the year 2022 (previously: effective tax rate).
5 Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company's equity and debt capital. A figure of 7.6% has been taken into account for the year 2023 (2022: 7.0%). ROCE above WACC has been a key management indicator since the year 2022.
6 GHG emissions (Scope 1 and 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).
7 Until the year 2021, core volume growth, which refers to the core products in the operational reporting segments, was a key management indicator. It is calculated as the percentage change in externally sold volumes compared with the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of precursors and by-products such as hydrochloric acid, sodium hydroxide solution, and styrene. These transactions are not included in core volume growth. Retroactive calculation based on the definition of the core business as of March 31 of each subsequent year.

In addition to the net income/net loss of Covestro AG (which is legally required to be reported), earnings performance also includes the key figures of the Covestro Group underlying short-term variable compensation (EBITDA, free operating cash flow, ROCE above WACC, absolute annual direct and indirect Scope 1 and Scope 2 GHG emissions (CO_2 equivalents), and core volume growth). Since the year 2022, core volume growth has been replaced by EBITDA as a key management indicator.

Employee compensation was calculated by dividing personnel expenses (wages and salaries plus social expenses and expenses for pensions and other benefits) disclosed in the Consolidated Financial Statements for the relevant period by the number of employees expressed as full-time equivalents (FTEs) as of the reporting date.

Five-year comparison of employee compensation (AktG)[1]

	2019	2020		2021		2022		2023	
Personnel expenses	€1,762 million	€1,723 million	–2.2%	€2,298 million	33.4%	€1,995 million	–13.2%	€2,141 million	7.3%
Employees[2]	17,201 FTE	16,501 FTE	–4.1%	17,909 FTE	8.5%	17,985 FTE	0.4%	17,520 FTE	–2.6%
Personnel expenses per FTE	€102 thousand	€104 thousand	1.9%	€128 thousand	22.9%	€111 thousand	–13.6%	€122 thousand	10.2%

1 Percentage changes always refer to the change from the respective previous year.
2 The number of permanent or temporary employees is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours. The figures do not include employees in vocational training.

Other Information

There were no advances or loans to members of the Board of Management or the Supervisory Board outstanding as of either December 31, 2022, or December 31, 2023.

Leverkusen, February 28, 2024

Covestro AG

For the Board of Management:

For the Supervisory Board:

Dr. Markus Steilemann

Christian Baier

Dr. Richard Pott

Independent Auditor’s Report

To Covestro AG, Leverkusen,

Report on the Audit of the Compensation Report

We have audited the attached compensation report of Covestro AG, Leverkusen, for the financial year from January 1 to December 31, 2023, including the related disclosures, prepared to meet the requirements of Section 162 AktG [Aktiengesetz: German Stock Corporation Act].

The compensation report contains cross-references that are not required by law and which are marked as unaudited. We have not audited the cross-references and the information to which the cross-references refer.

Responsibilities of Management and the Supervisory Board

The management and the Supervisory Board of Covestro AG are responsible for the preparation of the compensation report, including the related disclosures, in accordance with the requirements of Section 162 AktG. The management and the Supervisory Board are also responsible for such internal controls that they consider necessary for enabling the preparation of the compensation report, including the related disclosures, that is free from material misstatement, whether due to fraud (i.e. fraudulent financial reporting and misappropriation of assets) or error.

Auditor’s responsibilities

Our responsibility is to express an opinion on this compensation report, including the related disclosures, based on our audit. We conducted our audit in accordance with the German Generally Accepted Standards of Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report, including the related disclosures, is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts, including the related disclosures, in the compensation report. The procedures selected depend on the auditor’s professional judgment. This includes an assessment of the risks of material misstatement, whether due to fraud or error, in the compensation report, including the related disclosures. In assessing these risks, the auditor considers the internal control system relevant for the preparation of the compensation report, including the related disclosures. The objective is to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the Supervisory Board, as well as evaluating the overall presentation of the compensation report, including the related disclosures.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our assurance opinion.

Opinion

In our opinion, on the basis of the knowledge obtained in the audit, the compensation report for the financial year from January 1 to December 31, 2023, including the related disclosures, complies in all material respects with the financial reporting requirements of Section 162 AktG.

Our opinion on the compensation report does not extend to the cross-references, which are marked as unaudited and not required by law, and the information to which the cross-references refer.

Other matter – formal examination of the compensation report

The substantive audit of the compensation report described in this independent auditor's report includes the formal examination of the compensation report required by Section 162 (3) AktG, including issuing an assurance report on this examination. As we have issued an unqualified opinion on the substantive audit of the compensation report, this opinion includes the conclusion that the disclosures pursuant to Section 162 (1) and (2) AktG have been made, in all material respects, in the compensation report.

Limitation of liability

The terms governing this engagement, which we fulfilled by rendering the aforesaid services to Covestro AG, are set out in the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms] as amended on January 1, 2017. By taking note of and using the information as contained in this auditor's report, each recipient confirms to have taken note of the terms and conditions laid down therein (including the limitation of liability of EUR 4 million for negligence under Clause 9 of the General Engagement Terms) and acknowledges their validity in relation to us.

Düsseldorf, February 28, 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Ufer	Dr. Ackermann
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

CONSOLIDATED FINANCIAL STATEMENTS

COVESTRO GROUP CONSOLIDATED INCOME STATEMENT

	Note	2022	2023
		€ million	€ million
Sales	**6**	**17,968**	**14,377**
Cost of goods sold		(15,404)	(12,071)
Gross profit		**2,564**	**2,306**
Selling expenses		(1,604)	(1,489)
Research and development expenses		(361)	(374)
General administration expenses		(353)	(360)
Other operating income[1]	7	145	272
Other operating expenses[2]	8	(124)	(169)
EBIT[3]		**267**	**186**
Equity-method loss		(17)	(20)
Result from other affiliated companies		2	1
Interest income		69	70
Interest expense		(130)	(160)
Other financial result		(61)	(4)
Financial result	**10**	**(137)**	**(113)**
Income before income taxes		**130**	**73**
Income taxes	11	(411)	(275)
Income after income taxes		**(281)**	**(202)**
attributable to noncontrolling interest		(9)	(4)
attributable to Covestro AG shareholders (net income)		(272)	(198)
		€	€
Basic/Diluted earnings per share[4]	**12**	**–1.42**	**–1.05**

1 Other operating income contains reversals of impairment losses on financial assets amounting to €3 million (previous year: €3 million).
2 Other operating expenses contain impairment losses on financial assets of €6 million (previous year: €12 million).
3 EBIT: income after income taxes plus financial result and income tax
4 Earnings per share: according to IAS 33 (Earnings per Share), net income divided by the weighted average number of outstanding no-par value voting shares of Covestro AG. The calculation for fiscal 2023 was based on 189,262,192 no-par value shares (previous year: 190,933,438). For more information, see note 12 "Earnings per Share."

COVESTRO GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2022	2023
		€ million	€ million
Income after income taxes		**(281)**	**(202)**
Remeasurements of the net defined benefit liability for post-employment benefit plans	19	849	9
Income taxes	11	(454)	1
Other comprehensive income from remeasurements of the net defined benefit liability for post-employment benefit plans		**395**	**10**
Changes in fair values of equity instruments	24	(3)	–
Income taxes	11	1	–
Other comprehensive income from equity instruments		**(2)**	**–**
Other comprehensive income that will not be reclassified subsequently to profit or loss		**393**	**10**
Exchange differences of foreign operations		50	(261)
Reclassified to profit or loss		–	–
Other comprehensive income from exchange differences		**50**	**(261)**
Other comprehensive income that may be reclassified subsequently to profit or loss		**50**	**(261)**
Total other comprehensive income		**443**	**(251)**
attributable to noncontrolling interest		(4)	(3)
attributable to Covestro AG shareholders		447	(248)
Total comprehensive income		**162**	**(453)**
attributable to noncontrolling interest		(13)	(7)
attributable to Covestro AG shareholders		175	(446)

COVESTRO GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Dec. 31, 2022	Dec. 31, 2023
		€ million	€ million
Noncurrent assets			
Goodwill	13	729	711
Other intangible assets	13	603	519
Property, plant and equipment	13	5,801	5,795
Investments accounted for using the equity method	14	185	182
Other financial assets[1]	15	158	109
Other receivables[1]	17	95	114
Deferred taxes	11	345	316
		7,916	**7,746**
Current assets			
Inventories	16	2,814	2,459
Trade accounts receivable		2,011	1,898
Other financial assets[1]	15	67	311
Other receivables[1]	17	446	496
Claims for income tax refunds	11	115	102
Cash and cash equivalents		1,198	625
Assets held for sale		18	–
		6,669	**5,891**
Total assets		**14,585**	**13,637**
Equity	**18**		
Capital stock of Covestro AG		190	189
Capital reserves of Covestro AG		3,788	3,740
Retained earnings incl. total income		2,480	2,291
Accumulated other comprehensive income		628	370
Equity attributable to Covestro AG shareholders		**7,086**	**6,590**
Equity attributable to noncontrolling interest		36	28
		7,122	**6,618**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	19	486	464
Other provisions	20	184	192
Financial debt	21	3,368	2,740
Other financial liabilities[1]	22	12	16
Income tax liabilities	11	26	29
Other nonfinancial liabilities[1]	23	20	24
Deferred taxes	11	312	256
		4,408	**3,721**
Current liabilities			
Other provisions	20	171	356
Financial debt	21	321	667
Trade accounts payable		2,016	1,895
Other financial liabilities[1]	22	158	128
Income tax liabilities	11	149	48
Other nonfinancial liabilities[1]	23	238	204
Liabilities directly related to assets held for sale		2	–
		3,055	**3,298**
Total equity and liabilities		**14,585**	**13,637**

[1] Prior-year figures adjusted. Explanations can be found in the relevant note.

COVESTRO GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2022	2023
		€ million	€ million
Income after income taxes		(281)	(202)
Income taxes	11	411	275
Financial result	10	137	113
Income taxes paid		(538)	(383)
Depreciation, amortization, impairment losses and impairment loss reversals	13	1,350	894
Change in pension provisions		54	(33)
(Gains)/losses on retirements of noncurrent assets		(3)	(33)
Decrease/(increase) in inventories		148	278
Decrease/(increase) in trade accounts receivable		377	76
(Decrease)/increase in trade accounts payable		(213)	(104)
Change in other working capital, other noncash items		(472)	116
Cash flows from operating activities	**27.1**	**970**	**997**
Cash outflows for additions to property, plant, equipment and intangible assets		(832)	(765)
Cash inflows from sales of property, plant, equipment and other assets		21	2
Cash inflows from divestments less divested cash		6	55
Cash outflows for noncurrent financial assets		(124)	(23)
Cash inflows from noncurrent financial assets		3	41
Interest and dividends received		75	70
Cash inflows from other current financial assets/ Cash outflows for other current financial assets		374	(305)
Cash flows from investing activities	**27.2**	**(477)**	**(925)**
Acquisition of treasury shares	18	(150)	(49)
Issuance of treasury shares	18	8	–
Dividend payments	18	(654)	(4)
Issuances of debt		2,069	419
Retirements of debt		(1,074)	(836)
Interest paid		(131)	(169)
Cash outflows for the purchase of additional interests in subsidiaries		(4)	–
Cash flows from financing activities	**27.3**	**64**	**(639)**
Change in cash and cash equivalents due to business activities		**557**	**(567)**
Cash and cash equivalents at beginning of year		**649**	**1,198**
Change in cash and cash equivalents due to exchange rate movements		(8)	(6)
Cash and cash equivalents at end of year		**1,198**	**625**

COVESTRO GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock of Covestro AG	Capital reserves of Covestro AG	Retained earnings incl. total income	Accumulated other comprehensive income	Equity attributable to Covestro AG shareholders	Equity attributable to noncontrolling interest	Equity
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Dec. 31, 2021	**193**	**3,927**	**3,002**	**574**	**7,696**	**66**	**7,762**
Acquisition of treasury shares	(3)	(147)			(150)		(150)
Issuance of treasury shares	–	11			11		11
Dividend payments			(651)		(651)	(6)	(657)
Other changes[1]		–3	8		5	(11)	(6)
Income after income taxes			(272)		(272)	(9)	(281)
Other comprehensive income			393	54	447	(4)	443
Total comprehensive income			121	54	175	(13)	162
Dec. 31, 2022	**190**	**3,788**	**2,480**	**628**	**7,086**	**36**	**7,122**
of which treasury shares	(3)	(136)			(139)		(139)
Dec. 31, 2022	**190**	**3,788**	**2,480**	**628**	**7,086**	**36**	**7,122**
Acquisition and redemption of treasury shares	(1)	(48)			(49)		(49)
Dividend payments			–		–	(1)	(1)
Other changes[2]		–	(1)		(1)	–	(1)
Income after income taxes			(198)		(198)	(4)	(202)
Other comprehensive income			10	(258)	(248)	(3)	(251)
Total comprehensive income			(188)	(258)	(446)	(7)	(453)
Dec. 31, 2023	**189**	**3,740**	**2,291**	**370**	**6,590**	**28**	**6,618**
of which treasury shares	–	(12)			(12)		(12)

[1] Other changes in capital reserves in fiscal 2022 include the difference between the historical cost of treasury shares and the issue price in November 2022. Further other changes in 2022 primarily include the purchase of additional interests in subsidiaries.
[2] Other changes in the year 2023 resulted from the sale of long-term investments in equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COVESTRO GROUP

Principles and Methods

1. General Information

Covestro AG (registered at the district trade register, or Amtsgericht, for Cologne, number: HRB 85281) is a stock exchange-listed corporation headquartered at Kaiser-Wilhelm-Allee 60, 51373 Leverkusen (Germany), (Covestro AG). The consolidated financial statements of Covestro AG as of December 31, 2023, cover Covestro AG and its subsidiaries, joint arrangements and associated companies. They have been prepared according to the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London (United Kingdom), as endorsed by the European Union (EU) and in effect at the reporting date, the Interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) and the Interpretations published by the Standing Interpretations Committee (SIC), as well as the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB) for the exempting IFRS consolidated financial statements.

The declaration pertaining to the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) has been issued and made available to shareholders.

If certain items in the income statement, statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity of the Covestro Group are condensed for the sake of clarity, this is explained in the notes. The income statement has been prepared using the cost-of-sales method. Assets and liabilities are classified by maturity. They are classified as current if they mature or are intended for sale within one year or within the normal business cycle of the Covestro Group. Trade accounts receivable and payable, inventories, and assets held for sale are consistently presented as current. Deferred tax assets, deferred tax liabilities and pension provisions are consistently presented as noncurrent.

The consolidated financial statements are drawn up in euros. Amounts are stated in millions of euros (€ million) unless otherwise noted.

The Board of Management of Covestro AG prepared the consolidated financial statements as of December 31, 2023, on February 23, 2024, submitted the prepared consolidated financial statements to the Audit Committee and the Supervisory Board for examination and approval, and authorized their publication.

Exchange Rates

In the reporting period, the following exchange rates were used for the major currencies of relevance from the Covestro Group's perspective:

Average rates for major currencies

		Average rates	
€1/		2022	2023
BRL	Brazil	5.42	5.40
CNY	China	7.08	7.66
HKD	Hong Kong[1]	8.23	8.46
INR	India	82.63	89.26
JPY	Japan	137.77	151.54
MXN	Mexico	21.13	19.17
USD	United States	1.05	1.08

[1] Special Administrative Region (China)

Closing rates for major currencies

		Closing rates	
€1/		2022	2023
BRL	Brazil	5.64	5.36
CNY	China	7.37	7.87
HKD	Hong Kong[1]	8.32	8.63
INR	India	88.17	91.90
JPY	Japan	140.66	156.33
MXN	Mexico	20.86	18.72
USD	United States	1.07	1.11

2. Effects of New Financial Reporting Standards

2.1 Financial Reporting Standards Applied for the First Time in the Reporting Period

IFRS pronouncement (published on)	Title	Effective for annual periods beginning on or after
IFRS 17 (May 18, 2017)	Insurance Contracts	January 1, 2023
Amendments to IFRS 17 (June 25, 2020)	Amendments to IFRS 17 – Insurance Contracts	January 1, 2023
Amendments to IAS 1 and the practice statement (February 12, 2021)	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	January 1, 2023
Amendments to IAS 8 (February 12, 2021)	Definition of Accounting Estimates (Amendments to IAS 8)	January 1, 2023
Amendments to IAS 12 (May 7, 2021)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IFRS 17 (December 9, 2021)	Initial Application of IFRS 17 and IFRS 9 – Comparative Information	January 1, 2023
Amendments to IAS 12 (May 23, 2023)	International Tax Reform – Pillar Two Model Rules	January 1, 2023

Initial application of the standards listed in the table had no or no material impact on the presentation of the net assets, financial position and results of operations of the Covestro Group.

The European Directive for implementing global minimum taxation under the OECD’s Global Anti-Base Erosion Model Rules (Pillar Two) came into force in December 2022 and was transposed into national law in Germany in November 2023. In this context, the IASB issued amendments to IAS 12 Income Taxes on May 23, 2023 under the title International Tax Reform – Pillar Two Model Rules. The amendments contain a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of Pillar Two income taxes. The amendments apply directly and retrospectively and require additional disclosures at the reporting date, depending on whether transposition into national tax law has already happened or is still pending (see note 11 “Taxes”). Covestro applies the mandatory temporary exception to the accounting for deferred taxes in connection with Pillar Two income taxes.

2.2 Published Financial Reporting Standards That Have Not Yet Been Applied

The IASB issued the following standards and amendments to standards which have already been adopted by the European Union (EU) but are not mandatory for financial statements 2023. The Covestro Group has not made use of the option to apply these before their effective date.

IFRS pronouncement (published on)	Title	Effective for annual periods beginning on or after
Amendments to IAS 1 (January 23, 2020, July 15, 2020 and October 31, 2022)	Classification of Liabilities as Current or Non-current, Classification of Liabilities as Current or Non-current – Deferral of Effective Date and Non-current Liabilities with Covenants	January 1, 2024
Amendments to IFRS 16 (September 22, 2022)	Lease Liability in a Sale and Leaseback	January 1, 2024

The effects of the initial application of the aforementioned financial reporting standards are currently being reviewed. At the time the financial statements were prepared, no, or no material, impact on the presentation of the net assets, financial position, and results of operations of the Covestro Group was expected.

The application of the following other standards and amendments to standards issued by the IASB is conditional upon their endorsement by the EU. The effective date for the standards is assumed to be the effective date designated by the IASB.

IFRS pronouncement (published on)	Title	Effective for annual periods beginning on or after
Amendments to IAS 7 and IFRS 7 (May 25, 2023)	Disclosures: Supplier Finance Arrangements	January 1, 2024
Amendments to IAS 21 (August 15, 2023)	Lack of Exchangeability	January 1, 2025

The effects of the initial application of the aforementioned financial reporting standards are currently being reviewed. At the time the financial statements were prepared, no, or no material, impact on the presentation of the net assets, financial position, and results of operations of the Covestro Group was expected.

The Amendments to IAS 7 (Statement of Cash Flows) and IFRS 7 (Financial Instruments: Disclosures) result in additional disclosure requirements for Covestro relating to reverse factoring transactions (supplier finance arrangements).

3. Accounting Policies and Valuation Principles

Accounting policies and valuation principles classified as material for the Covestro Group under IAS 1 and the Practice Statement are described in the following. Accounting policies and valuation principles may be material by their nature, even if the associated amounts are immaterial. Examples include disclosures on accounting policies and valuation principles that are discretionary, that are based on options, or that are not already obvious from the wording of an IFRS pronouncement itself, and that appear relevant overall for an understanding of the Covestro Group's financial statements. The main focus of the accounting policies and valuation principles presented in the following is on particular aspects that are at the specific discretion of Covestro's management and on options exercised.

Items in the statement of financial position	Measurement principle
Assets	
Goodwill	Cost or lower recoverable amount
Other intangible assets	
• with indefinite useful lives	Cost or lower recoverable amount
• with definite useful lives	Amortized cost less any impairment losses or reversals of impairment losses.
Property, plant and equipment including • Right of use assets • Investment property	Amortized cost less any impairment losses or reversals of impairment losses.
Investments accounted for using the equity method • Joint Ventures • Associates	Amortized cost less any impairment losses or reversals of impairment losses.
Other financial assets	Depending on measurement category: amortized cost or fair value through profit or loss or fair value through other comprehensive income
Deferred taxes	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized, a tax loss or interest carryforward is used or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period
Inventories	Lower of net realizable value and cost
Trade accounts receivable	Amortized cost less a risk allowance for expected credit losses
Other receivables	Amortized cost less allowance for expected credit losses or fair value
Claims for income taxes	Amount expected to be recovered from the tax authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.
Cash and cash equivalents	Amortized cost
Assets held for sale/Liabilities directly related to assets held for sale	Lower of carrying amount and fair value less costs to sell (including allocable liabilities)

Items in the statement of financial position	Measurement principle
Liabilities	
Provisions for pensions and other post-employment benefits	Actuarial projected unit credit method
Other provisions	Present value of the settlement amount
Financial debt including lease liabilities	Depending on measurement category: amortized cost using the effective interest method or fair value through profit or loss
Trade accounts payable	Amortized cost
Other financial liabilities	Amortized cost, in the case of embedded derivatives subject to separation requirements and standalone derivatives at fair value through profit or loss
Income tax liabilities	Amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other nonfinancial liabilities	Amortized cost
Deferred taxes	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period

Judgements and Estimation Uncertainties

In preparing the consolidated financial statements, Covestro management has to make assumptions and estimates to a certain extent that may substantially impact the presentation of the Covestro Group's net assets, financial position, and results of operations and could deviate from the actual results.

Judgements are made when applying accounting policies that may materially affect the financial statements. These include:

- Identifying indications of impairment (triggering events), determining an appropriate peer group to derive the weighted cost of capital, and defining cash-generating units or groups of cash-generating units, in each case for the purposes of centralized impairment tests for noncurrent assets
- The identification of impairment losses or reversals of impairment losses on noncurrent assets, taking individual lower value thresholds into account
- The identification and valuation of intangible assets and liabilities in the context of purchase price allocation in connection with the acquisition of companies

Such assumptions and estimates mainly relate to the following areas:

- Defining the useful life of noncurrent assets
- Goodwill impairment testing, including long-term planning assumptions with respect to growth and profitability using discounted cash flows in the context of centralized impairment tests of noncurrent assets
- Accounting for income taxes and assessing the recoverability of deferred tax assets in respect to future taxable income and the recognition of tax effects in the future and as well the recognition of uncertain tax positions due to any different findings made during tax audits
- Recognition and measurement of provisions, e.g., for litigation, for pensions and other employee benefits, termination benefits (e.g., in the context of restructurings), for other taxes, for environmental protection and for product liability
- The determination of assumptions underlying the recognition, measurement, and disclosure of financial instruments

The risks relating to the impacts of the current crisis caused by Russia's war against Ukraine and other geopolitical conflicts are taken into account here.

In addition, Covestro's management must decide which information is relevant to readers of the IFRS consolidated financial statements and should be included in the notes. Information about exercising discretion in the application of accounting policies that most significantly affect the amounts reported in the consolidated financial statements, and about estimates and assumptions, is disclosed in the following notes. The following estimates are based on historical experience and assumptions that are believed to be reasonable. They are reviewed on an ongoing basis, but may differ from the actual values subsequently recognized.

Climate-related Impacts

Covestro is striving to become climate-neutral and has set itself the target of achieving net zero greenhouse gas (GHG)* emissions in its own production (Scope 1) and from the provision and use of energy produced outside the company (Scope 2) at all environmentally relevant sites. For the first time, Covestro also set itself a new absolute reduction target for its Scope 3 GHG Emissions in the 2023 reporting year. In light of this, it is also working on solutions to reduce GHG emissions along the value chain. The concept of the circular economy is also a key element of Covestro's strategy. By moving away from the use of fossil resources, through regenerative approaches and circularity, the aim is to sustainably transform value creation into a holistic orientation toward regenerative production.

All the assumptions and estimates in these financial statements are based on the circumstances and assessments on the reporting date. On this basis, there are no identifiable specific indications of any material need to recognize impairment losses on noncurrent assets or for any material adjustment to the remaining useful lives of assets at the reporting date. The Group will continuously review the basic assumptions made and will adjust them if necessary. Covestro continuously monitors legislation regarding climate change.

Consolidation

The Consolidated Financial Statements of Covestro AG as of December 31, 2023, include all material subsidiaries and associates as well as one joint operation. Subsidiaries that, in the aggregate, are immaterial for the Group's net assets, financial position, and results of operations are not consolidated. Such subsidiaries are recognized at cost.

→ See note 5.1 "Scope of consolidation and investment."

Joint Operations and Associates

Joint operations are based on joint arrangements. A joint arrangement is deemed to exist if Covestro AG, through a contractual agreement, indirectly or directly jointly controls an activity or a separate legal entity together with one or more third parties. Joint control is only deemed to exist if decisions regarding the relevant activities require the unanimous consent of the parties sharing control.

The Covestro Group recognizes the share of assets, liabilities, revenues, and expenses in its consolidated financial statements in accordance with its rights and obligations in joint operations.

The only entity included in the Covestro Consolidated Financial Statements that is classified as a joint operation is LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam (Netherlands). This company was formed together with Lyondell PO-11 C.V., Rotterdam (Netherlands). The two venturers each own a 50% interest in the capital and voting rights. The company operates production facilities for the sole account of the venturers, who therefore receive substantially all the economic benefits of the assets. The venturers are the sole source of cash flows. Liabilities incurred are primarily settled through cash flows resulting from sales to the venturers. Variable costs are reimbursed by the shareholders depending on the specific purchase quantities.

Associates over which Covestro AG is able to exercise significant influence, directly or indirectly, generally through an ownership interest between 20% and 50%, are accounted for using the equity method.

Currency Translation

The financial statements of the individual companies included in the consolidated financial statements are prepared in their respective functional currencies. As a rule, the functional currency of the consolidated company is the applicable local currency, as these companies operate their business autonomously from a financial, economic, and organizational point of view.

In the separate financial statements of the foreign companies, receivables and liabilities in currencies other than the respective functional currency are translated at closing rates. Related exchange differences are recognized in profit or loss and recorded as exchange gains or losses under other financial result.

* Achievement of net-zero GHG emissions is defined as a balance between anthropogenic production of GHG emissions (caused by the company's own production activities and by the provision and use of energy produced outside the company) and anthropogenic reduction of GHG emissions.

In the consolidated financial statements, the assets and liabilities of Covestro companies whose functional currency is not the euro are translated into euros at closing rates at the start and end of the reporting period, while income and expense items and cash flows are translated into euros at average rates.

Sales

All revenues in connection with customer contracts, primarily from product sales, are recognized as sales. Sales also include income from services rendered and licensing agreements.

Sales are generated primarily from the sale of chemical products. In most cases, control over these products is transferred to the customer at a point in time.

Depending on the contractual agreements made and transportation clauses agreed upon with the customer, in the majority of cases control is transferred to the customer upon delivery at the place of destination, furthermore at the point in time of collection by the customer or upon handover to the freight carrier. In some cases, sales are made through consignment warehouses in which customers primarily obtain control over the delivered goods upon delivery to the consignment warehouse.

Determining the point in time of the transfer of control involves considering additional indicators. In particular, it is considered at which point in time Covestro has a present right to payment and when physical possession of the product or, in a broader sense, the possibility of sole access to the product, is transferred to the customer. Depending on the transportation clauses, the possibility of sole access to the product may be transferred even prior to arrival or physical handover of the product to the customer. Furthermore, the point in time when the legal title passes to the customer is also considered to the extent that it constitutes more than a protective right. The point in time when the significant rewards and risks of ownership of a product are transferred to the customer is usually linked closely with the aforementioned indicators and is therefore considered with these. Based on experience, it is assumed that products sold fulfill the agreed-upon specifications, thus acceptance by the customer is an indicator that does not generally affect the point in time at which control is transferred.

As a result, the point in time at which control is transferred depends on the contractual agreement concluded with the customer in each case and the stipulated transportation clauses.

In the case of products sold through a consignment warehouse, the customer generally obtains physical possession of this product upon delivery to the consignment warehouse. In addition, the right to payment for the delivered goods generally arises upon delivery. To the extent that the other three indicators do not lead to a contrary conclusion, control of the products in the case of a sale through a consignment warehouse transfers to the customer upon delivery to the consignment warehouse. The corresponding sales are therefore realized at the time of delivery.

Exceptionally, certain products are only sold to one customer. Some of these customer-specific products have no alternative use for Covestro. Insofar as Covestro has an enforceable right to payment for performance completed to date, sales are recognized on the basis of progress towards complete satisfaction of the performance obligation. As a rule, control over an individual customer-specific product is considered to be transferred when the generally short production process is completed successfully and the product has been tested to confirm that the agreed-upon specifications have been met.

Invoices are usually payable in 0 to 90 days. Contracts may contain early payment discounts or rebates. Rebates are generally retroactively granted based on the sales or volume of a period customarily spanning up to 12 months. Some contracts include pricing formulas used to determine the billable price at the time of delivery. Moreover, the final prices for certain contracts with customers are not yet fixed at the time of transfer of control. Instead, provisional prices are billed initially.

Sales are recognized in the amount of the transaction price that Covestro is expected to receive. Sales do not include amounts collected on behalf of third parties (e.g., sales tax). Where consideration includes a variable component, for example due to the contractual clauses described, this component of the consideration is estimated either based on the expected value method or the most likely amount. The method producing the best estimate is used in this case. However, variable consideration is only taken into account to the extent it is not constrained as defined by IFRS 15 (Revenue from Contracts with Customers). Refund liabilities result particularly from rebates granted and total the amount of the rebate expected to be refunded, which is calculated based on the methods described. Refund liabilities are reported in other financial liabilities.

As a rule, no warranties are issued beyond normal warranties that products will fulfill the agreed-upon specifications.

In the case of contracts with customers, Covestro generally does not expect more than one year to pass between the transfer of a product to a customer and the payment thereof. As a result, the agreed consideration is not adjusted for significant financing components. When incremental costs of obtaining a contract arise, these are immediately recognized as expenses, if the potential amortization period is one year or less.

Government Grants

Government grants are recognized if there is sufficient certainty that the benefits will be granted and the related conditions will be met. Asset-related grants from third parties, such as investment grants, are reported under other receivables and other nonfinancial liabilities and are recognized in profit or loss in accordance with the asset's useful life. Depending on the circumstances, income-related grants are either offset against expenses or are recognized under other operating income. If realized in the income statement before the payment is received or if it is dependent on specific conditions, these are recognized as other receivables or other nonfinancial liabilities. The Covestro Group mainly receives income-related grants.

Covestro regularly verifies that conditions attaching to government grants received are fulfilled.

Emission rights granted free of payment by government authorities are recognized in the statement of financial position at zero euros or at a reminder value. Emission rights acquired on the market in return for payment are capitalized at cost of acquisition and are impaired, if the fair value is lower than the acquisition cost. Emissions caused generally result in return obligations which have to be recognized.

Functional Cost

Functional cost is calculated using the cost of sales method for the functions that incur them on the basis of cost center accounting. A distinction is made here between cost of goods sold, selling expenses, research and development expenses, and general administration expenses. Operating expenses that cannot be allocated to the functions that caused them are presented as other operating expenses.

Cost of goods sold includes all production costs for products and services sold in the fiscal year as well as the cost of products acquired and resold in the fiscal year. This also includes impairment losses on inventories and overheads attributable to the production process.

In addition to transportation and logistics costs, selling expenses primarily include the costs of selling, advertising, and marketing activities, as well as the costs of sales representatives and distribution warehouses.

Research and development expenses are incurred in the Covestro Group for in-house research and development activities as well as research and development collaborations and alliances with third parties. Capitalized development costs also include the cost of material IT projects if the recognition criteria are met.

Expenses that are not related to the functions described are reported under general administration expenses. These include administrative personnel costs, depreciation of and impairment losses on other equipment, and external audit costs.

Income Taxes

Income taxes comprise the taxes levied on taxable income in the individual countries along with changes in deferred tax assets and liabilities that are recognized in profit or loss. Detailed explanations of impairment testing of deferred tax assets can be found in "Judgements and Estimation Uncertainties" in this note.

Deferred tax liabilities are recognized on planned dividend payments by subsidiaries. Where no dividend payment or disposal of corresponding equity investments is planned for the foreseeable future, no deferred tax liability is recognized on the difference between the proportionate equity according to IFRSs and the tax base of the carrying amount of the investment in the subsidiary (outside basis differences).

The expected effects of uncertain deferred and actual income tax positions are estimated based on the expected value method or the most likely amount. The method producing the best estimate is used in this case. Tax audits in which the relevant tax authority could take a view differing from Covestro's legal position are by far the most important sources of estimation uncertainties for uncertain tax positions. Uncertain tax positions are accounted for under the assumption that the tax authorities will investigate all relevant matters and have all relevant information at their disposal.

Business Combinations

Businesses acquired are accounted for pursuant to IFRS 3 (Business Combinations) using the acquisition method, which requires that all identifiable assets acquired and all (contingent) liabilities assumed be recognized and measured at their respective fair values on the date control is obtained.

The Covestro Group recognizes the components of noncontrolling interests in the acquiree either at fair value or at the noncontrolling interest's proportionate share of the acquiree's identified net assets. The Covestro Group exercises this option separately for each business combination in accordance with the standard.

Noncurrent Assets

Noncurrent assets include property, plant and equipment and intangible assets, with definite or indefinite useful lives in each case.

If the construction phase or manufacturing process of noncurrent assets extends over a period of 12 months or more, the interest incurred on borrowed capital up to the date of completion is capitalized as part of the cost of acquisition or construction in accordance with IAS 23 (Borrowing Costs).

Depreciation and amortization charges, which are recognized on a straight-line basis in the Covestro Group, impairment losses, and reversals of impairment losses on finite-lived noncurrent assets are allocated to the relevant functions.

The following useful lives are applied to other intangible assets, except where the actual depletion demands a different amortization pattern:

Useful lives of other intangible assets

Patents and technologies	3 to 20 years
Production rights, trademarks and licenses	10 to 20 years
Customer relationships and distribution rights	7 to 20 years
Software	3 to 4 years
Other rights and assets	max. 20 years

Determination of the expected useful lives of other intangible assets is based in particular on estimates of the period for which they will generate cash flows.

In the Covestro Group, intangible assets with an indefinite useful life relate mainly to goodwill. Impairment losses on goodwill are reported in other operating expenses.
→ See Note 13.3 "Impairment Testing."

Intangible assets that may result from internal development projects, including IT and software projects, are often associated with uncertainties, which means that the criteria for capitalization are generally not met. Capitalization requirements are reviewed on a project- and contract-specific basis, taking materiality into account.

Depreciation of property, plant and equipment is largely based on the following useful lives, which are standard throughout the Group:

Useful lives of property, plant and equipment

Land and buildings	
Buildings	20 to 50 years
Infrastructure	10 to 20 years
Plant installations and machinery	
Storage tanks and pipelines	10 to 20 years
Plant installations	6 to 20 years
Machinery and equipment	6 to 12 years
Furniture, fixtures and other equipment	
Furniture and fixtures	4 to 10 years
Vehicles	5 to 8 years
Computer equipment	3 to 5 years
Laboratory and research facilities	3 to 5 years

Significant asset components with different useful lives are accounted for and depreciated separately. In cases where the special recognition criteria are met, the associated costs may be capitalized as a separate component, for example if extensive maintenance work is carried out regularly (such as the general overhaul of a machine).

When assets are sold, closed down, or scrapped, the difference between the recoverable amount, which normally amounts to the fair value less costs of disposal, and the net carrying amount of the assets is recognized as a gain or loss in other operating income or expenses, respectively.

Leases

When Covestro is the lessee in a lease, as a rule a right-of-use asset and a corresponding liability (lease liability) are recognized in the statement of financial position on the date the underlying asset is made available for use to Covestro. Lease liabilities are reported under financial debt and classified as current or noncurrent according to their maturity.

For low-value leased assets and short-term leases (lease term of less than 12 months), use is made of the practical expedients and corresponding contractual payments are reported in cash flows from operating activities and recognized as an expense in the operating result. Covestro also exercises the option not to recognize any leased intangible assets as leases.

Upon initial recognition, the right-of-use asset is generally capitalized at the amount of the corresponding lease liability plus any initial direct costs, any dismantling obligations, and lease payments made prior to the commencement date less any lease incentives received. For subsequent measurement, the right-of-use asset is depreciated over the lease term. Contract modifications, as long as these are not measured as separate leases, and reassessment of the lease liability are also reflected in the right-of-use asset.

Lease liabilities are measured at the present value of the lease payments to be made over the term of the lease, which are generally discounted using the incremental borrowing rate, as the interest rate implicit in the lease cannot generally be determined. Lease liabilities are measured at amortized cost using the effective interest method. They are adjusted in the event of modifications to or reassessment of the lease.

At Covestro, lease agreements usually include fixed contractual terms. If there are additional options to extend or terminate the lease, all relevant facts are examined to determine the existence of economic incentives to exercise or not to exercise these options. The lease term is only adjusted to reflect changes in the expectations regarding whether or not such options will be exercised if there is reasonable certainty.

For leases in which Covestro is the lessor, a differentiation is made between finance leases and operating leases in accordance with IFRS 16. Leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee are treated as finance leases. At the commencement date, Covestro recognizes a lease receivable in the statement of financial position in the amount of the net investment in the lease and derecognizes the underlying asset from property, plant and equipment. In an operating lease, the underlying asset continues to be shown under Covestro’s property, plant and equipment and depreciated over its useful life. Lease payments received are recognized through profit or loss.

Investment Property

Investment property is measured at amortized costs unless a lower carrying amount is required. The carrying amount of investment property is depreciated using the straight-line method. The useful lives are the same as those for property, plant and equipment described above. The fair value to be determined to meet disclosure requirements is mainly calculated on the basis of internally prepared valuations. In the case of buildings and developed land, this is carried out using a method known as the German income approach, and in the case of undeveloped land, using the sales comparison approach.

Inventories

Inventories are recognized at their cost of acquisition or production (production-related full cost) – calculated by the weighted-average method – or at their net realizable value, whichever is lower. The net realizable value is the estimated selling price in the ordinary course of business less estimated cost to complete and selling expenses. Impairment losses on inventories are recognized if their net realizable value on the reporting date is lower than the value calculated using the weighted-average method. Impairment losses are reversed if the net recoverable amount subsequently exceeds the carrying amount.

Financial Instruments

Contracts are recognized as financial instruments in the financial statements which simultaneously give rise to a financial asset at one entity while resulting in a financial liability or equity instrument at another entity.

Financial Assets

Financial assets comprise loans, acquired equity and debt instruments, cash and cash equivalents, trade accounts receivable, other financial assets, as well as derivatives with positive fair values. Regular-way purchases and sales of financial assets are generally recognized on the settlement date.

The “at amortized cost” measurement category comprises trade accounts receivable, the loans included in other financial assets, and cash and cash equivalents. Interest income from financial assets assigned to this category is determined using the effective interest method.

Debt instruments like purchased bonds can be classified as financial assets at fair value through other comprehensive income if the purpose of the investment is to hold the financial asset to collect the contractual cash flows or to sell it. Interest income, foreign currency gains and losses, and impairment losses or impairment loss reversals are recognized in the income statement for financial assets in this category. The remaining changes in fair value are recognized in other comprehensive income. Upon derecognition, the cumulative net gains or losses included in other comprehensive income are reclassified to the income statement.

The Covestro Group exercises the option of recognizing changes in the fair value of equity instruments that are not held for trading in other comprehensive income. In contrast to the treatment of debt instruments, the gains and losses recognized in other comprehensive income are not reclassified to the income statement upon derecognition. At the time of disposal, the Covestro Group reclassifies all gains and losses recognized in other comprehensive income, including any recognized impairment losses and reversals of impairment losses, to retained earnings. Examples of this category of other strategically held instruments classified as equity are certain investments made under the Covestro Venture Capital (COVeC) initiative.

Depending on the contractual design, COVeC investments are also recognized as debt instruments at fair value through profit or loss. This category also includes all financial assets not allocated to any of the abovementioned categories. These are in particular derivatives with a positive fair value.

The gross carrying amount of a financial asset is derecognized when the Covestro Group comes to the conclusion that the counterparty is no longer able to meet its payment obligations. Following derecognition, the Covestro Group assumes that it will no longer be able to recover any significant amounts.

Financial Liabilities

Financial liabilities generally comprise financial debt, lease liabilities and negative fair values of derivatives and other financial liabilities.

Derivatives

Derivatives – such as forward exchange contracts – are used to mitigate the risk of fluctuations in exchange rates. Derivatives are recognized at the trade date. Further, assets and liabilities from certain energy contracts that are intended to be settled net are also recognized as derivatives.

Contracts concluded in order to receive or deliver nonfinancial goods for the company's own purposes are not accounted for as derivatives but treated as pending transactions in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets). Where embedded derivatives are identified that are required to be separated from the pending transactions, they are accounted for separately. To cover possible peak demand, a nonmaterial volume of transactions may be entered into for which the possibility of immediate resale cannot be excluded.

Reportable derivatives are carried at fair value. This applies to what are known as stand-alone derivatives as well as derivatives embedded in certain types of contracts and required to be accounted for separately from their host contracts. Positive fair values at the end of the reporting period are reflected in financial assets, negative fair values in financial liabilities. Changes in the fair values of these derivatives are recognized directly in profit or loss in other operating income or expenses. Changes in the fair values of forward exchange contracts and currency options serving as hedging instruments for items in the statement of financial position are divided into an interest and a currency component. The interest component is recognized in interest expense or income and the currency component is recognized as exchange gains or losses in the other financial result.
Changes in the fair value of forward exchange contracts used to hedge forecasted transactions in foreign currencies are recognized in other operating income or expenses.

Covestro has entered into master netting or similar agreements for derivative financial instruments. These take effect in particular in the event of the insolvency of one of the contractual partners involved.

Fair Value

The valuation techniques and input factors of fair value hierarchy Level 1 and Level 2 that are used to determine the fair value of financial instruments are shown in the following table:

Fair-Value-Level	Balance sheet item	Included financial instruments	Valuation technique	Significant input factors for determination of fair values
Level 1	Other financial assets	Other investments	Derivation from active market	Quoted, unadjusted prices
Level 1	Financial debt	Bonds	Derivation from active market	Quoted, unadjusted prices
Level 2	Other financial assets	Loans and bank deposits	Present value of future cash inflows	Current interest rate for the appropriate term on the reporting date and reflecting the creditworthiness of the respective contractual partner
Level 2	Financial debt	Liabilities to banks, other financial debt	Present value of future cash outflows	Current interest rate for the appropriate term on the reporting date and reflecting the creditworthiness of the respective contractual partner
Level 2	Other financial assets and financial debt	Derivatives that do not qualify for hedge accounting	Case-by-case basis with valuation techniques based on observable market data	Forward rate respective price on the reporting date derived from spot rates and prices, taking into account forward premiums and discounts, Credit value adjustments and debt value adjustments for both the contracting party's credit risk and Covestro's own credit risk

The valuation techniques and input factors of fair value hierarchy Level 3 are shown in the following table:

Balance sheet item	Included financial instruments	Valuation technique	Significant input factors for determination of fair values	Effects of changes in key input factors
Other financial assets	Other investments and loans, respectively including COVeC investments	The results of market-price-based valuation methods and the results of financing rounds	Non-observable market data or performance indicators available for certain financial assets and market multiples	Increasing (decreasing) fair value with decreasing (increasing) interest rates or larger (smaller) market multiples
Other financial assets/other financial liabilities	Embedded derivatives	In particular, the discounted cash flow method	Prices or price indices derived from market data	Increasing (decreasing) fair value with higher (lower) cash flows due to exchange rate or price fluctuations
Other financial assets/other financial liabilities	Certain long-term power supply contracts	Discounted cash flow method	Expected electricity prices and volumes, electricity purchase terms, discount factors	Increasing (decreasing) market value with higher (lower) electricity prices, electricity volumes and decreasing (increasing) discount rates

The gains and losses from Level 3 financial assets and liabilities are reported as follows:

- Gains and losses from embedded derivatives recognized in profit or loss are reported in other operating income or expenses;
- Gains and losses from contingent purchase price receivables, from divestments, and debt instruments recognized in profit or loss are reported in other financial result; and
- Gains and losses from other financial investments are reported in other comprehensive income from equity instruments.

Expected Credit Losses (ECL) Model

The Covestro Group calculates a risk provision for expected credit losses for the following items:

- Financial assets measured at amortized cost
- Debt instruments measured at fair value through other comprehensive income
- Financial guarantees and loan commitments
- Contract assets

The credit risk the Covestro Group is exposed to through its trade accounts receivable and contract assets depends largely on the creditworthiness of the customer. In order to manage this risk, the corporate Supply Chain & Logistics function implemented a process in the framework of the Covestro Group's Credit Management that uses internal and external data to assess each customer in terms of its creditworthiness. Quantitative and qualitative data that can be obtained with reasonable effort are evaluated during the assessment process. The assessment reflects financial data, ratings, payment history, and data on the customer's environment. The customer is allocated to one of five risk categories on the basis of the final assessment. The categories range from A to E, with risk category A representing the most creditworthy companies and risk category E the least.

Meaningful data is used to determine an expected loss rate for each risk category. Data such as default probabilities from rating agencies and credit insurance firms, historical impairment losses recognized by the Covestro Group, and the empirical data from Credit Management are used to determine the expected loss rates. In addition, forward-looking information such as the country rating is also used in determining the expected loss rates. The expected and actual losses are compared regularly (backtesting) to validate the method.

A default event has occurred when the Covestro Group comes to the conclusion that the counterparty is highly unlikely to be able to meet its payment obligations in full.

Covestro uses a general, three-stage approach for measuring the risk provision for expected credit losses as follows:

- Stage 1: The risk provision is calculated as the 12-month expected credit loss, whereby the default probability is derived from historical data published by recognized rating agencies. The Covestro Group assumes that investment-grade ratings imply a low level of credit risk.
- Stage 2: The amount of the risk provision is measured as the expected credit loss over the lifetime of the debt instrument if the credit risk has increased significantly since its initial recognition. Changes in credit risk are assessed using the actual payment history and external information. Whenever available, Covestro uses credit default swap prices and other forward-looking information such as ratings outlooks in addition to external ratings. If no specific information relating to the case in question is available, it is assumed that a significant increase in credit risk has occurred when the financial asset is more than 30 days past due.
- Stage 3: Covestro reclassifies a debt instrument to Level 3 if it determines that its creditworthiness is impaired. This is the case, for instance, when a counterparty has obtained insolvency status, when there is sufficient information available to show that the counterparty has applied for insolvency proceedings, or when debt instruments are more than 90 days overdue.

Indicators of possible credit impairment of a financial asset include observable data regarding the following events:

- Significant financial difficulties of the issuer or borrower
- A breach of contract, such as default or delinquency
- Concessions that Covestro makes to the borrower for financial or legal reasons relating to the financial difficulties of the borrower that it would not otherwise make
- Impending bankruptcy or other impending reorganization proceedings on the part of the borrower
- The loss of an active market for this financial asset

Cash and Cash Equivalents

Cash and cash equivalents comprise cash, checks received, and balances with banks. Cash equivalents are highly liquid short-term financial investments that are subject to an insignificant risk of changes in value, are easily convertible into a known amount of cash, and have a maturity of three months or less from the date of acquisition or investment.

Cash Flows

The statement of cash flows shows how the Covestro Group's cash and cash equivalents changed in the reporting year.

The effect due to exchange rate movements is recognized in the separate line "Change in cash and cash equivalents due to exchange rate movements."

When determining the cash flows from financing activities, Covestro exercises the option of recognizing dividend payments and profit withdrawals in cash flows from financing activities.

Cash flows from interest and dividends received are presented under cash flows from investing activities in the separate line "Interest and dividends received."

Provisions for Pensions and Other Post-employment Benefits

Within the Covestro Group, post-employment benefits are provided under defined contribution and defined benefit plans. In the case of defined contribution plans, the company pays contributions to publicly or privately administered pension plans on a mandatory, contractual, or voluntary basis. Once the contributions have been paid, the company has no further payment obligations. The regular contributions constitute expenses for the year in which they are due. As such, they are included in the functional cost items. All other post-employment benefit systems are defined benefit plans, which may be either unfunded, i.e., financed by provisions, or funded, i.e., financed through pension funds.

Future obligations under defined benefit pension plans are calculated using the actuarial projected unit credit method and are allocated over the employees' entire period of employment. This requires specific assumptions to be made regarding the beneficiary structure and the economic environment. These relate mainly to the discount rate, future salary and pension increases, variations in health care costs, and mortality rates.

The discount rates used are calculated from the yields of high-quality corporate bond portfolios in specific currencies with cash flows approximately equivalent to the expected disbursements from the pension plans. The uniform discount rate derived from this interest rate structure is thus based on the yields, on the closing date, of a portfolio of corporate bonds with at least an AA or AAA rating whose weighted residual maturities approximately correspond to the duration necessary to cover the entire benefit obligation.

The fair value of plan assets is deducted from the present value of the defined benefit obligation for pensions and other post-employment benefits to determine the net defined benefit liability. Plan assets in excess of the benefit obligation are reflected in other receivables, subject to the asset ceiling specified in IAS 19. Comprehensive actuarial valuations for all major plans are performed annually as of December 31.

The balance of all income and expenses relating to defined benefit plans, except the net interest on the net liability, is recognized in the functional cost items. The net interest is reflected in the financial result.

Other Provisions

As a company with international operations, the Covestro Group is exposed to numerous legal risks for which provisions for litigation must be recognized under certain conditions – especially in the areas of product liability, competition and antitrust law, patent disputes, tax law, environmental law, and compliance issues such as corruption and export control. It is possible that legal judgments, regulatory decisions, or settlements could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could significantly affect the earnings of the Covestro Group.

The Covestro Group considers whether, and if so, in which amount, provisions for litigation need to be recognized for pending or future legal proceedings on the basis of the information available to its Law, Intellectual Property & Compliance corporate function and in close consultation with legal counsel acting for the Covestro Group. Such provisions cover the estimated unavoidable payments to the plaintiffs, court and procedural costs, attorney costs, and the cost of potential settlements.

It is often impossible to reliably determine the existence of a present obligation or reasonably estimate the probability that a potential outflow of resources will result from pending or future litigation. Due to the special nature of these litigation, provisions are generally not established until initial settlements allow an estimate of potential amounts or judgments have been issued, and not before at least a range of possible legal outcomes of such litigations can be determined. Provisions for legal defense costs are recognized if it is probable that material costs will have to be incurred for external legal counsel to defend the company's legal position and an outflow of resources can generally be expected.

Internal and external legal counsels evaluate the current status of the material legal risks to the Covestro Group at the end of each reporting period. The need to recognized or adjust a provision and the amount of the provision or adjustment are determined on this basis. Adjusting events are reflected up to the date of preparation of the consolidated financial statements.
→ See note 26 "Legal Risks."

Provisions for restructuring are based either on a legal or a constructive external obligation. They only cover expenses that arise directly from restructuring measures, are necessary for restructuring, and are not related to future business operations. Such expenses include severance payments to employees and compensation payments in respect of rented property that can no longer be used. Prior to recognition of this type of provision, the associated assets are tested for impairment. Provisions are recognized when a detailed restructuring plan has been drawn up, resolved by the responsible decision-making level of management, and communicated to the affected employees and/or their representatives.

Personnel-related provisions are mainly those recorded for variable one-time payments, individual performance awards, long-service awards, severance payments in connection with early retirement arrangements, surpluses on long-term accounts, and other personnel costs. Calculation of provisions for short-term variable compensation ("Covestro Profit Sharing Plan," Covestro PSP) is based on the following financial performance indicators: profitable growth measured in terms of earnings before interest, taxes, depreciation, and amortization (EBITDA), liquidity measured in terms of free operating cash flow (FOCF), and profitability measured in terms of return on capital employed (ROCE) above weighted average cost of capital (WACC). This contains a sustainability component (environment). Other criteria relating to social and corporate governance are also to be incorporated in the future.

Personnel-related provisions also include obligations under cash-settled share-based payment transactions ("Prisma"). The compensation of the Board of Management of Covestro AG and of managerial employees includes cash compensation based on the share price that are earned with lock-up periods and are reflected in profit or loss as personnel expenses in line with the consideration paid in the performance period. It is measured on the basis of a mathematical option pricing model at the grant date and at each reporting date. When determining long-term variable compensation, a sustainability component is defined for annual reductions in greenhouse gas emissions (CO_2 equivalents).

Provisions for environmental protection are recognized if future cash outflows are likely to be necessary to ensure compliance with environmental regulations or to carry out remediation work based on an obligation, such costs can be reliably estimated, and no future benefits are expected from such measures.

Estimating the future costs of environmental protection and remediation involves many uncertainties, particularly with regard to the status of laws, regulations, and the information available about conditions in the various countries and at the individual sites. Significant factors in estimating the costs include previous experiences in similar cases, the conclusions in expert opinions obtained for existing environmental programs, current costs, and new developments affecting these costs. Also taken into consideration are management's interpretation of current environmental laws and regulations, the number and financial position of third parties that may become obligated to participate in any remediation costs on the basis of joint liability, and the remediation methods likely to be deployed. Changes in these assumptions could impact future reported results.

Taking into consideration experience gained to date regarding environmental matters of a similar nature, Covestro's management believes the existing provisions to be adequate based upon currently available information. Given the business environment in which the Covestro Group operates and the inherent difficulties in accurately estimating environmental liabilities, material additional costs beyond the amounts accrued may be incurred under certain circumstances. It may transpire during remediation work that additional expenditures are necessary over an extended period and that these exceed existing provisions and cannot be reasonably estimated.

Provisions for trade-related commitments are disclosed separately within other provisions. Miscellaneous provisions include those for other liabilities, for product liability, for warranty, and insurance payments.

If the projected obligation declines as a result of a change in the estimate, the provision is reversed by the corresponding amount and the resulting income generally recognized in the functional cost item(s) in which the original charge was recognized. To reflect uncertainty about the likelihood of the assumed events actually occurring, the impact of a five-percentage-point change in the probability of occurrence is examined for certain provisions in each case.

Claims for reimbursements from third parties are separately recognized in other receivables if their realization is virtually certain.

Trade Accounts Payable

Trade accounts payable comprise current liabilities arising from the supply of goods and services, i.e., from the receipt of goods or services. These are based on agreements with the supplier, are invoiced and, in total, are part of working capital within Covestro's normal business cycle. At Covestro, these also include payment terms agreed with certain suppliers (supplier finance arrangements). For information on assessing the contract terms and conditions, see note 24.1 "Financial Instruments by Category."

Pending Transactions

Pending transactions relating to contributions in kind (“executory contracts”), i.e., agreements in relation to which (to a degree) neither the service nor the consideration has been rendered, are not recognized in the statement of financial position on the reporting date if there is no risk of a loss on the reporting date. If there is the risk of a loss, this is generally anticipated in the form of provisions if all the other requirements are met. In contrast, gains anticipated from such agreements on the reporting date may not be recognized in the statement of financial position. Examples of executory procurement contracts include contracts regarding the procurement of energy for the operation of production facilities (“own requirements”), which also includes power purchase agreements.

4. Segment and Regional Reporting

The Board of Management of Covestro AG, as the chief operating decision maker of the Covestro Group, allocates resources to the reportable segments and assesses their performance. The reportable segments are identified, and the disclosures selected, in line with the internal financial reporting system (management approach).

The segments pursue the following activities:

Performance Materials

The Performance Materials segment focuses on developing, producing, and reliably supplying high-performance materials such as polyurethanes and polycarbonates, as well as base chemicals. This includes diphenylmethane diisocyanate (MDI), toluene diisocyanate (TDI), long-chain polyols, and polycarbonate resins, among others. These materials are used in sectors such as the furniture and wood processing industry, the construction industry as well as the automotive and transportation industry, for example in roof structures, insulation for buildings and refrigerators, mattresses, and car seats, among other applications.

Solutions & Specialties

The Solutions & Specialties segment comprises Covestro’s solutions and specialties business, in which chemical products are combined with application technology services. A fast pace of innovation is a key success factor since customer requirements change quickly. Covestro’s Solutions & Specialties business comprises a variety of polymer products including polycarbonates, precursors for coatings and adhesives, MDI specialties and polyols, thermoplastic polyurethanes, specialty films, and elastomers. They are used in sectors such as the automotive and transportation industry; the electrical, electronics, and household appliances industry; the construction industry; and the healthcare industry. These materials include composite resins for solar panel frames, precursors for coatings and adhesives, laptop cases, floodlights, and electric vehicle batteries.

Business activities that cannot be allocated to any of the aforementioned segments are reported under “All other segments.” The external sales presented there are generated primarily from the sale of energy, site management services, and rentals and leasing.

Costs associated with central corporate functions, higher or lower expenses resulting from the variance between forecast and 100% target achievement as part of long-term variable compensation, the difference between the imputed income tax payments of the reportable operating segments and the actual income taxes paid by the Covestro Group, and intragroup reinsurance can be found in the segment reporting under “Reconciliation.”

As a general rule, the segment data is calculated in accordance with the International Financial Reporting Standards (IFRSs) listed in note 3 “Accounting Policies and Valuation Principles” with the following exceptions:

- Intersegment sales are generally based on arm’s length transactions between the units that make up Covestro’s segments. Market prices and, in exceptional cases, cost of goods sold serve as the settlement basis.
- Property, plant and equipment and intangible assets – except goodwill – including noncurrent assets used jointly by both segments and the associated depreciation, amortization, and impairment losses are allocated according to a principle based on major use. Goodwill is allocated at the level of the business entities or strategic business entities. The strategic business entity level corresponds to the reporting level below the

seven business entities, which form the two reportable segments Performance Materials and Solutions & Specialties.

- EBIT and EBITDA are not defined in the IFRSs. EBIT is equal to income after income taxes plus financial result and income taxes. EBITDA is EBIT plus amortization and impairment losses on intangible assets, and depreciation and impairment losses on property, plant and equipment, less impairment loss reversals.
- Free operating cash flow, which is not defined in the IFRSs either, equals cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets. The income taxes paid that make up part of cash flows from operating activities are not directly allocated to any of the company's units. For purposes of calculating cash flows from operating activities, the income taxes paid by a reportable segment are determined by multiplying the imputed tax rate of 25% by that segment's EBIT.
- Trade working capital comprises inventories, trade accounts receivable, and contract assets, less trade accounts payable, contract liabilities, and refund liabilities.

EBIT, EBITDA, and free operating cash flow per segment include intersegment sales and, in each case, the effects of the aforementioned allocation of property, plant and equipment and intangible assets, including noncurrent assets used jointly by both segments, and the associated depreciation, amortization, impairment losses, and impairment loss reversals.

In line with internal reporting to the Board of Management since July 1, 2022, intersegment sales also include sales at cost of goods sold. However, this has no effect on the level of the earnings measures EBIT and EBITDA per segment.

The following tables show the segment reporting data:

Key data by segment

			Other/Reconciliation		
	Performance Materials	Solutions & Specialties	All other segments	Reconciliation	Covestro Group
	€ million	€ million	€ million	€ million	€ million
2023					
Sales (external)	6,876	7,267	234	–	14,377
Intersegment sales	2,194	27	–	(2,221)	–
Sales (total)	9,070	7,294	234	(2,221)	14,377
EBITDA[1]	576	817	27	(340)	1,080
EBIT[1]	9	497	21	(341)	186
Free operating cash flow[2]	162	551	18	(499)	232
Cash outflows for additions to property, plant and equipment and intangible assets	490	270	5	–	765
Depreciation, amortization and impairment losses	(567)	(320)	(6)	(1)	(894)
of which impairment losses	(2)	(43)	–	–	(45)
Research and development expenses	(79)	(285)	–	(10)	(374)
2022					
Sales (external)	9,095	8,558	315	–	17,968
Intersegment sales	2,967	35	–	(3,002)	–
Sales (total)	12,062	8,593	315	(3,002)	17,968
EBITDA[1]	951	825	40	(199)	1,617
EBIT[1]	(28)	461	34	(200)	267
Free operating cash flow[2]	544	195	51	(652)	138
Cash outflows for additions to property, plant and equipment and intangible assets	547	277	–	8	832
Depreciation, amortization and impairment losses	(979)	(364)	(6)	(1)	(1,350)
of which impairment losses	(387)	(76)	–	–	(463)
of which impairment loss reversals	–	1	–	–	1
Research and development expenses	(85)	(273)	(1)	(2)	(361)

1 EBITDA and EBIT include the effect of intersegment sales on earnings.
2 The difference between the income tax payments by the reportable operating segments and the income taxes actually paid by the Covestro Group is taken into account under "Reconciliation" and amounted to €–256 million for fiscal 2023 (previous year: €–429 million).

Trade working capital by segment

	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million
Performance Materials	1,135	975
Solutions & Specialties	1,592	1,437
Total of reportable segments	**2,727**	**2,412**
All other segments	–	–5
Reconciliation	–21	–21
Trade working capital	**2,706**	**2,386**
of which inventories	2,814	2,459
of which trade accounts receivable	2,011	1,898
of which trade accounts payable	(2,016)	(1,895)
of which IFRS 15 items[1]	(103)	(76)

[1] The item includes contract assets, contract liabilities, and refund liabilities.

Information on Geographical Areas

The following table shows information by geographical area. The EMLA region consists of Europe, the Middle East, Africa, and Latin America except Mexico, which together with the United States and Canada forms the NA region. The APAC region includes Asia and the Pacific region.

Regional reporting[1]

	EMLA	NA	APAC	Total
	€ million	€ million	€ million	€ million
2023				
Sales (external) by market	5,941	3,735	4,701	14,377
Sales (external) by point of origin	5,869	3,815	4,693	14,377
2022				
Sales (external) by market	7,600	4,639	5,729	17,968
Sales (external) by point of origin	7,603	4,696	5,669	17,968

[1] No further presentation of interregional sales is provided, as these are neither reported separately to, nor do they influence the EBIT and EBITDA reported to the Board of Management of Covestro AG.

External sales by market and noncurrent assets can be broken down by country as follows:

Sales (external) by market and noncurrent assets by country

	Sales (external) by market	Noncurrent assets[1]
	€ million	€ million
2023		
Germany	1,742	2,098
United States	3,128	1,655
China	3,076	1,266
Other	6,431	2,302
Total	**14,377**	**7,321**
2022		
Germany	2,216	2,061
United States	3,869	1,796
China	3,644	1,369
Other	8,239	2,187
Total	**17,968**	**7,413**

[1] Noncurrent assets do not include other financial assets or deferred tax assets. As the definition of other financial assets has changed compared with the previous year to improve the clarity of presentation, the previous year's figures have been adjusted accordingly, see Note 15 "Other Financial Assets."

Information on Major Customers

In fiscal 2023 and the previous year, no single customer accounted for 10% or more of the Covestro Group's total sales.

Reconciliation

The following table shows the reconciliation of EBITDA of the segments to income before income taxes of the Group:

Reconciliation of segments' EBITDA to group income before income taxes

	2022	2023
	€ million	€ million
EBITDA of reportable segments	1,776	1,393
EBITDA of all other segments	40	27
EBITDA of reconciliation	(199)	(340)
EBITDA	**1,617**	**1,080**
Depreciation, amortization, impairment losses and impairment loss reversals of reportable segments	(1,343)	(887)
Depreciation, amortization, impairment losses and impairment loss reversals of all other segments	(6)	(6)
Depreciation, amortization, impairment losses and impairment loss reversals of reconciliation	(1)	(1)
Depreciation, amortization, impairment losses and impairment loss reversals	**(1,350)**	**(894)**
EBIT of reportable segments	433	506
EBIT of all other segments	34	21
EBIT of reconciliation	(200)	(341)
EBIT	**267**	**186**
Financial result	(137)	(113)
Income before income taxes	**130**	**73**

The material items under "Reconciliation" are the payments for central corporate functions, intragroup reinsurance, and the higher performance of Covestro shares in the context of long-term variable compensation.

5. Changes in the Scope of Consolidation

5.1 Scope of Consolidation and Investments

As of December 31, 2023, the scope of consolidation comprised Covestro AG and 57 (previous year: 60) consolidated companies.

The decrease in the number of consolidated companies in fiscal 2023 is due on the one hand to the sale of Covestro Resins (Taiwan) Ltd., Taipei (Taiwan, Greater China), which was successfully completed on May 31, 2023, and on the other to the intragroup mergers of consolidated companies Covestro Intellectual Property GmbH & Co. KG, Leverkusen (Germany), and Covestro Procurement Services GmbH & Co. KG, Leverkusen (Germany), with Covestro Deutschland AG, Leverkusen (Germany), effective September 1, 2023.

The scope of consolidation included the joint operation LyondellBasell Covestro Manufacturing Maasvlakte V.O.F, Rotterdam (Netherlands), as of December 31, 2023, which is unchanged from the previous year. Pursuant to IFRS 11 (Joint Arrangements), Covestro's shares of this company's assets, liabilities, revenues, and expenses are included in the consolidated financial statements in accordance with Covestro's rights and obligations. The main purpose of LyondellBasell Covestro Manufacturing Maasvlakte V.O.F is the joint production of propylene oxide (PO) for Covestro and its partner LyondellBasell.

Additionally, two (previous year: two) associated companies are accounted for in the consolidated financial statements using the equity method.

Six (previous year: eight) subsidiaries and two (previous year: two) associated companies that in aggregate are immaterial to the Covestro Group's net assets, financial position, and results of operations are not consolidated or accounted for using the equity method, but recognized at cost. As in the previous year, the immaterial subsidiaries each accounted for no more than 0.1% of Group sales, equity, or total assets in the reporting year 2023.

The information on the companies included in the consolidated financial statements and on the Covestro Group's shareholdings pursuant to Section 313 (2) of the German Commercial Code (HGB) and the list of domestic subsidiaries that made use of the exemption provisions pursuant to Sections 264 (3) and 264b of the German Commercial Code (HGB) in fiscal 2023 are components of the consolidated financial statements submitted for publication to Germany's Federal Gazette (Bundesanzeiger).

The disclosures on shareholdings in accordance with the requirements of Section 313 (2) HGB are shown in the following tables. The interests held in the companies listed did not change compared with the previous year.

Fully consolidated companies

Company name	Place of business	Covestro's interest in %
EMLA		
Covestro (France)	Fos-sur-Mer (France)	100
Covestro (Netherlands) B.V.	Geleen (Netherlands)	100
Covestro (Slovakia) Services s.r.o.	Bratislava (Slovakia)	100
Covestro Amulix V.o.F.	Zwolle (Netherlands)	72
Covestro Bio-Based Coatings B.V.	Zwolle (Netherlands)	100
Covestro Brunsbüttel Energie GmbH	Brunsbüttel (Germany)	100
Covestro Coating Resins China Holding B.V.	Zwolle (Netherlands)	100
Covestro Deutschland AG	Leverkusen (Germany)	100
Covestro Elastomers	Romans-sur-Isère (France)	100
Covestro First Real Estate GmbH	Leverkusen (Germany)	100
Covestro Indústria e Comércio de Polímeros Ltda.	São Paulo (Brazil)	100
Covestro International SA	Fribourg (Switzerland)	100
Covestro Invest GmbH	Leverkusen (Germany)	100
Covestro Niaga B.V.	Zwolle (Netherlands)	100
Covestro NV	Antwerp (Belgium)	100
Covestro Polyurethanes B.V.	Nieuwegein (Netherlands)	100
Covestro Resins (Germany) GmbH	Meppen (Germany)	100
Covestro Resins China Holding B.V.	Zwolle (Netherlands)	100
Covestro S.r.l.	Filago (Italy)	100
Covestro Second Real Estate GmbH	Leverkusen (Germany)	100
Covestro Thermoplast Composite GmbH	Markt Bibart (Germany)	100
Covestro UK Limited	Cheadle Hulme (United Kingdom)	100
Covestro, S.L.	Barcelona (Spain)	100
Epurex Films GmbH & Co. KG	Walsrode (Germany)	100
MS Global AG in Liquidation	Köniz (Switzerland)	100
Solar Coating Solutions B.V.	Zwolle (Netherlands)	100
NA		
Covestro International Re, Inc.	Colchester, Vermont (United States)	100
Covestro International Trade Services Corp.	Wilmington, Delaware (United States)	100
Covestro LLC	Pittsburgh, Pennsylvania (United States)	100
Covestro PO LLC	Pittsburgh, Pennsylvania (United States)	100
Covestro, S.A. de C.V.	Mexico City (Mexico)	100
APAC		
Covestro (Hong Kong) Limited	Hong Kong (Special Administrative Region, China)	100
Covestro (India) Private Limited	Navi Mumbai (India)	100
Covestro (Shanghai) Investment Company Limited	Shanghai (China)	100
Covestro (Taiwan) Ltd.	Taipei City (Taiwan, Greater China)	97.3
Covestro (Thailand) Co., Ltd.	Bangkok (Thailand)	100
Covestro (Viet Nam) Company Limited	Ho Chi Minh City (Vietnam)	100
Covestro Eternal Resins (Far East) Ltd.	Pingtung (Taiwan, Greater China)	60
Covestro Eternal Resins (Kunshan) Co., Ltd.	Kunshan (China)	50
Covestro Far East (Hong Kong) Limited	Hong Kong (Special Administrative Region, China)	100
Covestro Invest (Far East) Company Limited	Hong Kong (Special Administrative Region, China)	100
Covestro Japan Ltd.	Tokyo (Japan)	100
Covestro Korea Corporation	Seoul (South Korea)	100
Covestro Material Science and Technology (Shanghai) Company Limited	Shanghai (China)	100
Covestro Polymers (China) Company Limited	Shanghai (China)	100
Covestro Polymers (Qingdao) Company Limited	Qingdao (China)	100
Covestro Polymers (Shenzhen) Co., Ltd.	Shenzhen (China)	100
Covestro Polymers (Zhuhai) Company Limited	Zhuhai (China)	100
Covestro Pty Ltd	Mulgrave (Australia)	100
Covestro Resins (Foshan) Company Ltd.	Foshan (China)	100
Covestro Resins (Shanghai) Co., Ltd.	Shanghai (China)	100
DIC Covestro Polymer Ltd.	Tokyo (Japan)	80
Guangzhou Covestro Polymers Company Limited	Guangzhou (China)	100

Fully consolidated companies

Company name	Place of business	Covestro's interest in %
Japan Fine Coatings Co., Ltd.	Ibaraki (Japan)	100
PT Covestro Polymers Indonesia	Jakarta (Indonesia)	99.9
Sumika Covestro Urethane Company, Ltd.	Hyogo (Japan)	60

According to IFRS 10 (Consolidated Financial Statements), Covestro's interest in the amount of 50% in Covestro Eternal Resins (Kunshan) Co., Ltd., Kunshan (China), is classified as a fully consolidated company due to the 57% share of voting rights.

In addition, the following joint operation have been included in the consolidated financial statements in line with Covestro's shares of its assets, liabilities, revenues and expenses:

Joint operation

Company name	Place of business	Covestro's interest in %
LyondellBasell Covestro Manufacturing Maasvlakte V.O.F	Rotterdam (Netherlands)	50

The following associated companies are accounted for in the consolidated financial statements using the equity method:

Associates accounted for using the equity method

Company name	Place of business	Covestro's interest in %
Paltough Industries (1998) Ltd.	Kibbutz Ramat Yohanan (Israel)	25
PO JV, LP	Houston, Texas (United States)	39.4

The following subsidiaries were reflected in the consolidated financial statements at amortized cost due to their immateriality:

Immaterial subsidiaries

Company name	Place of business	Covestro's interest in %
Asellion (Shanghai) Information Technology Co., Ltd.	Shanghai (China)	100
Covestro Middle East FZ-LLC	Dubai (United Arab Emirates)	100
Covestro Polímer Anoním Şírketí	Istanbul (Turkey)	100
Covestro Polymers (Tianjin) Co., Ltd.	Tianjin (China)	100
Covestro sp. z o.o.	Warsaw (Poland)	100
Epurex Films Geschäftsführungs-GmbH	Walsrode (Germany)	100

The following associated companies were recognized at cost due to their immateriality:

Immaterial associates

Company name	Place of business	Covestro's interest in %
Pure Salt Baytown, LLC	Baytown, Texas (United States)	0
Technology JV, LP	Houston, Texas (United States)	33.3

The following fully consolidated domestic subsidiaries made use of the exemption provisions pursuant to Section 264 (3) of the German Commercial Code (HGB) and Section 264b of the German Commercial Code (HGB) in fiscal 2023:

German exempt subsidiaries

Company name	Place of business	Covestro's interest in %
Covestro Invest GmbH	Leverkusen (Germany)	100
Covestro Resins (Germany) GmbH	Meppen (Germany)	100
Covestro Thermoplast Composite GmbH	Markt Bibart (Germany)	100
Epurex Films GmbH & Co. KG	Walsrode (Germany)	100

5.2 Acquisitions and Divestitures

Acquisitions

No reportable acquisitions were made in the reporting year 2023.

Divestitures

On April 3, 2023, the sale of assets and liabilities (disposal group) of the additive manufacturing business to Stratasys, a U.S.-Israeli manufacturer of 3D printers and 3D production systems, was successfully completed. The business sold by Covestro includes employees, research and development facilities, production units, and offices in the Netherlands, the United States, China, Japan, Germany, and the United Kingdom as well as access to a large network of partners around the world. The portfolio also includes products that are part of the Resins & Functional Materials business (RFM) acquired from Koninklijke DSM N.V., Heerlen, (Netherlands), in fiscal 2021. The additive manufacturing business, which is part of the Solutions & Specialties segment, offers material solutions for common polymer 3D printing processes. Covestro's decision to sell the additive manufacturing business is consistent with the optimization of its portfolio to make its organization more efficient and allow the company to sharpen its focus on the extensive range of offerings for customers in its main customer industries. The preliminary selling price of €54 million was received in full. This comprises cash transferred in the amount of €50 million and 317,505 Stratasys shares, which were sold for a net amount of €4 million. In addition, a variable earn-out payment has been agreed, which will depend on the achievement of various success factors; the amount will be finally determined in the year 2025. The transaction is structured as an asset deal. Noncurrent assets and inventories of €21 million as well as liabilities of €2 million were sold as part of this transaction. The net gain of €35 million on the disposal of this business was recognized in other operating income or expenses.

Notes to the Income Statement

6. Sales

Sales are categorized according to “geographical regions and key countries” and mainly comprise sales from contracts with customers. The table also contains a reconciliation of the breakdown of sales to the reportable segments.

Breakdown of sales

	Performance Materials	Solutions & Specialties	All other segments	Covestro Group
	€ million	€ million	€ million	€ million
2023				
EMLA	3,021	2,730	190	5,941
of which Germany	780	836	126	1,742
NA	1,844	1,860	31	3,735
of which United States	1,582	1,517	29	3,128
APAC	2,011	2,677	13	4,701
of which China	1,433	1,640	3	3,076
Total	**6,876**	**7,267**	**234**	**14,377**
2022				
EMLA	4,152	3,198	250	7,600
of which Germany	1,093	948	175	2,216
NA	2,447	2,140	52	4,639
of which United States	2,058	1,761	50	3,869
APAC	2,496	3,220	13	5,729
of which China	1,681	1,960	3	3,644
Total	**9,095**	**8,558**	**315**	**17,968**

The following table presents the opening and closing balances of trade accounts receivable, contract assets, and contract liabilities.

Contract balances

	Jan. 1, 2022	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million	€ million
Trade accounts receivable	2,343	2,011	1,898
Contract assets	62	64	65
Contract liabilities	37	56	44

Contract assets are recognized in case the right to consideration in exchange for goods or services that have been transferred is conditional. This occurs primarily in the event of goods delivered to external customers’ consignment warehouses. Where sales are made through consignment warehouses, customers primarily obtain control over the delivered goods upon delivery to the consignment warehouse. Accordingly, contract assets are generally recognized as trade accounts receivable when invoiced.

Contract liabilities are recognized for advance payments received from customers prior to transferring goods or services. These contract liabilities are recognized as sales when the goods or services have been transferred.

Sales from performance obligations satisfied (or partially satisfied) in previous periods and recognized in fiscal 2023 amounted to €5 million (previous year: €1 million).

The changes in contract assets and contract liabilities in the reporting period resulted from the following circumstances:

Reconciliation of contract assets

	2022	2023
	€ million	€ million
Reclassification of contract assets recognized at the beginning of the reporting period to trade accounts receivable	(62)	(64)
Additions from service rendered but not yet invoiced in the reporting period	64	65
Total changes	**2**	**1**

Reconciliation of contract liabilities

	2022	2023
	€ million	€ million
Sales included in the balance of contract liabilities at the beginning of the reporting period	(38)	(56)
Additions from payments received less amounts recognized as sales in the reporting period	57	44
Total changes	**19**	**(12)**

The following table presents the transaction price allocated to remaining performance obligations as of the reporting date. It is broken down by the reporting periods in which recognition is expected:

Transaction price allocated to remaining performance obligations

	Dec. 31, 2022		Dec. 31, 2023
	€ million		€ million
2023	1,137	2024	726
2024	867	2025	331
2025	421	2026	260
2026	367	2027	74
2027	152	2028	74
2028 or later	161	2029 or later	161
Total	**3,105**	**Total**	**1,626**

The disclosures on the transaction price allocated to remaining performance obligations are based on long-term supply contracts within the meaning of IFRS 15 (Revenue from Contracts with Customers) which stipulate minimum volumes to be purchased as agreed between both parties.

Performance obligations from contracts with an original expected term of 12 months or less are excluded. Similarly, the disclosure excludes performance obligations satisfied over a certain period of time for which Covestro has the right to consideration in an amount that corresponds directly with the value of the performance completed to date and for which Covestro may recognize sales in the amount to which Covestro has the right to invoice.

The transaction price only includes variable consideration arising from contracts with customers, like sales-based or volume-based rebates or price formulas, for which the prices are derived from external, market-based indices, to the extent that they are not constrained as defined in IFRS 15.

7. Other Operating Income

Other operating income was comprised as shown in the following table:

Other operating income

	2022	2023
	€ million	€ million
Gains on retirements of noncurrent assets	8	52
Reversals of impairment losses on receivables	3	3
Reversals of unutilized provisions	2	–
Gains from derivatives	1	3
Miscellaneous operating income	131	214
Total	**145**	**272**

Gains from derivatives in fiscal years 2022 and 2023 resulted from embedded derivatives.

Miscellaneous other operating income in fiscal 2023 primarily included insurance compensation from the primary insurer due to production stoppages in the amount of €75 million (previous year: €0 million) in the Performance Materials segment (conversely, see note 8 “Other Operating Expenses”) as well as business development subsidies received in China in the amount of €53 million (previous year: €71 million), mainly in the Solutions & Specialties segment. It also includes insurance premiums received amounting to €41 million (previous year: €36 million), which are reported in the “Reconciliation” category.

→ See note 4 “Segment and Regional Reporting.”

8. Other Operating Expenses

Other operating expenses were comprised as shown in the following table:

Other operating expenses

	2022	2023
	€ million	€ million
Losses on retirements of noncurrent assets	(5)	(20)
Impairment losses on receivables	(12)	(6)
Losses from derivatives	(3)	(2)
Miscellaneous operating expenses	(104)	(141)
Total	**(124)**	**(169)**

Losses from derivatives in fiscal years 2022 and 2023 resulted from embedded derivatives.

Other operating expenses in fiscal 2023 mainly included insurance expenses of €75 million (previous year: €0 million) in relation to the reimbursement of the insurance amount for production stoppages by the intragroup reinsurance company Covestro International Re., Inc., Colchester, Vermont (United States), to the primary insurer (conversely, see note 7 “Other Operating Income”) and other insurance expenses of €29 million (previous year: €28 million), which are reported in the “Reconciliation” category.

→ See note 4 “Segment and Regional Reporting.”

9. Personnel Expenses and Employee Numbers

Personnel expenses consisted of the following:

Personnel expenses

	2022	2023
	€ million	€ million
Salaries	(1,564)	(1,743)
Social expenses and expenses for pensions and other benefits	(431)	(398)
of which for defined contribution pension plans	(117)	(113)
of which for defined benefit and other pension plans	(114)	(64)
Total	**(1,995)**	**(2,141)**

Personnel expenses in fiscal year 2023 rose mainly due to higher expenses for short- and long-term variable compensation.

Average number of employees

	2022	2023
Production	11,757	11,955
Marketing and distribution	3,281	2,881
Research and development	1,485	1,376
General administration	1,490	1,407
Total	**18,013**	**17,619**
Employees in vocational training	526	517

The number of permanent or temporary employees is stated in full-time equivalents. Part-time employees are included on a pro-rated basis in line with their contractual working hours. The figures do not include employees in vocational training.

10. Financial Result

10.1 Result from Investments in Affiliated Companies

The result from investments in affiliated companies mainly comprised the result of equity-method valuation of the €22 million (previous year: €19 million) loss from the associated company PO JV, LP, Houston, Texas (United States), and the €2 million (previous year: €2 million) gain from Paltough Industries (1998) Ltd., Kibbutz Ramat Yochanan (Israel). This figure also included €1 million (previous year: €2 million) in dividend income from other affiliated companies.

→ See note 14 “Investments Accounted for Using the Equity Method.”

10.2 Net Interest Expense

Net interest expense was comprised as shown in the following table:

Net interest expense

	2022	2023
	€ million	€ million
Expenses		
Interest and similar expenses	(63)	(102)
Interest expenses for FX-derivatives	(67)	(58)
Income		
Interest and similar income	8	44
Interest income from FX-derivatives	61	26
Total	**(61)**	**(90)**

Interest and similar expenses primarily resulted from interest expenses on leases totaling €28 million (previous year: €25 million), on bonds issued by Covestro AG totaling €46 million (previous year: €25 million), and on Schuldschein loans issued by Covestro AG in the amount of €27 million (previous year: €5 million).

Interest and similar income resulted mainly from short-term investments and bank balances.

Interest income and expenses from forward exchange contracts included interest rate-driven changes in the fair value and the forward element.

10.3 Other Financial Result

The other financial result was comprised as shown in the following table:

Other financial result

	2022	2023
	€ million	€ million
Interest portion of interest-bearing provisions	(36)	(9)
Exchange gain/(loss)	(9)	7
Miscellaneous financial expenses	(16)	(2)
Total	**(61)**	**(4)**

Expenses from the interest portion of interest-bearing provisions mainly included net interest expense from pension provisions and similar obligations amounting to €16 million (previous year: €18 million). In addition, net income of €7 million (previous year: net expenses of €18 million) arose in fiscal 2023 from the effects of discount unwinding and changes in interest rates as well as measurement effects from other provisions and corresponding asset surpluses.

Other financial expenses (net presentation) primarily included expenses relating to fees amounting to €3 million (previous year: €4 million), less income of €1 million (previous year: expenses of €1 million) from the fair value measurement of the initial funding loans granted to Bayer-Pensionskasse VVaG, Leverkusen (Germany), and Rheinische Pensionskasse VVaG, Leverkusen (Germany).

11. Taxes

The breakdown of tax expenses by type is shown in the table below:

Income taxes

	2022	2023
	€ million	€ million
Current taxes	(383)	(299)
tax expense current year	(400)	(288)
tax expense (previous year: income) prior years	17	(11)
Deferred taxes	(28)	24
from temporary differences	(24)	55
from tax loss carryforwards and tax credits	(4)	(31)
Total	**(411)**	**(275)**

The deferred tax assets and liabilities were allocated to the items in the statements of financial position as shown in the table below:

Deferred tax assets and liabilities

	Dec. 31, 2022			Dec. 31, 2023		
	Deferred tax assets	Deferred tax liabilities	of which recognized in profit or loss	Deferred tax assets	Deferred tax liabilities	of which recognized in profit or loss
	€ million	€ million	€ million	€ million	€ million	€ million
Intangible assets	48	(81)	(33)	55	(57)	(2)
Property, plant and equipment	153	(269)	(116)	132	(269)	(137)
of which right-of-use assets from application of IFRS 16	–	(128)	(128)	–	(129)	(129)
Financial assets	3	(102)	(94)	–	(57)	(53)
Inventories	71	(2)	69	58	(3)	55
Receivables	3	(58)	(55)	2	(88)	(86)
Provisions for pensions and other post-employment benefits	70	(15)	(12)	70	(15)	(11)
Other provisions	61	(15)	46	99	(8)	91
Liabilities	141	(25)	116	163	(41)	122
of which lease liabilities from application of IFRS 16	118	–	118	121	–	121
Tax loss and interest carryforwards and tax credits	50	–	50	19	–	19
Total	**600**	**(567)**	**(29)**	**598**	**(538)**	**(2)**
of which noncurrent	386	(362)		533	(435)	
Offsetting	(255)	255		(282)	282	
Recognition	**345**	**(312)**		**316**	**(256)**	

No deferred tax assets were recognized for tax deductible temporary differences in the amount of €665 million (previous year: €850 million) as it is unlikely that these can be utilized within a foreseeable period.

Of the total tax loss and interest carryforwards of €3,117 million (previous year: €1,494 million), an amount of €80 million (previous year: €292 million) is expected to be usable within a foreseeable period. The increase in loss carryforwards was due to additional loss carryforwards in the reporting year and tax reassessments for prior years. Deferred tax assets of €17 million (previous year: €48 million) were recognized for the amount of tax loss and interest carryforwards expected to be usable.

The use of €3,037 million (previous year: €1,202 million) of existing tax loss and interest carryforwards was subject to legal or economic restrictions. Of this amount, €1,232 million is attributable to German corporation tax, €1,375 million to German trade tax, and €32 million to interest carryforwards in Germany. A loss carryforward of €351 million is attributable to Switzerland.

Expiration of unusable tax loss and interest carryforwards

	Tax loss and interest carryforwards	
	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million
Within one year	–	–
Within two years	–	–
Within three years	–	–
Within four years	–	–
Within five years	–	–
Thereafter	1,202	3,037
Total	**1,202**	**3,037**

In the reporting year, tax credits of €2 million (previous year: €2 million) were recognized.

In fiscal 2023, subsidiaries that reported losses for the reporting year or the previous year recognized net deferred tax assets totaling €6 million (previous year: €62 million) from temporary differences and tax loss carryforwards. Of this amount, €4 million (previous year: €30 million) was attributable to net deferred tax assets from tax loss and interest carryforwards. All deferred tax assets are considered to be unimpaired because the companies concerned are expected to generate taxable income and tax strategies ensure that the deferred tax assets will be utilized.

Deferred tax liabilities of €27 million (previous year: €74 million) were recognized in the reporting year for planned dividend payments by subsidiaries. No deferred tax liabilities were recognized for temporary differences of €22 million (previous year: €120 million) relating to shares in subsidiaries, as the parent company can control the timing of the reversal of the temporary differences, and it is unlikely that these temporary differences will reverse in the foreseeable future.

The reported tax expense of €275 million for fiscal 2023 (previous year: €411 million) was €288 million lower (previous year: €399 million lower) than the expected tax income of €13 million (previous year: expected tax expense of €12 million) that would have resulted from applying an expected weighted average tax rate to the pretax income of the Covestro Group. This average tax rate was derived from the nominal tax rates of the individual Group companies. Especially since different tax rates are applied to income of foreign Group companies, the average tax rate in the year 2023 was –17.0% (previous year: 9.2%). The effective tax rate was 376.7% (previous year: 316.2%).

The Covestro Group operates in various countries. As in the previous year, the tax rates ranged from 14.1% to 34.0% due to national regulations.

The reconciliation of expected to actual income tax expense and of the expected to the effective tax rate for the Covestro Group is shown in the following table:

Reconciliation of expected to actual income tax expense

	2022		2023	
	€ million	%	€ million	%
Expected income tax expense/(income) and expected tax rate	**12**	**9.2**	**(13)**	**–17.0**
Reduction in taxes due to tax-free income	(23)	–17.7	(14)	–19.1
First-time recognition of previously unrecognized deferred tax assets on tax loss carryforwards	(3)	–2.3	–	–
Increase in taxes due to non-tax-deductible expenses	32	24.6	40	54.5
New tax loss carryforwards and temporary differences unlikely to be usable	191	146.9	197	269.5
Existing tax loss carryforwards and temporary differences on which deferred tax assets were previously recognized but which are unlikely to be usable	64	49.3	42	57.4
Tax income (–) and expenses (+) relating to other periods	8	6.2	8	10.9
Tax effects of change in tax rates	6	4.6	(4)	–5.5
Other tax effects	124	95.4	19	26.0
Actual income tax expense and effective tax rate	**411**	**316.2**	**275**	**376.7**

Other tax effects are primarily the result of ineligible foreign withholding taxes, in particular on the dividend payments of subsidiaries totaling €62 million (previous year: €55 million) and of the change in deferred tax liabilities on planned dividend payments by subsidiaries in the amount of €–47 million (previous year: €61 million).

Global Minimum Taxation

The Covestro Group falls within the scope of the OECD’s Global Anti-Base Erosion (GloBE) Model Rules (Pillar Two). The Pillar Two legislation was enacted in Germany, the jurisdiction in which Covestro is domiciled, and will come into force on January 1, 2024. As the Pillar Two legislation was not yet in force at the reporting date, the Group is not currently subject to any tax burden from this legislation.

Under the legislation, Covestro is required to pay an additional tax per country in the amount of the difference between the GloBE effective tax rate and a minimum tax rate of 15%. All Group companies (with the exception of the company being wound up in Switzerland) are subject to a nominal tax rate of more than 15%. Even if the nominal tax rate is more than 15%, the new legislation could theoretically result in a tax expense due to specific adjustments. Covestro is currently assessing the extent to which tax effects will arise in individual countries as a result of the Pillar Two legislation taking effect.

12. Earnings per Share

Earnings per share are calculated according to IAS 33 (Earnings per Share) as the relationship of the Group's income after income taxes (net income) for the fiscal year to the weighted average number of outstanding no-par voting shares of Covestro AG. In fiscal 2023, a weighted average number of outstanding no-par voting shares of 189,262,192 was used to calculate earnings per share, while in fiscal 2022, these shares amounted to 190,933,438.

Earnings per share

	2022	2023
	€ million	€ million
Income after income taxes	(281)	(202)
attributable to noncontrolling interest	(9)	(4)
attributable to Covestro AG shareholders (net income)	(272)	(198)
	Shares	Shares
Weighted average number of outstanding no-par voting shares of Covestro AG	190,933,438	189,262,192
	€	€
Basic /Diluted earnings per share	–1.42	–1.05

Notes to the Statement of Financial Position

13. Noncurrent Assets

13.1 Goodwill and Other Intangible Assets

Changes in intangible assets in fiscal 2023

	Acquired goodwill	Patents and technologies	Marketing and distribution rights	Production rights	Software	Other rights	Advance payments	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or generation, December 31, 2022	**763**	**212**	**466**	**133**	**181**	**229**	**58**	**2,042**
Capital expenditures	–	–	–	2	5	1	6	14
Retirements	(7)	(27)	(6)	(116)	(2)	(4)	(1)	(163)
Transfers	–	–	1	1	23	–	(21)	4
Transfers (IFRS 5)	–	–	–	–	–	–	–	–
Exchange differences	(12)	(6)	(10)	–	(1)	(5)	–	(34)
Cost of acquisition or generation, December 31, 2023	**744**	**179**	**451**	**20**	**206**	**221**	**42**	**1,863**
Accumulated amortization, impairment losses and impairment loss reversals	33	46	176	17	174	187	–	633
Carrying amounts, December 31, 2023	**711**	**133**	**275**	**3**	**32**	**34**	**42**	**1,230**
Amortization, impairment losses and impairment loss reversals	7	28	37	–	14	6	1	93
Amortization	–	17	37	–	13	5	–	72
Impairment losses	7	11	–	–	1	1	1	21
Impairment loss reversals	–	–	–	–	–	–	–	–

In the reporting year, impairment losses of €21 million were recognized on goodwill and other intangible assets. As in the previous year, no impairment loss reversals were recognized.

→ See Note 13.3 "Impairment Testing."

Changes in intangible assets in fiscal 2022

	Acquired goodwill	Patents and technolo-gies	Marketing and distribu-tion rights	Production rights	Software	Other rights	Advance payments	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or generation, December 31, 2021	**759**	**208**	**463**	**133**	**172**	**244**	**49**	**2,028**
Capital expenditures	–	–	–	–	2	6	19	27
Retirements	(3)	–	–	–	(6)	(7)	–	(16)
Transfers	–	–	2	–	13	(11)	(10)	(6)
Transfers (IFRS 5)	–	(1)	(4)	–	–	(3)	–	(8)
Exchange differences	7	5	5	–	–	–	–	17
Cost of acquisition or generation, December 31, 2022	**763**	**212**	**466**	**133**	**181**	**229**	**58**	**2,042**
Accumulated amortization, impairment losses and impairment loss reversals	34	47	149	132	163	185	–	710
Carrying amounts, December 31, 2022	**729**	**165**	**317**	**1**	**18**	**44**	**58**	**1,332**
Amortization, impairment losses and impairment loss reversals	33	18	86	–	9	10	–	156
Amortization	–	18	40	–	9	9	–	76
Impairment losses	33	–	46	–	–	1	–	80
Impairment loss reversals	–	–	–	–	–	–	–	–

In the previous year, impairment losses of €80 million were recognized on goodwill and other intangible assets. These were primarily due to impairment testing of cash-generating units in fiscal 2022.

13.2 Property, Plant and Equipment

Changes in property, plant and equipment in fiscal 2023

	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equipment	Construction in progress and advance payments	Total
	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or construction, December 31, 2022	**4,052**	**14,106**	**935**	**937**	**20,030**
Capital expenditures	90	284	63	539	976
Retirements	(42)	(168)	(28)	(2)	(240)
Transfers	62	331	18	(415)	(4)
Transfers (IFRS 5)	(10)	–	(1)	(1)	(12)
Exchange differences	(103)	(383)	(28)	(15)	(529)
Cost of acquisition or construction, December 31, 2023	**4,049**	**14,170**	**959**	**1,043**	**20,221**
Accumulated depreciation, impairment losses and impairment loss reversals	2,536	11,197	689	4	14,426
Carrying amounts, December 31, 2023	**1,513**	**2,973**	**270**	**1,039**	**5,795**
Depreciation, impairment losses and impairment loss reversals	144	571	83	3	801
Depreciation	140	553	83	1	777
Impairment losses	4	18	–	2	24
Impairment loss reversals	–	–	–	–	–

In the reporting year, impairment losses of €24 million were recognized on property, plant and equipment. No reversals of impairment losses were recognized in the reporting year (previous year: €1 million).

→ See Note 13.3 "Impairment Testing."

Covestro is increasingly investing in projects that drive success and progress in achieving a circular economy and climate neutrality. To this end, the company continued to pursue various investment projects in the areas of pollution prevention and control, energy efficiency improvements, and recycling management in the reporting year, with a particular focus on technical equipment and machinery. Examples include investments in the modernization of the TDI plant in Dormagen (Germany), the new chloralkali production plant in Tarragona (Spain) for greater energy efficiency, and the company's first own plant for the mechanical recycling of polycarbonates in Shanghai (China).

Borrowing costs of €12 million (previous year: €5 million) were capitalized as part of the cost of qualifying assets under property, plant and equipment in the reporting year. The capitalization rate applied amounted to 2.9% on average (previous year: 1.7%).

Changes in property, plant and equipment in fiscal 2022

	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equipment	Construction in progress and advance payments	Total
	€ million	€ million	€ million	€ million	€ million
Cost of acquisition or construction, December 31, 2021	**3,871**	**13,543**	**881**	**920**	**19,215**
Capital expenditures	80	309	61	496	946
Retirements	(29)	(194)	(31)	(19)	(273)
Transfers	116	337	15	(462)	6
Transfers (IFRS 5)	(1)	(7)	–	–	(8)
Exchange differences	15	118	9	2	144
Cost of acquisition or construction, December 31, 2022	**4,052**	**14,106**	**935**	**937**	**20,030**
Accumulated depreciation, impairment losses and impairment loss reversals	2,492	11,085	648	4	14,229
Carrying amounts, December 31, 2022	**1,560**	**3,021**	**287**	**933**	**5,801**
Depreciation, impairment losses and impairment loss reversals	220	869	83	22	1,194
Depreciation	150	577	84	1	812
Impairment losses	70	292	–	21	383
Impairment loss reversals	–	–	(1)	–	(1)

In the previous year, impairment losses of €383 million were recognized on property, plant and equipment. These were primarily due to impairment testing of cash-generating units in fiscal 2022.

13.2.1 Leasing

Covestro as Lessee

The recognized right-of-use assets from leases are reported under property, plant and equipment.

Changes in right-of-use assets in 2023

	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equipment	Total
	€ million	€ million	€ million	€ million
Carrying amounts, January 1, 2023	**288**	**305**	**185**	**778**
Additions	50	102	45	197
Retirements	(6)	(5)	(7)	(18)
Depreciation, impairment losses and impairment loss reversals	(46)	(66)	(52)	(164)
Other changes	(15)	(12)	(3)	(30)
Carrying amounts, December 31, 2023	**271**	**324**	**168**	**763**

Changes in right-of-use assets in 2022

	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equipment	Total
	€ million	€ million	€ million	€ million
Carrying amounts, January 1, 2022	**285**	**314**	**183**	**782**
Additions	41	49	50	140
Retirements	(5)	(2)	(2)	(9)
Depreciation, impairment losses and impairment loss reversals	(49)	(61)	(52)	(162)
Other changes	16	5	6	27
Carrying amounts, December 31, 2022	**288**	**305**	**185**	**778**

Right-of-use assets relate mainly to leases for production and logistics infrastructure and real estate leases. Leases for production and logistics infrastructure are mainly related to the rental of tanks and containers as well as rail tank cars. For tanks and containers, the average lease term is 16 years (previous year: 16 years) and for rail tank cars, 12 years (previous year: 11 years). Leases for renting real estate, particularly buildings, are for an average lease term of 16 years (previous year: 15 years). Some of the underlying leases include variable lease payments as well as options to extend or terminate the lease.

→ See note 3 "Accounting Policies and Valuation Principles."

The following table presents the amounts recognized in the statement of cash flows and the income statement for all leases:

Cash outflows and expenses from leases

	2022	2023
	€ million	€ million
Amounts reported in the statement of cash flows		
Total cash outflow for leases	205	202
Amounts reported in the income statement		
Depreciation, impairment losses and impairment loss reversals	162	164
Interest expense	25	28
Expenses relating to short-term leases	17	14
Expenses relating to leases of low-value assets	1	2
Expenses relating to variable lease payments not included in the lease liability	3	2

As of December 31, 2023, the lease commitments for short-term leases not recognized in the statement of financial position amount to €4 million (previous year: €6 million).

Further information on the liabilities arising from leases and details on payments from leases are described in the following notes:

→ See Note 21 "Financing and Financial Debt."

→ See Note 27 "Notes to the Statement of Cash Flows."

Covestro as Lessor

In the reporting year, leasing income generated from lease contracts under IFRS 16 (Leases) was €9 million (previous year: €8 million). These are mainly related to real estate. In addition, lease payments from rentals of €4 million (previous year: €5 million) are expected to be received in the following year, not including the investment property as outlined below. Lease payments totaling €5 million are expected to be received in the period from 2025–2028, and lease payments totaling €3 million after the year 2028.

At Covestro, risks from renting real estate are usually limited by building insurance policies and by the contractual obligation of the tenant to return the property to its original condition. In addition, contractual agreements provide for price adjustment mechanisms based primarily on the relevant consumer price indices.

13.2.2 Investment Property

The total carrying amount of investment property as of December 31, 2023, amounted to €21 million (previous year: €21 million), and its fair value totaled €150 million (previous year: €141 million). Rental income from investment property was €16 million (previous year: €17 million) and the operating expenses directly allocable to this property amounted to €10 million (previous year: €11 million). In the reporting period and in the previous year, no material operating expenses were recognized for investment property not generating any rental income.

Rental income generated from the leasing of properties classified as investment properties stemmed in part from contracts for hereditary building rights and leases granted by the Covestro Group. These contracts with a weighted average remaining term of 35 years relate to space used by companies in the chemical industry and contractual partners of Covestro at production sites in Germany. Based on current rental prices, around €5 million in rental income will be received annually from these long-term contracts in the coming years.

13.3 Impairment Testing

If there are indications that an individual asset that does not constitute goodwill may be impaired, the recoverable amount is compared to the carrying amount to determine whether it is higher or lower. If the recoverable amount does not exceed the respective carrying amount, an impairment loss is recognized in profit or loss in the amount of the difference between the carrying amount and the recoverable amount. An impairment loss is reversed in profit or loss if the reasons for impairment no longer apply. Impairment losses and any impairment loss reversals are recognized in the functional cost in the same way as depreciation and amortization, depending on the use of the respective assets.

In addition to impairment testing of individual items of property, plant and equipment and other intangible assets, cash-generating units are globally tested if there is indication of impairment. Goodwill is tested for impairment in the fourth quarter at the level of (groups of) cash-generating units. As a rule, Covestro considers strategic business entities to be cash-generating units. They represent the reporting level below the seven business entities that form the two reportable segments, Performance Materials and Solutions & Specialties. If the annual impairment test of goodwill is performed at the level of groups of cash-generating units or if a business entity comprises only one cash-generating unit, the level tested is the relevant business entity.

If recognizing an impairment loss is required at the level of a CGU or group of CGUs, goodwill is written down first. In cases where the necessary impairment loss exceeds the goodwill written down, the remaining charge is distributed across other noncurrent, nonfinancial assets in proportion to their carrying amount. Impairment losses on goodwill are recognized in other operating expenses.

The recoverable amount of a CGU or group of CGUs is equal to the fair value less costs of disposal. This calculation is based on the present value of the future cash flows since no market price can be determined for the individual units. The forecasts of future cash flows for determining the recoverable amount are based on the Covestro Group's current planning, which generally extends over five years. In certain cases, shorter or longer planning horizons are also considered if advisable due to CGU-specific assumptions underlying the planning. Assumptions made for purposes of forecasting cash flows mainly concern future selling prices and sales volumes, costs, market growth rates, economic cycles, and exchange rates. Changes in these assumptions are based on the Group's own estimates and external sources of information. Where the recoverable amount is the fair value less costs of disposal, this is measured from the viewpoint of an independent market participant. Cash flows beyond the detailed planning period are determined on the basis of the respective individual growth rates derived from market information and the associated long-term business expectations. The measurement of fair value less costs of disposal is based on unobservable inputs ("Level 3" of the fair value hierarchy).

The net cash inflows are discounted at the weighted average cost of capital (WACC), which is calculated as the weighted average cost of equity and cost of debt. To take into account the risk and return profile of the Covestro Group, an after-tax cost of capital is calculated, and a specific capital structure is defined via benchmarking against comparable companies in the same industry sector ("peer group"). The cost of equity corresponds to the return expected by shareholders, while the cost of debt is based on the terms at which the peer group can obtain long-term financing. Both components are derived from capital market information.

The monitoring and management structure for recognized goodwill and the capital cost factors and growth rates used in annual impairment testing are presented in the following table for each CGU or group of CGUs. The growth assumptions reflect, in particular, economic cycles over several years as well as expectations for capacity and the market for each unit to be tested.

Steering- and monitoring level of goodwill and important valuation parameters for the central impairment test in the 4th quarter

Impairment testing level or goodwill carrying unit	Testing level[1]	Segment	Goodwill in million € as of December 31st		Cost of capital in %		Terminal value growth rate in %
			2022	2023	2022	2023	2023
Standard Diphenylmethan-Diisocyanat (SMDI)	Strategic Business Area	Performance Materials	51	49	7.9	8.2	1.5
Standard Polycarbonate (SPCS)	Strategic Business Area	Performance Materials	43	43	7.9	8.3	1.0
Engineering Plastics (EP)	Business Entity	Solutions & Specialties	79	71	7.9	8.3	1.5
Coatings & Adhesives (CA)	Business Entity	Solutions & Specialties	535	529	8.0	8.5	1.5
Thermoplastic Polyurethanes (TPU)	Strategic Business Area	Solutions & Specialties	16	15	7.9	8.2	1.5
Other	Strategic Business Area	–	5	4	7.9	8.2–8.5	0%–2%

[1] The business entity level is used for impairment testing of recognized goodwill if this is performed at the level of groups of cash-generating units. At the level of the strategic business area as a cash-generating unit, the central impairment test is performed on property, plant and equipment and other intangible assets, as well as any directly allocated goodwill.

Indicator-based impairment tests were performed in the fourth quarter due to the persistently difficult economic environment. These did not indicate any need to recognize impairment losses or reversals of impairment losses, whereas in the previous year, €418 million in impairment losses was recognized as a result of the central impairment tests. Taking into account the impairment of individual property, plant and equipment and other intangible assets, impairment losses in fiscal 2023 totaled €45 million (previous year: €463 million). Of this amount, €43 million (previous year: €76 million) was attributable to the Solutions & Specialties segment and €2 million (previous year: €387 million) to the Performance Materials segment. €31million of the impairment losses recognized in Solutions & Specialties relate to the discontinuation of production of the highly specialized Maezio® products of the Engineering Plastics (EP) business entity and the associated closure of the production site in Markt Bibart (Germany). No impairment loss reversals were recognized on property, plant and equipment and intangible assets (previous year: €1 million).

The carrying amount of the CA business entity includes a considerable proportion of goodwill valued at €529 million. The impairment test was based on a detailed planning period of three years, in which it was assumed that there would be volume increases in the mid- to high-single-digit percentage range and above-average EBITDA growth. A key planning assumption is that the current difficult economic environment will largely stabilize by the year 2025.

Although no need to recognize impairment losses was identified in fiscal 2023 as a result of the central impairment tests, changes in the assumptions or circumstances could nevertheless necessitate corrections, leading to additional impairment losses or – except in the case of goodwill – to reversals of previously recognized impairment losses if developments are contrary to expectations. The sensitivity analysis for all tested cash-generating units and the CA business entity assumed a linear reduction in the future free operating cash flow, an increase in the WACC, or a reduction in the long-term growth rate. Except for the cash-generating units that were subject to impairment in the previous financial year and whose carrying amount was confirmed by testing in fiscal 2023, no impairment would be required for any of the CGUs tested in these scenarios. The CGUs impaired in the previous year do not include any recognized goodwill. However, the gradual normalization of the economic situation assumed for the determination of the recoverable amount of the individual cash-generating units, in particular the imbalance of global supply and demand, and capacity utilization at Covestro's own plants, can materially affect the recoverability of the individual cash-generating units in the next fiscal year and lead to reversals of impairment losses.

14. Investments Accounted for Using the Equity Method

The figures in the following two tables are estimated on the basis of the first three quarters for the full 2023 reporting year and show summarized data from the income statement and statement of financial position of the associate PO JV, LP, Houston, Texas (United States), which is accounted for using the equity method, and show the respective amounts recognized in the financial statements of the Covestro Group.

→ See note 5.1 "Scope of Consolidation and Investments" for an overview of the companies accounted for using the equity method.

In 2000, the polyols business and parts of the propylene oxide (PO) production operations of former Lyondell Chemicals Company, Houston, Texas (United States), were acquired with the objective of ensuring access to patented technologies and safeguarding the long-term supply of PO, a precursor for polyurethanes. As part of this strategy, a company was established to jointly produce PO (PO JV, LP, in which Covestro continues to hold a 39.4% interest, as in the prior year). Covestro benefits from fixed long-term supply quotas/volumes of PO produced by this company.

Income statement data of PO JV, LP, Houston, Texas (United States)

	2022	2023
	€ million	€ million
Sales	1,977	1,664
Net loss after taxes	(55)	(56)
Share of net loss after taxes	(19)	(22)
Share of total comprehensive income after taxes	**(19)**	**(22)**

Statement of financial position data of PO JV, LP, Houston, Texas (United States)

	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million
Noncurrent assets	346	317
Equity	346	317
Share of equity	**157**	**154**
Other	(2)	(3)
Carrying amount	**155**	**151**

The following table summarizes the income statement data and carrying amounts of the equity-accounted associate Paltough Industries (1998) Ltd., Kibbutz Ramat Yohanan (Israel) (Covestro's interest remained unchanged from the prior year at 25.0%) and estimated on the basis of the first three quarters for the full 2023 reporting year:

Income statement data and carrying amounts of Paltough Industries (1998) Ltd., Kibbutz Ramat Yohanan (Israel)

	2022	2023
	€ million	€ million
Income after taxes	10	17
Share of income after taxes	2	2
Share of total comprehensive income after taxes	**2**	**2**
Carrying amount	**30**	**31**

15. Other Financial Assets

Other financial assets consisted of the following items:

Other financial assets

	Dec. 31, 2022		Dec. 31, 2023	
	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million
Loans and bank deposits	128	17	352	279
Other investments	24	–	22	–
Receivables from derivatives	45	45	21	19
Receivables under lease agreements	8	–	10	–
Miscellaneous financial assets	20	5	15	13
Total	**225**	**67**	**420**	**311**

As of December 31, 2023, the loans and bank deposits item mainly includes bank deposits in the amount of €276 million, which increased by €261 million in the financial year. The item also included in particular initial funding loans of €63 million, which were drawn down in the amount of €102 million in fiscal 2022 by Bayer-Pensionskasse VVaG, Leverkusen (Germany), and Rheinische Pensionskasse VVaG, Leverkusen (Germany), and repaid pro rata in the amount of €39 million in fiscal 2023 by Bayer-Pensionskasse VVaG.

→ See note 25 “Contingent Liabilities and Other Financial Commitments.”

Receivables from derivatives included forward exchange contracts of €19 million (previous year: €42 million) and embedded derivatives of €2 million (previous year: €3 million).

→ See note 24.1 “Financial Instruments by Category” for further information regarding loans and bank deposits and other investments.

→ See note 24.2 “Financial Risk Management and Information on Derivatives.”

Receivables under lease agreements relate to finance leases where Covestro is the lessor and the counterparty is the economic owner of the leased assets. Receivables under lease agreements are based on expected future lease payments of €50 million (previous year: €41 million) including an interest component of €40 million (previous year: €33 million). In the reporting year, interest income from finance leases of €1 million (previous year: €1 million) was recognized. Of the expected lease payments, €1 million is due within one year (previous year: €1 million), €5 million is due within the following four years (previous year: €4 million), and €44 million is due in subsequent years (previous year: €36 million).

To enhance the clarity of presentation, miscellaneous financial assets, which were previously reported as part of other receivables, are shown as other financial assets for the first time in these consolidated financial statements. The prior-year figures were adjusted accordingly.

The impairment losses determined as of the reporting date for financial assets not included in trade accounts receivable were not material.

16. Inventories

Inventories were comprised as follows:

Inventories

	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million
Raw materials and supplies	848	790
Work in process, finished goods and goods purchased for resale[1]	1,964	1,665
Advance payments	2	4
Total	**2,814**	**2,459**

[1] In fiscal 2023, work in process comprises approximately 19% of inventories (previous year: approximately 21%).

In fiscal 2023, impairment losses on inventories of €56 million (previous year: €69 million) and reversals of impairment losses of €25 million (previous year: €12 million) were recognized through profit or loss in cost of goods sold.

The cost of goods sold included inventories recognized as an expense of €11,776 million (previous year: €14,554 million).

17. Other Receivables

Other receivables consisted of the following:

Other receivables

	Dec. 31, 2022		Dec. 31, 2023	
	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million
Other tax receivables	245	244	224	222
Accruals and deferrals	84	79	95	92
Net defined benefit asset	56	–	66	–
Contract assets	64	62	65	64
Reimbursement claims	2	2	23	23
Receivables from employees	7	7	1	1
Miscellaneous receivables	83	52	136	94
Total	**541**	**446**	**610**	**496**

→ See note 6 “Sales” for further information on contract assets.

In fiscal 2023, Covestro was entitled to receive government grants of €64 million (previous year: €38 million) on the basis of the guideline entitled “Subsidies for indirect CO2 costs” published by the German Federal Ministry for Economic Affairs and Climate Action on September 1, 2022; these subsidies are subject to specific measures to improve energy efficiency being carried out in accordance with section 4.2.1a of this guideline. These requirements must be met by no later than December 31, 2024, and Covestro expects to be able to meet these requirements, as in the previous years. There were receivables of €57 million at the reporting date (previous year: €37 million) related to these grants, which are reported as miscellaneous receivables.

To enhance the clarity of presentation, miscellaneous financial assets, which were previously reported as part of other receivables, are shown as other financial assets for the first time in these consolidated financial statements. The prior-year figures were adjusted accordingly.

18. Equity

The individual components of equity and changes in equity in fiscal years 2022 and 2023 are presented in the Covestro Group consolidated statement of changes in equity.

Authorized and Conditional Capital

The Annual General Meeting (AGM) adopted a resolution on April 16, 2021, authorizing the Board of Management, with the approval of the Supervisory Board, to increase the capital stock of the company by up to €57,960,000 in the period through April 15, 2026 by issuing new, no-par value bearer shares against cash contributions and/or contributions in kind (Authorized Capital 2021).

The Authorized Capital 2021 has not been utilized to date.

On July 30, 2020, the AGM authorized the Board of Management to issue bonds with conversion or exchange rights or warrants, or with conversion obligations, or a combination of these instruments on up to 18,300,000 no-par value bearer shares of Covestro AG. Based on this authorization, convertible/warrant bonds can be issued up to a total nominal value of €2.0 billion by the company or a Group company in the period through July 29, 2025. The AGM in the year 2020 also resolved to conditionally increase the capital stock by up to €18.3 million by issuing up to 18,300,000 no-par value bearer shares to grant shares to the holders or creditors of such convertible/warrant bonds (Conditional Capital 2020).

The Conditional Capital 2020 has not been utilized to date.

Capital Stock

The capital stock of Covestro AG changed as follows in fiscal 2023:

Change in capital stock

	Number of shares	Of which treasury shares	Shares carrying dividend rights	Capital stock
	number	number	number	€ million
Dec. 31, 2022	**193,200,000**	**(3,251,635)**	**189,948,365**	**190**
Acquisition of treasury shares		(1,208,035)	(1,208,035)	(1)
Redemption of treasury shares	(4,200,000)	4,200,000	–	–
Dec. 31, 2023	**189,000,000**	**(259,670)**	**188,740,330**	**189**

Covestro AG’s capital stock as of December 31, 2023, is divided into 189,000,000 (previous year: 193,200,000) no-par value bearer shares and is fully paid up. Each share confers the right to one vote.

By resolution of the Board of Management on December 5, 2023, the registered capital stock was reduced by €4 million, from €193 million to €189 million, through the retirement of 4,200,000 no-par value bearer shares, with a notional value of €1 per share.

In the year 2023, Covestro AG bought back 1,208,035 treasury shares under the share buyback program, which was terminated in October 2023. In the period March 21, 2022, to June 29, 2023, Covestro AG therefore acquired a total of 4,687,991 treasury shares as part of the overall share buyback program. In contrast to the previous year, Covestro AG did not issue any treasury shares (previous year: 228,321) to employees as part of the Covestment share-based participation program. There was a capital decrease in December 2023 through the retirement of 4,200,000 shares. As of December 31, 2023, the company held 259,670 treasury shares (previous year: 3,251,635), corresponding to 0.1% of the capital stock.

The cost of acquiring the treasury shares held by Covestro AG at the end of the fiscal year came to €12 million. Measurement was carried out according to the FIFO method. The average price paid per share for the entire share buyback program was €42.50 per share.

Capital Reserves

Covestro AG's capital reserves as of December 31, 2023, amounted to €3,740 million (previous year: €3,788 million). The year-over-year decline was attributable to the acquisition of treasury shares (€48 million) as part of the share buyback program.

The capital reserves include premiums from the issue of shares.

Retained Earnings and Other Comprehensive Income

Retained earnings totaled €2,291 million (previous year: €2,480 million) as of December 31, 2023.

Retained earnings consist of the net income earned both in the current fiscal year and in the past less the dividends paid. This item also includes all remeasurements of the net defined benefit liability for post-employment benefit plans recognized in other comprehensive income and changes in equity instruments measured at fair value through other comprehensive income. Accumulated other comprehensive income includes foreign currency effects from the translation of the annual financial statements of foreign subsidiaries that are recognized directly in equity.

Dividend

The dividend available for distribution is based on the distributable profit reported in the annual financial statements of Covestro AG, which were prepared according to the provisions of the German Commercial Code (HGB). Since the 2020 annual financial statements, Covestro AG's dividend policy has been more closely linked to the Group's overall business situation and specifies that Covestro AG will distribute a portion of the Group's net income to shareholders of Covestro AG. Since the Group again generated negative net income, no dividend will be paid to Covestro AG shareholders for fiscal 2023, as for fiscal 2022, in accordance with the current dividend policy. As a result, in the year 2023, no dividend was paid for fiscal 2022 per share carrying dividend rights.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income was as follows:

Accumulated other comprehensive income

	Currency translation	Accumulated other comprehensive income
	€ million	€ million
Jan. 1, 2022	**574**	**574**
Other comprehensive income	54	54
Total comprehensive income	54	54
Dec. 31, 2022	**628**	**628**
Other comprehensive income	(258)	(258)
Total comprehensive income	(258)	(258)
Dec. 31, 2023	**370**	**370**

Equity Attributable to Noncontrolling Interests

The noncontrolling interests mainly relate to the equity of Covestro Eternal Resins (Kunshan) Co, Ltd, Kunshan (China), Covestro Eternal Resins (Far East) Ltd, Pingtung (Taiwan, Greater China), DIC Covestro Polymer Ltd, Tokyo (Japan), Sumika Covestro Urethane Company, Ltd, Hyogo (Japan) and Covestro (Taiwan) Ltd., Taipei (Taiwan, Greater China).

The changes in equity attributable to noncontrolling interests are presented in the following table:

Changes in equity attributable to noncontrolling interests

	2022	2023
	€ million	€ million
January 1	**66**	**36**
Change in equity not recognized in profit or loss		
Exchange differences on translation of operations outside the eurozone	(4)	(3)
Other changes in equity	(11)	–
Dividend payments	(6)	(1)
Change in equity recognized in profit or loss	**(9)**	**(4)**
December 31	**36**	**28**

19. Provisions for Pensions and Other Post-Employment Benefits

Provisions for pensions and other post-employment benefits were recognized for defined benefit obligations.

→ See note 9 "Personnel Expenses and Employee Numbers" for the expenses for defined contribution obligations."

The net defined benefit liability for post-employment benefit plans was accounted for as follows:

Net defined benefit liability recognized in the statement of financial position

	Pensions		Other post-employment benefits		Total	
	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million	€ million	€ million	€ million	€ million
Provisions for pensions and other post-employment benefits	**370**	**346**	**116**	**118**	**486**	**464**
Germany	250	228	–	–	250	228
Other countries	120	118	116	118	236	236
Net defined benefit asset	**56**	**66**	**–**	**–**	**56**	**66**
Germany	56	66	–	–	56	66
Other countries	–	–	–	–	–	–
Net defined benefit liability	**314**	**280**	**116**	**118**	**430**	**398**
Germany	194	162	–	–	194	162
Other countries	120	118	116	118	236	236

Expenses for defined benefit plans and for other post-employment benefits included the following components:

Expenses for defined benefit plans

	Pension plans						Other post-employment benefit plans	
	Germany		Other countries		Total		Other countries	
	2022	2023	2022	2023	2022	2023	2022	2023
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Current service cost	86	46	17	11	103	57	3	2
Past service cost	8	6	–	–	8	6	–	–
Plan settlements	–	–	–	(1)	–	(1)	–	–
Service cost	**94**	**52**	**17**	**10**	**111**	**62**	**3**	**2**
Interest expense from defined benefit obligation	50	107	14	21	64	128	4	6
Interest income from plan assets	(39)	(102)	(11)	(16)	(50)	(118)	–	–
Net interest	**11**	**5**	**3**	**5**	**14**	**10**	**4**	**6**
Total expenses	**105**	**57**	**20**	**15**	**125**	**72**	**7**	**8**

In fiscal 2023, gains totaling €9 million (previous year: €849 million) from remeasurements of the net defined benefit liability were also recognized in other comprehensive income. This resulted largely from the return on plan assets. Of this amount, €17 million (previous year: €813 million) relates to pension obligations and €–8 million (previous year: €36 million) to other post-employment benefit obligations.

The changes in the net defined benefit liability for post-employment benefit plans were as follows:

Changes in the present value of the defined benefit obligation

	2022			2023		
	Germany	Other countries	Total	Germany	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million
January 1	**4,198**	**753**	**4,951**	**2,931**	**614**	**3,545**
Current service cost	86	20	106	46	13	59
Past service cost	8	–	8	6	–	6
(Gains)/losses from plan settlements	–	–	–	–	(1)	(1)
Interest expense from defined benefit obligation	50	18	68	107	27	134
Net actuarial (gain)/loss	(1,356)	(142)	(1,498)	166	19	185
Due to change in financial assumptions	(1,458)	(151)	(1,609)	137	18	155
Due to change in demographic assumptions	–	1	1	–	8	8
Due to experience adjustments	102	8	110	29	(7)	22
Employee contributions	13	1	14	16	1	17
Payments due to plan settlements[1]	1	(1)	–	–	(7)	(7)
Benefits paid out of plan assets	(65)	(61)	(126)	(36)	(42)	(78)
Benefits paid by the company	(4)	(14)	(18)	(42)	(15)	(57)
Exchange differences	–	40	40	–	(13)	(13)
December 31	**2,931**	**614**	**3,545**	**3,194**	**596**	**3,790**
of which other post-employment benefits	–	119	119	–	121	121

[1] Payments due to plan settlements may include transfers from and to other companies in the course of employee transfers for which benefits are granted as part of a multi-employer plan managed as a pension plan by the transferring and receiving company.

Changes in plan assets measured at fair value

	2022			2023		
	Germany	Other countries	Total	Germany	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million
January 1	**3,253**	**505**	**3,758**	**2,751**	**379**	**3,130**
Interest income from plan assets	39	11	50	102	16	118
Return or (loss) on plan assets excluding amounts recognized as interest result	(521)	(115)	(636)	182	14	196
Employer contributions	32	11	43	33	8	41
Employee contributions	13	1	14	16	1	17
Payments due to plan settlements[1]	–	–	–	–	(7)	(7)
Benefits paid out of plan assets	(65)	(61)	(126)	(36)	(42)	(78)
Plan administration cost paid out of plan assets	–	–	–	(1)	–	(1)
Exchange differences	–	27	27	–	(7)	(7)
December 31	**2,751**	**379**	**3,130**	**3,047**	**362**	**3,409**
of which other post-employment benefits	–	3	3	–	3	3

[1] Payments due to plan settlements may include transfers from and to other companies in the course of employee transfers for which benefits are granted as part of a multi-employer plan managed as a pension plan by the transferring and receiving company.

Effects of the asset ceiling

	2022			2023		
	Germany	Other countries	Total	Germany	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million
January 1	**–**	**2**	**2**	**14**	**1**	**15**
Remeasurement of asset ceiling	14	(1)	13	1	1	2
Exchange differences	–	–	–	–	–	–
December 31	**14**	**1**	**15**	**15**	**2**	**17**
of which other post-employment benefits	–	–	–	–	–	–

Changes to the net defined benefit liability

	2022			2023		
	Germany	Other countries	Total	Germany	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million
January 1	**945**	**250**	**1,195**	**194**	**236**	**430**
Current service cost	86	20	106	46	13	59
Past service cost	8	–	8	6	–	6
(Gains)/losses from plan settlements	–	–	–	–	(1)	(1)
Net interest	11	7	18	5	11	16
Net actuarial (gain)/loss	–1,356	–142	–1,498	166	19	185
(Return) or loss on plan assets excluding amounts recognized as interest result	521	115	636	(182)	(14)	(196)
Remeasurement of asset ceiling	14	(1)	13	1	1	2
Employer contributions	(32)	(11)	(43)	(33)	(8)	(41)
Employee contributions	–	–	–	–	–	–
Payments due to plan settlements[1]	1	(1)	–	–	–	–
Benefits paid out of plan assets	–	–	–	–	–	–
Benefits paid by the company	(4)	(14)	(18)	(42)	(15)	(57)
Plan administration cost paid out of plan assets	–	–	–	1	–	1
Exchange differences	–	13	13	–	(6)	(6)
December 31	**194**	**236**	**430**	**162**	**236**	**398**
of which other post-employment benefits	–	116	116	–	118	118

[1] Payments due to plan settlements may include transfers from and to other companies in the course of employee transfers for which benefits are granted as part of a multi-employer plan managed as a pension plan by the transferring and receiving company.

The pension obligations pertained mainly to Germany (84%; previous year: 83%) and the United States (11%; previous year: 12%). In Germany, current employees accounted for approximately 48% (previous year: approximately 50%) of entitlements under defined benefit plans, retirees or their surviving dependents for approximately 46% (previous year: approximately 44%), and former employees with vested pension rights for approximately 6% (previous year: approximately 6%). In the United States, current employees accounted for approximately 32% (previous year: approximately 32%) of entitlements under defined benefit plans, retirees or their surviving dependents for approximately 63% (previous year: approximately 62%), and former employees with vested pension rights for approximately 5% (previous year: approximately 6%).

Actual gains on plan assets relating to pension obligations amounted to €314 million (previous year: losses of €586 million). No income was accrued from plan assets for other post-employment benefits either in the reporting period or the prior year.

The present value of the defined benefit obligation for pensions and other post-employment benefits and the funded status of the funded obligations are presented in the following table:

Defined benefit obligation and funded status

	Pension obligations		Other post-employment benefit obligations		Total	
	2022	2023	2022	2023	2022	2023
	€ million	€ million	€ million	€ million	€ million	€ million
Defined benefit obligation	**3,426**	**3,669**	**119**	**121**	**3,545**	**3,790**
Unfunded	106	94	114	116	220	210
Funded	3,320	3,575	5	5	3,325	3,580
Funded status of funded obligations						
Overfunding	71	83	–	–	71	83
Underfunding	264	252	2	2	266	254

Pension Entitlements and Other Post-Employment Benefit Obligations

The Covestro Group provides retirement benefits for most of its employees, either directly or by contributing to privately or publicly administered funds. Benefits vary according to the legal, tax, and economic conditions of each country and are generally based on employee compensation and years of service. The obligations relate both to existing retirees' pensions and to pension entitlements of future retirees.

Funded pension plans exist for employees in various countries. As a general rule, an individual investment strategy is determined for each of the Covestro Group's defined benefit pension plans taking into account the risk structure of the obligations (especially demographics, the current funded status, the structure of the expected future cash flows, interest sensitivity, biometric risks, etc.), the regulatory environment, and the existing level of risk tolerance or risk capacity. A strategic target investment portfolio is then developed in line with the plan's risk structure, taking capital market factors into consideration. Further determinants include risk diversification, portfolio efficiency, and the need for both a country-specific and a global risk/return profile centered on ensuring the payment of all future benefits. Since the capital investment strategy for each pension plan is always developed individually in light of the plan-specific conditions listed above, the investment strategies for different pension plans may vary considerably. The investment strategies are generally geared less toward maximizing absolute returns and more toward ensuring that the pension commitments can be financed with a sufficient degree of probability. Risk management systems are used to simulate stress scenarios and perform other risk analyses (e.g., value at risk) for the plan assets.

In addition to investment strategies tailored to the obligations, funding in the form of regular or unscheduled contributions is also an effective instrument for reducing risk. Potential funding measures for pension obligations are therefore selected taking specific national regulatory requirements and liquidity into account. If an unscheduled contribution is made, the funded status may increase significantly under certain circumstances and thereby reduce the volatility of the net defined benefit liability recognized. As a consequence the level of liability-driven investments in plan assets can be further increased. In addition, the expected future liability on operating cash flows is reduced due to the increase in plan assets that are available to settle pension payments.

Bayer-Pensionskasse VVaG, Leverkusen (Germany), (Bayer-Pensionskasse) constitutes a major pension plan for Covestro. It has been closed to new members since January 1, 2005. This legally independent fund operates as a life insurance company and is therefore subject to the German Insurance Supervision Act (VAG). The benefit obligations covered by Bayer-Pensionskasse comprise retirement, surviving dependents', and disability pensions. It is financed with contributions from active members and their employers. The company contribution is a certain percentage of the employee contribution. This percentage is the same for all participating employers and is set by agreement between the plan's executive committee and supervisory board, acting on a proposal from the responsible actuary. It takes into account the differences between the actuarial estimates and the actual values for the factors used to determine liabilities and contributions. Bayer AG, Leverkusen (Germany), may adjust the company contribution in agreement with the plan's executive committee and supervisory board, acting on a proposal from the responsible actuary. The plan's liability is governed by Section 1, Paragraph 1, Sentence 3 of Germany's Occupational Pensions Act (BetrAVG).

This means that if the pension plan exercises its right under the articles of association to reduce benefits, each participating employer has to make up the resulting difference. Covestro is not liable for the obligations of other participating employers, even if they cease to participate in the plan.

Pension entitlements were granted via Rheinische Pensionskasse VVaG, Leverkusen (Germany), (Rheinische Pensionskasse) between January 1, 2005, and December 31, 2020. It has been closed to new members since January 1, 2021. Future pension payments from this plan are based among other aspects on contributions and the return on plan assets; a guaranteed interest rate applies.

The Bayer-Pensionskasse and Rheinische Pensionskasse pension obligations are classified as multi-employer plans as defined by IAS 19 (Employee Benefits). A defining characteristic of multi-employer plans is that assets from various employers not under common control are pooled at plan level and used to collectively grant pension benefits to employees. Allocation mechanisms that would permit an exact distribution of the plan assets managed by the pension plan to individual employers often do not exist, as in the case of Bayer-Pensionskasse and Rheinische Pensionskasse. Covestro therefore applies an estimation method that is adequately suited to this purpose to calculate its proportional share of the assets of these pension plans.

Pension entitlements for newly hired employees have been granted by Pensionplan2021 since January 1, 2021. This is a funded company pension plan. Contributions are invested in an age-based investment model at the individual employee level. Future pension payments are determined based on the contributions paid in and the return achieved. The pension entitlements are managed by Metzler Trust e.V., Frankfurt am Main (Germany) (Metzler Trust). Individuals employed at Covestro prior to January 1, 2021, who acquired pension entitlements via Rheinische Pensionskasse are entitled to switch to Pensionsplan2021.

Metzler Trust is also used as a pension vehicle for further obligations than Pensionplan2021. This vehicle covers further retirement provision arrangements for German employees of the Covestro Group, such as the conversion of salary entitlements into pension entitlements, pension obligations, and components of other direct commitments. Metzler Trust covers the majority of funded pension commitments in Germany. In this context, approximately 28% (previous year: approximately 44%) of the investment total is subject to ESG (environmental, social, and governance) criteria.

The defined benefit pension plans in the United States have been frozen for some years, and no significant new entitlements can be earned under these plans. The assets of all the U.S. pension plans are held by a master trust for reasons of efficiency. The applicable regulatory framework is based on the Employee Retirement Income Security Act (ERISA). Covestro continues to bear the actuarial risks such as investment risk, interest rate risk, and longevity risk.

The other post-employment benefit obligations outside Germany are mainly related to retirees’ health care benefit payments in the United States.

The fair value of the plan assets to fund pensions and other post-employment benefit obligations was as follows:

Fair value of plan assets as of December 31

	Germany		Other countries		Total	
	2022	2023	2022	2023	2022	2023
	€ million	€ million	€ million	€ million	€ million	€ million
Plan assets based on quoted prices in active markets						
Real estate and special real estate funds	–	–	7	6	7	6
Equities and equity funds	317	229	42	39	359	268
Callable debt instruments	–	–	7	8	7	8
Noncallable debt instruments	759	1,072	35	36	794	1,108
Bond funds	344	323	174	159	518	482
Cash and cash equivalents	361	230	8	7	369	237
Other	–	–	3	1	3	1
	1,781	**1,854**	**276**	**256**	**2,057**	**2,110**
Plan assets for which quoted prices in active markets are not available						
Real estate and special real estate funds	275	300	–	–	275	300
Equities and equity funds	100	127	–	–	100	127
Callable debt instruments	173	300	–	–	173	300
Noncallable debt instruments	228	261	–	–	228	261
Derivatives	–	27	–	–	–	27
Other	194	178	103	106	297	284
	970	**1,193**	**103**	**106**	**1,073**	**1,299**
Total plan assets	**2,751**	**3,047**	**379**	**362**	**3,130**	**3,409**
of which other post-employment benefits	–	–	3	3	3	3

No properties leased by Group companies were included in the fair value of the domestic plan assets. Likewise, there were no Covestro shares or bonds held through funds. Other plan assets comprise mortgage loans granted, other receivables, and qualified insurance policies.

Risks

The risks from defined benefit plans arise partly from the defined benefit obligations and partly from the investment in plan assets. The risks lie in the possibility that higher direct pension payments will have to be made to the beneficiaries and/or that additional contributions will have to be made to plan assets in order to meet current and future pension obligations.

→ For more information, see “Financial Opportunities and Risks” in the Combined Management Report

Demographic/Biometric Risks

Since a large proportion of the defined benefit obligations consists of lifelong pensions or surviving dependents’ pensions, longer claim periods or earlier claims may result in higher benefit obligations, higher benefit expenses and/or higher pension payments than previously anticipated.

Investment Risks

If the actual return on plan assets were below the return anticipated on the basis of the discount rate, the net defined benefit liability would increase, assuming there were no changes in other parameters. This could happen as a result of a drop in share prices, increases in market rates of interest, default of individual debtors, or the purchase of low-risk but low-interest bonds.

Interest Rate Risks

Declining capital market interest rates, especially for high-quality corporate bonds, would increase the defined benefit obligation. This effect would be at least proportionately offset by the ensuing increase in the market values of the debt instruments held in plan assets.

Measurement Parameters and their Sensitivities

The bond portfolio consists exclusively of high-quality corporate bonds with a rating of at least AA or AAA. The portfolio does not include any government-guaranteed or secured bonds. The following weighted parameters were used to measure the pension obligations as of December 31 and the expense for pensions and other post-employment benefits in the respective reporting year.

Parameters for benefit obligations

	Germany		Other countries		Total	
	2022	2023	2022	2023	2022	2023
	%	%	%	%	%	%
Pension obligations						
Discount rate	3.70	3.30	4.55	4.45	3.80	3.45
Projected future salary increases	3.00	3.00	3.30	3.65	3.05	3.10
Projected future benefit increases	2.20	2.00	3.15	3.15	2.35	2.15
Other post-employment benefit obligations						
Discount rate	–	–	5.15	4.90	5.15	4.90

In Germany, the Heubeck 2018 G mortality tables were used, in the United States the MP-2021 Mortality Tables. The parameters for measuring the benefit expense are the same as those used to measure the benefit obligations in the most recent annual financial statements.

The parameter sensitivities were computed by expert actuaries based on a detailed evaluation similar to that performed to determine the net defined benefit liability. Altering individual parameters by 0.5 percentage points (mortality by 10% per beneficiary) while leaving the other parameters unchanged would have impacted pension and other post-employment benefit obligations as of the end of fiscal 2023 as follows:

Sensitivity analysis of benefit obligations

	Germany		Other countries		Total	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	€ million	€ million	€ million	€ million	€ million	€ million
Pension obligations						
0.5 percentage points change in discount rate	(240)	271	(18)	20	(258)	291
0.5 percentage points change in projected future salary increases	12	(12)	2	(2)	14	(14)
0.5 percentage points change in projected future benefit increases	159	(145)	1	–	160	(145)
10% change in mortality	(80)	89	(8)	8	(88)	97
Other post-employment benefit obligations						
0.5 percentage points change in discount rate	–	–	(6)	6	(6)	6
10% change in mortality	–	–	(2)	3	(2)	3

Sensitivity analysis of benefit obligations (previous year)

	Germany		Other countries		Total	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	€ million	€ million	€ million	€ million	€ million	€ million
Pension obligations						
0.5 percentage points change in discount rate	(222)	251	(21)	23	(243)	274
0.5 percentage points change in projected future salary increases	13	(12)	2	(2)	15	(14)
0.5 percentage points change in projected future benefit increases	148	(135)	2	(1)	150	(136)
10% change in mortality	(72)	80	(8)	9	(80)	89
Other post-employment benefit obligations						
0.5 percentage points change in discount rate	–	–	(6)	6	(6)	6
10% change in mortality	–	–	(3)	3	(3)	3

Due to their nature as pension benefits, the obligations of Covestro LLC, Pittsburgh, Pennsylvania (United States), in particular, for employees' post-employment health care costs are also recognized under obligations similar to pensions. The valuation of health care costs was based on the assumption that they will increase at a rate of 7% (previous year: 7%), which should gradually decline to 5% (previous year: 5%) by 2034. The following table shows the impact of a one-percentage-point change in the assumed health care cost increase rates:

Sensitivity analysis of health care cost increases

	2022		2023	
	Increase of one percentage point	Decrease of one percentage point	Increase of one percentage point	Decrease of one percentage point
	€ million	€ million	€ million	€ million
Impact on other post-employment benefit obligations	7	(6)	7	(6)

Employer Contributions Made or Expected

The following payments or transfers correspond to the employer contributions made or expected to be made to funded benefit plans:

Employer contributions made or expected

	Germany				Other countries			
	2022	2023 expected	2023	2024 expected	2022	2023 expected	2023	2024 expected
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Pension obligations	32	33	33	35	9	7	7	6
Other post-employment benefit obligations	–	–	–	–	2	–	1	–
Total	**32**	**33**	**33**	**35**	**11**	**7**	**8**	**6**

Pensions and other post-employment benefits payable in the future from funded and unfunded plans are estimated as follows:

Future benefit payments

	Payments from plan assets				Payments by the company			
	Pensions		Other post-employment benefits		Pensions		Other post-employment benefits	
	Germany	Other countries	Other countries	Total	Germany	Other countries	Other countries	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
2024	43	38	–	81	56	8	8	72
2025	47	31	–	78	55	8	8	71
2026	50	32	1	83	59	8	8	75
2027	54	39	–	93	62	8	8	78
2028	57	40	1	98	64	8	8	80
2029–2033	337	170	2	509	367	43	43	453

The weighted average term of the pension obligations is 16.8 years (previous year: 17.0 years) in Germany and 8.4 years (previous year: 9.7 years) in other countries. The weighted average term of the obligations for other post-employment benefits in other countries is 9.6 years (previous year: 10.1 years).

20. Other Provisions

The following table shows the changes in the individual provision categories in fiscal 2023:

Changes in other provisions

	Taxes	Environ-mental protection	Restruc-turing	Trade-related commit-ments	Litigations	Personnel commit-ments	Miscella-neous	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
December 31, 2022	**2**	**57**	**1**	**34**	**5**	**220**	**36**	**355**
Additions	3	1	22	40	3	314	81	464
Utilization	(3)	(3)	(17)	(36)	(6)	(144)	(12)	(221)
Reversal	–	(1)	(1)	(12)	–	(22)	(11)	(47)
Reclassifications	–	(1)	–	–	–	–	–	(1)
Interest cost	–	–	–	–	–	5	1	6
Exchange differences	(1)	(1)	(1)	1	–	(4)	(2)	(8)
December 31, 2023	**1**	**52**	**4**	**27**	**2**	**369**	**93**	**548**
of which noncurrent	–	50	4	1	–	123	14	192

Taxes

Provisions for taxes comprised provisions for other types of non-income taxes amounting to €1 million (previous year: €2 million).

Environmental Protection

Provisions for environmental protection mainly relate to the rehabilitation of contaminated land and recultivation of landfills as well as water protection measures at sites in the United States and Spain.

Restructuring

As of December 31, 2023, provisions for restructuring included €4 million (previous year: €1 million) for severance payments.

Personnel

Personnel-related provisions are mainly those recorded for short-term and long-term variable compensation and other personnel-related provisions.

Long-term Incentive Programs

The Covestro Group's long-term incentive programs entail commitments offered collectively to different groups of employees. As a general rule, all obligations from long-term compensation programs are covered by provisions. As of the reporting date, their amount corresponds to the fair value of the entitlement earned of the respective commitments to the employee groups. All resulting valuation adjustments are recognized in profit or loss.

The Board of Management, senior executives, and other managerial employees at Covestro are entitled to participate in the Prisma long-term, share-based compensation program. A percentage of the employee's annual base salary – based on his/her position – is defined as a target for variable payments (Prisma target opportunity). The payout is calculated by multiplying the Prisma target opportunity by the total shareholder return (total of Covestro's closing stock price* and all of the dividends distributed in the relevant performance period divided by the opening stock price) and the performance of Covestro's stock relative to the STOXX Europe 600 Chemicals index**. In 2021, Prisma was expanded to include a sustainability component that encompasses Covestro's target for reducing annual greenhouse gas emissions [CO2 equivalents] at the Scope 1 emissions level. For the tranche beginning in fiscal 2023, Scope 2 emissions were added to the sustainability component.

→ See Compensation Report, section "Long-Term Variable Compensation" for more information on the LTI sustainability component.

* Calculated as the average price for the last 30 days of trading in the relevant performance period.
** STOXX Europe 600 Chemicals: Sector index by the index issuer STOXX; the STOXX Europe 600 includes 600 European companies

The payout is capped at 200% of the Prisma target opportunity. If Covestro's stock were to significantly underperform the STOXX Europe 600 Chemicals index (e.g., if the stock price declined while the index increased in value), Prisma target attainment could amount to zero, in which case there would be no payout. The target achievement for the 2019–2022 tranche amounted to 27.0% and was distributed in the amount of €7 million, mainly in January 2023.

The net expense for all long-term incentive programs amounted to €57 million (previous year: €9 million), of which €1 million (previous year: €5 million) was attributable to the Covestment share-based participation program, explained in greater detail in the following section.

The fair value of the Prisma share-based incentive program recognized in the provision amounted to €87 million as of December 31, 2023 (previous year: €39 million). The fair value was calculated using the Monte Carlo simulation method on the basis of the following key parameters pertaining to the reporting date:

Monte Carlo simulation parameters

			Tranche
	2021	**2022**	**2023**
Risk-free interest rate	3.34%	2.71%	2.46%
Stock price volatility	33.14%	37.17%	34.44%
STOXX Europe 600 Chemicals volatility	14.72%	19.49%	17.80%
Correlation between stock price and STOXX Europe 600 Chemicals	0.45	0.64	0.63

Share-Based Participation Program (Covestment)

The Covestment share-based participation program was suspended for all Group companies in 2023. Because of local rules in the United States, employees there could still acquire shares under the 2022 Covestment program in the year 2023. Employees were able to invest a fixed amount of their compensation in Covestro shares, which Covestro supplemented through an employer subsidy. The discount granted on the subscription amount in the United States in the year 2023 was 30%. The total amount for acquiring shares was limited to USD 4,000.

Approximately 50,500 shares were purchased by employees at a weighted average share price of €44.87 under the Covestment program in fiscal 2023. The purchased shares are subject to a vesting period of at least one year from the subscription date.

21. Financing and Financial Debt

The €5.0 billion Debt Issuance Program launched in the first quarter of 2016 is a key form of external financing. Of the euro bonds issued in March 2016, a fixed-rate tranche with a term until September 2024 (a coupon of 1.75% and a volume of €500 million) was still in the portfolio on the reporting date. The fixed-rate euro bonds issued in 2020 with a total volume of €1.0 billion will mature in February 2026 (a coupon of 0.875% and a volume of €500 million) and in June 2030 (a coupon of 1.375% and a volume of €500 million).

In addition, Covestro published a Green Financing Framework in May 2022, on the basis of which the first green euro bond was issued in November 2022 with a fixed coupon of 4.75% and a volume of €500 million, maturing in November 2028. All the proceeds from the bond issue were used to finance sustainable projects.

As of December 31, 2023, the Group had total credit facilities of €2,700 million (previous year: €2,890 million) at its disposal. Of this amount, €2.5 billion is attributable to the five-year syndicated revolving credit facility arranged in March 2020. This credit facility's term has been extended until March 2027 due to the exercising of two options to extend the term by one year in each case. A feature of the credit line is its link to an ESG (environment, social, and governance) rating: The better (worse) the externally calculated ESG score is, the lower (higher) the interest component of the credit facility.

All existing credit lines of €2,700 million remained unused as of the reporting date (previous year: €350 million used, €2,540 million unused).

In October 2022, Covestro placed Schuldschein loans with an equivalent value of around €650 million, of which the final tranche of €100 million was received in the first quarter of 2023. The issue is denominated in U.S. dollars and euros. There were a total of 10 tranches with terms of three, five, or seven years and with fixed and variable interest rates. The proceeds from the issue will be used for general corporate financing and to replace short-term with long-term liquidity. The Schuldschein loans are likewise linked to an ESG rating.

Part of the Schuldschein loans issued was repaid early in October 2023. The repayment was made in both U.S. dollars and euros. These were Schuldschein instruments with variable interest rates and terms of three, five, and seven years. Liabilities under Schuldschein loans as of December 31, 2023, amounted to €392 million.

Financial debt consisted of the following:

Financial debt

	Dec. 31, 2022		Dec. 31, 2023	
	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million
Bonds	1,988	–	1,990	500
Liabilities to banks	922	154	657	41
Lease liabilities	746	135	743	110
Derivatives that do not qualify for hedge accounting	32	32	15	15
Other financial debt	1	–	2	1
Total	**3,689**	**321**	**3,407**	**667**

Maturities of financial debt

	Dec. 31, 2022		Dec. 31, 2023
Maturity	€ million	Maturity	€ million
2023	321	2024	667
2024	606	2025	578
2025	583	2026	592
2026	576	2027	233
2027	334	2028	556
2028 or later	1,269	2029 or later	781
Total	**3,689**	**Total**	**3,407**

The Covestro Group’s financial debt is unsecured.

Lease Liabilities

Lease payments of €886 million (previous year: €890 million) are to be made to the respective lessors in future years; of this amount, the interest component amounts to €143 million (previous year: €144 million). The lease liabilities mature as follows:

Lease liabilities

	Dec. 31, 2022				Dec. 31, 2023		
	Lease payments	Interest component	Lease liabilities		Lease payments	Interest component	Lease liabilities
Maturity	€ million	€ million	€ million	Maturity	€ million	€ million	€ million
2023	155	20	135	2024	132	22	110
2024	127	21	106	2025	137	23	114
2025	99	16	83	2026	109	16	93
2026	92	14	78	2027	119	13	106
2027	114	10	104	2028	69	9	60
2028 or later	303	63	240	2029 or later	320	60	260
Total	**890**	**144**	**746**	**Total**	**886**	**143**	**743**

22. Other Financial Liabilities

To enhance the clarity of presentation, other financial liabilities, which were previously reported as part of other liabilities, are presented in a separate item in the statement of financial position for the first time in these consolidated financial statements. They break down as follows:

Other financial liabilities

	Dec. 31, 2022		Dec. 31, 2023	
	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million
Refund liabilities	111	111	97	97
Accrued interest on liabilities	20	20	19	16
Derivatives that do not qualify for hedge accounting	2	2	–	–
Miscellaneous liabilities	37	25	28	15
Total	**170**	**158**	**144**	**128**

Other financial liabilities include a commitment to acquire the remaining 20% interest in DIC Covestro Polymers Ltd., Tokyo (Japan). If this put option is exercised by the seller, the sale to Covestro would be effective in fiscal 2030.

23. Other Nonfinancial Liabilities

Other nonfinancial liabilities were comprised as follows:

Other nonfinancial liabilities

	Dec. 31, 2022		Dec. 31, 2023	
	Total	Of which current	Total	Of which current
	€ million	€ million	€ million	€ million
Other tax liabilities	95	95	58	58
Deferred income	18	18	22	22
Public grants and subsidies	27	11	33	13
Liabilities to employees	42	38	52	48
Social security liabilities	18	18	19	19
Contract liabilities	56	56	44	44
Miscellaneous liabilities	2	2	–	–
Total	**258**	**238**	**228**	**204**

→ See note 6 “Sales” for further information on contract liabilities.

To enhance the clarity of presentation, other financial liabilities, which were previously reported as part of other liabilities, are presented in a separate item in the statement of financial position for the first time in these consolidated financial statements. The prior-year figures were adjusted accordingly.

24. Financial Instruments

24.1 Financial Instruments by Category

The following tables show the carrying amounts and fair values of the individual financial assets and liabilities in accordance with IFRS 9 (Financial Instruments):

Carrying amounts of financial instruments and their fair values as of December 31, 2023

		Measurement according to IFRS 9				
	Carrying amount	Carried at amortized cost	Fair value through other comprehensive income	Fair value recognized in profit or loss	Measurement according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	1,898	1,898				1,898
Other financial assets	420					
Loans and bank deposits	352	277	–	75		352
Other investments	22		22	–		22
Derivatives that do not qualify for hedge accounting	21			21		21
Receivables under lease agreements	10				10	30
Miscellaneous financial assets	15	15	–			15
Cash and cash equivalents	625	625	–	–		625
Financial liabilities						
Financial debt	3,407					
Bonds	1,990	1,990		–		1,971
Liabilities to banks	657	657		–		664
Lease liabilities	743				743	
Derivatives that do not qualify for hedge accounting	15			15		15
Other financial debt	2	2		–		2
Trade accounts payable	1,895	1,895		–		1,895
Other financial liabilities	144					
Refund liabilities	97	97		–		97
Accrued interest on liabilities	19	19		–		19
Derivatives that do not qualify for hedge accounting	–			–		
Miscellaneous financial liabilities	28	28		–		28

Carrying amounts of financial instruments and their fair values as of December 31, 2022

		Measurement according to IFRS 9				
	Carrying amount	Carried at amortized cost	Fair value through other comprehensive income	Fair value recognized in profit or loss	Measurement according to IFRS 16	Fair value
	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets						
Trade accounts receivable	2,011	2,011				2,011
Other financial assets[1]	225					
Loans and bank deposits	128	17	–	111		128
Other investments	24		24	–		24
Derivatives that do not qualify for hedge accounting	45			45		45
Receivables under lease agreements	8				8	17
Miscellaneous financial assets	20	20	–			20
Cash and cash equivalents	1,198	1,198	–	–		1,198
Financial liabilities						
Financial debt	3,689					
Bonds	1,988	1,988		–		1,852
Liabilities to banks	922	922		–		946
Lease liabilities	746				746	
Derivatives that do not qualify for hedge accounting	32			32		32
Other financial debt	1	1		–		1
Trade accounts payable	2,016	2,016		–		2,016
Other financial liabilities	170					
Refund liabilities	111	111		–		111
Accrued interest on liabilities	20	20		–		20
Derivatives that do not qualify for hedge accounting	2			2		2
Miscellaneous financial liabilities	37	37		–		37

[1] Prior-year figures adjusted. Explanations are provided in note 15 "Other Financial Assets."

The fair values of financial instruments are determined and reported in accordance with IFRS 13 (Fair Value Measurement) on the basis of the fair value hierarchy described below:

Level 1 covers fair values determined on the basis of quoted, unadjusted prices that exist in active markets.

Level 2 comprises fair values determined on the basis of parameters that are observable in an active market.

Level 3 applies to fair values determined using parameters whose input factors are not based on observable market data.

Because of the generally short maturities of cash and cash equivalents, loans and bank deposits, trade accounts receivable and payable, and other financial assets and liabilities, their carrying amounts do not significantly differ from the fair values.

The fair values of noncurrent receivables under lease agreements are calculated on the basis of interest curves observable in the market. Additionally, a discount for cash flows that are very far in the future is applied as an unobservable factor.

The following table shows the assignment of the financial instruments to the three-level fair value hierarchy:

Fair value hierarchy of financial instruments

	Fair value Dec. 31, 2022	Level 1	Level 2	Level 3	Fair value Dec. 31, 2023	Level 1	Level 2	Level 3
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial assets carried at fair value								
Loans and bank deposits	111	–	101	10	75	–	66	9
Other investments	24	2	–	22	22		–	22
Derivatives that do not qualify for hedge accounting	45	–	42	3	21	–	19	2
Financial liabilities carried at fair value								
Derivatives that do not qualify for hedge accounting	34	–	32	2	15	–	15	
Financial liabilities not carried at fair value								
Bonds	1,852	1,852	–	–	1,971	1,971	–	–
Liabilities to banks	946	–	946	–	664	–	664	–
Other financial debt	1	–	1	–	2	–	2	–

Reallocation between the different levels of the fair value hierarchy takes place at the end of the reporting period in which the change occurred. During the fiscal year, no financial instruments were reallocated to a different level of the fair value hierarchy.

→ **See note 3 "Accounting policies" for detailed information on the calculation of the fair value of financial instruments and their assignment to the fair value hierarchy.**

The table below shows the changes in Level 3 financial instruments:

Changes in the net amount of financial assets and liabilities allocated to Level 3

	2022	2023
	€ million	€ million
Net carrying amounts, Jan. 1	**43**	**33**
Gains (losses) recognized in profit or loss	(9)	–
of which related to assets/liabilities recognized in the statement of financial position	(1)	–
Gains (losses) recognized outside profit or loss	(1)	–
Additions of assets (liabilities)	–	–
Net carrying amounts, Dec. 31	**33**	**33**

The gains and losses from Level 3 financial assets and liabilities are reported as follows:

- Gains and losses from embedded derivatives recognized in profit or loss are reported in other operating expenses or income
- Gains and losses from contingent purchase price receivables from divestments and debt instruments recognized in profit or loss are reported in other financial result
- Gains and losses from other financial investments are reported in other comprehensive income from equity instruments

Covestro acts as a start-up investor as part of the Covestro Venture Capital (COVeC) approach newly developed in fiscal 2020. Investments associated with COVeC activities are recognized either as debt instruments at fair value through profit and loss or as other financial investments at fair value directly in equity, depending on the contractual design.

Other financial investments are recognized at fair value directly in equity because they are held for the long term for strategic reasons. Other financial investments amount to €22 million (previous year: €24 million), of which €18 million (previous year: €18 million) was attributable to Hydrogenious LOHC Technologies GmbH, Erlangen

(Germany), and €3 million (previous year: €3 million) to Hi-Bis GmbH, Bitterfeld-Wolfen (Germany). In fiscal 2023, the Covestro Group received dividends of €1 million (previous year: €2 million) from other financial investments, of which €1 million (previous year: €1 million) was attributable to Hi-Bis GmbH.

As part of efforts to improve supplier relationships, a small number of Covestro's suppliers participate in prefinancing programs in which an external financial intermediary pays the invoice underlying the current trade payables to the supplier before it is due in each case. Such scenarios could, in particular, lead to a change in the presentation of the original liability in the consolidated financial statements if the nature, function, and risk of the liability subject to the financing program differs from other trade payables. In the case of the current programs, however, the underlying conditions do not result in any changes to the presentation in the consolidated financial statements. For this reason, the corresponding amounts continue to be reported under trade accounts payable. As of the reporting date, only a minor share of outstanding trade accounts payable is attributable to such financing programs.

The classification of income, expenses, gains, and losses from financial instruments by measurement category in accordance with IFRS 9 is shown in the table below:

Net result by measurement category in accordance with IFRS 9

	2022	2023
	€ million	€ million
Financial assets carried at amortized cost	84	77
of which net interest	6	40
Equity instruments measured at fair value through other comprehensive income	2	1
of which net interest	–	–
Financial instruments measured at fair value through profit or loss	(78)	(78)
of which net interest	(7)	(30)
Financial liabilities carried at amortized cost	(97)	(88)
of which net interest	(62)	(101)

24.2 Financial Risk Management and Information on Derivatives

Capital Management

The main purpose of financial management is to ensure solvency at all times, continuously optimize capital costs, and reduce the risks of financing measures. Financial management for the Covestro Group is performed centrally by Covestro AG.

Capital management pursues a prudent debt management strategy, drawing on a balanced financing portfolio, which is based primarily on bonds, Schuldschein loans, commercial papers, syndicated credit facilities, and bilateral loan agreements.

Covestro intends to maintain financing structures and financial ratios that support a solid investment-grade rating in the future. As in fiscal 2022, Covestro AG currently holds a Baa2 investment-grade rating with a stable outlook from the rating agency Moody's Investors Service, London (United Kingdom).

For its capital management, Covestro uses, among other tools, debt ratios published by recognized rating agencies, such as gross financial debt including provisions for pensions (adjusted gross financial debt) in relation to EBITDA as well as cash flow figures in relation to net financial debt including provisions for pensions.

Adjusted gross financial debt/EBITDA

	2022	2023
	in Mio. €	in Mio. €
Gross financial debt	3,647	3,388
Provisions for pensions	370	346
Adjusted gross financial debt	**4,017**	**3,734**
EBITDA	1,617	1,080
Adjusted gross financial debt/EBITDA	**2.5×**	**3.5×**

→ For information on the composition of gross financial debt and net financial debt, see the explanations in the Group Management Report on "Net Financial Debt."

→ See also the explanations in the Group Management Report on "Financial Management."

Credit Risk

Credit risk is the risk of a loss for the Covestro Group when a counterparty is unable to meet its payment obligations arising from a financial instrument as contractually stipulated. Payment obligations to the Covestro Group primarily comprise trade accounts receivable, debt instruments, other financial assets, and contract assets.

The carrying amount of the financial assets and the contract assets represents the maximum credit risk exposure.

The impairment loss for financial assets and contract assets recognized during the year resulted almost exclusively from impairment losses on trade accounts receivable. Net impairment losses amounted to €3 million (previous year: €9 million) in the reporting year.

Trade Accounts Receivable and Contract Assets

The following table presents the gross carrying amounts and the expected losses for trade accounts receivable and contract assets:

Expected credit loss by category as of December 31

	Cluster					
2023	**A**	**B**	**C**	**D**	**E**	**Total**
Expected loss rate (%)	0.01	0.03	0.12	0.70	6.00	
Gross amount (€ million)	335	626	806	157	44	1,968
Expected loss (€ million)	–	–	(1)	(1)	(3)	(5)
2022	**A**	**B**	**C**	**D**	**E**	**Total**
Expected loss rate (%)	0.01	0.03	0.12	0.70	6.00	
Gross amount (€ million)	291	755	737	249	49	2,081
Expected loss (€ million)	–	–	(1)	(2)	(3)	(6)

The accumulated impairment losses amounted to €30 million (previous year: €30 million) for those customers that the Covestro Group considers credit impaired on the basis of this assessment. The corresponding gross carrying amount was €30 million (previous year: €31 million). Indicators for customers being credit impaired include significant financial difficulties of the customer and a breach of contract such as default or delinquency. Determining that a customer is credit impaired does not occur automatically when payments are overdue for more than 90 days but is instead always based on the individual assessment conducted by Credit Management.

Total impairment losses for trade accounts receivable and contract assets changed as follows:

Reconciliation of expected credit loss

	2022	2023
	€ million	€ million
Valuation allowances, Jan. 1	**(29)**	**(36)**
Net remeasurement impairment loss	(9)	(3)
Write offs	2	4
Valuation allowances, Dec. 31	**(36)**	**(35)**

The Covestro Group limits the credit risk exposure from trade accounts receivable by stipulating the shortest payment terms possible. In addition, the Covestro Group has a widely diversified customer portfolio. In order to avoid concentration of risk, customer limits are set, regularly monitored, and exceeded only in agreement with Credit Management.

Receivables of €17 million (previous year: €25 million) are secured mainly by letters of credit.

Debt Instruments

The Covestro Group generally pursues a conservative investment policy based on a strategy of maintaining liquidity and safeguarding value. Consequently, investments are limited to counterparties with investment-grade ratings, simple debt instruments, and short-term investment horizons. Credit risks, particularly concentration of risk with individual counterparties, are managed by means of a Group-wide limit system in conjunction with ongoing monitoring. Covestro also acts as a start-up investor as part of the Covestro Venture Capital (COVeC) approach newly developed in fiscal 2020. Investments associated with COVeC activities are recognized either as debt instruments at fair value through profit and loss or as other financial investments at fair value directly in equity, depending on the contractual design.

As in the previous year, Covestro did not undertake any material reclassifications of debt instruments between the levels of the general impairment model during the fiscal year. The Covestro Group held no collateral for debt instruments in fiscal 2023 or in the previous year.

Because of the low credit risk profile, the Covestro Group is not exposed to significant credit risk from debt instruments. For fiscal 2023 and for the previous year, the risk provision calculated using the general approach is immaterial both overall and for the individual stages.

Currency Risks

Currency opportunities for and risks to the Covestro Group result from changes in exchange rates and the related changes in the value of financial instruments (including receivables and payables) and future cash inflows and outflows denominated in foreign currencies. Material receivables and payables in liquid currencies from operating and financial activities are generally fully hedged through forward exchange contracts. A value-at-risk approach is used to manage foreign currency exposures arising from planned receivables and liabilities. As in the previous year, the planned foreign currency exposure was not hedged. It will be hedged using forward contracts if the foreign currency risk increases significantly. The extent of the currency risk is presented below by means of a sensitivity analysis.

The currency risk shown in the sensitivity analysis results from the following:

- The unsecured portion of receivables and payables in nonfunctional currencies
- Unsecured bank deposits and liabilities to banks in nonfunctional currencies
- Currency risks from embedded derivatives

Sensitivities were determined based on a hypothetical scenario in which the euro depreciates by 10% against all other currencies compared with the year-end exchange rates. Under this scenario, the estimated hypothetical gains recognized in profit or loss as of December 31, 2023, would have totaled €3.8 million (previous year: €6.2 million). The table below shows the distribution of these effects among the individual currencies:

Sensitivity by currency

	2022		2023
Currency	€ million	Currency	€ million
CNY	3.0	CNY	1.6
USD	2.1	USD	1.4
CZK	0.3	MXN	0.2
Other	0.8	Other	0.6
Total	**6.2**	**Total**	**3.8**

A hypothetical scenario in which the euro appreciates by 10% against all other currencies compared with the year-end exchange rates would lead to losses recognized in profit or loss in approximately the same amount.

Liquidity Risk

Liquidity risk is the risk of not being able to meet existing or future payment obligations. The liquidity status of all material Group companies is continuously planned and monitored. Liquidity is secured via cash pooling agreements as well as internal and external financing. The syndicated, revolving credit facility of €2.5 billion, which is available through March 2027, particularly provides additional financial flexibility.

The liquidity risks to which the Covestro Group was exposed from its financial instruments can be divided into obligations for interest and repayment installments on financial liabilities, payment obligations arising from derivatives and loan commitments. The following tables show the maturity structure of the nondiscounted contractually agreed payments arising from these line items:

Maturity analysis of financial liabilities and derivative financial instruments

	Carrying amount	Contractual cash flows					
	Dec. 31, 2023	2024	2025	2026	2027	2028	after 2028
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial debt							
Bonds	1,990	544	35	535	31	531	513
Liabilities to banks	657	64	482	6	133	1	26
Lease liabilities	743	132	137	109	119	69	320
Other financial debt	2	1	–	–	–	–	1
Trade accounts payable	1,895	1,895	–	–	–	–	–
Other financial liabilities							
Refund liabilities	97	97	–	–	–	–	–
Accrued interest on liabilities	19	16	2	–	1	–	–
Miscellaneous financial liabilities	28	15	3	–	–	–	10
Liabilities from derivatives							
Derivatives that do not qualify for hedge accounting	15	15	–	–	–	–	–
Receivables from derivatives							
Derivatives that do not qualify for hedge accounting	21	19	2	–	–	–	–
Loan commitments	–	156	–	–	–	–	–

	Carrying amount	Contractual cash flows					
	Dec. 31, 2022	2023	2024	2025	2026	2027	after 2027
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Financial debt							
Bonds	1,988	44	544	35	535	31	1,044
Liabilities to banks	922	179	27	526	11	242	41
Lease liabilities	746	155	127	99	92	114	303
Other financial debt	1	–	–	–	–	–	1
Trade accounts payable	2,016	2,016	–	–	–	–	–
Other financial liabilities							
Refund liabilities	111	111	–	–	–	–	–
Accrued interest on liabilities	20	20	–	–	–	–	–
Miscellaneous financial liabilities	37	24	2	–	–	–	11
Liabilities from derivatives							
Derivatives that do not qualify for hedge accounting	34	34	–	–	–	–	–
Receivables from derivatives							
Derivatives that do not qualify for hedge accounting	45	45	–	–	–	–	–
Loan commitments		117	–	–	–	–	–

In addition to Covestro's recognized nonderivative liabilities and derivative financial instruments, Covestro AG is obligated, under certain conditions, to grant initial funding loans to Bayer-Pensionskasse VVaG, Leverkusen (Germany), and Rheinische Pensionskasse VVaG, Leverkusen (Germany), which may lead to payments by Covestro AG in subsequent years. In the reporting year, Bayer-Pensionskasse VVaG repaid part of the loan drawn down in fiscal 2022 in the amount of €39 million, with the result that the obligation increased accordingly as of December 31, 2023, to €156 million (previous year: €117 million). This is reflected in the loan commitments shown in the table above.

→ See note 28.1 "Related Companies."

In this analysis, foreign currencies were translated at closing rates. Derivative financial instruments are reported as net amounts.

Interest Rate Risks

Interest rate opportunities and risks for the Covestro Group arise from changes in capital market interest rates, which could lead to changes in the fair value of fixed-rate financial instruments and in interest payments in the case of floating-rate instruments. To minimize adverse effects, interest rate risk is managed centrally based on an optimized debt maturity structure.

A sensitivity analysis based on our net floating-rate receivables and payables position at the end of fiscal 2023, taking into account the interest rates relevant to our receivables and payables in all principal currencies, produced the following result: A hypothetical increase in the interest rates by 100 basis points or one percentage point would (assuming currency exchange rates remain constant) result in an increase in interest expense of €6.3 million (previous year: €16.3 million). A corresponding hypothetical reduction in interest rates would lead to a decline in interest expenses by the same amount.

Raw Material Price Risks

The Covestro Group requires significant quantities of different forms of energy and petrochemical feedstocks for its production processes. Procurement prices for energy and raw materials may fluctuate significantly. Important raw materials are procured on the basis of long-term supply agreements and active supplier management to minimize substantial price fluctuations. During the past fiscal year, derivative financial instruments were not used to hedge raw material price risks.

Derivatives

As of the reporting date, the nominal volume of the forward exchange contracts used to hedge currency risk amounted to €2,415 million (previous year: €2,914 million). Other market risks are not hedged as of the reporting date.

Covestro has entered into master netting or similar agreements for derivative financial instruments. These take effect in particular in the event of the insolvency of one of the contractual partners involved. The derivative financial instruments covered by netting agreements from the perspective of the Covestro Group are presented in the table below:

Disclosures for netting of financial assets and liabilities as of December 31

	Gross amounts of financial assets/liabilities	Net amounts of financial assets/ liabilities presented in the balance sheet	Balance sheet amounts eligible for netting covered by netting agreements	Net amounts after possible netting
	€ million	€ million	€ million	€ million
2023				
Receivables from derivatives	19	19	5	14
Liabilities from derivatives	15	15	5	10
2022				
Receivables from derivatives	42	42	2	40
Liabilities from derivatives	32	32	2	30

25. Contingent Liabilities and Other Financial Commitments

Contingent Liabilities

The following table shows contingent liabilities from warranty agreements and other contingent liabilities as of the reporting date:

Contingent liabilities

	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million
Warranty contracts	4	2
Other contingent liabilities	8	5
Total	**12**	**7**

Other Financial Commitments

Other financial obligations consisted of the following:

Other financial commitments

	Dec. 31, 2022	Dec. 31, 2023
	€ million	€ million
Orders already placed for started or planned investment projects	304	376
Loan commitments to pension funds	117	156
Total	**421**	**532**

Some of the pension obligations allocable to the Covestro Group are funded through pension institutions used jointly with other companies (especially Bayer AG, Leverkusen (Germany)). In such cases, it can generally be contractually ensured that Covestro participates accordingly in funding measures that serve to guarantee adequate funding status and/or adequate solvency capital of these pension institutions for the long term. To this end, Covestro AG agreed to grant interest-bearing loans of up to €208 million to Bayer-Pensionskasse VVaG, Leverkusen (Germany), and up to €11 million to Rheinische Pensionskasse VVaG, Leverkusen (Germany), for the effective initial fund to be drawn down as required. In April 2023, Bayer-Pensionskasse VVaG notified Covestro of the partial repayment in the amount of €39 million of the initial funding loan drawn down in December 2022. Following the repayment, the loan commitments to the pension funds increased by €39 million to €156 million as of December 31, 2023 (previous year: €117 million).

→ See note 28.1 "Related Companies."

26. Legal Risks

Legal proceedings currently considered to involve material risks are outlined below. The legal proceedings referred to do not necessarily represent an exhaustive list:

Carbon Monoxide Pipeline from Dormagen to Krefeld-Uerdingen

The carbon monoxide pipeline is intended to connect the chemical production sites at Dormagen (Germany) and Krefeld-Uerdingen (Germany) and complement the network already existing between Dormagen and Leverkusen (Germany). The aim is to ensure a safe and reliable supply of carbon monoxide to and across all sites. Although the pipeline was almost completed by the end of year 2009, it cannot currently be brought into operation because of ongoing court proceedings. Following confirmation by the Düsseldorf Administrative Court in the year 2011 that there were no grounds to challenge the material aspects of the planning permission decision, in particular the safety of the materials used and the legal conformity of the relevant pipeline act (Rohrleitungsgesetz), the plaintiffs and the regional government against which legal proceedings had been instituted lodged appeals before the Higher Administrative Court for the state of North Rhine-Westphalia in Münster (Higher Administrative Court). In the year 2014, the Higher Administrative Court raised no objections in principle to the safety and routing of the pipeline, but questioned the constitutionality of the pipeline act which forms the legal basis for the project. On December 21, 2016, Germany's Federal Constitutional Court dismissed the corresponding constitutionality question referred to it by the Higher Administrative Court as inadmissible and confirmed the legal opinion of the Covestro Group. Subsequently, the Higher Administrative Court again considered the facts of the appeal and, in a decision rendered on August 31, 2020, dismissed the actions against the planning permission decision. In addition, the Higher Administrative Court rejected an appeal against its ruling. The plaintiffs then filed a complaint against the denial of leave to appeal with the Federal Administrative Court in Leipzig in February 2021. The German Federal Constitutional Court dismissed the denial of leave to appeal on December 14, 2021. The judgment by the Higher Administrative Court is therefore final. In rulings dated February 28, 2023, May 2, 2023, and June 13, 2023, the Düsseldorf Administrative Court dismissed the only remaining actions brought by two private plaintiffs, Bund für Umwelt und Naturschutz Deutschland e.V. (BUND), and four cities/municipalities against the planning permission decision by reference to the final ruling of the Higher Administrative Court and did not allow an appeal. The application for permission to appeal, which was nonetheless possible, was submitted by the due date by the city of Hilden alone. The decision of the Higher Administrative Court in this matter is still pending.

Civil Class Action Lawsuits over Diisocyanates (in the United States)

On July 9, 2018, Covestro LLC, Pittsburgh, Pennsylvania (United States) – as one of numerous other defendants – was served the first of now 12 class action lawsuits initiated by various U.S. diphenylmethane diisocyanate (MDI) and toluene diisocyanate (TDI) customers. The plaintiffs allege that the defendants have violated various provisions of the Sherman Antitrust Act since January 1, 2015, by acting in coordination to limit production capacities of MDI and TDI and, at the same time, raising prices for these products in the market. On October 3, 2018, the Judicial Panel on Multidistrict Litigation ruled that all class action lawsuits in pretrial proceedings would be centralized in the District Court for the Western District of Pennsylvania. Based in essence on the same assertions and the violations of federal consumer protection and antitrust laws allegedly resulting from them, the attorney general of the state of Mississippi filed a separate civil complaint against Covestro LLC and numerous other defendants on behalf of the state and its citizens in September 2019. In November 2020, the parties suspended these lawsuits without prejudice for a period of two years. Owing to the time which has passed, the suspension of the limitation period agreed at the time with regard to the claims of the state and its citizens expired again in November 2022. Covestro currently considers these claims without merit and will therefore use all legal means to defend itself against these allegations – also in light of the official conclusion in November 2018 of the six-month investigation by the U.S. Department of Justice into possible anticompetitive practices in relation to MDI. The case is currently still in the discovery phase.

Other Information

27. Notes to the Statement of Cash Flows

27.1 Cash Flows from Operating Activities

The net cash inflow from operating activities of €997 million (previous year: €970 million) reflects the operating surplus and also takes into account changes in working capital and noncash income and expenses.

Net cash flows from operating activities went up €27 million (2.8%) year-over-year, to €997 million (previous year: €970 million). A decline of €537 million in EBITDA was more than offset by funds freed up from working capital in an amount of €366 million, which compares to funds of €160 million tied up in the previous year, as well as by a €155 million drop in income tax payments.

27.2 Cash Flows from Investing Activities

Net cash outflow for investing activities in 2023 amounted to €925 million (previous year: €477 million).

This was primarily attributable to cash outflows for additions to property, plant and equipment and intangible assets of €765 million (previous year: €832 million), cash outflows for other current financial assets of €305 million (previous year: €374 million), and cash outflows for noncurrent financial assets of €23 million (previous year: €124 million).

This was offset by interest and dividends received in the amount of €70 million (previous year: €75 million) as well as cash inflows from divestments less divested cash in the amount of €55 million (previous year: €6 million), which mainly resulted from cash inflows of €54 million from the sale of assets and liabilities (disposal group) of the additive manufacturing business to Stratasys, a U.S.-Israeli manufacturer of 3D printers and 3D production systems. In addition, there were cash inflows from noncurrent financial assets amounting to €41 million (previous year: €3 million), which mainly resulted from the partial repayment in the amount of €39 million of the drawdown of the initial funding loan by Bayer-Pensionskasse VVaG, Leverkusen (Germany), in December 2022.

27.3 Cash Flows from Financing Activities

The net cash outflow from financing activities amounted to €639 million in fiscal 2023 (previous year: inflow of €64 million). Net credit repayment amounted to €417 million (previous year: net borrowing in the amount of €995 million). Short-term borrowing and debt repayment were netted.

There was an outflow of €49 million (previous year: €150 million) in 2023 for the acquisition of treasury shares as part of Covestro AG’s share buyback program.

No dividend was paid in fiscal 2023 (previous year: €651 million) to Covestro AG shareholders.

The interest paid totaling €169 million (previous year: €131 million) reflected in cash flows from financing activities relates mainly to forward exchange contracts used to hedge foreign currency risks of €61 million (previous year: €63 million), lease liabilities of €28 million (previous year: €25 million), bonds of €44 million (previous year: €20 million), and liabilities to banks of €27 million (previous year: €6 million).

Reconciliation of gross financial debt in fiscal 2023

			Noncash changes					
	Carrying amounts Dec. 31, 2022	Cash changes	Changes due to exchange rate movements	Changes in measure-ment	Divestments	Lease contracts	Other changes	Carrying amounts Dec. 31, 2023
	€ million	€ million	€ million	€ million	in Mio. €	€ million	€ million	€ million
Bonds	1,988	–	–	2	–		–	1,990
Liabilities to banks	922	(251)	(10)	–	(4)		–	657
Lease liabilities	746	(156)	(23)	–	–	176	–	743
Other financial debt	1	(10)	–	–	4		7	2
Gross financial debt[1]	**3,657**	**(417)**	**(33)**	**2**	**–**	**176**	**7**	**3,392**

[1] Excluding forward exchange contracts used to hedge currency risks

Reconciliation of gross financial debt in fiscal 2022

			Noncash changes					
	Carrying amounts Dec. 31, 2021	Cash changes	Changes due to exchange rate movements	Changes in measure-ment	Divestments	Lease contracts	Other changes	Carrying amounts Dec. 31, 2022
	€ million	€ million	€ million	€ million	in Mio. €	€ million	€ million	€ million
Bonds	1,492	494	–	2	–		–	1,988
Liabilities to banks	275	652	(5)	–	–		–	922
Lease liabilities	761	(160)	14	–	–	131	–	746
Other financial debt	2	9	–	–	–		(10)	1
Gross financial debt[1]	**2,530**	**995**	**9**	**2**	**–**	**131**	**(10)**	**3,657**

[1] Excluding forward exchange contracts used to hedge currency risks

28. Related Companies and Persons

28.1 Related Companies

Related entities as defined in IAS 24 (Related Party Disclosures) are those legal entities that are able to exert at least significant influence on Covestro AG and its subsidiaries or over which Covestro AG or its subsidiaries exercise control or have at least a significant influence, or which are controlled by a related person or a close family member of such a person. These include nonconsolidated subsidiaries, joint ventures and associated companies, post-employment benefit plans, and other related parties.

Receivables from and liabilities to related companies

	Dec. 31, 2022		Dec. 31, 2023	
	Receivables	Liabilities	Receivables	Liabilities
	€ million	€ million	€ million	€ million
Nonconsolidated subsidiaries and associates	1	4	–	7
Associates accounted for using the equity method	–	9	7	3
Post-employment benefit plans	101	–	63	–

Receivables from pension plans as of December 31, 2023, amounting to €63 million (previous year: €101 million) resulted from initial funding loans granted. Covestro AG has agreed to provide Bayer-Pensionskasse VVaG, Leverkusen (Germany), with an interest-bearing initial funding loan of up to €208 million and Rheinische Pensionskasse VVaG, Leverkusen (Germany), with an interest-bearing initial funding loan of up to €11 million, both at their request. The pension funds are entitled to draw down amounts necessary to meet their regulatory solvency requirements at any time up to the amounts disclosed. The outstanding receivables are subject to a five-year interest rate adjustment mechanism. In April 2023, Bayer-Pensionskasse VVaG notified Covestro of the partial repayment in the amount of €39 million of the initial funding loan drawn down in December 2022. Following the repayment, the loan commitments to the pension funds increased by €39 million to €156 million as of

December 31, 2023 (previous year: €117 million). The loan commitments to the pension funds are recognized as other financial obligations.
→ See note 25 "Contingent Liabilities and Other Financial Commitments."

Sales and purchases of goods and services to/from related companies

	2022		2023	
	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services
	€ million	€ million	€ million	€ million
Nonconsolidated subsidiaries and associates	45	65	45	74
Associates accounted for using the equity method	18	801	16	689

The goods and services received from associated companies accounted for using the equity method mainly resulted from the ongoing business operations with PO JV, LP, Houston, Texas (United States). Covestro benefits from fixed long-term supply quotas/volumes of propylene oxide (PO) from this company's production.
→ See note 14 "Investments Accounted for Using the Equity Method."

Receivables from and payables to related companies mainly relate to leases and financing arrangements, supply and service relationships, and other transactions. No impairment losses were recognized on receivables from related companies in the reporting year or in the previous year.

No services were purchased from other related parties in the form of consulting services for Supervisory Board and Works Council elections in the 2023 reporting year (previous year: €147 thousand). As in the previous year, there were no liabilities in relation to these services as of December 31.

28.2 Related Persons

Related persons as defined in IAS 24 include the corporate officers of Covestro AG, who are the members of the Board of Management and Supervisory Board.

Compensation of the Corporate Officers

The compensation for corporate officers of Covestro AG in fiscal 2023 amounted to €13,944 thousand (previous year: €8,447 thousand), including the compensation of the Supervisory Board amounting to €2,515 thousand (previous year: €2,454 thousand).

This compensation is shown below:

Compensation of the corporate officers according to IFRSs

	2022	2023
	€ thousand	€ thousand
Total short-term compensation	5,826	7,665
Total share-based compensation (long-term incentive)	860	4,915
Service cost for pension entitlements earned in the respective year	1,761	1,364
Aggregate compensation (IFRSs)	**8,447**	**13,944**

Aggregate compensation of the members of the Board of Management according to the German Commercial Code (HGB) amounted to €8,430 thousand (previous year: €7,115 thousand).

Since 2016, the members of the Board of Management have been entitled to participate in the Prisma long-term share-based compensation program, as long as they are employed by the Covestro Group, and acquire for their own account and hold an individually defined number of Covestro shares as specified by the guidelines. The fair value of the long-term share-based compensation (Prisma) granted to the Board of Management in fiscal 2023 was €3,280 thousand (previous year: €3,743 thousand).

Provisions of €11,706 thousand (previous year only for long-term variable cash compensation: €5,626 thousand) were recognized for short-term and long-term variable cash compensation for the members of the Board of

Management serving during fiscal 2023. At the end of the year, the present value of the defined benefit pension obligations for the current members of the Board of Management was €6,499 thousand (previous year: €9,180 thousand). As in the previous year, no provisions were recognized for long-term share-based cash compensation for former members of the Board of Management. The present value of the defined benefit pension obligations for former members of the Board of Management was €12,060 thousand (previous year: €5,447 thousand).

Supervisory Board compensation is exclusively non-performance-related. In addition to their compensation as members of the Supervisory Board, those employee representatives who are employees of Covestro Group companies receive compensation unrelated to their service on the Supervisory Board. The total amount of such compensation was €555 thousand (previous year: €1,253 thousand). Pension obligations for employee representatives on the Supervisory Board amounted to €2,229 thousand (previous year: €1,984 thousand). Pension obligations for employee representatives who had left the Supervisory Board and the company totaled €1,137 thousand (previous year: €1,623 thousand).

As in the previous year, the company did not grant any advances or loans to members of the Board of Management or the Supervisory Board in the fiscal year 2023.
→ For further information, please refer to the Compensation Report.

29. Audit Fees

Since fiscal 2018, KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (Germany) (KPMG AG), has been the elected statutory auditor of Covestro AG and the Covestro Group. Dr. Kathryn Ackermann has been the auditor primarily responsible for carrying out the audit of the consolidated financial statements since April 21, 2022. Dr. Kathryn Ackermann and Marc Ufer were responsible for carrying out the 2023 audit of the consolidated financial statements. Dr. Kathryn Ackermann and Mr. Marc Ufer first signed the Independent Auditor’s Report on December 31, 2022.

The following fees were recognized as expenses in the given fiscal year for the services provided by KPMG AG:

Audit fees

	2022	2023
	€ million	€ million
Audit services	3.3	3.4
Other assurance services	0.3	1.1
Tax advisory services	–	–
Other services	0.3	–
Total	**3.9**	**4.5**

The fees for the auditing of financial statements in fiscal 2023 mainly comprise those for the statutory audit of the consolidated financial statements and the single-entity financial statements of Covestro AG and its subsidiaries in Germany.

The fees for other assurance services in fiscal year 2023 include, in particular, the review of financial information between reporting dates, the audit of sustainability information, and special energy industry audits.

30. Events After the End of the Reporting Period

No events have occurred since January 1, 2024, that have a material impact on the net assets, financial position and results of operations of the Covestro Group.

Leverkusen, February 23, 2024
Covestro AG
The Board of Management

FURTHER INFORMATION

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the Covestro Group, and the Group Management Report, which has been combined with the Management Report of Covestro AG, includes a fair review of the development and performance of the business and the position of the Covestro Group and Covestro AG, together with a description of the principal opportunities and risks associated with the expected development of the Covestro Group and Covestro AG.

Leverkusen, February 23, 2024
Covestro AG
The Board of Management

Dr. Markus Steilemann (Chairman)	Christian Baier	Dr. Thorsten Dreier	Sucheta Govil

Independent Auditor's Report

To Covestro AG, Leverkusen

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of Covestro AG, Leverkusen, and its subsidiaries (the Group), which comprise the income statement, the statement of comprehensive income of the Covestro Group for the financial year from January 1 to December 31, 2023, the statement of financial position of the Covestro Group as of December 31, 2023, the statement of cash flows and the statement of changes in equity of the Covestro Group for the financial year from January 1 to December 31, 2023, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report for the Company and the Group (hereinafter: the "combined management report") of Covestro AG, including the integrated non-financial group statement pursuant to Sections 315b (1) and 315c HGB for the financial year from January 1 to December 31, 2023.

In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

The combined management report contains cross-references that are not provided for by law and which are marked as unaudited. In accordance with German legal requirements, we have not audited the cross-references and the information to which the cross-references refer.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2023, and of its financial performance for the financial year from January 1 to December 31, 2023, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the "Other Information" section of the auditor's report. The combined management report contains cross-references that are not provided for by law and which are marked as unaudited. Our audit opinion does not extend to the cross-references and the information to which the cross-references refer.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other

German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Note on emphasis of matter

Please refer to management's comments in the "EU Taxonomy" section of the non-financial group statement pursuant to Section 315b (1) HGB contained in the section "Disclosures on Sustainability Reporting" of the combined management report. This section describes that the EU Taxonomy Regulation and the delegated acts issued in this context contain formulations and terms that remain subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case. Management explains how they have made the necessary interpretations of the EU Taxonomy Regulation and the delegated acts adopted in this context. Due to the inherent risk that undefined legal terms can be interpreted differently, the legal conformity of the interpretation is subject to uncertainty. We have not modified our opinion on the combined management report in respect of this matter.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment testing of goodwill

Please refer to note 13.3 "Impairment Testing" to the consolidated financial statements for more information on the accounting policies applied and the assumptions used. Disclosures on the amount of goodwill can be found under note 13.1 "Goodwill and Other Intangible Assets" to the consolidated financial statements and disclosures on the financial performance of the business segments in the section "Performance of the Segments" of the combined management report.

THE FINANCIAL STATEMENT RISK

Goodwill amounted to EUR 711 million as of December 31, 2023, thus representing 5.2% of total assets.

Irrespective of any indication of impairment, goodwill is tested for impairment once a year on the level of the cash-generating units (strategic business areas) and on the level of the groups of CGUs (business units). If impairment triggers arise during the financial year, an indicator-based impairment test is also carried out during the year.

For goodwill impairment testing, the carrying amount is compared with the recoverable amount of the respective strategic business area or the respective business unit. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of fair value less costs to sell and value in use of the units or groups of cash-generating units. The annual goodwill impairment was conducted in Q4 2023.

Impairment testing of goodwill is complex and based on a number of assumptions requiring judgment. These include the expected business and earnings performance as well as the investment spending of the respective cash-generating unit/groups of cash-generating units over the planning horizon, the assumed long-term growth rates and the discount rate used.

Due to the ongoing tough economic environment and the macroeconomic development, uncertainty surrounding the underlying future cash flows remains high in financial year 2023. Based on the annual impairment tests, Covestro AG did not identify any need to recognize impairment losses.

There is the risk for the consolidated financial statements that an existing need to recognize an impairment loss is not identified. There is also the risk that the related disclosures in the notes are not appropriate.

OUR AUDIT APPROACH

First, we obtained an understanding of the process for impairment testing of goodwill through explanations provided by accounting staff with the involvement of the controlling function, as well as an assessment of the Company's documentation.

With the involvement of our valuation experts, we then assessed (among other things) the appropriateness of the significant assumptions and the Company's calculation method for the annual impairment testing. To this end, we discussed the expected business and earnings performance, the investment spending as well as the assumed long-term growth rates with those responsible for planning. We also reconciled this information with other internally available forecasts and reconciled the cash flows used for the impairment test with the budget prepared by the Board of Management and approved by the Supervisory Board. We also evaluated the consistency of the assumptions with external market assessments.

We also examined the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual earnings and by analyzing deviations. We compared the assumptions and data underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta coefficient, with our own assumptions and publicly available data.

To evaluate the computational accuracy of the method used, we verified the Company's calculations on the basis of selected risk-based elements.

To take account of the existing forecast uncertainty for impairment testing, we examined the effects of possible changes in the discount rate, earnings performance and the long-term growth rate on the recoverable amount using the sensitivity analyses prepared by the Company. As part of the annual goodwill impairment test, all goodwill-carrying strategic business areas or business units were examined by us.

Finally, we assessed whether the disclosures in the notes regarding impairment of goodwill are appropriate.

OUR OBSERVATIONS

The calculation method used for the annual impairment testing of goodwill is appropriate and in line with the accounting policies to be applied. The Company's assumptions and data used for measurement are within an acceptable range and are appropriate. The related disclosures in the notes are appropriate.

Impairment testing of property, plant and equipment

Please refer to note 13.3 "Impairment Testing" to the consolidated financial statements for more information on the accounting policies applied and the assumptions used. Disclosures on the amount of property, plant and equipment can be found under note 13.2 "Property, Plant and Equipment" to the consolidated financial statements and disclosures on the financial performance of the business segments in the section "Performance of the Segments" of the combined management report.

THE FINANCIAL STATEMENT RISK

Property, plant and equipment as of December 31, 2023, amounted to EUR 5,795 million and 42.5% of total assets, representing a considerable share of the Group's assets. In financial year 2022, the Company recognized impairment losses on property, plant and equipment totaling EUR 383 million within the scope of indicator-based impairment testing.

If impairment triggers for property, plant and equipment arise or if there are indications that a previously recognized impairment loss is no longer required in part or in its entirety (reversal of an impairment loss) at the end of a reporting period, an indicator-based impairment test is carried out. For the impairment testing, the carrying amount is compared with the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is calculated regularly on the level of cash-generating units (strategic business areas) using the discounted cash flow method. Any identified impairment loss has to be allocated to the individual assets. In this regard, the carrying amount of an individual asset may not be impaired below its fair value less cost of disposal (minimum carrying amount).

Impairment testing of property, plant and equipment is complex and based on a range of assumptions that require judgment. These include the expected business and earnings performance as well as the investment spending of the respective cash-generating units over the planning horizon, the assumed long-term growth rates and the discount rate used.

Due to the continuing difficult economic environment and existing adverse macroeconomic development, the recoverability of the property, plant and equipment of cash-generating units with a negative development in medium-term planning and a possible reversal of impairment was reviewed on an ad hoc basis. For the cash-generating units concerned, this was based on an updated planning of expected future cash flows, which took into account the above developments' current effects on future business and earnings prospects. As a result of the indicator-based impairment test performed, Covestro AG did not identify any further impairment or reversal of impairment.

There is the risk for the consolidated financial statements that an existing need to recognize or potentially reverse an impairment loss is not identified.

OUR AUDIT APPROACH

First, we obtained an understanding of the process for impairment testing of property, plant and equipment through explanations provided by accounting staff with the involvement of the controlling function, as well as an assessment of the Company's documentation.

With the involvement of our valuation experts, we then assessed the indicator-based impairment test to determine (among other things) the appropriateness of the key assumptions and the Company's calculation method. To this end, we discussed the expected business and earnings development, the investment spending, the cash flow forecast derived from those expectations, as well as the assumed long-term growth rates, with those responsible for planning. We also reconciled this information with other internally available forecasts and reconciled the cash flows used for the impairment test with the budget prepared by the Board of Management and approved by the Supervisory Board. We also evaluated the consistency of the assumptions with external market assessments.

We also examined the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual earnings and by analyzing deviations. We compared the assumptions and data underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta factor with our own assumptions and publicly available data.

To evaluate the computational accuracy of the method used, we verified the Company's calculations on the basis of selected risk-based elements.

To take account of the existing forecast uncertainty for impairment testing, we examined the effects of possible changes in the discount rate, earnings performance and the long-term growth rate on the recoverable amount using the sensitivity analyses prepared by the Company.

OUR OBSERVATIONS

The calculation method used for impairment testing of property, plant and equipment is appropriate and in line with the accounting policies to be applied. The Company's assumptions and data used for measurement are within an acceptable range and are reasonable overall.

Other Information

The Board of Management and/or the Supervisory Board are/is responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- the combined declaration on corporate governance of the Company and the Group, which is contained in the “Declaration on Corporate Governance” section of the combined management report,
- the information in the non-financial group statement contained in the "Sustainability in the Supply Chain" section of the combined management report and marked as unaudited, and
- information extraneous to combined management reports and marked as unaudited.

The other information also includes the remaining parts of the annual report. The other information does not include the consolidated financial statements, the combined management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

As part of a separate engagement, we performed an assurance engagement on the supplementary sustainability information. Please refer to our assurance report dated February 26, 2024, for information on the nature, scope and findings of this assurance engagement.

Responsibilities of the Board of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The Board of Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Board of Management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the Board of Management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Board of Management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Board of Management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the Board of Management and the reasonableness of estimates made by the Board of Management and related disclosures.
- Conclude on the appropriateness of the Board of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the Board of Management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Board of Management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Combined Management Report Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the combined management report (hereinafter the “ESEF documents”) contained in the electronic file "2024-02-23 14-01-50 - Zusammengefasster LB und KA Covestro 2023.zip" (SHA256 hash value: 61e0edc6eacec9ca3ee2c5e329a12200dbbc882abe42b90d4414b511d02c7d4a) made available and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the combined management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from January 1 to December 31, 2023, contained in the "Report on the Audit of the Consolidated Financial Statements and the Combined Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our assurance work on the rendering of the consolidated financial statements and the combined management report contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QMS 1) (09.2022).

The Company's Board of Management is responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Company's Board of Management is responsible for such internal control that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available containing the ESEF documents meets the requirements of the Commission Delegated Regulation (EU) 2019/815, as amended as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and the audited combined management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Commission Delegated Regulation (EU) 2019/815, as amended as of the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the Annual General Meeting on April 19, 2023. We were engaged by the Audit Committee of the Supervisory Board on July 28, 2023. We have been the group auditor of Covestro AG without interruption since financial year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Other Matter – Use of the Auditor’s Report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited combined management report as well as the examined ESEF documents. The consolidated financial statements and combined management report converted to the ESEF format – including the versions to be entered in the German Company Register [Unternehmensregister] – are merely electronic renderings of the audited consolidated financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents made available in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dr. Kathryn Ackermann.

Düsseldorf, February 26, 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer Wirtschaftsprüfer [German Public Auditor]	Dr. Ackermann Wirtschaftsprüferin [German Public Auditor]

Independent practitioners' Limited Assurance Report on the supplementary sustainability information

To Covestro AG, Leverkusen

We have performed a limited assurance engagement on the supplementary sustainability information included in the combined management report of the Covestro AG, Leverkusen, for the period from 1. January 2023 to 31. December 2023 and marked separately ([..]).

The references to external sources of documentation and expert opinions mentioned in the supplementary sustainability information as well as those disclosures that are marked as unaudited are not subject to our audit.

Responsibilities of Management

The Management of the Covestro AG is responsible for the preparation of the supplementary sustainability information for the period from 1. January 2023 to 31. December 2023 in accordance with the reporting criteria. As reporting criteria, Covestro AG applies the "with reference to GRI" reporting option of the Global Reporting Initiative's (GRI) Sustainability Reporting Standards (SRS) in conjunction with the internal guidelines of Covestro AG (hereinafter: "reporting criteria").

This responsibility includes the selection and application of appropriate non-financial reporting methods and making assumptions and estimates about individual non-financial disclosures of the group that are reasonable in the circumstances. Furthermore, management is responsible for such internal control as they consider necessary to enable the preparation of the supplementary sustainability information that are free from material misstatement, whether due to fraud or error.

Independence and Quality Assurance of the Assurance Practitioner's firm

We have complied with the independence and quality assurance requirements set out in the national legal provisions and professional pronouncements, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the IDW Standard on Quality Management: Requirements for Quality Management in Audit Firms (IDW QMS 1 (09.2022)).

Responsibility of the Assurance Practitioner

Our responsibility is to express a conclusion with limited assurance on the supplementary sustainability information based on our assurance engagement.

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the IAASB. This standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the company's supplementary sustainability information, are not prepared, in all material respects, in accordance with the reporting criteria.

In a limited assurance engagement, the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly, a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgment of the assurance practitioner.

In the course of our assurance engagement we have, among other things, performed the following assurance procedures and other activities:

- Interviewing of personnel responsible for materiality analysis at Group level in order to obtain an understanding of the approach identifying material topics for the supplementary sustainability information and corresponding reporting boundaries of Covestro AG,
- Carrying out a risk assessment, including a media analysis, of relevant information on Covestro AG's sustainability performance in the reporting period, assessing of the design and implementation of systems and processes for identifying, processing and monitoring sustainability information and indicators within the scope of the audit, including the consolidation of data,
- Interviewing of personnel at Group level responsible for determining the information on concepts, due diligence processes, results and risks, performing internal control procedures and consolidating the information,
- Inspecting selected internal and external documents,
- Analytically assessing the data and trends of quantitative disclosures reported for consolidation at Group level from all sites,
- Assessing the local data collection, validation and reporting processes as well as the reliability of the reported data through a sample survey at selected production sites,
- Evaluating the consistency of GRI Standards in accordance with the option “with reference to” as reported by Covestro AG with the qualitative and quantitative disclosures in the report
- Assessing the overall presentation of the supplementary sustainability information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Limited Assurance Conclusion

Based on the assurance procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the as supplementary sustainability information identified sections in the combined management report of Covestro AG, Leverkusen, for the period from 1. January 2023 to 31. December 2023 is not prepared, in all material respects in accordance with the reporting criteria.

Restriction of Use

This assurance report is solely addressed to Covestro AG, Leverkusen.

Our assignment for Covestro AG, Leverkusen, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer (German Public Auditors) and Wirtschaftsprüfungsgesellschaften (German Public Audit Firms) (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms having taken note of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the attached General Engagement Terms with respect to us.

Düsseldorf, February 26, 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft

Oliver Geier	Claudia Fielenbach
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Glossary

A

ADR/American Depositary Receipt
A depositary receipt issued by U.S. banks that documents ownership of a certain number of deposited shares of a foreign company and is traded on U.S. stock markets as representation of the original shares.

AktG/German Stock Corporation Act
Stipulates the legal provisions pertaining to German stock corporations.

APAC
Comprises all countries in the Asia and Pacific region.

C

Capital Employed
Capital employed is the sum of noncurrent and current assets less non-interest-bearing liabilities such as trade accounts payable.

Circular Economy
A renewable economic system in which resource input, waste production, emissions, and energy consumption are minimized based on long-lasting and closed material and energy cycles.

Climate Neutrality
A state in which human activities have no net impact on the climate system.

Cost of Capital for Impairment Testing
Weighted average cost of equity and debt that reflects the risk/return profile of the Covestro Group on the one hand and a specific capital structure of comparable companies (Covestro's peer group) on the other. This cost of capital, which is primarily derived from capital market information, is used for impairment testing according to IFRSs.

COVeC Approach
Covestro Venture Capital Approach in which Covestro invests in start-ups with innovative products, solutions, or business models. Covestro aims to actively support these new companies wherever they offer added value.

Covestment
Share-based participation program in which employees of almost all Group companies can acquire Covestro shares at a discount.

CO2 Sink
A "sink" is a procedure, an activity, or a mechanism with which a greenhouse gas, an aerosol, or a precursor substance of a greenhouse gas is removed from the atmosphere. In the case of CO_2, this occurs in, for example, forests, soils, the oceans, or underground (e.g. in former gas pits). Sink development measures such as reforestation can therefore help mitigate climate change.

D

DRS/German Accounting Standards
Pronouncements of the German Accounting Standards Committee e. V., which more precisely define the HGB requirements in reference to the application of group accounting principles.

Due Diligence
Information on the processes for identifying, preventing, and mitigating the actual or possible negative impact on nonfinancial factors.

E

Earnings per Share
Net income divided by the weighted average number of outstanding shares in the reporting period.

EBIT/Earnings Before Interest and Taxes
Income after income taxes plus financial result and income tax expense.

EBITDA/Earnings Before Interest, Taxes, Depreciation, and Amortization
EBIT plus depreciation and amortization of property, plant, equipment, and intangible assets.

EcoVadis
Rating agency that evaluates the degree to which supplier business practices are aligned with sustainability principles.

EMLA
Comprises all countries in Europe, the Middle East, Latin America (excluding Mexico), and Africa.

EURO STOXX 50
European stock index that reflects the share price performance of the 50 most important and highest-revenue companies in Europe.

F

FOCF/Free Operating Cash Flow
Operating cash flows (pursuant to IAS 7) less cash outflows for additions to property, plant, equipment and intangible assets.

G

GCGC/German Corporate Governance Code
A set of rules on responsible corporate governance drawn up by the Government Commission on the German Corporate Governance Code containing recommendations and suggestions for the management and oversight of publicly traded German companies.

GHG Protocol/Greenhouse Gas Protocol
International accounting system for greenhouse gas emissions developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD).

GPS/Global Product Strategy
Initiative of the International Council of Chemical Associations (ICCA) with the aim of enshrining uniform global standards for product safety in the chemical industry.

GRI/Global Reporting Initiative
Guidelines on the preparation of sustainability reports by companies, governments, and nongovernmental organizations (NGOs).

H

HDI/Hexamethylene Diisocyanate
A chemical compound from the class of aliphatic isocyanates, primarily used in polyurethane coating systems.

HGB/German Commercial Code
Comprises the majority of German accounting legislation.

HSEQ/Health, Safety, Environment, Energy, and Quality
A commonly used abbreviation for health, safety, environment, energy, and quality.

I

IAS/Accounting Standards
International accounting standards as applicable in the EU or as published by the IASB or the IFRS IC.

IASB/International Accounting Standards Board
The International Accounting Standards Board is an independent, private-sector body that develops and adopts the International Financial Reporting Standards (IFRSs).

ICS/Internal Control System
Internal control system to ensure compliance with directives by means of technical and organizational rules.

IDW/Institut der Wirtschaftsprüfer in Deutschland e. V.
A professional association of German public auditors and German public audit firms that represents the interests of its members and supports their work.

IFRSs/International Financial Reporting Standards
International accounting standards as applicable in the EU or as published by the IASB or the IFRS IC.

IPDI/Isophorone Diisocyanate
A chemical compound from the class of aliphatic isocyanates, primarily used in polyurethane coating systems.

L

LGBTIQ
International abbreviation for lesbian, gay, bisexual, trans, intersex, and queer people.

LoPC/Loss of Primary Containment
Leaks of chemicals in amounts above defined thresholds leaking from their primary containers, such as pipelines, pumps, tanks, and drums.

LTRIR
Lost time recordable incident rate.

M

Mass Balance Approach
A method of assigning sustainable attributes to products for which both fossil and sustainable raw materials were used during production.

Materiality Assessment
A materiality assessment enables companies to systematically identify the most important sustainability issues from the internal and external perspective.

MDI/Diphenylmethane Diisocyanate
A chemical compound from the class of aromatic isocyanates, primarily used in polyurethane foams.

N

NA/North America
Region comprising Canada, Mexico, and the United States.

Net Financial Debt
Interest-bearing liabilities (excluding pension obligations) less liquid assets.

Net Income
Income after income taxes that is attributable to Covestro AG shareholders.

Net Zero Greenhouse Gas Emissions
Achievement of net-zero GHG emissions is defined as a balance between anthropogenic production of GHG emissions and anthropogenic reduction of GHG emissions.

NOPAT/Net Operating Profit after Taxes
EBIT after imputed income taxes.

NPS/Net Promoter Score
Performance indicator which measures our customers' willingness to recommend Covestro based on the question of how likely it is that they would recommend the company to a colleague or business partner, with scores ranging between –100 and +100.

P

PMDI/Polymeric Diphenylmethane Diisocyanate
A chemical compound from the class of aromatic isocyanates, primarily used in polyurethane foams.

PO/Propylene Oxide
A chemical compound from the class of epoxides used in the production of polyurethanes.

Prisma
Prisma is a share-based compensation program with a four-year performance period for senior executives and other managerial employees.

PSP/Profit Sharing Plan
Covestro PSP is the Group's short-term variable compensation system. It is based exclusively on the achievement of targets for the key performance indicators relevant to Covestro (EBITDA, FOCF, ROCE above WACC, and selected ESG criteria).

R

REACH Regulation
REACH stands for Registration, Evaluation, Authorisation, and Restriction of Chemicals. Regulation (EC) No. 1907/2006, which entered into force in 2007, standardizes EU chemicals law.

Responsible Care™ Initiative
Initiative by the German Chemical Industry Association (VCI) aimed at continuously improving health, environmental protection, and safety at its member companies.

RIR/Recordable Incident Rate
Total number of recordable workplace accidents and illnesses per 200,000 working hours.

ROCE /Return on Capital Employed
Ratio of EBIT after imputed income taxes to capital employed.

S

Scope 1, Scope 2, Scope 3 Emissions
The GHG Protocol distinguishes between direct emissions of greenhouse gases (Scope 1), emissions from the generation of externally purchased energy (Scope 2), and all other emissions arising in the value chain either before or after our business activities (Scope 3).

SDGs
The 17 United Nations Sustainable Development Goals were ratified by all UN member states and entered into force on January 1, 2016. Their objective is to combat global poverty, protect the planet, and secure peace and prosperity for all.

Stakeholders
Internal and external interest groups which are directly or indirectly impacted by the company's business activities and/or may be impacted in the future.

STOXX Europe 600 Chemicals
A sector index maintained by the index issuer STOXX. The STOXX Europe 600 is comprised of 600 companies from across Europe.

T

TCFD/Task Force on Climate-related Financial Disclosures
The TCFD was formed by the Financial Stability Board to develop a uniform framework for reporting on climate-related opportunities and risks.

TDI/Toluylene Diisocyanate
A chemical compound from the class of aromatic isocyanates, primarily used in polyurethane foams and coating systems.

TfS/Together for Sustainability
An initiative undertaken by various companies in the chemical industry to standardize supplier assessments globally in order to improve sustainability practices in the supply chain.

U

UN Global Compact
The world's largest responsible corporate governance initiative. The member companies undertake to implement 10 universal principles and regularly document their progress.

V

VCI/Verband der Chemischen Industrie
German chemical industry association.

W

WACC/Weighted Average Cost of Capital
Weighted average cost of capital reflecting the expected return on the company's equity and debt capital. Used for the internal measurement of the absolute value contribution.

Segment and Quarterly Overview

Segment Information 4th Quarter

	Performance Materials		Solutions & Specialties		Others /Reconciliation		Covestro Group	
	4th quarter 2022	4th quarter 2023	4th quarter 2022	4th quarter 2023	4th quarter 2022	4th quarter 2023	4th quarter 2022	4th quarter 2023
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales (external)	**1,916**	**1,588**	**1,975**	**1,703**	**73**	**55**	**3,964**	**3,346**
Intersegment sales	644	488	7	6	(651)	(494)	–	–
Sales (total)	**2,560**	**2,076**	**1,982**	**1,709**	**(578)**	**(439)**	**3,964**	**3,346**
Change in sales								
Volume	–17.5%	7.7%	–8.9%	–0.3%	-	-	–13.2%	3.1%
Price	–1.3%	–22.0%	3.3%	–10.2%	-	-	0.8%	–15.7%
Currency	3.6%	–2.8%	4.1%	–3.3%	-	-	3.8%	–3.0%
Portfolio	0.0%	0.0%	0.0%	0.0%	-	-	0.0%	0.0%
Sales by region								
EMLA	785	674	676	586	57	47	1,518	1,307
NA	516	414	533	427	13	5	1,062	846
APAC	615	500	766	690	3	3	1,384	1,193
EBITDA[1]	**(89)**	**16**	**108**	**185**	**(57)**	**(69)**	**(38)**	**132**
EBIT[1]	(600)	(126)	(37)	107	(58)	(71)	(695)	(90)
Depreciation, amortization, impairment losses and impairment loss reversals	511	142	145	78	1	2	657	222
Cash flows from operating activities	563	169	514	374	(238)	(166)	839	377
Cash outflows for additions to property, plant, equipment and intangible assets	187	190	99	110	3	4	289	304
Free operating cash flow	**376**	**(21)**	**415**	**264**	**(241)**	**(170)**	**550**	**73**
Trade working capital[2]	1,135	975	1,592	1,437	(21)	(26)	2,706	2,386

1 EBITDA and EBIT include the effect of intersegment sales on earnings.
2 Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of December 31, 2022/2023.

Segment Information Full Year

	Performance Materials		Solutions & Specialties		Others /Reconciliation		Covestro Group	
	2022	2023	2022	2023	2022	2023	2022	2023
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales (external)	**9,095**	**6,876**	**8,558**	**7,267**	**315**	**234**	**17,968**	**14,377**
Intersegment sales	2,967	2,194	35	27	(3,002)	(2,221)	–	–
Sales (total)	**12,062**	**9,070**	**8,593**	**7,294**	**(2,687)**	**(1,987)**	**17,968**	**14,377**
Change in sales								
Volume	–5.0%	–6.7%	–6.3%	–6.2%	-	-	–5.0%	–6.8%
Price	10.9%	–15.7%	9.4%	–6.4%	-	-	10.1%	–11.0%
Currency	5.8%	–2.0%	6.0%	–2.5%	-	-	5.9%	–2.2%
Portfolio	0.0%	0.0%	4.2%	0.0%	-	-	2.0%	0.0%
Sales by region								
EMLA	4,152	3,021	3,198	2,730	250	190	7,600	5,941
NA	2,447	1,844	2,140	1,860	52	31	4,639	3,735
APAC	2,496	2,011	3,220	2,677	13	13	5,729	4,701
EBITDA[1]	**951**	**576**	**825**	**817**	**(159)**	**(313)**	**1,617**	**1,080**
EBIT[1]	(28)	9	461	497	(166)	(320)	267	186
Depreciation, amortization, impairment losses and impairment loss reversals	979	567	364	320	7	7	1,350	894
Cash flows from operating activities	1,091	652	472	821	(593)	(476)	970	997
Cash outflows for additions to property, plant, equipment and intangible assets	547	490	277	270	8	5	832	765
Free operating cash flow	**544**	**162**	**195**	**551**	**(601)**	**(481)**	**138**	**232**
Trade working capital[2]	1,135	975	1,592	1,437	(21)	(26)	2,706	2,386

1 EBITDA and EBIT include the effect of intersegment sales on earnings.

2 Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of December 31, 2022/2023.

Quarterly Overview

	1st quarter 2022	2nd quarter 2022	3rd quarter 2022	4th quarter 2022	1st quarter 2023	2nd quarter 2023	3rd quarter 2023	4th quarter 2023
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales (external)	4,683	4,703	4,618	3,964	3,743	3,720	3,568	3,346
Performance Materials	2,388	2,461	2,330	1,916	1,792	1,789	1,707	1,588
Solutions & Specialties	2,222	2,165	2,196	1,975	1,883	1,872	1,809	1,703
EBITDA	**806**	**547**	**302**	**(38)**	**286**	**385**	**277**	**132**
Performance Materials[1]	620	367	53	(89)	173	302	85	16
Solutions & Specialties[1]	224	213	280	108	165	221	246	185
EBIT	589	307	66	(695)	39	166	71	(90)
Performance Materials[1]	475	204	(107)	(600)	29	158	(52)	(126)
Solutions & Specialties[1]	152	139	207	(37)	63	149	178	107
Financial result	(28)	(44)	(40)	(25)	(29)	(36)	(35)	(13)
Income before income taxes	561	263	26	(720)	10	130	36	(103)
Income after income taxes	417	198	11	(907)	(27)	45	(31)	(189)
Net income	416	199	12	(899)	(26)	46	(31)	(187)
Cash flows from operating activities	157	(272)	246	839	(19)	149	490	377
Cash outflows for additions to property, plant, equipment and intangible assets	140	190	213	289	120	159	182	304
Free operating cash flow	**17**	**(462)**	**33**	**550**	**(139)**	**(10)**	**308**	**73**

[1] The earnings of the Performance Materials and Solutions & Specialties reportable segments include the effect of intersegment sales on earnings.

Five-Year Summary

Five-Year Summary

	2019	2020	2021	2022	2023
	€ million	€ million	€ million	€ million	€ million
Sales (external)	**12,412**	**10,706**	**15,903**	**17,968**	**14,377**
Performance Materials[1]	6,173	5,468	8,142	9,095	6,876
Solutions & Specialties[1]	6,069	5,060	7,554	8,558	7,267
EBITDA	**1,604**	**1,472**	**3,085**	**1,617**	**1,080**
EBIT	852	696	2,262	267	186
Financial result	(91)	(91)	(77)	(137)	(113)
Net income	552	459	1,616	(272)	(198)
Earnings per share (€)[2]	3.02	2.48	8.37	(1.42)	(1.05)
Operating cash flows	1,383	1,234	2,193	970	997
Cash outflows for additions to property, plant, equipment and intangible assets	910	704	764	832	765
Free operating cash flow	**473**	**530**	**1,429**	**138**	**232**
Trade working capital[3]	1,965	1,949	2,952	2,706	2,386
Net financial debt	989	356	1,405	2,434	2,487
ROCE	+8.4%	+7.0%	+19.5%	+2.0%	+1.5%
Employees (in FTE)	17,201	16,501	17,909	17,985	17,520

1 Reference information for the segments for fiscal 2019 are based on unaudited figures due to the new organizational structure changed in 2021.

2 Figures based on weighted average number of voting shares outstanding that were subject to relevant changes resulting from, among other factors, the share buyback program between March 21, 2022 and October 26, 2023, and the capital increase on October 19, 2020.

3 Trade working capital includes inventories plus trade accounts receivable and contract assets, less trade accounts payable, contract liabilities, and refund liabilities as of the December 31 reporting date for the years 2019 to 2023. The reference information for fiscal 2019 was restated accordingly; see note 4 “Change in Presentation of Rebates Granted to Customers and Trade Working Capital” in the Annual Report 2020.

Financial Calendar

Annual General Meeting 2024	April 17, 2024
Quarterly Statement First Quarter 2024	April 30, 2024
Half-Year Financial Report 2024	July 30, 2024
Quarterly Statement Third Quarter 2024	October 29, 2024

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