

COMBINED MANAGEMENT REPORT

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MANAGEMENT REPORT PROFILE

Combined Management Report of the Covestro Group and Covestro AG

The Combined Management Report pertains to both the Covestro Group and Covestro AG. This report covers the period from January 1 to December 31, 2022. 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. Information that applies to Covestro AG only is identified accordingly. 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 Group Management Report. This includes the statements in accordance with the European Union's Taxonomy Regulation (2020/852). A nonfinancial statement in accordance with Sections 289c through 289e of the HGB does not have to be provided for Covestro AG.

Nonfinancial Reporting

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. Our objective here is to highlight how closely linked environmental and societal factors are with responsible corporate governance and the long-term success of our business. The Group Management Report and the supplementary sustainability information together comprise our annual sustainability reporting. We supplement the nonfinancial information in the Group Management Report by reporting additional content, which meets the requirements of the "with reference to GRI" reporting option of the Global Reporting Initiative's (GRI) Sustainability Reporting Standards (SRS) and is identified separately.

For all reportable aspects, the nonfinancial statement includes the policies we pursue in addressing environmental matters, employee matters, and social matters as well as respect for human rights and anti-corruption and bribery matters, the due diligence processes followed, as well as the outcomes of these strategies. Nonfinancial performance indicators are reported only when these are important to the Covestro Group.

As an integral part of the Group Management Report, the nonfinancial statement was audited with reasonable assurance by our auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (Germany). The supplementary sustainability information specifically identified as such additionally contributes to the transparency of our reporting, which meets the requirements of the "with reference to GRI" reporting option of the Global Reporting Initiative's (GRI) Sustainability Reporting Standards (SRS). We voluntarily report the management approaches for material topics in accordance with GRI 3-3 (2021). 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).

Environmental Performance Indicators

Environmental protection performance indicators are reported for all fully consolidated companies. Since these figures 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 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 2022 for the preceding fiscal year 2021.

The reporting of direct greenhouse gas (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 and includes all fully consolidated companies. If, in our efforts to achieve climate neutrality, measures 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. The global warming potential (GWP) factors correspond to the Fifth Assessment Report by the Intergovernmental Panel on Climate Change (IPCC).

Alternative Performance Measures

Throughout 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). These non-IFRS indicators should be considered a supplement to, not a replacement for, the financial performance measures determined in accordance with IFRSs. 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.](#)

COVESTRO GROUP AT A GLANCE

Company Profile

Organization and Business Model

Organization

Covestro is one of the leading global suppliers of high-tech polymer materials and application solutions developed for these materials. 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). The segments comprise seven business entities. These are set up according to their respective success factors. All mission-critical operations along the value chain are incorporated into these business entities. Covestro has thus focused its businesses perfectly on the requirements of individual markets and aligned them with its customers' needs.

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

The Performance Materials segment forms a separate business entity comprising Covestro's standard urethane components, standard polycarbonates, and base chemicals businesses. The focus here is on reliably delivering standard products at competitive cost. The Solutions & Specialties segment comprises 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 and application technology services.

→ See "Performance Materials Segment Strategy" and "Solutions & Specialties Segment Strategy."

In addition, the Group has established central corporate functions which 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 <ul style="list-style-type: none"> Performance Materials 	<ul style="list-style-type: none"> Strategy Portfolio Development Group Innovation Sustainability & Public Affairs Process Technology Engineering Information Technology & Digitalization Group Health, Safety and 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
Solutions & Specialties <ul style="list-style-type: none"> Engineering Plastics Coatings & Adhesives Tailored Urethanes Thermoplastic Polyurethanes Specialty Films Elastomers 	

Build
Run

As of December 31, 2022, the Covestro Group comprised 60 consolidated companies in 21 countries in addition to Covestro AG, and employed 17,985 people*.

→ 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 defines the company's portfolio, allocates resources, and decides on both the financial and nonfinancial steering and reporting of the Covestro Group.

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

Sucheta Govil is Covestro's Chief Commercial Officer (CCO). She is 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.

Dr. Klaus Schäfer is the company's Chief Technology Officer (CTO). He is responsible in that role for the corporate functions of Process Technology; Engineering; Group Health, Safety and Environment; and Group Procurement. He also coordinates the rollout of and compliance with global processes and standards and the rollout of initiatives in Covestro's production network. Dr. Klaus Schäfer will leave Covestro's Board of Management as of June 30, 2023, and hand the office of Chief Technology Officer (CTO) to Dr. Thorsten Dreier as of July 1, 2023.

Dr. Thomas Toepfer is Covestro's Chief Financial Officer (CFO) and additionally holds the position of Labor Director. His responsibilities comprise the corporate functions of Accounting; Controlling; Finance & Insurance; Information Technology & Digitalization; Investor Relations; Law, Intellectual Property & Compliance; Portfolio Development; and Taxes. Dr. Thomas Toepfer is also responsible for country-specific topics in the United States and China.

→ See "Composition of the Board of Management."

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."

Business Model

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. Covestro therefore covers 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, cosmetics and health, as well as in the chemical industry itself. In addition, materials by Covestro are used to manufacture medical equipment, safety barriers, and sneeze and splash guards used to combat and control the spread of the coronavirus pandemic.

* 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.

Global megatrends play a considerable role in this process: Advancing climate change, the growing global population, increasing urbanization, and new forms of transportation are changing the lives of billions of people. Consequently, the polymer industry will have to develop as well. Companies like Covestro are facing new challenges and playing a part in developing innovative solutions as a result. For this reason, Covestro fully aligns its entire production and product range – and ultimately the company itself – to the circular concept in the long term. As part of that, we intend to accelerate transformation to a climate-neutral and resource-conserving economy. The focus here 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 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. Covestro is continually increasing its share of alternative raw materials in production to replace conventional materials, some of which require large amounts of raw materials from nonrenewable sources.

→ 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

Segments

Performance Materials

The Performance Materials segment focuses on developing, producing, and reliably supplying high-performance materials such as standard polyurethanes and polycarbonates, as well as base chemicals. These include diphenylmethane diisocyanate (MDI), toluylene diisocyanate (TDI), long-chain polyols, and polycarbonate resins. Those materials are used in sectors such as the furniture and wood processing industry, the construction industry as well as the automotive and transportation industry. These materials are used in roof structures, insulation for buildings and refrigerators, mattresses, and car seats, among other applications.

Solutions & Specialties

The Solutions & Specialties segment consolidates Covestro's solutions and specialties businesses, and combines chemical products 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 wind turbine rotor blades; precursors for coatings and adhesives; laptop cases; floodlights; and high-quality specialty films.

Procurement

Purchasing at Covestro is handled by the corporate Group Procurement function. Group Procurement works with the business entities and regional hubs of the corporate Supply Chain & Logistics function to ensure the timely global supply of goods and services to all divisions of the company on the best possible terms and conditions. This ensures that the Group's high quality standards are met. Furthermore, Group Procurement is responsible for ensuring that Covestro's 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 the Supply Chain."

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

In the year 2022, Group Procurement defined details of the strategy and strategic principles (cost optimization, supply chain optimization, sustainability, circular economy, and business proximity). The objective is still to generate a competitive advantage for Covestro and make a decisive contribution to overall value. 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



Covestro is an energy-intensive company and 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, in the procurement of sources of energy, Covestro, along with large parts of the chemical industry, is very majorly affected by the persistently high and volatile prices amid the Russian war against Ukraine. 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. Group Procurement is planning to source alternative fuels, such as hydrogen, ammonia, biogas, or green methane, wherever the potential to switch to other fuels has been identified in production processes. In this way, Covestro will be able to reduce its current dependence on gas in the medium to long term. At the same time, the significant increase in energy prices in the year 2022 is increasingly driving up demand for circular solutions. We have for this reason redoubled our efforts to actively develop new long-term supply plans and signed purchase contracts for renewable energy (particularly electricity). This resulted in Procurement sourcing around 740 GWh of electricity (around 12% of total usage) from renewable sources in the year 2022.

→ See "Electricity from renewable sources."

GHG emissions in connection with the procurement of raw materials account for the majority of Covestro's Scope 3 emissions. Group Procurement therefore plays a key role in achieving any future Scope 3 reduction target. 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 "Sustainability in the Supply Chain."

In fiscal 2022, goods and services were procured from some 16,000 suppliers (previous year: some 13,000) in 61 countries (previous year: 66) for €14.5 billion (previous year: €11.3 billion)*. In fiscal 2022, the procurement spending of Covestro's main sites in Germany, the United States, and China accounted for 78% of Covestro's global spending. Most of this amount – 81% – went to local suppliers in the individual countries.

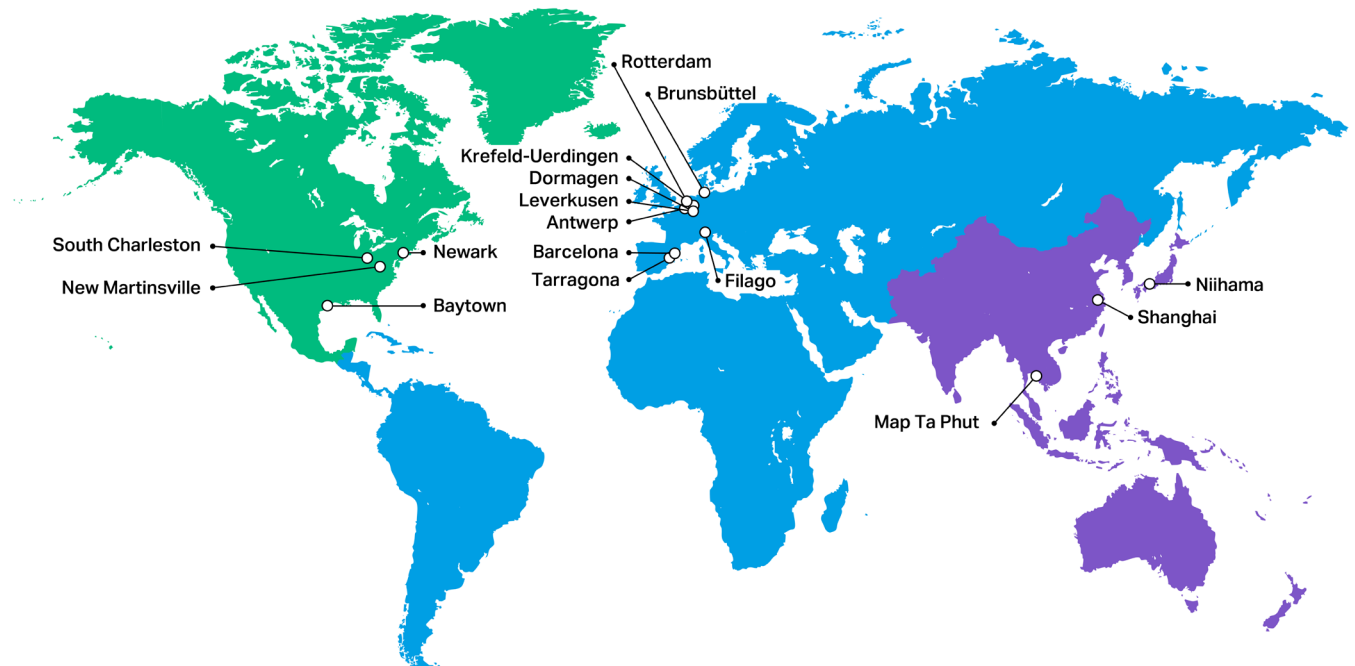
The most important raw materials for our products are petrochemical substances such as phenol, benzene, propylene/propylene oxide, toluene, and acetone – which collectively account for 40% of our purchasing value (previous year: 35%). Moreover, the operation of our production facilities requires large 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.

* Due to the ongoing system integration of Resins & Functional Materials (RFM) acquired from Koninklijke DSM N.V., Heerlen (Netherlands), the RFM-related procurement volume was only partially included for fiscal 2021. Since fiscal 2022, RFM fully integrated.

Production Sites and R&D 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 50 production sites and 13 R&D sites in the EMLA, NA, and APAC regions.

Covestro's production and R&D sites



NA ¹		EMLA ²		APAC ³	
Mexico	United States	Belgium	Netherlands	China	Japan
Santa Clara ● S & S	Baytown ● PM S & S	Antwerp ● ● PM S & S	Rotterdam ● PM	Shanghai ● ● PM S & S	Niihama ● PM S & S
	New Martinsville ● S & S	France	Geleen ● ● S & S	Guangzhou ● S & S	Amagasaki ●
	Newark ● S & S	Fos-sur-Mer ● PM	Hoek van Holland ● S & S	Kunshan ● S & S	Sakai ● S & S
	South Charleston ● S & S	Romans-sur-Isère ● S & S	Schoonebeek ● S & S	Qingdao ● S & S	Tsuchiura ● S & S
	Augusta ● S & S	Germany	Waalwijk ● ● S & S	Shenzhen ● S & S	Taiwan, Greater China
	Channelview ● PM	Brunsbüttel ● PM	Zwolle ●	Shunde (Foshan) ● S & S	Changhua ● S & S
	East Providence ● S & S	Dormagen ● ● PM S & S	Spain	Tianjin ● S & S	Linyuan ● PM
	Elgin ●	Krefeld-Uerdingen ● ● PM S & S	Barcelona ● S & S	India	Pingtung ● S & S
	Frankfort ● S & S	Leverkusen ● ● PM S & S	Tarragona ● PM	Ankleshwar ● S & S	Taoyuan City ●
	Pittsburgh ●	Bornlitz ● S & S	Parets ● S & S	Cuddalore ● S & S	Zhangbin ● S & S
	South Deerfield ● S & S	Markt Bibart ● S & S	Santa Margarida ● S & S	Greater Noida ● S & S	Thailand
	Wilmington ● ● S & S	Meppen ● S & S	United Kingdom		Map Ta Phut ● PM S & S
		Italy	Cheadle Hulme ● S & S		
		Filago ● S & S			

SITES & FACILITIES: ○→ 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, Covestro has put in place wide-ranging programs and initiatives to achieve and steadily improve performance in the areas of safety, costs, and plant availability.

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 its technologies. Key growth projects in the year 2022 included the new production line for prepolymers of the Desmodur® 15 product group in Barcelona (Spain) and precursors of the Vulkollan® product group in Map Ta Phut (Thailand).

→ 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."

Marketing and Sales

Industry-specific marketing and sales teams are responsible for developing new business with prospective customers and expand 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.

In recent years, selected business entities transferred some of their sales activities to the Covestro Direct Store, our digital sales channel. In fiscal 2022, around 13,000 transactions (previous year: more than 13,000 transactions) with a total value in the mid- to upper three-digit million euro range (previous year: mid- to upper three-digit million euro range) were processed via this digital platform. Both the number of transactions and their total value were therefore almost at the prior-year level, despite the dynamic business environment. Besides selling products through the Covestro Direct Store, the company is also working on placing a selection of products on third-party digital sales platforms to align our range of offerings even more closely with our customers' needs and to give them a completely digital customer experience.

As part of our Sustainable Future strategy and the Customer Centricity concept described there, we use the Net Promoter Score (NPS) to measure customers' willingness to recommend Covestro (based on 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 2022. According to those surveyed, the main reasons for this high willingness to recommend Covestro are the company's customer service, the good business relationship, and product quality.

→ See "Group Strategy."

Our global marketing and sales activities continue to focus on progressive digitalization, the circular economy, and collaboration. We have significantly expanded the range of webinars and digital events we offer. We participate in trade fairs in hybrid form to supplement and enhance physical events with digital content. In this way, we reach out to more people and offer our customers a wider choice of ways to make contact and interact with us. The tool we use to manage hybrid trade fair participation is called Digital Event Space, a platform on which customers can, for example, prepare for their visits to physical events, make personal appointments, hold digital meetings, view the exhibition online in advance, and obtain a large range of additional information. In addition to the ability to digitalize events, we also scrutinize our marketing activities to establish to what extent they can make a contribution to sustainability. Our stand for this year's appearance at the K 2022 plastics trade

fair in Düsseldorf (Germany), was redesigned using, among other items, reusable furniture, which can be redeployed for future trade fair appearances.

In addition, we conducted marketing campaigns on a number of topics, such as the Sonnenwagen project, which involves a solar car developed by a team of students at RWTH Aachen University (Germany). Built using Covestro materials, it takes part in international races and world record attempts. The vehicle is continuously enhanced and demonstrates that the possibilities of zero-emission mobility have by no means been exhausted. The Sonnenwagen is only one example of how Covestro and its partners jointly develop advanced solutions and drive the creation of a better, more climate-friendly future. Another campaign that we have launched relates to the Circular Intelligence (CQ) label for products, a module on our path to becoming fully circular. As part of this campaign, a brand named Evocycle® CQ has been introduced for recycling programs within the company. The first initiative under this brand is the Evocycle® CQ mattress, for which chemical recycling is used to obtain recycling polyol as well as recycled toluylene diamine (TDA); these compounds are then returned to the value chain for high-quality polyurethane foam. In this initiative, we collaborate with partners at all stages of the value chain, such as taking back, recycling, and reusing materials.

→ See “Labeling of Circular Solutions in the Product Portfolio” and “Other Collaborative Projects.”

The corporate Supply Chain & Logistics function with its regional hubs in EMLA, NA, and APAC is primarily responsible for customer care and efficient order processing. Supply Chain & Logistics owns the entire process – from order acceptance to factory logistics, and from shipping planning to invoicing and complaints handling. Thanks to customer-oriented support in the individual regions, orders can be processed particularly quickly and smoothly. Covestro makes use of channels such as e-commerce platforms for order entry and processing. Our customers can place orders and check the status of their orders at any time in the Order@Covestro self-service portal. Order@Covestro is not used to initiate new business: Rather, the portal complements the services we provide to our existing customers and helps us handle routine inquiries during times outside our customer service and sales staff’s business hours. Covestro is working in all regions on a shipment tracking solution that is to give customers a transparent overview of their orders and deliveries.

Covestro operates a global production network and produces in the EMLA, NA and APAC regions, in particular for customers in the respective regions. Our products are transported to the customer by logistics service providers, which we select and evaluate based on strict safety, environmental, and quality criteria. In addition to protecting people and the environment, 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 determined worldwide 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 in which we evaluate our transport service providers on the basis of the responses from our customers. We use this data to derive corrective and preventive measures for the purpose of continually increasing quality and customer satisfaction and lowering the error rate and the incidence of complaints.

In the reporting year, we received 5.11 customer complaints 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. Overall, the year 2022 was characterized by a challenging transport environment, mainly due to the coronavirus pandemic and the Russian war against Ukraine. The preferred mode of transportation in the regions is rail or intermodal – a combination of different modes of transportation. When choosing the transport route, we pay particular attention to resource efficiency and the associated reduction in GHG emissions. Projects on drives with alternative sources of energy and 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.

→ See “Sustainability in the Supply Chain.”

Strategy

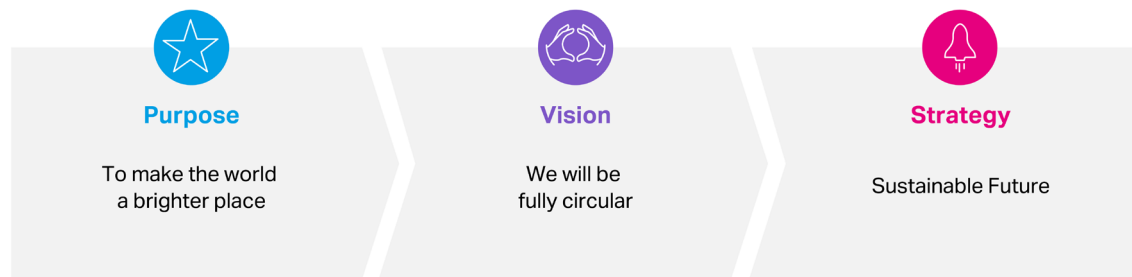
Purpose and Vision

Advancing climate change, the growing global population, increasing urbanization, and new forms of mobility are enormous global challenges. Covestro faces these challenges, thus bringing together economic success and 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 as embodied by our employees are major factors in putting our purpose, vision, and strategy into action.

→ See "Corporate Values and Corporate Culture."

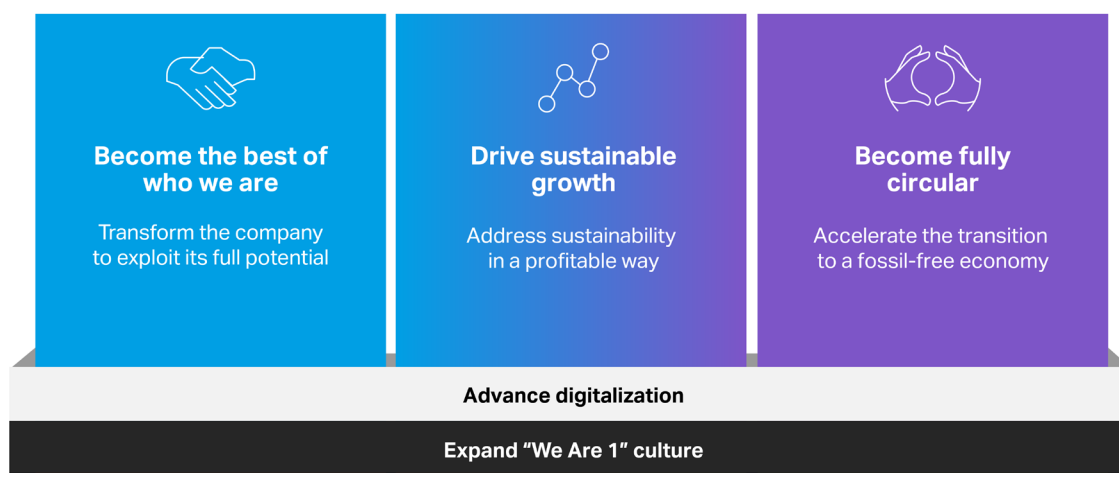
Group Strategy

Strategic Goals and Activities

Our overarching goals derived from our purpose and our vision set the course for our Group's Sustainable Future strategy. This reflects the new influence of our vision and 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. We want to focus even more on the factors that make our core business a success.

Our customers are our top priority in this process. 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.

We have 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 will be completed by the end of the year 2023. Our organization, workflows, and responsibilities were already restructured in the year 2021. This includes structuring our business into standard products (Performance Materials) and specialty products (Solutions & Specialties). Furthermore, the program aims 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.

“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. To ensure that our portfolio is fit for the future, we intend to invest in market segments that are attractive and sustainable for the long term. In the future, we will orient 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), even more strongly toward sustainability.

The most important elements for driving this development 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” and Compensation Report, section “Long-Term Variable Compensation.”

We plan to build plants faster and more cost-effectively in future to increase the efficient use of our investment capital without sacrificing the reliability or safety of our facilities. For this reason, 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 apply a blueprint approach – i.e., we want to use completed construction projects as a template for future projects.

“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. Implementation of the third strategic chapter, and thus our vision, is driven by the Group’s structure established in fiscal 2021 and our global strategy program “Circular Economy.” This program has consolidated and driven the implementation of circular economy activities at Covestro in a comprehensive global structure since fiscal 2019. In addition to management of the implementation of activities aimed at achieving a circular economy, the program covers strategic issues such as alternative raw materials, marketing products based on these raw materials, and using recycling to develop sources for raw materials. Building on this foundation, in the reporting year, Covestro developed a program to transform the production sites to achieve climate neutrality and published sustainability targets for reducing CO₂ emissions.

→ See “Circular Economy” and “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 will increasingly work on establishing collaborative partnerships and networks with our customers, suppliers, research institutes, and other solution providers throughout the value cycle.

→ For more information on our activities, 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 sold to the Solutions & Specialties segment at arm’s length prices. The Performance Materials segment exclusively manufactures standardized products, aiming mainly to increase efficiency through cost management as well as process innovations. There is an increasing focus on sustainable products in this regard, such as renewable toluylene diisocyanate (TDI) and climate-neutral diphenylmethane diisocyanate (MDI).

In the medium to long term, demand for polyurethanes is expected to grow sharply. 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. 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, anticipated 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. In the future, the majority of our polycarbonate volume will be passed 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 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.

Many of the products of the Performance Materials segment are further processed in the Solutions & Specialties segment or sold with additional, customer-focused services.

Intersegment transactions are conducted at arm’s length and reported separately as intersegment sales.

Solutions & Specialties Segment Strategy

The Solutions & Specialties segment covers a broad range of specialty products and customer-specific solutions 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). Covestro projects above-average growth in this area, above all in the Engineering Plastics and Specialty Films business entities.

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 core element of the segment's 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 complicated projects for customers, 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.

Management

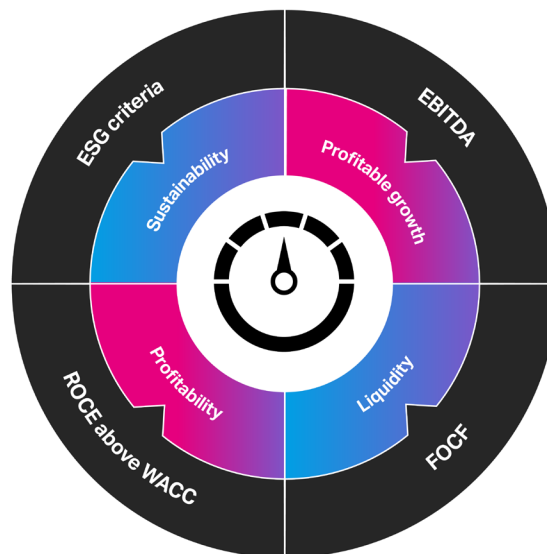
Management System

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 nonfinancial performance indicators.

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 profitability, liquidity, profitable growth, and sustainability, each account for one quarter of the calculation formula used to measure target attainment. As a result, all employees can share in the company's success.

→ See "Overall Assessment of Business Performance and Target Attainment" and Compensation Report, section "Short-Term Variable Compensation."

EBITDA

EBITDA is used to assess profitable growth of Covestro and its reportable segments. EBITDA replaced core volume growth as a key management indicator in the reporting year. It represents EBIT plus amortization and impairment losses on intangible assets, and depreciation and impairment losses on property, plant and equipment, less impairment loss reversals.

→ See "EBIT" and "EBITDA."

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 company'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, the company 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. 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
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The weighted average cost of capital (WACC) is relevant to the calculation of ROCE above WACC and reflects the expected return on the entire company'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

Since the year 2022, a sustainability component, measured against selected ESG criteria, has been laid down in the management system. 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 the main sites. Other criteria relating to social and corporate governance are also to be incorporated in the future.

→ See "Scope 1 and Scope 2 GHG Emissions."

* Since the year 2022, the imputed income taxes have been determined by multiplying the imputed tax rate of 25% (previously: effective tax rate) by the operating result (earnings before interest and taxes, EBIT).

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.

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 company 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 liabilities less cash and cash equivalents, current financial assets, and receivables from financial derivatives.

→ See "Cash Flows from Financing Activities."

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; sustainability; innovation; employees; health, safety, environment, energy, and quality (HSEQ); and compliance. The standards outlined in these policies must be adhered to by all employees worldwide. Additional details are provided in directives. Local procedures are used to implement the directives in the country subsidiaries. Compliance with the directives and local instructions is verified using internal audits and other measures. In addition, issues and action plans as well as target attainment are monitored in a management review. Corporate policies, directives, and local procedures together make up the Group regulations.

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

[Supplementary information >](#)

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.

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."

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."

Employees

Covestro's success is based on the outstanding skills and strong commitment of its employees. We therefore offer our employees a good and safe working environment and 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."

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 HSEQ Group Regulation 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."

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, which are anchored in our internal regulations and are applicable to all employees worldwide.

→ See "Compliance."

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 terms of lobbying in particular, we have laid down clear and binding rules for our engagement in the political arena. In combination with comprehensive Group regulations applicable worldwide, the voluntary commitments build on 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. Covestro does not make any donations as a company to political parties, politicians, or candidates for a political office. The associations in which Covestro is a member make donations under their own responsibility and according to the respective relevant legislation, in particular taking account of laws related to donations to political parties.

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

[< Supplementary information](#)

Integrated Management System for Health, Safety, Environment, Energy, and Quality

Covestro's stated aims are to take preventive measures to protect employees, suppliers, and service providers; ensure uninterrupted operations; and continually improve quality. The Board of Management has tasked the management of the corporate Group Health, Safety and Environment (HSE) function with this responsibility directly. 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 (ISO 45001), the environment (ISO 14001), energy (ISO 50001), and quality (ISO 9001).

Adherence to processes and workflows is verified 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 ongoing 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 2022, 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.

Last year's acquisition 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 beyond the year 2023 in specific cases.

→ See "Health and Safety" and "Environmental Impact of Own Operations" for additional details on the aforementioned targets.

The corporate Group HSE function is responsible for the integrated HSEQ management system, which comprises the following three elements:

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."

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) and ISO 50001 (energy management). 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 standards¹

	2021	2022
	%	%
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)	48	44

¹ In % of business activity, measured according to energy usage.

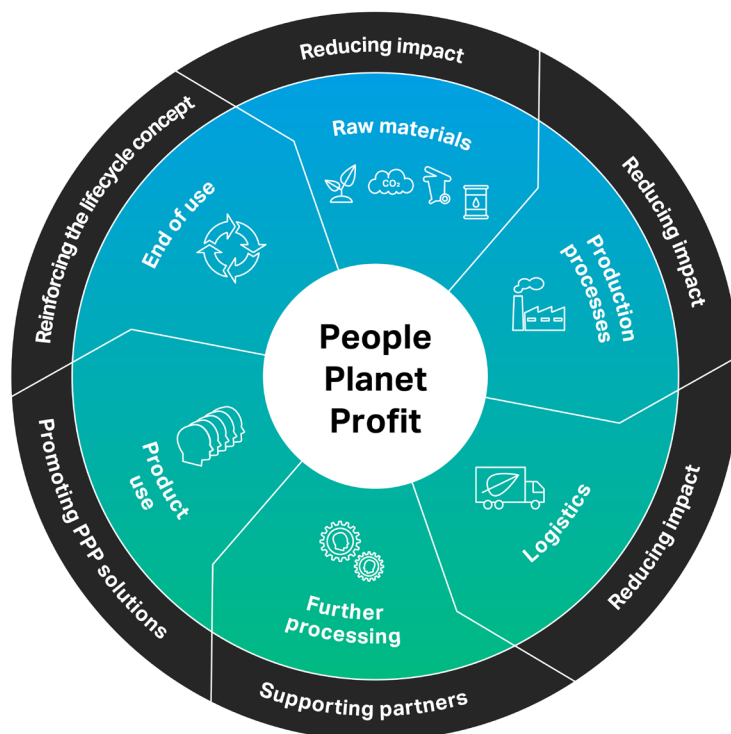
Sustainability

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. We announced in the year 2022 that we would reach net-zero emissions* by the year 2035 in our own production and in the provision and use of energy produced outside the company at all environmentally relevant sites. Moreover, a sustainability component, measured against selected ESG criteria, was laid down in the management system in the reporting year.

→ See “Covestro’s Sustainability Targets” and “Management System.”

We integrate sustainability into our business activities, while at the same time ensuring that we deal with related topics and issues of greatest 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 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



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

* 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.

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.

[Supplementary information >](#)

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
No Poverty	●	●	●	●●	●
Zero Hunger	●	●		●●	●
Good Health and Well-Being	●●●	●●	●●	●	●●
Quality Education			●	●	●●●
Gender Equality			●●	●	●●
Clean Water and Sanitation	●	●	●●●	●●	●●
Affordable and Clean Energy	●●	●●●	●		●
Decent Work and Economic Growth	●●●	●●	●●●	●	●●
Industry, Innovation and Infrastructure	●●	●●	●●	●●	●●
Reduced Inequalities	●		●	●	●
Sustainable Cities and Communities	●●	●●	●	●●	●●
Responsible Consumption and Production	●●●	●●●	●●●	●●	●
Climate Action	●●●	●●●	●●	●	●
Life Below Water	●		●		●
Life on Land	●		●		
Peace, Justice and Strong Institutions			●	●	●●
Partnerships for the Goals	●	●●	●●	●●●	●●●

● Low ●● Medium ●●● High

Internal analysis from fiscal 2017; updated in fiscal 2022 with reference to R&D projects, core business products, production, workflows, business practices, inclusive business, and social engagement (abridged process).

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.

[< Supplementary information](#)

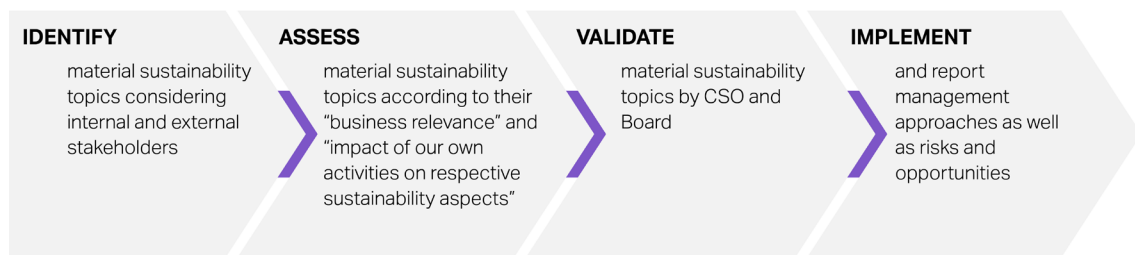
Materiality Assessment

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 Group Management Report.

Materiality Assessment Process

Regularly conducted materiality assessments help us to identify and prioritize the sustainability topics most important to the company. We perform both comprehensive materiality assessments every three to four years and annual reviews, an abridged process with reduced scope and effort. The most recent comprehensive materiality assessment was conducted in the fiscal year 2020. In fiscals 2021 and 2022, we reviewed all material topics and modified them as necessary in line with the latest developments. Both comprehensive and annual reviews are conducted in four steps: identify, assess, validate, implement. In the reporting year, we took account of the revised Global Reporting Initiative (GRI) Standards and from now on report "in accordance with GRI." The amendments to the GRI Standards led to stakeholder relevance, the third materiality dimension that was previously considered, being dropped from explicit consideration; it will instead be dealt with along with the remaining materiality dimensions. This did not affect the assessment of material sustainability topics.

Steps in the materiality assessment process



Identify

We complete a comprehensive analysis every three to four years to identify the material sustainability topics that could be significant for Covestro and compile an extensive list of topics from internal and external sources. 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, an internal committee of experts assesses the material sustainability topics for their relevance to Covestro; this process takes feedback and opinions of external and internal stakeholders into account. To identify the material sustainability topics for Covestro, we apply the two dimensions of materiality: "business relevance" and "impact of Covestro's activities on the respective sustainability aspects." Rated on a scale from "not relevant" to "highly relevant," business relevance takes account not only of the possible or real financial impact of a sustainability aspect on the company, but also issues that receive a lot of attention from the Board of Management, strategic topics, or opportunities and risks. When assessing the "impact of Covestro's activities on the respective sustainability aspects," likewise rated on a scale from "not relevant" to "highly relevant," probability, scale and severity, duration and irremediability, and opportunities and risks for people and the environment are considered. Sustainability topics are considered material if they have at least medium relevance in one of the two materiality dimensions.

Validate

The internal committee of experts, which is involved in the review of the material sustainability topics, confirms the result of the materiality assessment. 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 expert functions according to the need for action identified. This includes a review of nonfinancial opportunities and risks as part of risk management.

→ 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."

In the reporting year, the annual review was conducted by a committee of experts consisting of employees from the corporate functions (including, but not limited to, Strategy; Portfolio Development; Investor Relations; Group Health, Safety and Environment; Sustainability & Public Affairs) and from Risk Management, as well as topic owners. This group was tasked with responsibilities including bringing in the views of stakeholders from inside and outside the company. In addition, a global network of employees whose work interfaces with the area of sustainability was surveyed on possible topics to be included for review in the materiality assessment. The feedback was taken into account by the committee of experts when it identified and evaluated the material sustainability topics.

Material Sustainability Topics in Fiscal 2022

The committee of experts confirmed the material sustainability topics identified in the previous year, also taking into account recent external developments, such as the energy crisis. Moreover, the material sustainability topics were aligned more closely with the Sustainable Future strategy.

Materiality matrix

Impact of our own activities on sustainability aspects

High			<ul style="list-style-type: none"> • Circular economy • Climate neutrality • Sustainable R&D based innovation portfolio • Sustainable product portfolio & product stewardship
Medium	<ul style="list-style-type: none"> • Air quality, water & waste • Biodiversity • Inclusive business • Sustainability in sourcing 	<ul style="list-style-type: none"> • Diversity, equity & inclusion • Human rights 	<ul style="list-style-type: none"> • Health & safety
Low	<ul style="list-style-type: none"> • Community engagement/donations 	<ul style="list-style-type: none"> • Compliance • Corporate governance • Sustainable finance 	<ul style="list-style-type: none"> • Employer attractiveness
	Low	Medium	High
	Business relevance		

The previous year's topics ("Recyclability & end-of-life solutions," "New business models," and "Alternative raw materials") were consolidated under the "Circular economy" topic. We devote our expertise in chemical processes to supporting the development of recycling processes for used materials for plastics production. Covestro aims to use alternative raw materials to switch the fossil raw materials we use in production to renewable. Through our activities in these areas, we develop innovative action areas for implementing our vision of becoming fully circular.

→ See "Circular Economy" and "Innovation."

The material sustainability topic of "Climate neutrality" combines the Scope 1, Scope 2, and Scope 3 "GHG emissions" and "Renewable energy," which reflect the aspects of the goal we published in the reporting year to become climate-neutral by the year 2035 in our own production (Scope 1 emissions) and in the provision and use of energy produced outside the company (Scope 2 emissions) at all environmentally relevant sites. In addition to energy efficiency measures for the manufacture of our products, renewable energy will continue to be used as part of our efforts. Innovative approaches will be required in particular for reducing our Scope 3 GHG emissions. We want to announce a reduction target for our Scope 3 GHG emissions in fiscal 2023.

→ See "Climate Neutrality."

The material sustainability topic of "Sustainable products and product stewardship" combines the previous year's topics of "Sustainable product portfolio" and "Product stewardship"; it is of particular importance for the implementation of our Sustainable Future strategy. For us, a sustainable product portfolio plays a key role in fulfilling our purpose of becoming fully circular and making our contribution to climate neutrality. To us, the safe handling of our products is the prerequisite to making our product portfolio sustainable.

→ See "Sustainable Products and Product Stewardship."

Our "Sustainable R&D-based innovation portfolio" forms the basis for a sustainable product portfolio. Since the year 2017, we have aligned innovation more closely with the SDGs as a way of driving sustainable product development. Covestro's goal is to devote 80% of its R&D costs by 2025 to projects that contribute to achieving the SDGs.

→ See "Innovation."

"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. The topic's relevance to our business has increased year-on-year as a result. We therefore continue to pursue innovative solutions to topics that concern our employees.

→ See "Promoting Diversity, Equity, and Inclusion."

The business relevance of the material sustainability topic of "Health and safety" increased in the reporting year in view of our accident statistics. 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 topic, which combines the sub-topics of "Workplace health and safety" and "Process and plant safety," is an integral part of our integrated Health, Safety, Environment, Energy, and Quality (HSEQ) management system. We strive to eliminate workplace incidents and accidents and operate our plants safely to protect people and the environment.

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

For the material sustainability topic of "Human rights," we have likewise established an effective management system to contribute to respect for human rights in all the Covestro Group's activities and throughout global supply chains and value chains, and to prevent potential human rights violations. We expect the business relevance of this topic to continue to increase.

→ See "Human Rights."

Our commitment to sustainability also includes our suppliers. We promote "Sustainability in the supply chain" with social, ethical, and environmental standards for new and existing 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 the Supply Chain."

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. Although we continue to pursue the aim to have 10 million people in underserved markets benefit from our solutions by the year 2025, the topic's significance to us declined in the course of the fiscal year in relation to other material sustainability topics.

→ See "Inclusive Business."

The topic of "Air quality, water, and waste" is an integral part of our integrated HSEQ management system. Aspects associated with this topic (emissions into the air, waste, and wastewater) are integral to our management and business processes. Emissions are included in the collection of data throughout the Group and in environmental impact assessments. We strive to reduce waste streams by disposing of waste by type and implementing economically feasible recycling processes. We view water and wastewater holistically with regard to water usage and quality as well as wastewater volumes and possible plastic waste in the world's oceans.

→ See "Environmental Impact of Own Operations" and "Integrated Management System for Health, Safety, Environment, Energy, and Quality."

The material sustainability topic of "Employer attractiveness" is highly relevant to our business. 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 "Place to Be' Action Area."

Our commitment to sustainability is also reflected in our financing activities. With our material sustainability topic of "Sustainability in finance," we firstly want to increase our attractiveness for investors interested in sustainability; secondly, financial instruments linked to sustainable performance offer attractive possibilities for obtaining sustainable capital. Already, important financial instruments are linked to the performance of relevant strategic sustainability rankings and have a direct impact on our cost of financing.

→ See "Sustainable Finance" and "Financial Position."

The material sustainability topics of "Corporate Governance" and "Compliance" form the foundation of our business practices. Both topics are embedded in our organization's processes and workflows.

→ See "Compliance."

We anticipate that the material sustainability topic of "Biodiversity" will gain in business relevance in the future. Contributing factors will be our commitment to a circular economy and environmental protection and the associated increase in the use of biobased raw materials. In connection with our alternative raw materials, we have begun to have sites certified under the ISCC PLUS system. International Sustainability and Carbon Certification (ISCC) is a recognized system for the sustainability certification of biomass and bioenergy. The standard, which covers all stages of the value chain, is recognized worldwide. It is a supply chain standard and therefore also includes requirements for producers of these alternative raw materials.

→ See "Circular Economy."

Although “Transparency and trust” was no longer explicitly considered a material sustainability topic in the fiscal year under review, internal and external stakeholder expectations were nevertheless addressed with different activities.

While we want to contribute to sustainable development through our “Social engagement and donations” activities, this topic has not been treated as a material sustainability topic since the reporting year. Our work continues, however, and we report on it on our website and through social media channels.

Sustainability Management

Covestro’s Sustainability Targets

We have already embedded sustainability-related factors in our 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. In the year 2022, the direct and indirect GHG emissions, measured in terms of CO₂ equivalents, of the main sites were to this end 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. 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 as from the year 2022 applies to all Covestro employees worldwide, including the Board of Management; any exceptions are essentially due to collective bargaining arrangements.

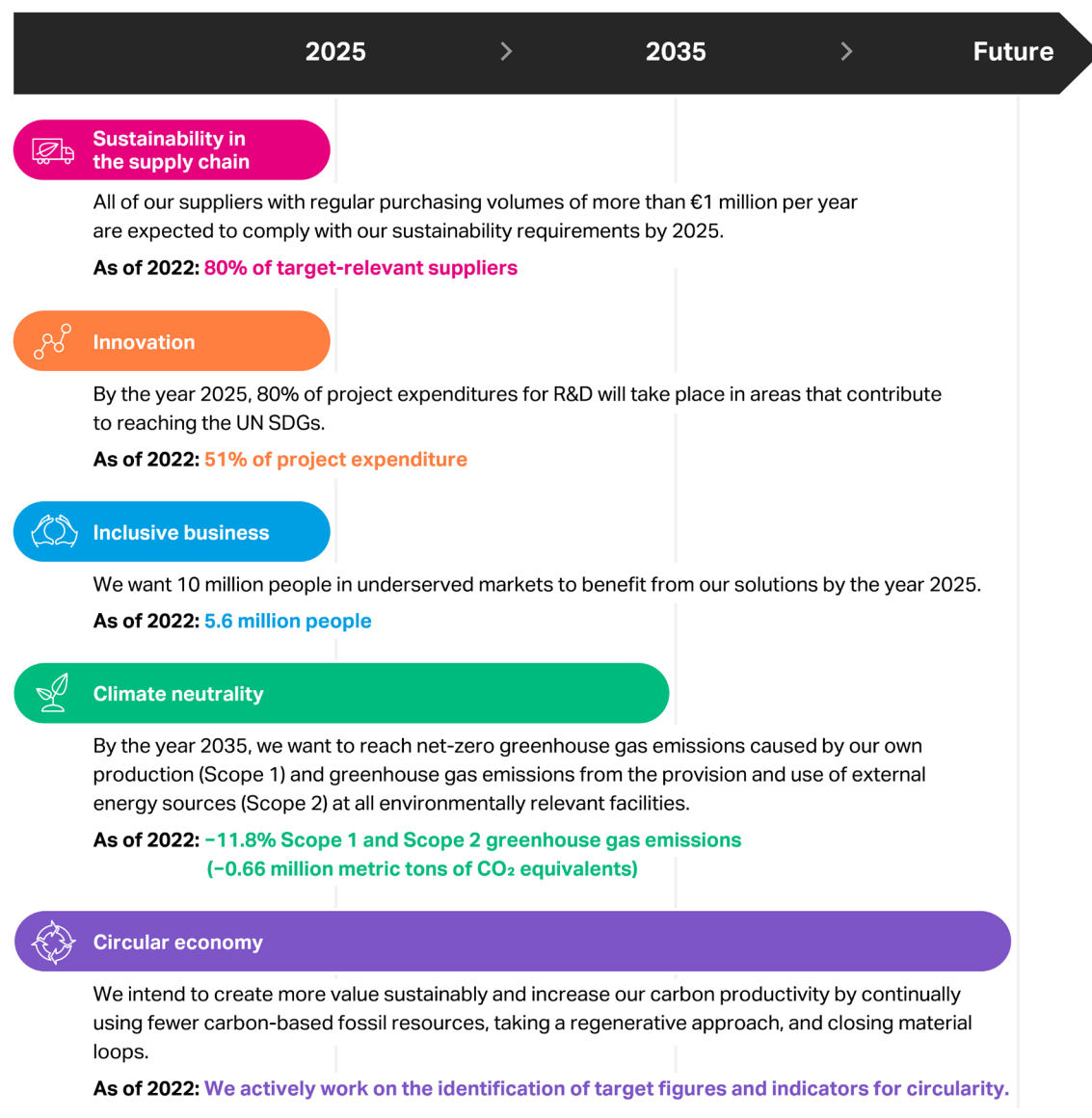
→ See “Management System.”

In addition, back in 2021, we 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 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. As a result, we announced our climate neutrality goal in the reporting year. We report on details of our sustainability targets and progress toward meeting them in the appropriate sections of the Group Management Report:

Covestro's sustainability targets



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 environmentally relevant 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. This target replaces our previous target to deploy at least 30% women in the first two management levels below the Board of Management by June 30, 2022. Due to the change in general conditions and the impact this had on the composition of our management structure, we did not meet this target, even though we increased the proportion of women in the Covestro Group by 2022.
→ See “Declaration on Corporate Governance.”

Monitoring

Sustainability is a core element of our Group strategy with an increasing impact on our business activities. Oversight of sustainability at Covestro begins with the company's highest governing body, the Supervisory Board, whose Sustainability Committee was established in the year 2021. It 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. As of December 31, 2022, the proportion of women was 25%. 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 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.

+ Additional information is available at: <https://www.covestro.com/en/company/management/supervisory-board>

+ See Capital Market, section “Report of the Supervisory Board.”

Even though responsibility for sustainability has been assigned to our CEO, this area is dealt with by the Board of Management as a whole. 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 included, for example, the targets to cut Scope 1 and Scope 2 GHG emissions announced at the beginning of 2022, progress in the drafting of reduction targets for Scope 3 GHG emissions, regulatory developments such as the EU Taxonomy Regulation, the German Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains, and the assessment of our investment portfolio according to sustainability criteria.

A central governance body for environmental, social, and governance (ESG) 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. The ESG Governance Body (ESG GoB) 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 committee, and the Head of the corporate Sustainability and Public Affairs (S & PA) 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 the sustainability agenda. At regular meetings held in the reporting year, the issues discussed by the ESG GoB included the targets for Scope 1 and Scope 2 GHG emissions announced at the beginning of the year 2022, possible reduction targets in relation to Scope 3 GHG emissions and the circular economy, rating performance, and the strategic focus of ratings. Other topics of discussion were progress of the portfolio sustainability assessment, mass balancing, and donations in response to the humanitarian crisis in Ukraine.

Composition of the ESG Governance Body (ESG GoB)



The head of the corporate S & PA function, who also acts as Chief Sustainability Officer (CSO), reports to the CEO. As a corporate function, S & PA defines the sustainability strategy and spearheads general sustainability projects and programs in the company. In addition, S & PA coordinates Covestro's sustainability activities and supports the other corporate functions and business entities in implementing them in operations. Furthermore, it represents Covestro's interests outside the company.

The corporate function, which consists of several central departments, is responsible for circular economy, climate and energy, sustainable product portfolio management, stakeholder engagement, and social issues. The departments are supported by additional regional experts who pursue an integrated sustainability and interest agenda while taking into account regional requirements. The central departments report to the CSO.

[Supplementary information >](#)

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 "Material Sustainability Topics in Fiscal 2022" and "Human Rights."

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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Together for Sustainability initiative Sustainability events and workshops with suppliers Regular exchange via staff with procurement responsibilities
Associations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Long-standing, collaborative relationships with leading German and international universities and public research institutions
Investors, lenders, and analysts	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Regular exchange with government agencies, ministries, politicians
The public, neighbors, and NGOs	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Press releases, press conferences, background discussions, individual interviews Communication through social media channels such as LinkedIn, Twitter, 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 "Procurement" and "Marketing and Sales."

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 "Human Rights" and "Compliance."

Covestro has been using various digital dialogue formats (for example, for the Annual General Meeting as well as employee and customer events) to ensure that the company stays in touch with stakeholders during the ongoing coronavirus pandemic.

[< Supplementary information](#)

Sustainability in Finance

The issue of sustainability is gaining in importance for global financial markets and investors and is becoming increasingly relevant for investment decisions.

→ See "Material Sustainability Topics in Fiscal 2022."

This trend is boosted at the global level by specific legal requirements and initiatives relating to climate and environmental protection. The European Commission's Green Deal, for example, includes measures and instruments for the financial market. Since this means that sustainability is increasingly turning into a success factor for competitiveness on the capital market, our capital market communications regularly report on our strategy, goals, as well as concrete initiatives and progress in the area of sustainability.

→ See "Stakeholder Dialogue."

Sustainable Finance

We investigated innovative sustainable finance solutions at an early stage. As early as in the year 2020, we obtained a syndicated revolving credit facility. Some of the terms of this line of credit are linked to our performance in the ESG rating that is currently issued by Sustainalytics. In October 2022, we issued our first Schuldschein loan, whose financing costs are likewise based on the performance of an ESG rating.

We moreover extended our commitment in the reporting year by staking out a framework for sustainable finance. This Green Financing Framework enables green bonds 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. In November 2022, on the basis of the Green Financing Framework, we issued our first green euro bond with a total volume of €500 million on the capital markets. This step underscores our strong commitment to sustainability. All the proceeds from the bond issue are to be used to fund projects that contribute to the circular economy and originate in areas such as renewable energy, energy efficiency, and sustainable building.

→ See "Material Sustainability Topics in Fiscal 2022" and "Financial Position."

External Ratings






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 recalibrated our rating strategy in the reporting year and now actively participate only in ratings that add 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 year under review: CDP Climate, EcoVadis, MSCI ESG, and Sustainalytics. Covestro was again part of the CDP Climate initiative to enhance climate protection transparency for investors and markets. As in the year 2021, the Group was awarded an "A–" rating. Since we are a member of the Together for Sustainability (TfS) initiative, our sustainability management was again assessed by the rating agency EcoVadis and given Gold status. At MSCI ESG, one of the global leading providers of sustainability analyses and ESG ratings, our rating improved to "AA," from "A" in the previous year. Covestro is one of the leading companies in the Sustainalytics ESG rating, where it was honored as an ESG Industry Top Rated Company.

Covestro was also included again 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
	A to D– (top score: A)	2022 2021	A– A–	"Leadership" status (since the year 2021)
	0–100 points (the higher the better)	2022 2019	72 80	
MSCI	AAA to CCC (top score: AAA)	2022 2021	AA A	
	0–100 points (the lower the better)	2022 2021	21.1 18.3	
Index				

FTSE4Good

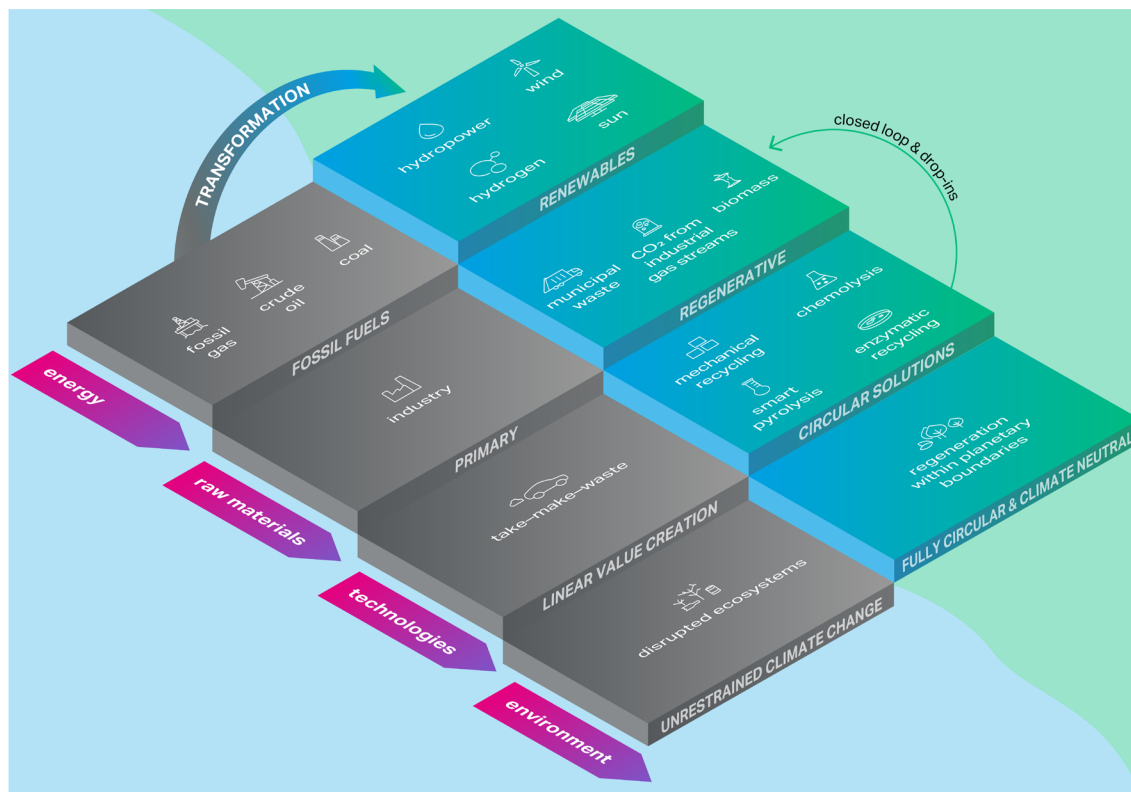
+ Additional information is available at: www.covestro.com/en/sustainability/what-drives-us/rating-and-indices

Circular Economy

Strategy, Management, and Implementation

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 means moving away from the use of fossil-based raw materials and a holistic orientation toward regenerative production and business models in order to keep the environmental footprint of our business activities, such as the concentration of CO₂ in the atmosphere, within planetary boundaries.

Transformation to the circular economy



The aim 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 measures 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 objectives.



OUR CIRCULAR ECONOMY GOAL



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 goal is to decouple our value-generating activities from nonrenewable and noncircular raw materials such as fossil carbon.

Our global Circular Economy strategy program is our contribution to promoting and enhancing the circular economy. In fiscal 2022, a number of different initiatives were managed under this program, with a special focus on advocacy and market design, technological development, the identification of technology paths, and the development of appropriate nonfinancial indicators. New ways of cooperating in the technology and market development environments as part of research consortiums, and alliances such as the World Economic Forum (WEF) and the Alliance to End Plastic Waste, were investigated in the year 2022 and actively pursued and enhanced with different partners.

Key indicative findings and questions regarding the circular economy strategy are handled by the Group's top-level governance body on environmental, social and governance (ESG) issues.

→ See "Sustainability Management."

Measuring the Circular Economy and Trends in Relevant Indicators

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 create a closed loop for producing renewable inorganic compounds. We accomplish this for carbon sources by concentrating on products and processes that permit us to employ biomass, CO₂, and raw materials recycled from waste. Synthetic raw materials manufactured using green electricity, such as hydrogen, are also becoming increasingly important. In particular, Covestro can leverage procurement on the one hand and the development of our own innovative process technologies for biotechnology, and plastics recycling using chemical means on the other. We are counting on new strategic partnerships to promote recycling within the value chain to make alternative raw material use transparent and to ensure used plastics are recycled at the end of their life cycle.

→ See "Procurement."

We continued to work on identifying suitable circularity indicators in the year under review. We assessed the corresponding options in order to define appropriate nonfinancial indicators and targets for Covestro and use them to steer the company further in the direction specified by the corporate vision. The indicators considered include the proportion of alternative raw materials in production or the proportion of circular solutions in the overall product portfolio.

Recyclability and End-of-Life Solutions

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 ratio. In addition, we also want to use raw materials that were recycled in upstream stages of the value chain at Covestro. 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."

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.

Both pyrolysis and depolymerization are being investigated and enhanced as possible chemical recycling technologies for polycarbonates and rigid polyurethane foams. In depolymerization, polymers are turned back into materials 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 October 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 smaller fragments (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 2022, Covestro made progress in the chemical recycling of flexible polyurethane foam from mattresses. After commissioning a pilot plant in Leverkusen (Germany) at the end of 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, CO₂, or waste, or manufactured on a nonfossil basis using renewable energy.

In the fiscal year 2022, Covestro further stepped up the procurement of alternative raw materials. In total, we purchased over 55,000 metric tons of alternative raw materials (previous year: over 20,000 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.

We have begun to have our production sites audited and certified to the ISCC PLUS process to reflect the certification of these raw materials for further use along the entire value chain. 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 a new product label, Circular Intelligence (CQ), in the reporting year. The purpose of the CQ label is to identify new products, for example, 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" label 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.

Global and Regional Promotion and Advocacy of the Circular Economy

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 room 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 remove other regulatory hurdles to the integration of alternative raw materials and the gradual substitution of fossil-based raw materials.

As a founding member of the Alliance to End Plastic Waste, Covestro actively campaigns for regulated systems for disposing of and recycling plastic waste to stop it from entering the environment. The Alliance to End Plastic Waste is a global, nongovernmental, nonprofit organization established by companies representing the entire plastic value cycle. The Alliance supports specific, sustainable, and scalable collaborative projects that prevent plastic waste from entering the environment, collect and recycle plastic waste, and use it as a raw material. The projects focus in particular on locations and waste streams that are majorly impacted by incorrect plastic waste disposal. They comprise the creation of local infrastructure, piloting and scaling of innovative solutions, partnership development, and training, as well as local cleanup campaigns. The Alliance provides financial support to these projects and shares with them the expertise of the entire value chain of its more than 75 sponsoring members. According to data provided by the Alliance, projects supported by the Alliance channeled 33,670 metric tons of plastic waste to a new regulated waste management process and recycled

* 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.

20,370 metric tons of plastic waste in the year 2022, while gradually increasing the relevant capacities for future years. Its members had undertaken to invest USD 1.2 billion (around €1.1 billion) in the Alliance and their own waste-related projects by the end of the year 2022; the Alliance is moreover using these activities and investments to mobilize additional private and institutional capital to promote a circular economy and reduce the amount of plastic entering the environment. The Alliance therefore entered into a new partnership with Lombard Odier Investment Managers in the year 2022 with the aim of launching an investment fund with a volume of USD 500 million (around €465 billion).

Covestro provides financial support to the Alliance and its mission through active involvement in different projects and working groups as well as through our own partnerships and internal projects accepted by the Alliance, which are aimed at gradually reducing the amount of plastic entering the environment.

Under the Low-Carbon Emitting Technologies initiative led by the World Economic Forum and the various Chief Executive Officers (CEOs) of a number of global chemical companies, Covestro is committed to finding solutions jointly with industry partners. For example, in a collaborative approach with other partners from the chemical industry, the industrial-scale use of waste streams as a raw material for the chemical industry is being investigated and research projects to facilitate plastic waste processing are in the planning.

Europe

In addition to various research & development (R&D) projects on the circular economy, Covestro participates in other circular economy projects at the sociopolitical level in Europe. Covestro is a founding member of the Circular Plastics Alliance, whose goal is for European industry to use at least 10 million metric tons of recycled plastics annually from the year 2025 onward. Recommendations for value-chain-specific action items are developed here in individual working groups. Covestro is an active member in the automotive, packaging, construction, electronics, and monitoring groups.

In Germany, Covestro is a member of organizations such as the Circular Economy initiative of the Federation of German Industry, which is working on a political framework for the transition to the circular economy. The CEO of Covestro is himself an active member of the board of this initiative.

China

In China, we were involved in circular economy topics through various associations such as the China Petroleum and Chemical Industry Federation (CPCIF), the China Plastics Reuse and Recycling Association (CPRRA), and the China Circular Economy Association (CCEA). By participating in these associations, Covestro wants to contribute to advancing the closed loop principle for plastics in China and to raising awareness among politicians and citizens of circular options along the entire value chain. As one of the world's most important producers of plastics, China is taking steps to further domestic plastic recycling and, at the same time, to prohibit or limit the use of single-use plastics.

In the reporting period, Covestro invested in its first own plant for mechanical recycling of polycarbonates at the site in Shanghai (China); the plant has a capacity of 25,000 metric tons per year. In addition, Covestro, together with the China Automotive Technology & Research Center (CATARC), worked on developing the standard for recycled plastics in automobiles and on creating the China Industrial Carbon Emission Information System (CICES).

United States

Covestro and the University of Pittsburgh, Pennsylvania (United States) have launched a new postgraduate academic program, the Covestro Circular Economy Program, in the United States. The research and innovation program teaches students wanting to engage in sustainability issues methods focused on the circular economy to manage global waste streams. The Covestro Circular Economy Program, which is located at the Mascaro Center for Sustainable Innovation and at the Swanson School of Engineering of the University of Pittsburgh, deals with the need to integrate circular design principles into innovation projects – thus closing a gap in academic teaching. The program was launched with a group of doctoral students in the year 2022.

Covestro LLC, Pittsburgh, Pennsylvania (United States), and the Mattress Recycling Council, Alexandria, Virginia (United States), have entered into a long-term research agreement to improve and expand mattress recycling in the United States. The cooperation supports Covestro's vision of becoming fully circular and promotes innovation in end-of-life processes for mattresses, and in particular for polyurethane foam.

Climate Neutrality

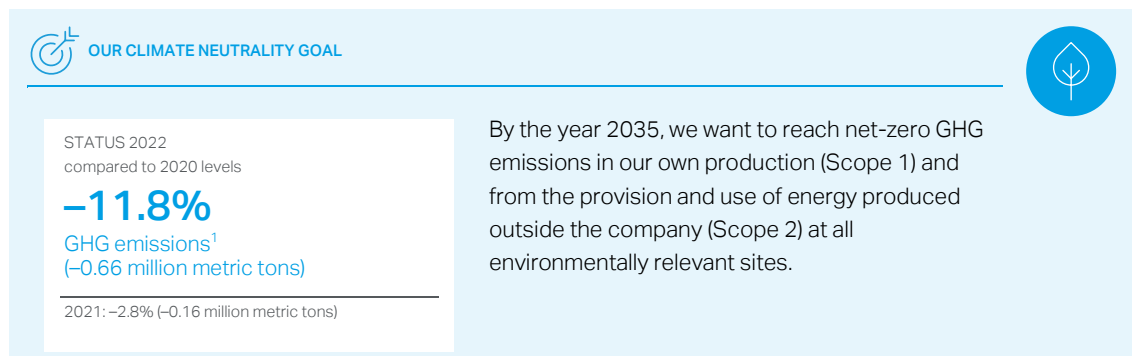
Strategy, Management, and Implementation

Strategy

Covestro's business activities are energy-intensive. In addition to focusing on the circular economy, our strategic alignment toward sustainability in particular therefore also comprises a consistent commitment to climate neutrality. Our long-term corporate vision of becoming fully circular can only be successful if, at the same time, total greenhouse gas (GHG) emissions are continually reduced in order to contribute to achieving a climate-neutral economy.

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.

For this reason, Covestro has set itself the goal of reaching net-zero GHG emissions* by the year 2035 in its own production activities and from the provision and use of energy produced outside the company at all environmentally relevant sites, while working on solutions to reduce emissions along the value chain. In addition to reducing emissions by implementing energy efficiency measures, steps to achieve this goal include the use of sustainable production processes and climate-neutral sources of energy in the supply of electricity from renewable sources and steam.



¹ GHG emissions (Scope 1 and Scope 2), measured as millions of metric tons of CO₂ equivalents and portfolio-adjusted based on the GHG Protocol financial control approach; global warming potential (GWP) factors correspond to the IPCC's Fifth Assessment Report.

Against the political backdrop of the "Fit for 55" package currently being negotiated in the European Union and the Inflation Reduction Act passed into law in the United States in the reporting year, we are confident that the rapid creation of climate-neutral and circular business models in line with our goals can be expected and will receive the relevant support.

* 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.

Management

Covestro's climate ambition is strategically rooted in its climate program. Under this program, which is led by the corporate Sustainability & Public Affairs function, the measures for reaching net-zero emissions are formulated in the form of a CO₂ roadmap; progress is assessed and regularly reported to the Board of Management. Fiscal 2020 is used as the base year. The CO₂ roadmap was compiled in the year 2021 and approved by the Board of Management in the reporting year in order to align Covestro's existing target for reducing GHG emissions with the corporate vision and regulatory requirements. The CO₂ roadmap forms the basis for prioritizing specific GHG reduction measures and will fundamentally be used to address and analyze direct and indirect sources of emissions in accordance with the Greenhouse Gas Protocol (GHG Protocol). Measures to reduce emissions are identified in close collaboration between our sites and the relevant corporate functions.

Since the year 2022, a sustainability component, measured against selected ESG criteria, has been laid down in the management system to create incentives for meeting our climate neutrality goal. In the year 2022, the sustainability component was determined by direct and indirect GHG emissions (Scope 1 and Scope 2) of the main sites.

→ See "Management System."

Implementation

Since Covestro pursues a growth strategy, we expect Scope 1 and Scope 2 GHG emissions to increase by 1.0 million metric tons of CO₂ equivalents per year by the year 2035. This will be offset by external factors, which are anticipated to have a positive impact of 0.7 million metric tons of CO₂ equivalents per year on our climate neutrality. 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.

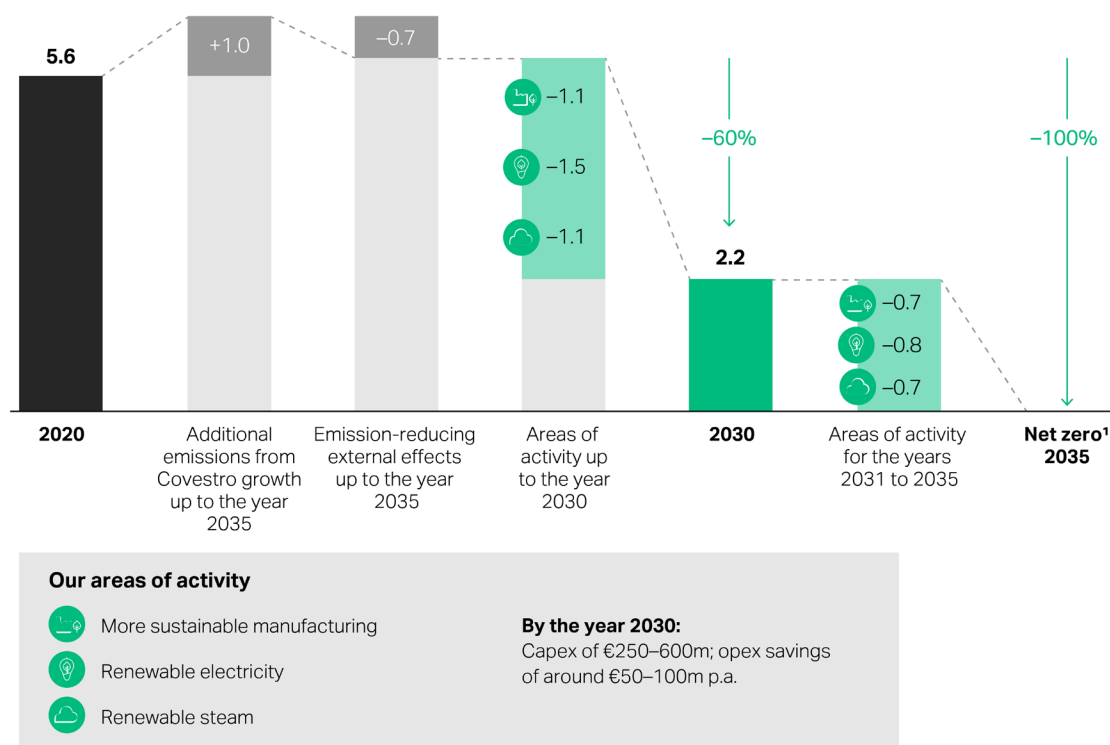
We have defined three action areas to reach our net-zero goal. We are planning to optimize our production processes to facilitate the sustainable and energy-efficient manufacture of our products. We also intend to raise significantly the proportion of electricity from renewable sources we procure and will in future make greater use of steam as a renewable source of energy. With a view to reducing the GHG emissions of purchased raw materials, measures 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 CO₂ sinks, or compensatory measures to potentially balance all GHG emissions (Scope 1, Scope 2, and Scope 3) are currently being evaluated.

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. A matrix for assessing profitability of new investment projects and their effects on Scope 1 and Scope 2 GHG emissions is used to make decisions.

We are actively committed, in all regions in which Covestro operates, to driving political activities to accelerate the industrial transformation toward climate neutrality. 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 participates. The Russian war against Ukraine is not expected to have any impact on target attainment either.

Action areas toward reaching the net-zero goal

million metric tons of CO₂ equivalents per year; apart from the figures for the year 2020, all figures are expected values



¹ 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.

Along with governments, nongovernmental organizations, and other private-sector companies, Covestro supports the implementation of the results of the 21st UN Climate Change Conference, which took place in Paris in the year 2015. For instance, Covestro participates in the German Chemical Industry Association's (Verband der Chemischen Industrie, VCI) NRW Energy4Climate and Chemistry4Climate initiatives to proactively develop solutions to master the challenges posed by climate change and bring about the industrial transformation necessary to do so.

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 in accordance with our vision. At the same time, we make transparent the impact of our investment projects on our carbon footprint and also incorporate it into profitability analyses that are submitted to the Board of Management as a basis for decisions. The projects of our long-term investment planning have already been included in formulating the climate targets and the associated roadmap.

For example, we use innovative catalyst technologies in isocyanate production to reduce GHG emissions.

Alongside that, a separate capital expenditure (CapEx) category for emission reduction projects was established as part of capital allocation to ensure adequate prioritization. Proprietary Covestro software was integrated into our systems in the reporting year to allow us to predict our GHG emissions. This tool supplements our regular reporting under the GHG Protocol on Scope 1 and Scope 2 GHG emissions. In the year 2023, this function is to be expanded to include Scope 3 GHG emissions.

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. Alongside existing agreements to procure electricity from renewable sources 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 fiscal 2022, Covestro purchased around 740 GWh of electricity from renewable sources, making use of special power purchase agreements and power certificates (e.g., certificates of origin in Europe) as a way to underpin our strategic alignment toward sustainability. Likewise, this is intended to contribute to shrinking the carbon footprint of production, our products, and our customers' applications.

Climate-Neutral Steam

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. The signing of a joint declaration of intent with the operator of the production sites in the German state of North Rhine-Westphalia – Currenta GmbH & Co. OHG, Leverkusen (Germany) (Currenta) – in the reporting year marks the first step along this path. Currenta and Covestro want to complete a feasibility study by June 30, 2023 to investigate more closely two potential locations for installing heat pumps: the chlorine electrolysis facility, which was expanded in the year 2021, and the MDI facility at Covestro's Krefeld-Uerdingen (Germany) site. Both facilities make important precursors.

Furthermore, we are evaluating options for using biogenic and renewable sources of energy to supply 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 CO₂ conversion in the chemical industry.

Greenhouse Gas Emissions

Covestro calculates GHG emissions according to the internationally recognized standards of the GHG Protocol. Direct emissions, e.g., from burning fossil energy sources and from our production processes (Scope 1), as well as indirect emissions from the provision and use of energy produced outside the company (Scope 2) at all environmentally relevant sites, i.e., all production sites and relevant administrative sites with a significant impact on the environment, are included in the calculations. In addition to CO₂, Scope 1 emissions comprise all relevant GHGs, including nitrous oxide (N₂O), methane (CH₄), partly fluorinated hydrocarbons, and sulfur hexafluoride (SF₆).

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* [IEA] 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.

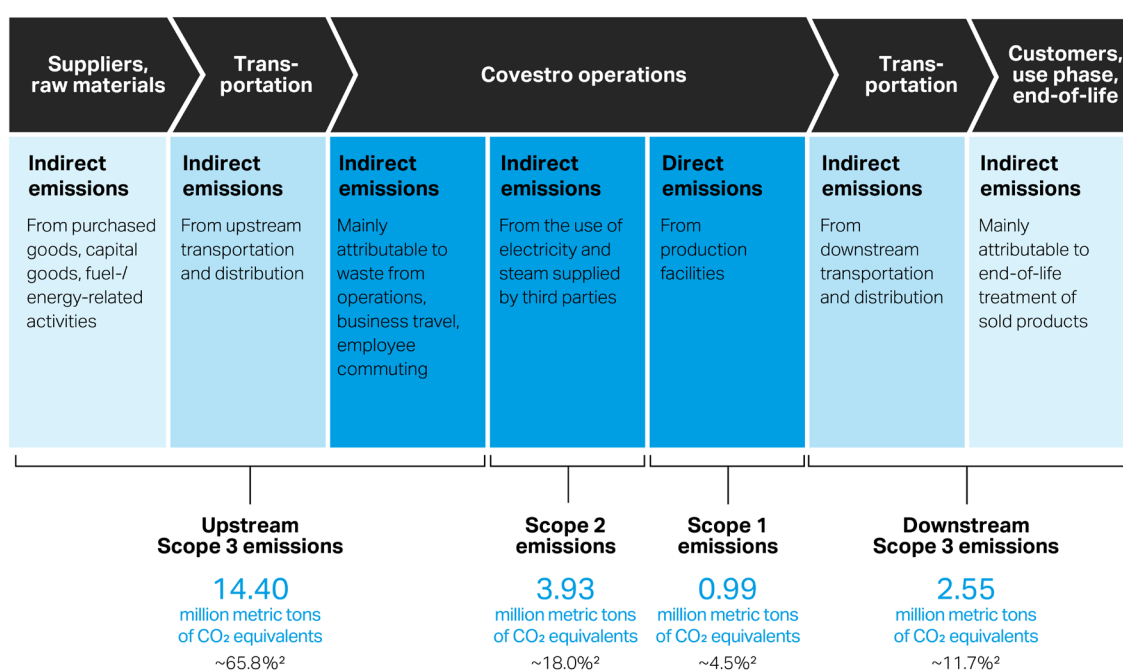
At Covestro, upstream and downstream GHG emissions data along the value chain (Scope 3 emissions) is determined for all sites and business activities that indirectly cause relevant GHG emissions according to the categories and methods of the GHG Protocol and the Guidance for Accounting & Reporting Corporate GHG Emissions in the Chemical Sector Value Chain by the World Business Council for Sustainable Development (WBCSD).

* International Energy Agency (IEA), document entitled "IEA Emission Factors 2022." All rights to this document reserved to the IEA.

Covestro has been able to reduce specific GHG emissions (Scope 1 and Scope 2) since the year 2005. In the year 2021, Covestro had already reduced its specific GHG emissions by 53.9% compared with the base year of 2005, thus outperforming the previous sustainability target of halving specific GHG emissions at its main production sites. For this reason, new absolute reduction targets were published in March 2022 for reducing our Scope 1 and Scope 2 emissions at all environmentally relevant sites. Net zero Scope 1 and Scope 2 GHG emissions are to be attained at all environmentally relevant sites by the year 2035. On the way to meeting this target, the company plans to reduce direct and indirect GHG emissions by 60% compared with the base year of 2020, to 2.2 million metric tons of CO₂ equivalents by the year 2030. In addition, indirect GHG emissions from upstream and downstream processes in the value chain (Scope 3) are to be reduced further. A Scope 3 reduction target will be published in the year 2023.

Total Scope 1, Scope 2, and Scope 3 emissions amounted to 21.87 million metric tons of CO₂ equivalents in the reporting year (previous year: 27.26 million metric tons of CO₂ equivalents).

Covestro's GHG emissions¹ along the value chain



¹ Portfolio-adjusted based on the GHG Protocol; financial control approach; global warming potential (GWP) factors correspond to the IPCC's Fifth Assessment Report.

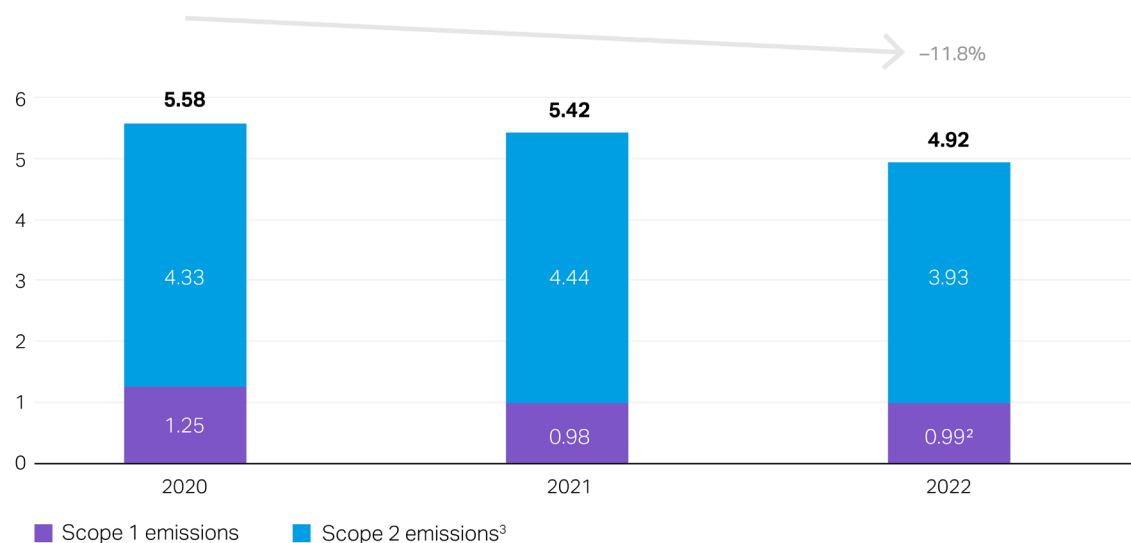
² Share of total GHG emissions (sum of Covestro's Scope 1, Scope 2, and Scope 3 emissions).

Scope 1 and Scope 2 GHG Emissions

Absolute Scope 1 and Scope 2 GHG emissions at all environmentally relevant sites declined by 9.2% compared with the previous year. Direct GHG emissions increased by 1.3% and indirect GHG emissions contracted by 11.5%. This was mainly caused by the reduction in production activity and the resulting drop in energy demand, especially for electricity and steam. The associated emissions were also affected by changes in local emissions factors and the purchase of electricity from renewable sources. For example, the Shanghai (China) site met over 30% of its electricity demand from renewable sources in the year 2022, thus reducing its Scope 2 emissions from electricity. In total, this led to decrease in the calculated GHG volumes.

Scope 1 and Scope 2 GHG emissions¹ in the Group

million metric tons of CO₂ equivalents



¹ Portfolio-adjusted based on the GHG Protocol; financial control approach; global warming potential (GWP) factors correspond to the IPCC's Fifth Assessment Report.

² In the year 2022, 78.6% of emissions were CO₂ emissions, 20.5% were N₂O emissions, 0.7% consisted of partly fluorinated hydrocarbons, and 0.1% each were attributable to CH₄ and SF₆.

³ In combustion processes, CO₂ typically makes up more than 99% of all GHG emissions; this is why we restrict ourselves to CO₂ when calculating indirect emissions. Location-based emissions amounted to 3.82 million metric tons of CO₂ equivalents in the year 2022 (previous year: 4.40 million metric tons of CO₂ equivalents).

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 emissions of 0.93 million metric tons of CO₂ equivalents and indirect emissions of 3.79 million metric tons of CO₂ equivalents, as well as a production volume** of 14.13 million metric tons. This means that in the year 2022 specific emissions stood at 0.3342 million metric tons of CO₂ equivalents per metric ton of product (previous year: 0.3338 metric tons of CO₂ equivalents per metric ton of product), similar to the prior-year level.

Scope 3 GHG Emissions

Upstream and downstream GHG emission data along the entire value chain (Scope 3) has been collected and reported at Covestro since the year 2021. 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 from commercially and publicly available sources, or sources recommended by the GHG Protocol. The emissions for each Scope 3 category are based on individual calculations, which are described in detail in our latest Carbon Disclosure Project (CDP) questionnaire. 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.

The other indirect GHG emissions (Scope 3) represent 77.5% of the Group's total GHG emissions (previous year: 80.1%).

Scope 3 emissions calculated in fiscal 2022 amounted to 16.95 million metric tons of CO₂ equivalents (previous year: 21.84 million metric tons of CO₂ equivalents). 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

* Our main production sites are those responsible for more than 95% of our energy usage.

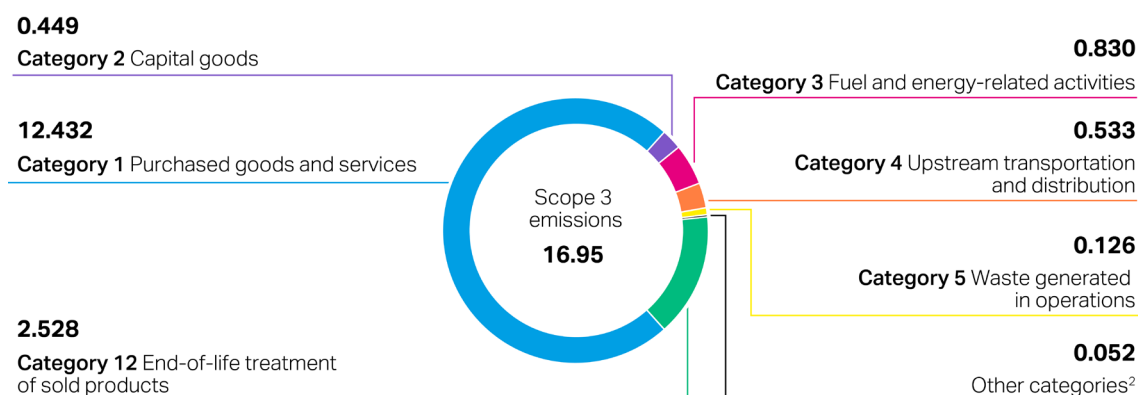
** All in-spec key products – which, in addition to our core products, also include precursors and by-products – manufactured at main production sites, which are responsible for more than 95% of our energy usage.

emissions. Biogenic CO₂ emission equivalents stemming indirectly from the value chain totaled 118,659 metric tons of CO₂ equivalents (previous year: 99,052 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. The 20% year-over-year rise in climate-neutral balanced biogenic emissions reflects the increased use of biobased raw materials.

Compared with the previous year, total Scope 3 emissions declined by 22% in fiscal 2022. This change is primarily attributable to the lower production volume, which has a direct effect on the two largest Scope 3 categories, 1 "Purchased goods and services" and 12 "End-of-life treatment of sold products." Additional, sometimes opposing, effects were attributable to a further improvement in calculation methods, an adjustment to measures taken, and the increased use of supplier-specific emissions factors. The Scope 3 category 2, "Capital goods," rose by 31% year-over-year. In the context of the spend-based calculation method in this category, this is mainly due to the sharp increase in material prices and inflation effects.

Composition of Scope 3 emissions categories¹

million metric tons of CO₂ equivalents



¹ Portfolio-adjusted based on the financial control approach of the GHG Protocol; global warming potential (GWP) factors according to the IPCC's Fifth Assessment Report.

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.

² "Other categories" includes the following: 6 "Business travel"; 7 "Employee commuting"; 9 "Downstream transportation and distribution."

Energy Usage

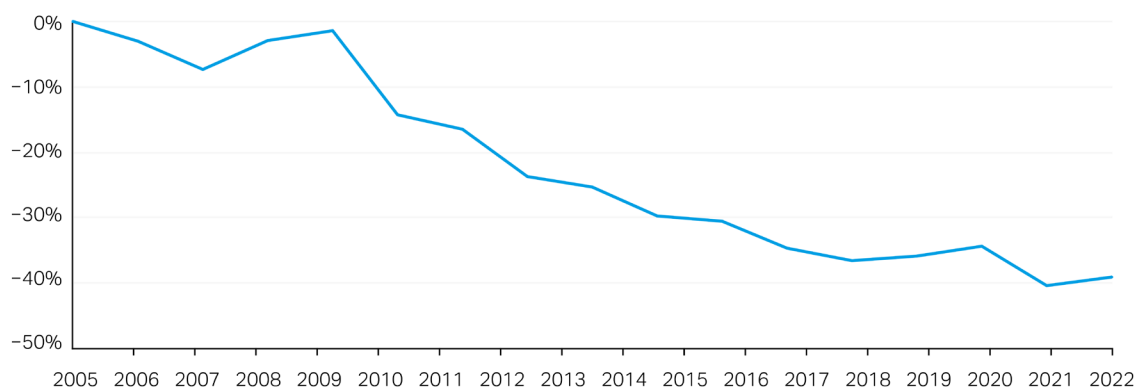
For an energy-intensive company like ours, the reduction in the amount of energy we use plays a key role in efforts to reduce our Scope 1 and Scope 2 emissions. Covestro's energy usage includes the primary energy used in production and during electricity and steam generation by the company as well as additionally acquired quantities of electricity, steam, refrigeration energy, and process heat (secondary energy). The secondary energy is calculated back to arrive at the equivalent primary energy usage required to generate them. This takes into account the energy lost while distributing these forms of energy. All told, these figures make up Covestro's equivalent primary energy consumption.

The use of energy and materials is closely related to our production volume. Unlike for GHG emissions, our target-setting process focuses in particular on the specific energy usage of the sites we define as main production sites. These are responsible for more than 95% of our total energy usage. In support of our climate neutrality goal, we want to halve specific energy usage at our production sites by the year 2030 compared with the 2005 base year and in this way make a contribution to our absolute GHG reduction target.

Our continued long-term positive trend indicates an overall 38.9% 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 base 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 7.7% and the production volume by 9.6%. This means that the equivalent primary energy usage for a given production volume (energy efficiency) was up 2.3% from the previous year due to production utilization.

Energy usage in the Covestro Group at main production sites

		2021	2022
Equivalent primary energy usage ¹	Megawatt hours [MWh]	20,516,545	18,933,868
Production volume ²	Million metric tons	15.63	14.13
Specific energy usage (energy efficiency)³	MWh per metric ton	1.31	1.34

¹ Sum of all individual energies used at our main production sites (responsible for more than 95% of our energy usage), converted into primary energy; equivalent to 68,162 terajoule (TJ) in the reporting year (previous year: 73,860 TJ).

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.

Covestro's STRUCTese® (Structured Efficiency System for Energy) system played a key role in permanently improving our specific energy usage. The energy efficiency system developed by Covestro compares actual energy usage in production with the realistic potential optimum. Eliminating inefficiencies results in permanent energy savings. STRUCTese® includes various steps that enable the identification of improvement measures – from analysis to monitoring to benchmarking. These measures are known at Covestro as STRUCTese® projects. The system is already being used in many of our energy-intensive production facilities around the world and will be implemented in other facilities going forward.

For example, in the reporting year, we reused considerable volumes of low-pressure steam in our polyurethane production processes at the site in Baytown, Texas (United States). Primary energy usage was therefore cut by more than 64,600 MWh, which is the equivalent of reducing emissions by some 12,800 metric tons of CO₂.

Moreover, Covestro carried out various other projects in fiscal 2022, resulting in annual savings of 113,300 MWh of primary energy, or 29,900 metric tons of CO₂ emissions. In addition, pro-rated savings from projects completed in the previous year amounted to 32,300 MWh of primary energy, and 8,300 metric tons of CO₂ and were realized in fiscal 2022. Combined, all the projects implemented since the introduction of STRUCTese® have resulted in lasting reductions totaling 2.6 million MWh of primary energy and around 770,000 metric tons of CO₂ per year.

We also collect data on our total energy usage at all environmentally relevant production sites. In the year 2022, total energy usage in the Group was down 6.7% year-over-year.

Energy usage by energy type in the Group

	2021	2022
	in TJ	in TJ
Natural gas	9,059	8,885
Coal	–	–
Liquid fuels	165	186
Waste	750	32
Other energy sources ¹	(1,123)	(117)
Primary energy usage for the in-house generation of electricity and steam (net, TJ)	8,851	8,986
Electricity purchased	25,842	23,650
Less electricity sold to third parties	1,879	1,723
Electricity usage	23,963	21,927
of which renewable energies	–	2,667
Steam purchased	22,732	20,489
Less steam sold to third parties	574	529
Steam usage	22,158	19,960
Steam from waste heat (process heat) purchased	3,331	3,382
Less steam from waste heat (process heat) sold to third parties	1,856	1,484
Steam from waste heat (process heat) usage	1,475	1,898
Refrigeration energy purchased	526	400
Refrigeration energy sold to third parties	76	69
Refrigeration energy usage	450	331
Secondary energy usage (net, TJ)	48,046	44,116
Total energy usage (TJ)	56,897	53,102

¹ E.g., hydrogen.

Sustainable Products and Product Stewardship

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 sustainable product portfolio, too, reflects product stewardship requirements. We have an established management system for our activities in this area to ensure that our requirements and standards are met.

→ See ["Product Stewardship."](#)

While the business entities manage their product portfolios independently, the ESG Governance Body on environmental, social and governance (ESG) issues dealt with matters in the reporting year such 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 Product 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 review the method in collaboration with an external provider and, for example, to integrate more deeply aspects of the circular economy and climate neutrality. The review of the method is expected to be completed in the year 2023 and will be followed by another pilot using the updated method in the same year. The majority of our new products are already aligned with the SDGs. To drive the development of our circular product portfolio, we announced in the reporting year our long-term intention 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 contain at least 25% alternative or recycled raw materials.

→ See ["Strategy," "Marketing and Sales," and "Labeling of Circular Solutions in the Product Portfolio."](#)

Product Stewardship

To Covestro, product stewardship means comprehensively evaluating health, safety, and environmental risks in connection with the use and handling 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. 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 applications 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 use and application 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 within the context of general risk management 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 assessment process. At first, we identify chemicals that are subject to statutory regulations and document the corresponding regulations. We then examine the risk potential of our products. During this process, we also identify substances for which only limited use or marketing are permitted based on the applicable laws and regulations. These include, for example, substances of very high concern (SVHCs) as classified in accordance with the European Regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and substances covered by European regulation on GHGs. Substance compositions in all regions are checked with the help of IT systems against lists of regulated substances so that noncompliance with regulatory requirements would be identified reliably. Should the assessment or new findings reveal that it is not safe to use a certain chemical, we take the necessary risk mitigation measures. Those can range from technical measures such as protective gear 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 chemicals 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 has helped 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 2022, 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 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 industry 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 range 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 also affected by this procedure, which restricts the use of particularly hazardous 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 must be trained in their use by August 2023. Covestro supports this process and advocates 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 worldwide 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: www.covestro.com/statement-on-animal-studies

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.

As a user of PFAS, we monitor the regulatory debate and support proportionate, implementable, and enforceable regulations based on robust scientific results and a reliable assessment of risks. 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.

Innovation

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

In order to maintain and reinforce our position in the global arena, we work at all levels in close partnership with the Chief Executive Officer (CEO), who is responsible for Innovation, to develop new products, refine established ones, and optimize 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. For one, we conduct business-related R&D in the business entities, focusing on specific, short- and medium-term R&D issues. For the second area, the corporate Group Innovation 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 is also responsible for providing a globally harmonized R&D infrastructure as well as providing the business entities with support for research and development. In addition, the corporate Process Technology function is responsible for short-, medium-, and long-term developments. It 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 innovation areas. To ensure that innovation is coordinated with sustainability and digitalization issues, the head of the corporate Group Innovation function is a member of the relevant cross-functional steering committees, such as the ESG Governance Body (ESG GoB).

→ See ["Product Innovations"](#) and ["Process Technology Innovations."](#)

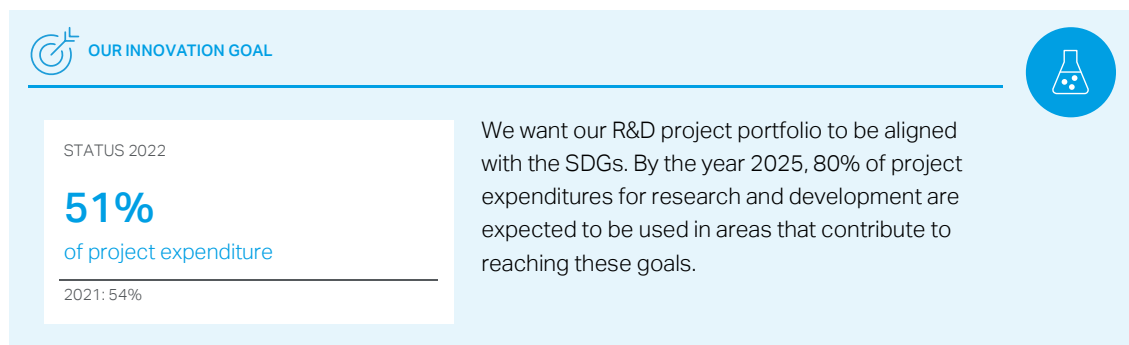
Innovation Management

By managing innovation across functions throughout the Group, we ensure that our ongoing and planned activities and our project pipeline 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. For example, at Innovation Celebrations (innovation events held in the regions), we recognize employee projects from around the world that reflect our broad understanding of innovation. The awards serve to recognize innovative ideas in the "Products and Applications," "Process and Manufacturing," "Business Model and Commercial," "Business Processes," and "Intellectual Property Strategy" categories. 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."](#)

Sustainable R&D-Based Innovation Portfolio

Covestro already has many different sustainable solutions on the market and, going forward, aims to develop and market products even more closely aligned with the United Nations Sustainable Development Goals (SDGs). 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.



We set high standards for evaluating our projects in line with our ambitious goal of committing 80% of R&D project expenditure to areas that contribute to meeting the SDGs and therefore only consider projects that make an additional contribution to the SDGs when measuring our progress. Since fiscal 2020, we have incorporated a Group-wide assessment process into the existing innovation process that measures our progress on projects 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 2022. In this portfolio, 51% and therefore €39 million (previous year: 54% and €40 million) of R&D project expenditure now exceeds our defined threshold. A change in the project portfolio can be identified since more projects can be attributed to the indicator, although the costs they generated in fiscal 2022 were lower than in the previous year. Many of the R&D projects of the Resins & Functional Materials (RFM) business acquired from Koninklijke DSM N.V., Heerlen (Netherlands), in the year 2021 were already evaluated in accordance with the above assessment process in fiscal 2022. It was, however, not possible to capture the RFM-specific R&D project costs in the system for the full reporting year 2022, with the result that these projects were not yet included in determining target attainment for the reporting year.

In fiscal 2022, our total R&D expenditure amounted to €361 million (previous year: €341 million). This mainly went toward developing new application solutions for our products and refining products and process technologies. As of December 31, 2022, 1,477 employees* worked in research and development around the world (previous year: 1,477), most of them at the three major R&D sites in Leverkusen (Germany), Pittsburgh, Pennsylvania (United States), and Shanghai (China).

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 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.

Covestro maintains long-standing and strategic partnerships with various universities. These include RWTH Aachen University (Germany), Tongji University in Shanghai (China), or the University of Pittsburgh, Pennsylvania (United States). On our path to becoming fully circular, we need cooperation partners that pursue this goal in terms of content and technology. RWTH Aachen University, for example, is above all known for its work in chemical process development. This benefits especially our collaboration in the CAT Catalytic Center, a cooperative research organization that allows us to combine catalysis and process research and use it as a basis to develop new chemical processes that can be implemented on an industrial scale. Our cooperation with Tongji University involves in particular materials for sustainable building and city planning. At the University of Pittsburgh, Covestro's involvement in the Covestro Circular Economy Program is in turn centered on (further) training on the circular economy. In addition, we are expanding our expertise in the chemical recycling of polymers. To this end, we cooperate with the Shanghai Institute for Organic Chemistry (SIOC) of the Chinese Academy of Sciences in Shanghai (China) and Tohoku University in Tokyo (Japan).

The QuinCAT – Quick Incubation in Catalysis incubator, which is subsidized by the German state of North Rhine-Westphalia and supported by Covestro, is under construction at RWTH Aachen University; it is expected to begin operating in the year 2023. The incubator will be a place for developing ideas involving chemicals to enable the founding of a start-up 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.

To establish the circular economy in the plastics industry, various recycling technologies have to be developed in parallel to make better processes available. Here, Covestro cooperates with RWTH Aachen University in the area of enzyme and biotechnology, focusing on three topics. The first is to develop enzymatic polymer recycling to convert plastics into usable monomers at the end of the lifecycle without effort or side effects. The second is to achieve a manageable breakdown of plastics released into the environment so that they decompose fully in a natural environment (programmed biodegradation). The third topic involves enzymatic methods for processing wastewater from plastics production to allow materials to be recovered and returned to the production cycle. For the next five years, the partnership will be subsidized by the German Federal Ministry of Education and Research.

Other Collaborative Projects

As part of the collaborative PReSmart project, Covestro has developed an innovative process for chemical recycling of flexible polyurethane foam from used mattresses. This new technology can be used to make both recycling polyol, which allows reuse at the customer, and recycled toluylene diamine (TDA), which can in turn be processed into toluylene diisocyanate (TDI). Both materials are used to make flexible foams such as those in mattresses. In this way, we want to substitute fossil-based resources in production, reduce the carbon footprint of our materials, and create new solutions for handling plastic waste. Covestro operates a pilot plant in Leverkusen (Germany) for recycling flexible polyurethane foams to confirm laboratory results and gain findings to increase the scale further. These activities are taking place under the banner of Evocycle® CQ Mattress.

→ See “Furniture and Wood Processing Industry” and “Marketing and Sales.”

Our alliances cover the entire value chain, linking the chemical and recycling industries. For example, we collaborate with environmental services provider Interzero Circular Solutions GmbH, Cologne (Germany), on innovative plastic waste recycling, and together with the French environmental organization Éco-mobilier – SAS, Paris (France), we are engaged in efforts to improve the recycling of waste from mattresses and upholstered furniture so that it can be reused in production.

Covestro is also working on ways to close the material loop for rigid polyurethane foams, which help to increase energy efficiency when used as insulation material in refrigerators and buildings. Along with 22 partners from nine countries, the collaborative CIRCULAR FOAM project was launched in fiscal 2021 with Covestro as its coordinator. In the next four years, experts from science, business, and society are expected to come up with comprehensive solutions for coordinated waste management and develop suitable methods for recycling these types of foams. The aim here is also to reclaim the raw materials used originally – polyols and an amine that is used as a precursor for diphenylmethane diisocyanate (MDI). Two official meetings were held in the reporting year already, giving all partners regular opportunities to discuss the research findings and project progress.

Covestro continued its cooperation with Circularise, The Hague (Netherlands), DOMO Chemicals, Leuna (Germany), and Asahi Kasei, Tokyo (Japan) in the reporting year to develop an open blockchain standard for establishing a data exchange protocol. The aim is to allow materials to be tracked along the value chain while protecting sensitive product information. Covestro expanded pilot projects in the reporting year to allow the traceability, determination of the origin of materials, and calculation of the carbon footprint and other sustainability metrics to be tested along the entire value chain. Covestro is currently working with the ISCC sustainability certification system and Circularise on rolling out ISCC PLUS certifications along complex supply chains. In addition to Covestro, other suppliers of materials, original equipment manufacturers (OEMs), and the trading company Itochu, Tokyo (Japan), are taking part in the ISCC pilot project.

→ See “Strategic Partnerships and Collaborations.”

Digital Innovation

We are committed to pursuing digitalization along with the associated new opportunities for the entire chemical and plastics industry value chain. Covestro utilizes the opportunities arising from digitalization with a comprehensive strategic program and especially the intelligent use of data, thus setting new standards in cooperation with customers. We increasingly anchor digital technologies and work methods in production, along the supply chain, in R&D, in administrative functions, and at all points of contact with customers as well as in the development of new business models. One focus in the reporting year was on migrating all key applications to a cloud-based environment.

Cooperation with customers resulted in an example of how digital technologies can be used. By digitalizing the prototyping process for one of our business entities and using virtual copies of physical materials, the process from design to production can be accelerated at our customers. This also facilitates cooperation among members of cross-site teams. These digital components allow product designs to be realistically visualized at the early stages of development. They are also intended to make the existing product portfolio more accessible to customers.

Moreover, we use machine learning and artificial intelligence to obtain insights from data available in the company. Based on a Group-wide data analytics platform introduced in fiscal 2021, application cases are developed, operationalized, and scaled up. One example of successful application is the polyester production facility in Dormagen (Germany), where artificial intelligence was used in processing large volumes of process data of the facility, resulting in an estimated increase of 2% in the quantity of usable product.

Data science approaches used in the R&D departments of our business entities are also advancing our efforts to achieve full digitalization of these departments. Our high-performance computing cluster at the Leverkusen (Germany) site provides successful support to R&D in solving application cases. Computing capacity is also used, for example, to train complex machine learning models, develop algorithms and techniques in the area of quantum computing, and create photorealistic 3D renderings of materials made by Covestro. Here, we continued our cooperation with Google Ireland Ltd., Dublin (Ireland), as well as startups and universities. Covestro and its research partners have jointly published several important contributions on the development of quantum algorithms.

Computer simulations continue to be used on a comprehensive scale at all levels in R&D – from chemical quantum mechanics to the macroscopic level. A new digital simulation tool allows us to conduct large-scale analyses for different properties and scenarios, such as for catalyst performance, solvent-based properties, or polymer solubility. Examples include a newly developed digital tool that helps our customers detect the effects of changes in the formulation on foam properties or to obtain formulation suggestions that depend on the properties required. Initial application cases have also been conducted with the aim of becoming fully circular.

In an effort to fully digitalize the R&D processes in our laboratories we combine different complementary concepts. For example, the first fully digitalized research laboratories are already in use; they use a high degree of automation to generate detailed R&D data, which can in turn be stored on our global R&D knowledge platform. In this way, for example, properties and formulations can be forecast based on machine learning, which help our employees to develop products faster and more efficiently. In addition, we offer our R&D employees around the world digital collaboration opportunities as well as training programs that use augmented or virtual reality technology. By guiding them realistically through the scenarios to be taught, we can achieve higher safety standards in laboratories and production facilities.

In addition, a data-based centralized standard system (Covestro Monitoring Platform) was created to analyze on a permanent basis the condition of our production facilities and provide support, including for cost-efficient and predictive maintenance of machinery and plants. We moreover make large-scale use of our own process models, e.g., for the design of new plants and to train our employees with training simulators to ensure our plant operations are optimized.

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 objectives 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 for meeting our sustainability target of becoming climate-neutral by the year 2035. For Covestro, this means reducing greenhouse gas (GHG) emissions in its own production (Scope 1) and from the provision and use of energy produced outside the company (Scope 2) and to reach net-zero GHG emissions* at all environmentally relevant sites by the year 2035. One focus is on reducing laughing gas emissions in the production of nitric acid by using innovative catalysts, which are currently being implemented in relevant projects at our sites in Baytown, Texas (United States), and Shanghai (China), with commissioning intended for fiscal 2024. In addition, the use of hot phosgene generation is intended to increase energy efficiency. Covestro already uses this technology, e.g., in isocyanate production in Shanghai (China), where it leads to a significant reduction in the amount of external steam required. Use of this process is also planned at other sites in Europe. At the new chlor-alkali production facility in Tarragona (Spain), Covestro's oxygen depolarized cathode technology is used on a large industrial scale for the first time; this plant's electricity needs are significantly lower than those of a conventional plant, thus making another contribution to reducing our CO₂ emissions.

At the same time, we are working on cutting emissions by increasing production output and reducing waste streams in the process. For example, waste volumes in TDI production in Dormagen (Germany) was reduced significantly by using new technology to process production residues. This technology is also in use at our site in Shanghai (China). We are simultaneously working on a process for reactivating a spent catalyst in making bisphenol A, which plays an important role as a basic building block for polycarbonate. The process is being tested at our site in Map Ta Phut (Thailand).

* 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.

On the road to climate neutrality by the year 2035, Covestro also aims to switch its production processes completely to renewable energy. A particular focus in this context is on the production of precursors and byproducts in the area of base chemicals (chlorine, caustic soda, hydrogen), which are the basic building blocks for many products in the chemical industry. To make them from saline solution using chlor-alkali electrolysis consumes a lot of energy. Covestro produces these three precursors and byproducts at its sites in Leverkusen, Krefeld-Uerdingen, and Dormagen in Germany. To switch these production processes to renewable energy, Leverkusen and Krefeld-Uerdingen have already been certified to the ISCC PLUS process* for producing chlorine as a precursor.

→ See "Climate Neutrality."

Thanks to digitalization, production facilities can be controlled more predictively, while processes can be optimized on an ongoing basis using digital simulations. In polycarbonate production in Antwerp (Belgium), the volume of rejects during the process was significantly reduced by returning them to the process, thus supporting circular production with maximum resource conservation.

→ See "Digital Innovation."

The development of new production processes to help us become fully circular also brought success in other respects. As a result, we managed for the first time in fiscal 2022 to produce bulk quantities of aminobenzoate, a biobased aniline precursor produced through fermentation. Covestro is currently working with other partners to take the process to commercial maturity as part of a publicly subsidized project. Success was also achieved in producing initial quantities of biobased hexamethylenediamine (HMDA), an important precursor for manufacturing coating raw materials. The project undertaken in cooperation with the US-based Genomatica, San Diego, California (United States), produced the compound on a pilot scale and thus achieved process development milestones.

→ See "Strategic Partnerships and Collaborations."

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. We have developed our concepts for next-generation electric vehicles into technologies and solutions that can be made in standard production processes and presented them at K, the world's leading plastics trade fair, in Düsseldorf (Germany) in October 2022.

The exterior concept consists of a vehicle front into which functions, such as heat management, lighting, electronics, and new surface decoration, have been fully integrated and implemented on a modular basis. With our transparent near-infrared polycarbonate film from the Makrofol® product family, we additionally support the development of embedded sensors, which are indispensable for autonomous and assisted driving technologies. We therefore supply tinted film for optically measuring distance and speed (light detection and ranging, LiDAR, applications), e.g., for the front modules of electric vehicles. The interior concept is likewise built on modularity – with concealed, nonilluminated displays and seamless multi-material surfaces with touch-activated functions that are embedded in a scaled interior prototype. This allows the development of novel interior designs to meet the needs of passengers in autonomous vehicles. Based on full polycarbonate, both concepts are designed to have closed-loop potential; they are based on Makrolon® RE, a material with a reduced carbon footprint compared with conventional Makrolon®.

Polyurethane applications for the interiors of passenger and commercial vehicles are subjected to continuously increasing requirements to reduce the emissions of all materials used in the process. We drive the requisite improvements with continual enhancements in the different polyurethane product groups, Bayfill®, Bayfit®, Baynat®, and Baypreg®. Covestro provides other sustainable polyurethane products for this sales market as part

* While for mass-balanced raw materials (TDI and MDI), the use of raw materials is certified to the ISCC PLUS process, the certification in chlorine production relates to the use of renewable energy.

of the Desmodur® product group, which are assessed according to the mass balance approach. We are moreover investigating the possibility of using chemical recycling on car seat foams to make the polyurethane precursors and their components reusable. Together with external partners, we have also started to look into the recyclability of seat upholstery as a way to obtain raw materials that can in turn be used to make polyurethane products.

The transition from combustion engines to electric drives is also opening up new sales opportunities for Covestro. The introduction of the portfolio of flame-retardant products, including the Makrolon®, Bayblend®, Makroblend®, and Apec® product groups, allows batteries to be charged quickly and safely as a result of versatile housing solutions for batteries.

With the new Docket® capsule system, customers can manufacture two-component (2C) clearcoats for vehicle repairs within a matter of seconds. The capsule system contains clearcoat and hardener in the required proportions. It is ready for use at the press of a button and can be applied with a spray gun. Previously, car workshops first had to measure, weigh, and mix the raw ingredients for 2C clearcoats. The new system saves time, reduces the probability of error, and is easy and safe to use. What is more, for multi-layer paint protection films, our Desmopan® range provides weather resistance, transparency, and resistance to protect the car paint from environmental influences such as chippings, dust, scratches, and chemical substances. The life of these types of multi-layer films is extended by the physical properties and chemical resistance of our Desmopan® range. Conventionally produced films last one to two years, while Desmopan® can help extend their life to five to ten years. Another development is a new process for producing films with reduced thickness from the Makrofol® product group. These films are used in ultra-thin materials such as membranes, e.g., those found in laboratory diagnostics, at automotive and electronics suppliers, in ventilation systems in industry and the automotive sector, in interior and exterior vehicle lighting, in insulating films, or in loudspeakers.

Furniture and Wood Processing Industry

Our activities for the furniture and wood processing industry are also focused on sustainability. For example, as part of the publicly subsidized PReSmart project of the European Union (EU), an innovative process is being developed for chemical recycling of flexible polyurethane foam from used mattresses.

→ See "Strategic Partnerships and Collaborations."

The Desmodur® CQ product group already has products available that have been made with a proportion of alternative raw materials of at least 25%. These more sustainable TDI products, which are assessed according to the mass balance approach, reduce CO₂ emissions and the use of fossil-based resources; they are used, e.g., in upholstered furniture, mattresses, and thermal insulation.

→ See "Labeling of Circular Solutions in the Product Portfolio."

Arfinio® injection molding technology combines liquid high-performance polymers with minerals, enabling manufacturers of solid surface and injection molding applications to produce extremely light yet durable materials. This combination allows the production of seamless shapes without requiring sheets, while achieving mechanical strength, light stability, reparability, as well as low product weight, rapid production, and improved freedom of design. The molded bodies can be used to make a number of different products, ranging from device housings through interior trims down to building facades.

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 energy efficiency. To make the insulating material itself more sustainable, two climate-neutral* products have been added to the Desmodur® product range, each of which is a main component in the production of polyurethane insulating materials. Sustainable recycling solutions for rigid foams are being developed as part of the EU-subsidized CIRCULAR FOAM project, which develops above all chemical recycling to recover the raw materials for Covestro's production processes.

→ See "Strategic Partnerships and Collaborations."

* Climate-neutral (from cradle to Covestro's gate) according to internal calculations in accordance with the methodology for ascertaining our ecological footprint, which has been critically reviewed by TÜV Rheinland based on ISO standards 14040 and 14044.

Another new solution developed in the reporting year allows mining sieves with inserts to be mechanically recycled rather than the previous practice of burning or taking them to landfill. Substitution with an insert made in a novel way allows the sieve to be mechanically recycled and turned into fine pellets in the process. In a plant developed by us, these pellets can then be processed in a second step and added to a formulation for making new sieves. Another benefit is that mass-balanced products can be used in these formulations.

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. For example, new compounding products with a high post-consumer recycle (PCR) content have been developed, which supplement the PCR portfolio by adding a broad range of applications. A climate-neutral* portfolio has also been created with the Makrolon® RE product group, which provides solutions for all key areas of the electrical and electronics industry. In addition, a portfolio of products with improved flame retardance has been developed, combining improved properties in relation to rigidity and tenacity with easy processing. These products are used for low-voltage applications, such as circuit breakers for switching high currents and smart electricity meters. In the area of heat management solutions, the portfolio has been expanded by adding flame-retardant materials frequently deployed in home automation, power supply, and lighting applications.

Our range of offerings also includes more sustainable thermoplastic elastomers, e.g., for consumer electronics. These materials boast properties comparable to those of purely fossil-based thermoplastic elastomers, but have an improved environmental footprint. Since the introduction of partly biobased products in the Desmopan® CQ product group, we have combined alternative raw materials obtained directly from biomass with raw materials with a renewable share allocated via the mass balance approach. In the products made with renewable energy, the mass certified as sustainable accounts for up to 80%, while allowing CO₂ emissions to be reduced by up to 52%.

→ See "Labeling of Circular Solutions in the Product Portfolio."

Other Industries

To further boost our offering for the wind industry, a new Wind Technology Center was established in Leverkusen (Germany). At this center, Covestro carries out research into material solutions for sustainable energy generation, such as developing new and optimizing existing polyurethane resins for manufacturing rotor blades for wind turbines. This is done in close cooperation with our customers to ensure that industry-relevant and robust solutions are developed. Another area of application for our products relating to wind energy involves cable protection solutions made of polyurethane elastomers for offshore wind turbines. To reduce the size of the cable protection, Covestro has developed a new formulation with which the material required can be reduced by up to 30% without impairing the properties of the application. This formulation will, moreover, be one of the first to be available in a mass-balanced version.

For the health industry, Covestro has developed an innovative concept for administering medicines, using the Makrolon® or Bayblend® product groups with different properties, such as low frictional resistance or glazing. This polycarbonate-based concept simplifies sorting for recycling compared to conventional devices for administering medicines. Another innovation is a material with a low carbon footprint in the Makrolon® product group for respiratory and medication applications. Since hospital-acquired infections present a problem in the health sector, we are developing materials that can withstand aggressive disinfectants. To this end, new flame-retardant Makrolon® and Makroblend® materials have been developed and introduced for use in durable medical equipment.

* Climate-neutral (from cradle to Covestro's gate) according to internal calculations in accordance with the methodology for ascertaining our ecological footprint, which has been critically reviewed by TÜV Rheinland based on ISO standards 14040 and 14044.

Employees

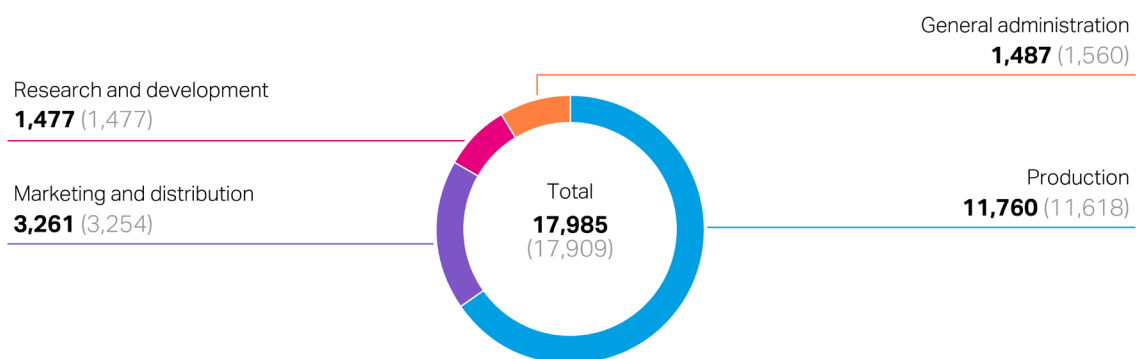
The multifaceted abilities and personal efforts of all employees contribute materially to Covestro's success. All employees have both the freedom and the mandate to act and contribute in line with the company's goals, values, and culture. Covestro thus promotes a working environment that is shaped by unconventional thinking, the effective exchange of knowledge, creative problem-solving, constructive feedback, and collegial cooperation. We aim to empower each of our employees to work to their full potential and expand their expertise. Our managers are responsible for facilitating and supporting these goals in close collaboration with our employees. In this way, we can work together to make an ongoing contribution to the company's success. Our social responsibility as a company and an employer is based on our unreserved commitment to supporting and fostering human rights in our sphere of influence. In the interest of encouraging a transparent exchange of information within the company, e.g., employee questions and comments are collected – anonymous or not – and regularly addressed and answered by the Board of Management in video messages and virtual global meetings (e.g., WeAre1 talks and town halls meetings). Until June 2022, the questions were collated using the Slido software, which, from July 2022 onward, was replaced by the newly introduced Yammer networking platform.

Organizationally, the corporate Human Resources (HR) function reports to the Chief Executive Officer (CEO). All human resources activities are the responsibility of the management of the corporate HR function.

As of December 31, 2022, Covestro had 17,985 employees worldwide (previous year: 17,909). At the reporting date, the Group also had 575 employees in vocational training worldwide (previous year: 581), 566 of whom were based in Germany (previous year: 568).

→ See note 9 "Personnel Expenses and Employee Numbers" in the Notes to the Consolidated Financial Statements.

Employees by division¹



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.

Corporate Values and Corporate Culture

Covestro is proud of its corporate values, summarized as C³: curious, courageous, and colorful. Curiosity drives us to think beyond the horizon 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; multiple viewpoints make us successful. These values guide all the Group's employees and are reflected in their daily 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 filled with life 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 outstanding leaders.

→ See “Proud to Belong” Action Area.”

Human Resources Guiding Principles and Strategy

The major trends, such as digital transformation, 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 our work and the ways we do it. The corporate HR function therefore focuses on the development and implementation of initiatives that sustainably support our business success in view of these changes, while at the same time encouraging professional development and engagement across the board. 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.

These issues and the Group’s Sustainable Future strategy are reflected in our people strategy, which provides guidance for all activities and priorities 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



“Place to Be” Action Area

The “place to be” action area of Covestro’s people strategy guides the activities of the corporate HR function toward maintaining and enhancing Covestro’s attractiveness as an employer through various initiatives and making our current and future employees passionate about their work and our company.

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.

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 provides a modern, stimulating working environment that promotes flexible ways of working.

Open-plan office environments combined with flexible work concepts encourage contact and the exchanges across team and departmental boundaries and thus encourage more communication and interdisciplinary cooperation. We call this work environment our C³ way of working based on our C³ values. At the heart of this philosophy is our conviction that all our employees, regardless of their status in the hierarchy, need working environments suitable to their duties to be able to work effectively. In this way, we want to enable changes in perspective and drive creativity in the company. Our philosophy applies particularly to cases such as moving into or creating new workspaces. An example of these new workspaces is the corporate headquarters in Leverkusen (Germany), which opened for business in the year 2020. Active change management prepared employees for and involved them in shaping new work environments. To achieve this, we provide not only the appropriate facilities, but also easy-to-use IT infrastructure and media technology. For the design of the corporate headquarters and the integration of our C³ values into an architectural concept, Covestro received a design award, the German Brand Award in gold. The award is presented by the German Design Council, a nonprofit foundation based in Frankfurt am Main (Germany), and the German Brand Institute.

The mobile working concept, which allows working from home and on the move, gives employees, teams, and our organization a wide variety of new options. However, we continue to believe that personal interaction on site is very important for ensuring lasting collaboration and maintaining our innovation capability in line with our "We Are 1" culture. We have developed different measures at our sites around the world to assist managers and employees in returning to the office and successfully manage the transition to a hybrid form of working, i.e., the collaboration of employees from different locations, such as home, production, or the office. Our managers play a special role in this system. In addition to implementing established leadership standards and modern work methods, they increasingly collaborate with their employees to develop agile and customized solutions to support Covestro's efforts to exploit the potential of this new work environment.

Employer Attractiveness

Covestro aims to recruit qualified employees for the company, ensure their professional and personal development, and retain talent for the long term. We strive to be perceived as an attractive employer worldwide and to reinforce our employer brand, especially through diversity in the workforce, and raise awareness of our company among our target groups.

We take responsibility worldwide for students entering the workplace and maintain close contacts with leading universities like RWTH Aachen University (Germany), the University of Pittsburgh, Pennsylvania (United States), or Tongji University in Shanghai (China). We bring in university students to take part in professional internships worldwide each year. This gives them insight into our company's operations as well as personal experience with Covestro as an attractive employer. In fiscal 2022, we offered 394 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, 183 young people were able to start their careers with Covestro in the year 2022. We offer vocational training in a number of scientific and technical professions. If the vocational training is completed successfully, trainees are guaranteed a position with the company. Our particular interest in schools is aimed at raising awareness of STEM professions and making them more attractive to young people. The abbreviation STEM stands for science, technology, engineering, and mathematics in paths of study and careers. For example, in the year 2022, 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.

To help meet our need for qualified personnel, we engage in HR marketing campaigns around the world, in particular by maintaining a social media presence. In the United States, we actively use the LinkedIn platform to mark events such as the International Day of Women and Girls in Science. In Belgium and the Netherlands, we post videos on Facebook to give an insight into our plants and the work of our employees in production, while in China we use virtual reality technology to show off the company's premises in Shanghai (China). Alongside participation in traditional career fairs, the recruiting teams from Germany and China also explained our career opportunities at two trade fairs, the plastics trade fair K 2022 in Düsseldorf (Germany) and the China International Import Expo (CIIE) in Shanghai in the year 2022.

Covestro received several major employer awards and accreditations in the reporting period. The Top Employers Institute certified Covestro in Germany, the United States, and China. In Spain, the company received an award from Forbes Magazine, ranking us among the top 75 most attractive companies in the country. In Mexico, it was also ranked second among the country's top 100 companies with fewer than 500 employees.

[Supplementary information >](#)

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 candidates fairly and avoiding discrimination of any kind.

In the reporting year, we hired a total of 1,330 new employees worldwide. The number of new hires was considerably lower than in the previous year, as in 2021 the new hires resulting from the acquisition of the RFM business were included in this key performance indicator (KPI).

New hires¹ by age group, gender, and region in fiscal 2022

	EMLA		NA		APAC		Total	
	FTE	%	FTE	%	FTE	%	FTE	%
Women	192	14.4	41	3.1	120	9.0	353	26.5
< 30 years	94	7.1	16	1.2	42	3.1	152	11.4
30 to 49 years	87	6.5	18	1.4	74	5.6	179	13.5
≥ 50 years	11	0.8	7	0.5	4	0.3	22	1.6
Men	548	41.3	177	13.3	251	18.9	976	73.5
< 30 years	272	20.5	70	5.2	92	6.9	434	32.6
30 to 49 years	249	18.8	90	6.8	153	11.5	492	37.1
≥ 50 years	27	2.0	17	1.3	6	0.5	50	3.8
Total	740	55.7	218	16.4	371	27.9	1329	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. The figures do not include 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 1,192 employees worldwide left the Group in fiscal 2022. Employee attritions in the different regions and age groups varied widely in some cases.

Attritions¹ by age group, gender, and region in fiscal 2022

	EMLA		NA		APAC		Total	
	FTE	%	FTE	%	FTE	%	FTE	%
Women	103	4.7	55	8.9	130	9.5	288	6.9
< 30 years	28	9.1	11	18.0	14	12.5	53	11.0
30 to 49 years	43	3.6	22	6.9	100	8.9	165	6.3
≥ 50 years	32	4.5	22	9.1	16	11.9	70	6.5
Men	408	5.1	216	9.7	280	7.9	904	6.5
< 30 years	62	6.3	23	10.3	32	9.2	117	7.5
30 to 49 years	118	3.3	74	7.1	203	7.7	395	5.4
≥ 50 years	228	6.5	119	12.6	45	8.2	392	7.8
Total	511	5.0	271	9.5	410	8.3	1,192	6.6

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. There were no attritions of employees who did not provide gender information.

[< Supplementary information](#)

Employee Engagement

A key aspect of attaining our goal of becoming a place to be is to get a better understanding of the factors that our existing 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; the survey was continued in the year 2022. 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 measures are agreed jointly by employees and line managers. Three survey rounds were conducted in the year 2022, each with a participation rate of around 70%, similar to the previous year.

"Committed to Perform" Action Area

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. This is what our people strategy efforts in the "committed to perform" action area are aimed at. 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 is standardized for all Covestro employees. The variable compensation is based on a uniform system with identical criteria; differences exist only in the target percentages related to fixed compensation. The Covestro Profit Sharing Plan (Covestro PSP), a short-term variable compensation program in force throughout the Group, applies – with few exceptions, essentially due to collective bargaining arrangements – for all Covestro employees worldwide, including the Board of Management. It makes it possible for our employees to participate in the company's performance each year with a uniformly calculated bonus payment. Since the year 2022, the four areas of profitability, liquidity, profitable growth, and sustainability have each accounted for one quarter of the calculation formula used to measure target attainment. In addition, employees in management functions, as well as members of the Board of Management, participate in Prisma, the global stock-based compensation program for long-term variable compensation. Payments are based on the Covestro share price, including comparisons with our competitors, and in this way the program rewards the long-term changes in the company's share price. Since the tranche launched in the year 2021, this program has included a sustainability component comprising a reduction target for carbon emissions and other greenhouse gases such as nitrous oxide.

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

Furthermore, a global budget is available from which management-level staff can promptly grant individual performance awards to recognize outstanding conduct, commitment, and the performance of their employees in regard to our corporate values.

→ See note 21 "Other Provisions" in the Notes to the Consolidated Financial Statements.

As in previous years, the Covestment share participation program was offered once again in fiscal 2022 and provided employees with the opportunity to purchase Covestro shares at a discount. In the year 2022, 99% of Covestro's global workforce was thus able to purchase Covestro shares at discounted prices. Around 38% of all eligible employees worldwide took advantage of this offer.

→ See note 21 "Other Provisions" in the Notes to the Consolidated Financial Statements.

Supplementary information >

In the year under review, 69% 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, 2022, 77% 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.

< Supplementary information

"Ready to Grow" Action Area

Well educated and trained staff is crucial for our company's continuing development and success. This is reflected in the "ready to grow" action area of Covestro's people strategy. We want to promote talent and encourage employees to try out new possibilities for personal development.

We believe in lifelong learning and therefore continued to support in particular self-directed learning in fiscal 2022. To this end, we expanded our digital content and optimized the personal and professional further training options for management, innovation, project management, and digitalization. A new program for learning languages was also introduced, which is available to employees wishing to develop their linguistic skills in nine languages. To assist our internal training staff, we have implemented a learning toolbox, which covers all key elements of the learning process, from analysis to quality control. For new internal training staff, this concept includes the appropriate qualifications for conceptualizing, designing, and implementing internal training. These measures are intended to provide optimal support to our employees for personal and professional development in all phases of their careers.

Our people development activities include working on an updated, more agile approach to performance, development, careers, and our talent portfolio. For instance, we intend to introduce new initiatives in line with our "We Are 1" culture that are streamlined, transparent, and intuitive. The aim is for management staff, other employees, and the company to grow, deliver high performance, develop, and be successful now and in the future. This requires all of our employees, especially our management staff, to approach their work from a development perspective and be ready to learn new skills and approaches.

“Enabled to Transform” Action Area

We continually lead, inspire, and train our employees to enable them to master future challenges.

In the year 2022, a new HR information portal (InfoHub) was created; it provides information on the return to the office following the pandemic and on hybrid working. Specific information events were held initially to support management staff in dealing with these new circumstances. The events addressed specific issues affecting shared understanding of the framework of mobile and hybrid working. Moreover, the corporate HR function collated information and developed training content to make the transition easier for employees. This was supplemented by training events, examples of best practice of how to deal with challenges, educational videos, and specific materials for managers. In addition, recommendations were given on IT and media issues and on how to choose and use the available technology and facilities most efficiently. All this is to harness the opportunities of a generally mobile and flexible way of working.

Digital inclusion and transparency in communications are critical success factors in the new normal of working. Regardless of whether or not they work simultaneously from the same location, all employees have to have the same information and possibilities available to them. This applies in particular to access to information and prompt exchanges with line managers and other team members. This is how we integrate Covestro’s “We Are 1” culture into the world of hybrid working.

“Proud to Belong” Action Area

The “proud to belong” action area of Covestro’s people strategy is centered around our corporate values and our corporate culture, with a focus on diversity, equity, and inclusion, as well as safe and healthy working conditions for our employees.

→ See “Corporate Values and Corporate Culture.”

Constructive cooperation with the employee representative body on a basis of trust is an integral part of our corporate culture. It allows us jointly to come to important decisions, some of which can be difficult for the company, after considering all perspectives and to put them on a broad foundation. The interests of employees and the company can in this way be balanced, even in difficult situations. Employees at all sites around the world have the right to elect their own employee representatives. Matters affecting several European countries are dealt with in the Covestro European Forum.

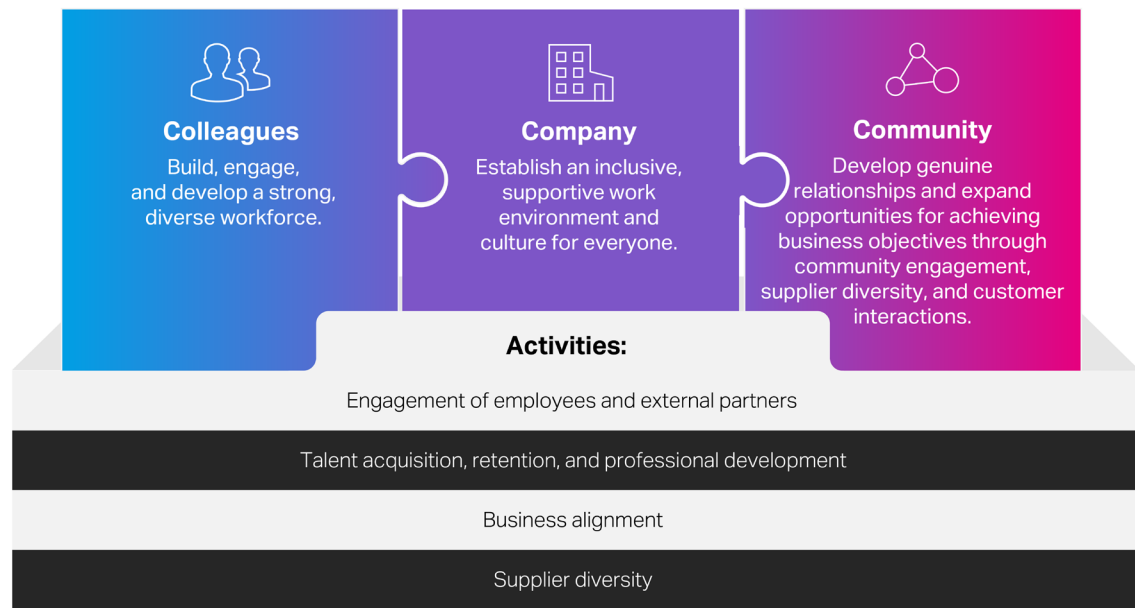
Promoting Diversity, Equity, and Inclusion

We work to make the world a brighter place. Diversity, equity, and inclusion (DEI) are key components of our corporate culture. We advocate for an environment in which various skills, talents, experiences, and points of view are welcome, and everyone is treated with dignity and respect, both within and outside of our company. We also believe that a diverse workforce and inclusive environment are important drivers of innovation, sustainability, employee engagement, and business success. Our goal is to create an environment at Covestro in which all employees can give their best each and every day.

+ More information can be found in our Diversity & Inclusion Report, which was published in 2021, at: www.covestro.com/en/company/strategy/people-and-culture

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 objectives 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” of our DEI strategy encompasses all activities that aim to make Covestro’s workforce more diverse. Employee networks are a key factor in involving our staff even more 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 Compass network is for employees interested in gender equity. These networks organized activities around the world in the year 2022. As part of a gender equity campaign in Germany, Compass discussed actions that each individual can establish under their own initiative to promote equity in day-to-day operations. During Pride Month, our LGBTIQ networks took part in Christopher Street Day Parades in Mexico City (Mexico), Houston, Texas (United States), and Pittsburgh, Pennsylvania (United States). 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 for everyone” principle, we have bundled all efforts and initiatives aimed at promoting inclusion. Covestro is aware that companies are more successful if 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 23.4% of our worldwide headcount (previous year: 23.1%).

→ See “Promotion of Equal Participation of Women and Men in Leadership Positions.”

To mark the 10th German Diversity Day, we addressed the issue of people with disabilities and presented our inclusion agreement, which was entered into with the Representative Body for Severely Disabled Employees in the year 2022. Moreover, our Chief Commercial Officer, Sucheta Govil, together with female Board members of other industrial companies, took part in a panel discussion on how employers can contribute to a supportive environment for women that offers equal opportunities and is free from prejudice. The first themed week was also held in the APAC region in June 2022 during which various events on diversity issues were presented.

As part of the “Menstruation is everyone’s issue” initiative in Mexico, Covestro provides female hygiene articles free of charge in restrooms in all plants and offices and grants paid leave in cases of severe menstrual pain. In an information campaign conducted alongside this initiative, Covestro provides guidance on when women with menstrual problems should consult the company doctor.

In the United States, our CEO Dr. Markus Steilemann chaired an expert panel discussion organized by our employee network to mark Black History Month. Black History Month originated to recognize the contribution of people with Afro-American roots in the United States. It honors all people of color from all periods of US history, from the first slaves who arrived from Africa in the early 17th century to the people with Afro-American roots living in the United States today.

Our efforts are showing success: Particularly notable is our participation in the Disability Equality Index, a US benchmark supporting inclusion and equality for people with disabilities. Covestro was recognized as one of the best employers for people with disabilities in this rating. In Germany, Covestro was ranked 12th in the German Diversity Index in 2022, which measures the diversity commitment of DAX-listed companies. In China, we received the DEI Best Practice Award.

The “Community – achieving business objectives 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 objectives will be permanently integrated into the company as well as society. For this reason, we are further expanding our cooperation with various partners.

In a joint campaign with our logistics service provider Maersk during Pride Month in June 2022, we installed a rainbow container outside our corporate headquarters in Leverkusen (Germany) and started discussions on LGBTIQ issues with neighbors and employees. In the year 2022, Covestro entered into a partnership with the World Organization for Sustainability Leadership (WOSL) in China and launched the Covestro Cup 2022 “I Speak, I Act, I Impact – China Student Orator and Illustrator Contest.” Together with the WOSL, we focus on promoting the development of fair and inclusive quality education, raise awareness of goals and create a sense of responsibility among the young generation, and inspire young people to shape a sustainable future together.

[Supplementary information >](#)

Employee Metrics on Diversity and Internationality

As of December 31, 2022, Covestro had 17,985 employees worldwide comprising 88 different nationalities, 76.6% of whom were male and 23.4% 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 (57.1%) worked in the EMLA region. The APAC region accounted for 27.2% of our employees, while 15.7% of the workforce was based in the NA region.

Employees¹ by employment status, region, and gender in fiscal 2022

	EMLA		NA		APAC		Total
	Women	Men	Women	Men	Women	Men	
	FTE	FTE	FTE	FTE	in FTE	FTE	
Employees with permanent contracts	2,162	7,955	621	2,187	1,347	3,503	17,780
Employees with temporary contracts	50	104	1	7	24	19	205
Total	2,212	8,059	622	2,194	1,371	3,522	17,985

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. This information was not included in the presentation above, which results in deviations in the total number of employees.

Permanent employees¹ by type of employment and gender in fiscal 2022

	Women	Men	Total
Part-time	854	2,312	3,167
Full-time	3,486	11,584	15,074
Total	4,340	13,896	18,241

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 total; as a result, the total number of employees differs from the sum of the individual numbers by gender.

The percentages of male and female employees by employee group have remained largely constant.

Employees¹ by employee group and gender in fiscal 2022

	Women	Men	Total
	%	%	%
Board of Management and Executive Leadership Team	0.1	0.2	0.3
Middle management	2.7	8.9	11.6
Junior management	7.0	17.1	24.1
Skilled workers	13.6	50.4	64.0
Total	23.4	76.6	100.0
Employees in vocational training	21.7	77.7	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. Employees in vocational training are disclosed separately in this KPI. Five employees and three 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.

Employees¹ by employee group and age group in fiscal 2022

	< 30 years	30 to 49 years	≥ 50 years	Total
	%	%	%	%
Board of Management and Executive Leadership Team	0.0	0.1	0.2	0.3
Middle management	0.0	5.5	6.1	11.6
Junior management	0.8	15.5	7.8	24.1
Skilled workers	10.4	34.0	19.6	64.0
Total	11.2	55.1	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.

[< Supplementary information](#)

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 objectives and actions are derived by identifying needs relevant to Covestro, at corporate or division level as well as for the employees. Concrete health objectives 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. They relate for example to an improved ability to switch off, adequate support by managers, or a reduction in the perceived high workload and responsibility. Targeted measures are offered to improve the health situation, such as attending the "Healthy management" seminar for managers, workshops for analyzing the causes of high workloads, or stress management courses. All measures 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 how to discharge their duties.

The corporate HR function is aided in all its work by the corporate Group Health, Safety and Environment, Law, Intellectual Property & Compliance, and Corporate Audit functions. They ensure that all internal guidelines and all relevant standards and labor law requirements are met.

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

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. In this regard, we take into account national and international notification duties. 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.

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 particularly ensure safety, health, and wellbeing in the workplace. Our personnel policy also features a strong social safety net for our employees.

→ See "Human Rights" and "Compliance."

Health and Safety

For Covestro, safety is an essential foundation of our 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 partner companies (contractors) who work for our company within the scope of operational activities. Detailed rules and regular checks are instrumental in meeting these goals, as are safe production processes, plants, and transportation.

Safety incidents that – under other circumstances – could have led to a High Potential Event (HPE) are examined using a set of criteria we have defined that includes their potential effects. Events classified as HPEs are treated similarly to events that have actually occurred and require detailed root cause analysis and communication. Promoting safety awareness among employees is essential for minimizing dangerous situations during day-to-day operations. For this reason, Team Resource Management training to further increase safety awareness and safe conduct among our staff continued in the year 2022.

In the year under review, our employees were encouraged for the 14th time to take part in the CEO Safety & Health Award and submit suggestions for improving occupational health and safety. Due to a serious workplace accident at our site in Shanghai (China), the Board of Management decided not to make an award this year.

Occupational Health and Safety

Our safety management activities take into account requirements and standards applicable around the world. We continually update our safety management system in line with our corporate culture. In support of our Toward Zero goal, the health and safety of our employees in their day-to-day work are the focus of our safety management system. This also includes potential effects on the environment and harmful health effects caused by leaks at production facilities, or accidents involving hazardous goods and other transportation accidents. Our integrated Health, Safety, Environment, Energy, and Quality (HSEQ) management system is a major contributor to fulfilling this vision.

→ See “Safety and Accident Prevention.”

An integrated information management system (IIMS) implemented throughout the Group exists for reporting and processing work-related accidents and incidents, as well as potential hazards. The IIMS makes it possible to identify trends in a timely manner so that corresponding short-term corrective and long-term improvement measures 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 measures 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. The health and safety challenges arising from the coronavirus pandemic in the year under review were significantly less impactful than in previous years. Given the lower infection rates, many sites were able to hold the global Safety & Health Day again as a physical event in September 2022.

Safety and Accident Prevention

Over the long term, we want to prevent all workplace accidents and work-related occupational diseases. For this reason, we regularly analyze the accident rate 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 in the year 2022

	Movement (stumbling/ falling)	Mechanical work	Chemical contact	Traffic and transportation	Other	Total
Employees	19	31	10	2	7	69
Contractors	13	15	3	1	4	36
Total	32	46	13	3	11	105

In the year 2022, one third of all recordable accidents were attributable to movement. Another high-incidence type of accident in the year 2022 was mechanical work, especially accidents involving the hands. To counter this trend, we rolled out "hand safety" throughout the Group as a particular focus area during an HSE campaign in the third quarter of 2022.

We classify accidents at Covestro according to the American Society for Testing and Materials (ASTM) standard E2920-14 to devote particular attention to the life-threatening or life-changing accidents among the entirety of the accident data. In the year 2022, seven contacts with chemicals, four mechanical work injuries, two burn incidents, and one traffic accident were classified as serious. In one of the mechanical work accidents, one employee was injured so seriously that he subsequently died in hospital. Five of the seven contacts with chemicals reported were caused by an incident outside our direct control. At one of our sites, a cloud of cleaning steam containing hazardous substances was released during cleaning work performed by a company based in the Chemical Park. The five employees received paramedical treatment as a precaution and were admitted to the local hospital for one night for observation.

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), as per 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 or manual timekeeping or obtained using supplier invoices. The figure can also be calculated based on valid assumptions (estimates). 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.

In the fiscal 2022, we documented 33.1 million total hours worked (THW) for our employees (previous year: 31.8 million THW). For contractors, 17.5 million THW (previous year: 15.6 million THW) were reported. This results in the following data according to OSHA:

Work-related accidents¹

	2021	2022
Recordable incidents		
in relation to Covestro employees	53	69
in relation to contractor employees ²	21	36
Recordable incident rate (RIR)		
in relation to Covestro employees	0.33	0.42
in relation to contractor employees ²	0.27	0.41
Recordable incidents in connection with days lost		
in relation to Covestro employees	33	37
in relation to contractor employees ²	15	20
Lost time recordable incident rate (LTRIR)		
in relation to Covestro employees	0.23	0.22
in relation to contractor employees ²	0.19	0.23
Fatal injuries		
in relation to Covestro employees	0	1
in relation to contractor employees ²	0	0

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 partner companies contracted by Covestro whose accidents occurred on one of our company premises.

In the reporting year, the number of workplace accidents involving our employees went up by 16 to 69 (previous year: 53), increasing our employees' RIR by 0.09 points. The number of accidents involving employees of our contractors increased by 15 to 36 (previous year: 21), raising the RIR of our contractors' employees by 0.14 points.

The increase in manual work also led to a rise in the number of workplace accidents in the year 2022. A risk in this context is posed by the human factors of "skills" and "decisions." Based on analysis of the accidents, they contributed more than 70% to the rise in accident rates.

Hazard Avoidance

Repairs, inspections, and technical modifications frequently require work that is potentially hazardous. 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 individuals involved in the work are informed of these parameters and must confirm receipt of this information with a signature. The responsible facility, participating technical crews, and, if necessary, additional safety officers monitor adherence to the measures and safe work performance.

Environmental and Transportation Safety

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 hazardous materials, we record and categorize all leaks starting with as little as five kilograms, according to our Corporate Commitment. Global events on transportation safety are held at regular intervals. Here, corrective measures 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. Loss of Primary Containment (LoPC) is an early indicator for all Covestro plants, which is reported consistently throughout the world and is integrated into the Group's safety reporting.

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 comprises

- the release of chemicals classified according to the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) exceeding the defined volume thresholds within one hour,
- a reportable injury according to OSHA criteria to a Covestro employee or a contractor employee as a result of product release or the release of energy,
- the release of energy (e.g., fire, explosion) that leads to damage with direct costs totaling more than €2,500,
- 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. The volume thresholds defined by the ICCA for recording incidents are binding on its members and are therefore also applied at Covestro. We applied these volume thresholds at Covestro so that our statistics would be comparable within the chemical industry and the benchmark. Very low volume thresholds mean that seven less significant incidents are systematically documented and investigated as LoPC events. For instance, the volume threshold for chlorine is one kilogram. In the reporting year, our LoPC IR was 0.57 (previous year: 0.69).

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.

Information Security

In addition to the safety and security of employees and plants, information security and uninterrupted workflows and processes are particularly important to Covestro. This is why our safety strategy systematically focuses on meeting these targets. Covestro has established a central information security committee to ensure close consultation among the relevant departments (Corporate Security, Information & Operational Technology Security, including Cyber Security) and production. Security is already taken into account during system and software development (security by design) and Covestro's security requirements are based on international standards such as ISO 27001 and IEC 62443.

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 carried out by an internal team of security experts in our Security Operation Center (SOC) with the aim of detecting in real time any irregularities and suspicious events in our IT infrastructure that could also point to cyberattacks. We carefully analyze and assess such indications and, if necessary, appropriate countermeasures are taken promptly.

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. 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. In the context of migrating to a cloud environment, the underlying system design was audited by a recognized external consulting firm. Other 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).

Data protection is a topic of key importance for Covestro; it is coordinated throughout the Group under the responsibility of the corporate Law, Intellectual Property & Compliance function.

→ See "Compliance Management System."

Environmental Impact of Own Operations

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, we try to close material cycles. To this end, we also consider, for example, our own waste, which in turn plays a role in our efforts to reduce Scope 3 greenhouse gas (GHG) emissions.

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

The emissions into the air, waste, and wastewater 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 reports directly to the Board of Management.

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

Opportunities and risks associated with our operations are considered as part of Group-wide risk management.

→ See "Opportunities and Risks Report."

[Supplementary information >](#)

Air Quality

In addition to GHGs, Covestro's business activities result in other emissions into the air.

→ See "Circular Economy", "Climate Neutrality" and "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, which is assessed annually in the environmental management process with the Chief Technology Officer (CTO).

Other important direct air emissions

	2021	2022
	1,000 metric tons p.a.	1,000 metric tons p.a.
CO	0.31	0.35
NO _x	0.62	0.55
SO _x	0.04	0.05
Dust	0.10	0.10
NM VOC ¹	0.16	0.17
ODS ²	0.0002	0.0002

¹ Non-methane volatile organic compounds (NMVOC).

² Ozone-depleting substances (ODS).

[< Supplementary information](#)

Water and Wastewater

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 the growing concern about plastic waste in the oceans. This is underscored in our Corporate Commitment on Water.

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

In the reporting year, we again assessed risk at our production sites to examine water availability, quality, and accessibility. In our production activities, we strive to use water several times and to recycle it. Covestro primarily generates wastewater from once-through cooling systems and production. All wastewater is subject to strict monitoring and analysis according to the applicable legal regulations before it is discharged into disposal channels.

[Supplementary information >](#)

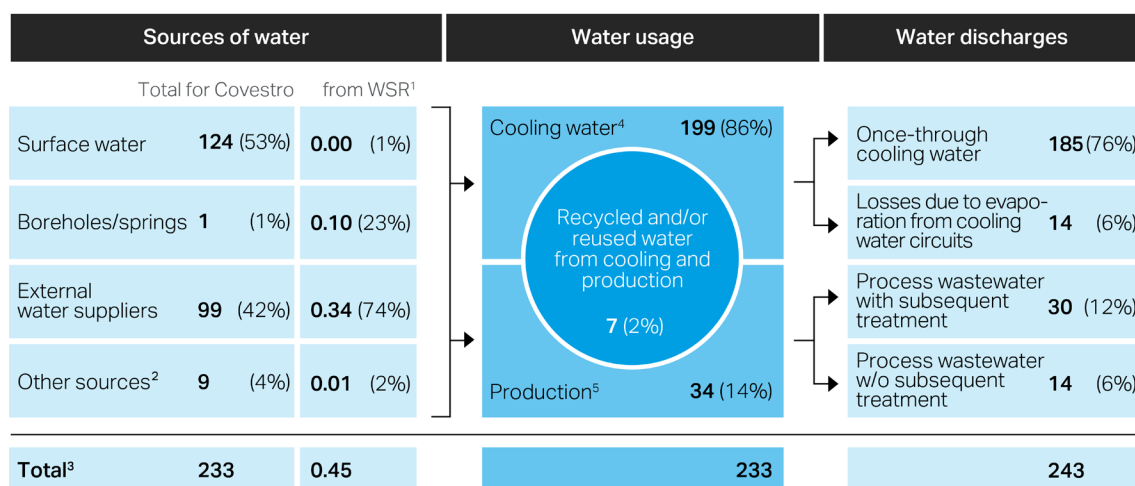
Water Usage

The availability and accessibility of clean water is vital for our production sites. As part of our Corporate Commitment on Water issued in the year 2017, we initiated and have continually refined a global risk assessment of all of our production sites covering water availability, quality, and accessibility.

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 Resource Institute, 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 the 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 0.2% of our total water consumption.

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.

Use of water in the year 2022 (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.

At 233 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 scaled-back production activity. The majority of the total volume of water used by Covestro (76%) 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 185 million cubic meters in the reporting year.

Some of the water used can be recycled in various ways. For instance, recycled water can be used again in the same process multiple times, e.g., for cleaning or cooling purposes. It is also possible to reuse water from upstream processes in subsequent steps. This permits corresponding quantities of fresh water to be conserved each year. In the reporting year, the volume of recycled water used stood at 7 million cubic meters (previous year: 6 million cubic meters).

We calculate our total water consumption according to GRI Standard 303-5 (2018), which involves determining the difference between total water used and total water discharged. This resulted in calculated consumption (including, e.g., evaporation losses) of 4 million cubic meters.

The volume of process wastewater saw a year-over-year increase 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 68% worldwide. Following an analysis, another 32% was categorized as environmentally safe and returned to the water cycle. Evaporation losses went up 26% in the reporting year to 14 million cubic meters.

Our goal is to minimize wastewater emissions that depend largely on our production volumes and the current product portfolio, as much as possible.

Emissions into water

	2021	2022
	1,000 metric tons p.a.	1,000 metric tons p.a.
Phosphor	0.03	0.03
Nitrogen	0.29	0.18
TOC ¹	0.55	0.56
Heavy metals	0.0056	0.0036
Inorganic salts	737	781

¹ Chemical oxygen demand (COD), calculated based on total organic carbon (TOC) values: 1.68 (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. On the back of initial positive result, pilots of the technologies are now being prepared and are expected to be launched next year.

[< Supplementary information](#)

Waste

From an economic considerations perspective, Covestro's manufacturing processes apply a maximum of efficiency when it comes to the use of materials; compared with other chemical companies, these result in relatively small volumes of waste. We observe and evaluate our manufacturing processes on an ongoing basis to minimize material consumption and disposal volumes as much as possible. This is achieved by safe disposal channels with separation according to the type of waste and economically expedient recycling processes. However, production fluctuations, building demolition and refurbishment, and land remediation can also influence waste volumes and recycling paths. In fiscal 2022, the total volume of waste we generated decreased, mainly due to the general decline in production and the resulting drop in the volume of production-related waste. We determine specific opportunities for waste reduction with targeted projects and put these into practice within the context of our existing manufacturing processes. For instance, in the manufacturing process for our toluylene

diisocyanate (TDI) product, our Dormagen site began testing a new procedure that significantly reduces the resulting process waste volumes in the year 2019. The insights gained from this project can be transferred to additional plants at other production sites. Our large-scale TDI production facility in Shanghai (China) is currently being equipped with this technology after a pandemic-related break.

Covestro also supports the reuse and treatment of its materials in accordance with economic and environmental criteria. 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.

Sustainability plays an increasingly vital role with regard to the purchasing of packaging materials. We have implemented an approach to address this: When procuring packing materials, Covestro reviews in principle whether and to what extent used or reconditioned packaging can be used in the place of new packaging. For instance, Covestro uses post-consumer regrind plastic barrels for waste transportation. Drums made of recycled plastic replace plastic drums from virgin material. Thus, Covestro uses fewer raw materials, reduces emissions, and has established the initial building blocks for a circular economy in the area of transportation and packaging.

Covestro also supports initiatives such as Operation Clean Sweep (OCS) that focus on preventing 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. Following the integration of the Resins & Functional Materials (RFM) business acquired from Koninklijke DSM N.V., Heerlen (Netherlands), the next step now is to evaluate the potential relevance for OCS and implement any measures accordingly.

The Plastics Europe association is in the process of enhancing the OCS program. All member companies are now required to take part in Operation Clean Sweep. Covestro started work on a proposal for an external certification system for the entire plastics value chain in cooperation with Plastics Europe and other members in the fiscal year 2019. The initial test runs were held in the year 2021, and the system is being rolled out to Plastics Europe members starting in fiscal 2022. Certification of the relevant sites is now also mandatory for all member companies.

Covestro had already added the topic of OCS to its HSEQ certifications in the year 2020. The next step will be to review and assess the measures, which were previously voluntary, and adapt them to the new certification requirements.

[Supplementary information >](#)

Waste and Recycling

In nearly all countries, the law 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. In fiscal 2022, we continued to harmonize our global waste data reporting. We 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 disposal of hazardous waste is subject to local definitions and regulations. Based on this information, we prepare and evaluate our annual waste report.

Waste generated

	2021	2022
	1,000 metric tons p.a.	1,000 metric tons p.a.
Total waste generated	264	254
Non-hazardous waste generated	75	74
Hazardous waste generated ¹	189	180
of which hazardous waste from production	184	174

¹ Definition of hazardous waste in accordance with local laws.

Waste by means of disposal

	2021	2022
	1,000 metric tons p.a.	1,000 metric tons p.a.
Total volume of waste treated¹	264	256
Recovery	205	189
recycled waste	61	57
thermally recycled waste (with energy recovery)	144	132
Disposal	48	55
incinerated waste (without energy recovery)	33	31
hazardous waste removed to landfill	3	5
nonhazardous waste removed to landfill	12	19
Other²	11	12

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.

[< Supplementary information](#)

Sustainability in the Supply Chain

Covestro regards adherence to sustainability standards within the supply chain 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 expectations are defined in Covestro's Supplier Code of Conduct, the basis for our collaboration with suppliers; the Code is available online in 13 languages. 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. New and renewed supply agreements in particular generally contain special clauses requesting that suppliers adhere to the sustainability requirements outlined in the Code of Conduct and entitling Covestro to verify compliance. 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 Task Force. 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. Conflict minerals 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."

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

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. In addition, relevant suppliers with a regular purchasing value exceeding €1 million per year are assessed. In the year under review, 90% (previous year: 93%) of our total purchasing value was attributable to these target-relevant suppliers. 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. In the reporting year, we added a risk-based approach to our goals. A risk analysis considers all suppliers, irrespective of purchasing value, on the basis of industry and country risks. Additional measures can be taken for any high-risk suppliers identified.

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 40 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 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 all TfS work streams in designing and improving the TfS program and the associated evaluation process. Since April 2022, the head of the corporate Group Procurement function has also co-chaired TfS workstream 5, which focuses on Scope 3 emissions. This working group has published a chemical-sector-specific guideline for calculating product carbon footprints. This guideline harmonizes the methods for calculating product carbon footprints and can be applied to the vast majority of chemical products, allowing companies to compare and effectively manage Scope 3 greenhouse gas (GHG) emissions from the upstream value chain. Suppliers are also encouraged to take measures to reduce their GHG emissions to make the industry more sustainable.

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.

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.

Despite the continuing coronavirus pandemic and its effects on our suppliers, the number of supplier evaluations conducted was up from the previous year, totaling 969 in the reporting year (previous year: 807).

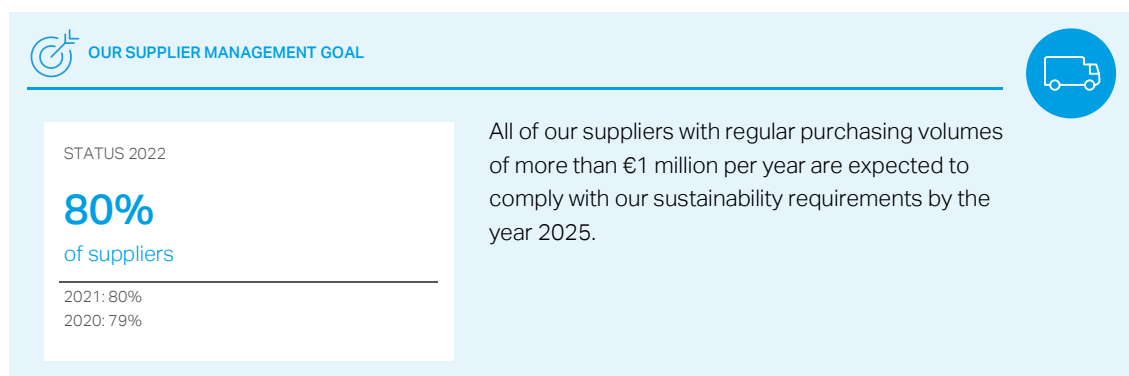
Key data from the sustainability evaluations of Covestro's suppliers¹

	2021	2022
Supplier evaluations conducted in the reporting year	807	969
through online assessments	788	954
through on-site audits	19	15
Total supplier evaluations conducted	1,690	1,628
through online assessments	1,585	1,544
through on-site audits	105	84

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.

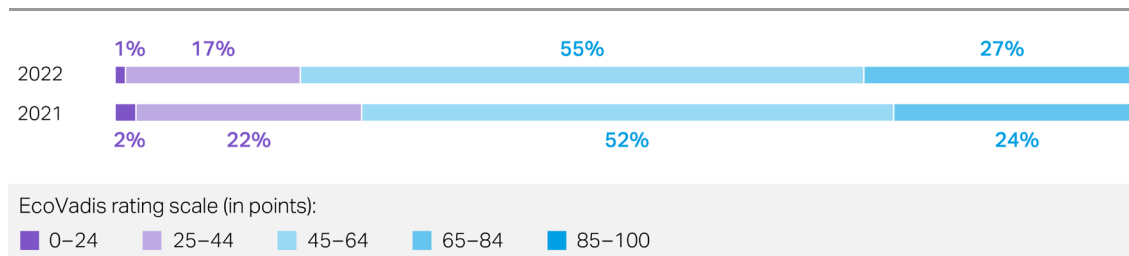
Supplier Evaluation Results*

At the end of fiscal 2022, the number of supplier evaluations whose results met our sustainability requirements amounted to 1,236 (previous year: 1,211). Of these supplier assessments, 304 involved our target-relevant suppliers, who account for 80% (previous year: 80%) of our target-relevant purchasing value. Furthermore, 61% of our target-relevant suppliers who underwent a repeat assessment in fiscal 2022 have improved compared with their previous results.



In the year 2022, assessment results considered critical by Covestro were identified for one target-relevant supplier (previous year: seven); that is, this supplier failed to meet the required minimum result by a significant margin. Covestro responds to such infractions with specific action plans and demands that the suppliers in question implement appropriate corrective measures; supplier assessments will be conducted in future to verify compliance.

The share of online assessments in which suppliers met the minimum result we defined (45 out of 100 possible points) was 82% for the online assessments conducted in the year under review (previous year: 77%). 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 results 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).

The share of on-site audits in which suppliers met the minimum result we defined (45 out of 100 possible points) was 93% for the on-site audits conducted in the year under review (previous year: 100%).

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.

[Supplementary information >](#)

Worldwide Supplier Evaluations through the TfS Initiative*

In the year 2022, the now 40 members of TfS evaluated the sustainability performance of a total of 8,386 suppliers through online assessments and performed 378 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.

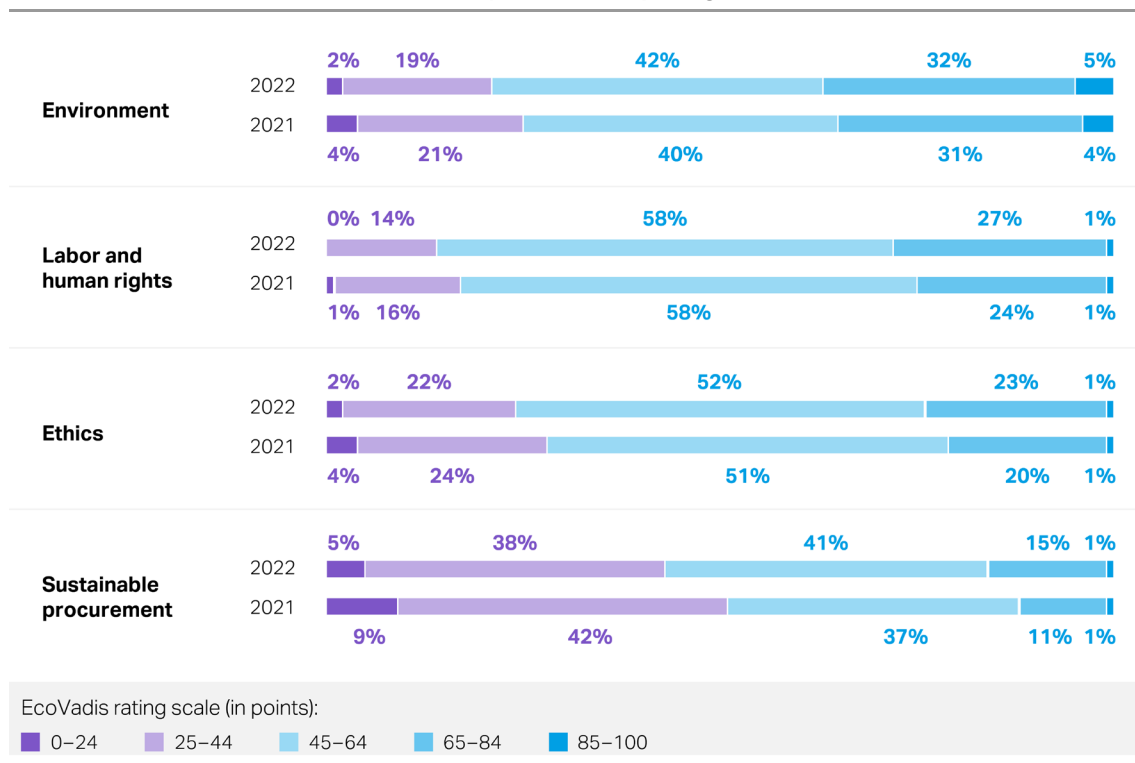
In October 2022, Covestro hosted a TfS North America Committee meeting in Pittsburgh, Pennsylvania (United States), which focused on issues such as corporate governance, sustainability evaluations and audits, developments in the working group, communications, and GHG emissions.

+ Additional information is available at: www.tfs-initiative.com

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:

Detailed results of the online assessments completed in the reporting year



* The results 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).

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 2022, 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.

[< Supplementary information](#)

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 the supply chain. Awareness of this issue was raised among employees again in fiscal 2022 in company-wide sustainability training plus region- and country-specific training on evaluation methods and processes.

During the reporting year, we continued to promote the implementation of four strategic principles in procurement (reliability, sustainability, cost transformation, and innovation). Moreover, our regional program management in the EMLA, NA, and APAC regions is working on permanently improving our sustainability program.

→ See "Procurement."

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 supplier days and promotes further training, among other activities. 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 currently provides access to more than 335 courses in ten languages.

+ Additional information is available at: www.tfs-initiative.com

Social Responsibility

Human Rights

Human rights are the foundation of Covestro's social responsibility efforts. We are committed to respecting and safeguarding human rights on the basis of the United Nations (UN) Guiding Principles on Business and Human Rights and the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy of the International Labour Organization (ILO). In various working groups in industry associations, Covestro advocates for compliance with various national action plans and laws on corporate human rights due diligence. As a company, we clearly take responsibility for respecting human rights in all of the Covestro Group's activities and throughout global supply chains and value chains.

In the year under review, the Board of Management appointed the Chief Sustainability Officer (CSO), who also heads the corporate Sustainability and Public Affairs function, as Group Human Rights Officer. In their function, the Group Human Rights Officer, who will report directly to the Board of Management, will be responsible for monitoring Covestro's risk management processes related to human rights. Established in the year 2020, our cross-functional Human Rights Task Force supports the Group Human Rights Officer in fully integrating human rights requirements into our company's activities. To ensure that we pursue a harmonized approach to managing human rights across the Group as a whole, in the reporting year designated individuals were nominated as caretakers in the business entities. They serve as points of contact for our employees on issues relating to human rights in connection with our activities.

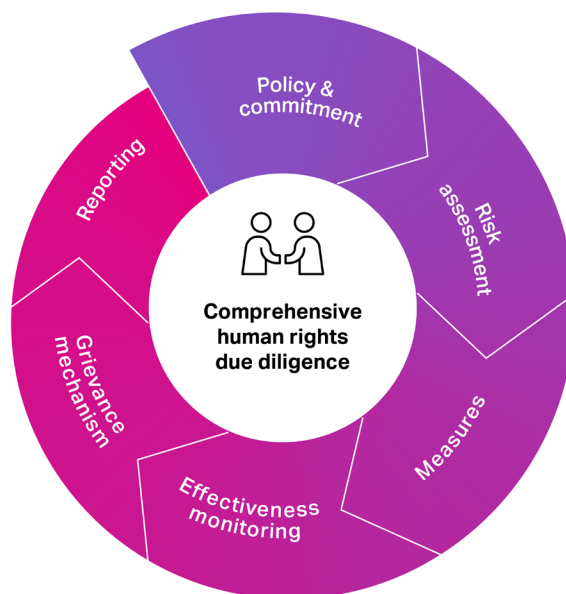
The Task Force, under the leadership of the Group Human Rights Officer, has permanent members from the following corporate functions: Sustainability and Public Affairs, Group Health, Safety and Environment, Group Procurement, Human Resources, Law, and Intellectual Property & Compliance. A broader group of professionals from Quality Management, individual business entities, along with Risk Management employees also participate. The responsibilities of the Task Force 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 individual corporate functions are responsible for, among other things, identifying and assessing risks and developing measures. These measures are designed and implemented in the segments and corporate functions in consultation with the Task Force.

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 will enter 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 various Corporate Commitments, Group regulations, and in our Supplier Code of Conduct. In these documents, we have specified key international conventions and principles as the basis of our conduct. 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. Our corporate commitment to safeguarding human rights is an integral part of our operating policies and procedures and is published on our website. By publishing this commitment, we state our clear expectation that our employees and business partners around the world conduct themselves in accordance with these principles.

+ 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, either directly or indirectly, as a result of its business activities. Potentially affected persons could include Covestro's own employees, contractors, suppliers, customers, consumers, or even neighboring communities. Covestro conducts a comprehensive risk analysis every three to four years. The last one was in the year 2019. Between those analyses, relevant information obtained from internal and external sources, such as from Covestro's grievance mechanism, is taken into account by the Human Rights Task Force. No grievances were reported in the year 2021 that could have been analyzed in the human rights-related risks analysis conducted in the year 2022. The comprehensive and ongoing risk analysis 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 first identifies all potential human rights risks. The potential risks are then discussed with selected business entities and corporate functions and prioritized for further management, depending on the severity of the potential human rights violation. In this process, 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 for us. The human rights focal areas we have identified primarily relate to working conditions and health effects on workers and contractors at Covestro's sites and in the supply chain. Other identified focal areas include the possible effects of our operations on the communities surrounding our sites, the potential impact of collecting and processing waste from our products, and the use of Covestro products in sensitive applications.

In the reporting year, the human rights risk owners at Covestro, who assumed responsibility for the human rights-related focal areas in the year 2021, prioritized the human rights-related risks for further management in the human rights management system.

Measures

In accordance with the risk-based approach recommended in the UN Guiding Principles, Covestro's human rights risk owners assess the suitability of existing preventive measures where Covestro may cause, contribute to, or is directly linked to negative impacts on human rights. Many measures in the areas of health and safety, product stewardship, compliance, human resources, and sustainable supplier management have long been integrated at Covestro.

→ See "Employees," "Health and Safety," "Product Stewardship," "Compliance," and "Sustainability in the Supply Chain."

The cross-functional Human Rights Task Force provides regular information about human rights in the company and advises corporate functions on how to fully integrate the human rights requirements. In the year under review, the human rights requirements and Covestro's human rights management approach were presented to, among others, the management bodies of all Covestro's business entities. In addition, human rights-related training was given to the human rights caretakers in the business entities.

Effectiveness Monitoring

Appropriate qualitative and quantitative indicators along with internal and external sources are used to assess Covestro's human rights measures and to review their effectiveness in preventing negative impacts on human rights. In the year 2022, the selected corporate functions reported on a monthly basis to the Human Rights Task Force on the implemented measures and their effectiveness. The effectiveness of measures and indicators was assessed in the reporting year.

Grievance Mechanism

Covestro expressly encourages reporting of suspected human rights violations in the Group as well as at suppliers' companies. We use a whistleblower tool for reporting violations in the supply chain, which consists of a worldwide hotline and an online tool. Covestro therefore enables employees and third parties to anonymously inform us of potential violations at our suppliers. We investigate potential cases of suspected human rights violations by following a defined process based on the involvement of potentially affected stakeholders. No confirmed cases of human rights violations were reported through the Group-wide grievance mechanism in fiscal 2022.

→ See "Compliance."

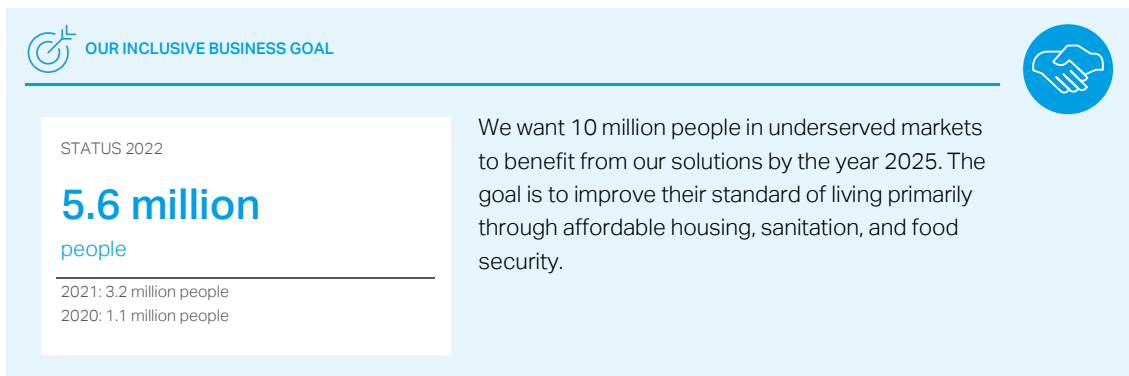
Reporting

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 Task Force report regularly (no less than once a year) to the Board of Management on 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.

Inclusive Business

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 affordable solutions based on our technologies and products to benefit underserved communities and regions by improving living conditions. Our employees concentrate 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, drinking water management, 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, contribute substantially toward improving the financial situation of these farms by reducing post-harvest losses. In addition, these innovative solutions help develop new sales markets – for instance, in Ethiopia or Tanzania – for Covestro. We define drinking water management as the use of solar-powered water treatment plants that are able to turn any source of water into drinking water. 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.



We want our solutions to improve the lives of 10 million people in underserved markets by the year 2025. Covestro defines this figure by including people who potentially benefit from our activities as part of their work or daily life. These individuals include people working on smallholdings and their families, school children, and other people who are positively impacted by completion of our projects or 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. In fiscal 2021, the methodology for calculating the number of people reached was optimized. Instead of calculating the number of persons reached once, immediately after implementing our Inclusive Business solutions, we have since the year 2021 determined the cumulative number of all people reached over the years since the solution was installed. Covestro's Board of Management is informed annually about these global activities.

By the end of the reporting year, we reached 5.6 million people with inclusive business solutions (previous year: 3.2 million people). This trend is attributable to the year-on-year rise in the number of new drying facilities installed in the area of biosolids management.

In the year 2022, we once again concentrated on collaboratively developing new, affordable solutions with partners who passed a due diligence review in advance. These solutions are financed by governmental and nongovernmental organizations. 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.

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 11 solar dryers for treating human feces in the Indian states of Andhra Pradesh, Tamil Nadu, and Karnataka. Studies undertaken jointly with the Consortium for DEWATS Dissemination (CDD) Society, a nongovernmental organization based in Bangalore (India), on the drying kinetics of feces and with Tamil Nadu Agricultural University on processing biosolids and their subsequent use as an organic fertilizer made it possible to harness the food cycle holistically – from production to the reuse of human biosolids. At the same time, this is an important step in the fight against rapidly increasing water pollution with human feces. A joint study planned with the Administrative Staff College of India (ASCI) is intended to capture the data required from biosolids processing. This data is intended to assist in drafting statutory regulations on biosolids treatment. For its work on the safe treatment of human feces, ASCI also honored Covestro with the WASH Stewardship Award.

We continued our food security activities with increased intensity, including the establishment of a new digital platform. Once the platform has gone live, which is planned for the second quarter of 2023, it will provide 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.

As part of our partnership with CEPT University in Gujarat (India), Covestro installed a solar dryer in Satara, Maharashtra (India) for the treatment of biosolids. Another partnership with the state government of Telangana led to the installation of further drying equipment in the cities of Nizamabad and Nirmal.

Southeast Asia

Our Inclusive Business activities continued in Southeast Asia as follows in the reporting year: Specifically, our initiative in Vietnam launched in previous years under the GREAT program by the Australian Department of Foreign Affairs and Trade remained active. With the help of the Vietnamese government, five more solar dryers were installed in Son La province in the reporting year. By the end of the year 2022, the program had benefited more than 2,500 people, mainly women from Thai minorities in northwest Vietnam.

Covestro is engaged in promoting food security projects in the region, for instance by giving support to our partners in securing financing. The project finance granted by the Agri Innovation Fund of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Bonn (Germany), to our project partners in Cambodia, and Vietnam in the previous year was used successfully for the installation of solar dryers. The use of solar dryers in coffee cultivation in the Vietnamese province of Son La reduced drying times for coffee beans while enhancing drying efficiency.

Eastern and Southern Africa

As in the previous year, the main focus in Africa was on food security in 2022. In the reporting year, we were able to continue our partnership with Tshwane University of Technology in Pretoria (South Africa). The students at the university are working on various research projects that use solar greenhouse dryers with a focus on alternative methods for drying traditional African fruits. Furthermore, our collaboration with Community Forest International and the installation of the solar dryer system financed by the European Union in Mtambwe Dayaauf (Tanzania) also continued. Following the successful commissioning of the dryer supplied, two additional dryers were delivered in the reporting year, whose use is intended to benefit other local spice growers and their families. The planned installation is expected to be completed in the first quarter of 2023. As announced in the Group Management Report 2021, the agreement with GIZ under the BMZ's develoPPP program was signed in the year 2022 and its operational implementation started as contractually agreed. After initial drying units are successfully deployed in various regions of Ethiopia, this program will support craft-based businesses with technology transfer so that they can manufacture dryers themselves. The first six dryers have already been imported into Ethiopia. Once they have been installed and commissioned as planned in the first quarter of 2023, the use of imported facilities will not just be for demonstration purposes: It is intended to help coffee growers demonstrably improve their harvest by increasing the quality of the coffee beans. Training of the local population in production and use of the facilities are part of the project.

REPORT ON ECONOMIC POSITION

Economic Environment

Global Economy

In fiscal 2022, the Russian war against Ukraine fundamentally changed the geopolitical landscape and had an impact on the global economy. The conflict led to a massive increase in prices for sources of energy and certain raw materials, higher inflation, as well as slower global economic growth. Moreover, China's zero-COVID policy, which the country pursued until the beginning of December, and the resulting lockdowns slowed down regional and global economic performance in the year 2022. In contrast with significant growth in the previous year, the global economy expanded at a rate of 3.1% in the reporting year, with all regions recording positive growth rates.

Economic environment

	Growth ¹ 2021	Growth ¹ 2022
	%	%
World	6.1	3.1
Europe, Middle East, Latin America², Africa (EMLA)	5.8	3.6
of which Europe	5.9	3.3
of which Germany	2.6	1.9
of which Middle East	4.0	6.0
of which Latin America ²	6.8	3.7
of which Africa	5.8	3.4
North America³ (NA)	5.8	2.2
of which United States	5.9	2.1
Asia-Pacific (APAC)	6.4	3.3
of which China	8.1	3.0

¹ Real growth of gross domestic product; source: Oxford Economics, as of February 2023.

² Latin America (excluding Mexico).

³ North America (Canada, Mexico, United States).

Main Customer Industries

At 6.9%, the global automotive industry grew faster in fiscal 2022 than in the previous year. Order backlogs protected this 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 2022, the global construction industry saw a lower growth rate of 1.2% compared with the previous year. Deceleration in economic growth in all three regions, rising interest rates, as well as the high cost of construction materials and labor shortages had a negative impact on the construction industry in the reporting year, but growth was slightly positive in all regions.

The 4.9% growth rate in the global electrical, electronics, and household appliances industry in fiscal year 2022 was well down on the previous year's level. Due to shifts in consumer spending from goods to services, there was weak demand for electronics and electrical components in fiscal 2022 compared with the previous year. The NA and APAC regions recorded significant growth in the year 2022. Due to the worldwide drop in consumer demand in the sector, growth in the APAC region, a global production hub, was slower than in the previous year. The EMLA region's growth was slightly positive.

The global furniture industry experienced negative growth of 3.6% compared with significant positive growth in the previous year. High inflation, rising selling prices, a slowdown in consumer demand, and lower investments in the housing sector led to a significant year-over-year downturn in demand for furniture in all regions in fiscal 2022.

Main customer industries¹

	Growth 2021	Growth 2022
	%	%
Automotive	3.0	6.9
Construction	3.5	1.2
Electrical, electronics and household appliances	16.6	4.9
Furniture	8.8	-3.6

¹ Covestro's estimate, based on the following sources: LMC Automotive Limited, 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 2023.

Business Performance at a Glance

Significant Events

Events outside the Company

War in Ukraine

The Russian war against Ukraine, which began in February 2022, had a notable impact on the global economy. The consequences for the energy and raw material markets also influenced Covestro's business situation. Covestro discontinued its business activities with Russia and Belarus in fiscal 2022; in previous years, these had accounted for less than 1% of Group sales. The Covestro company (a sales support office) in Russia was liquidated in the process. This means that Covestro does not operate any locations in Russia, Belarus, or Ukraine so that the international sanctions imposed on Russia and Belarus only had an indirect effect on Covestro's business.

Covestro reacted to the humanitarian crisis in Ukraine and its neighboring countries by donating aid for this purpose to UNO-Flüchtlingshilfe and local aid organizations in Ukraine's neighboring countries.

Energy Crisis and Drop in Demand

The situation on the energy markets worsened in fiscal 2022 compared with the previous year for reasons that include the complete suspension of Russian gas supplies to Europe; this led to considerable fluctuations and a significant increase in energy prices in the course of the year, especially in Europe.

Covestro is an energy-intensive company and 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, was majorly affected by the high and volatile energy prices, which could be passed on to customers only in part. Covestro continued to receive gas supplies to meet its demand in the year 2022, thus ensuring supplies at our production sites.

The considerable rise in energy prices and weak demand as a consequence of the global economic slowdown worsened the business situation in the year under review and business prospects for the year 2023. Europe was particularly affected by the adverse macroeconomic framework. In addition, there was a significant increase in borrowing costs. The above facts were the main reason for subjecting all cash-generating units to an impairment test in the reporting year. Impairment tests led to the recognition of impairment losses on some items of property, plant and equipment and intangible assets. Impairment losses recognized in the fiscal year totaled €463 million. Other factors included impairment losses on, or the non-recognition of, deferred tax assets on tax loss carryforwards in an amount of €255 million. The above effects were a major driver of the Group's net loss in the reporting year.

→ See note 3 "Accounting Policies and Valuation Principles" and note 11 "Taxes" in the Notes to the Consolidated Financial Statements.

Coronavirus Pandemic

The coronavirus pandemic did not have any direct impact on Covestro in the year 2022. Production at Covestro's sites was unaffected by the pandemic, although logistical bottlenecks emerged at the Shanghai (China) site in the course of the first half of 2022. This had significant indirect effects on business performance in the APAC region in the second quarter of 2022. These bottlenecks did not persist in the second half of 2022.

The health, safety, and hygiene measures implemented by Covestro were regularly reviewed and modified to address current conditions. Employees in the EMLA and NA regions gradually returned to the workplace. Especially in China, part of the workforce, particularly employees in administrative departments, continued to work from home.

Events within the Company

New Management System

From fiscal 2022 onward, Covestro's management system will have four instead of the previous three components: Core volume growth, the previous key management indicator for growth, will be replaced with EBITDA. Liquidity is measured in terms of free operating cash flow (FOCF), and profitability in terms of return on capital employed (ROCE) above the weighted average cost of capital (WACC). In addition, a sustainability component has been added, which takes account of selected ESG (environmental, social, governance) criteria. In the year 2022, direct and indirect (Scope 1 and Scope 2) greenhouse gas (GHG) emissions of the main sites were relevant for this component. Other criteria relating to social and corporate governance are also to be incorporated in the future.

→ See "Management System."

Climate Neutrality by the Year 2035

In the course of Covestro's efforts to make plastics production fully circular, on March 1, 2022, the company communicated new climate targets to reduce its direct greenhouse gas (GHG) emissions from its own production activities (Scope 1) and indirect GHG emissions from the provision and use of energy produced outside the company (Scope 2). The Group is striving to become climate-neutral and to reach net-zero GHG emissions* at all environmentally relevant sites by the year 2035. The company plans to reduce Scope 1 and Scope 2 GHG emissions by 60% compared with the year 2020 to 2.2 million metric tons of CO₂ equivalents by the year 2030. In the long term, Covestro's goal is to use up to 100% renewable energy such as wind and solar power as well as alternative raw materials such as biomass, waste, CO₂, and hydrogen in its production processes. In addition, a target for the long-term reduction of indirect GHG emissions from upstream and downstream processes in the value chain (Scope 3) is to be defined in the year 2023.

→ See "Climate Neutrality."

CEO Dr. Markus Steilemann's Contract Extended

In June 2022, the Supervisory Board prematurely extended, to May 31, 2028, the contract with Dr. Markus Steilemann, which was due to expire in May 2023. This means that he will remain the CEO of Covestro AG for another five years. Dr. Markus Steilemann has been a member of Covestro AG's Board of Management since September 2015 and its Chair since June 2018. In his function as CEO, he is responsible for the Strategy, Sustainability & Public Affairs, Group Innovation, Corporate Audit, Human Resources, and Communications corporate functions.

New Chief Technology Officer Appointed

In November 2022, the Supervisory Board unanimously appointed Dr. Thorsten Dreier as Covestro AG's Chief Technology Officer (CTO). As of July 1, 2023, he will succeed Dr. Klaus Schäfer, who had extended his contract, which would originally have expired at the end of 2022, by six months to ensure staffing stability for Covestro given the tense policy situation in the energy markets. In his role as CTO, Dr. Thorsten Dreier will be responsible in future for the corporate functions of Process Technology; Engineering; Group Health, Safety and Environment; and Group Procurement.

Sale of Additive Manufacturing Business

On August 5, 2022, Covestro signed an agreement for the sale of its additive manufacturing business to Stratasys, a U.S.-Israeli manufacturer of 3D printers and 3D production systems. The selling price amounts to €43 million and an additional payment for certain assets, less any liabilities transferred. In addition, the agreement specifies a variable earn-out payment, which depends on the achievement of various success factors. The business offers material solutions for common polymer 3D printing processes. The portfolio of the additive manufacturing business also comprises products of the Resins & Functional Materials business acquired from Koninklijke DSM N.V., Heerlen (Netherlands), in fiscal 2021. The transaction is now expected to be completed in the second quarter of 2023.

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

* 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.

Financing Measures

Extension of the Revolving Credit Facility and Establishment of the Green Financing Framework

In March 2022, the second of two agreed options was exercised to extend the term of the five-year, €2.5 billion syndicated revolving credit facility obtained in fiscal 2020 by another year until March 2027. This facility provides a back-up cash reserve and is linked to an ESG rating. In May 2022, Covestro also published a Green Financing Framework, which supports Covestro's strategic goals and allows it to finance green projects with green financing instruments (such as bonds or other debt instruments). In this context, Covestro issued its first green euro bond with a total volume of €500 million on November 8, 2022. The bond, which has a maturity of six years ending in November 2028, has an annual coupon of 4.75%.

→ See "Financial Management."

+ Further information at: <https://www.covestro.com/en/investors/debt/green-financing-framework>

Share Buyback Program

On February 28, 2022, Covestro AG's Board of Management resolved to initiate a share buyback program. The total volume of the program is approximately €500 million (excluding transaction costs), and it is expected to be completed within two years. All repurchased shares are subsequently expected to be retired and the capital stock reduced accordingly. Share buybacks began in March 2022. By the end of the year 2022, Covestro AG had acquired 3,479,956 shares valued at €150 million in two tranches.

+ Additional information is available at: www.covestro.com/en/investors/share-performance/share-buyback

Issuance of a Euro Commercial Paper Programme (ECPP)

On August 26, 2022, Covestro 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, 2022, no commercial paper was outstanding under the ECPP.

+ Further information at: www.covestro.com/en/investors/debt/euro-commercial-paper-program

Covestro Successfully Places Schuldschein Loans

Covestro issued its first-ever Schuldschein loans on October 7, 2022. Linked to an ESG rating, these loans were issued in tranches comprising fixed and variable interest rates with terms of three, five, and seven years. The issue is denominated in U.S. dollars and euros. Driven by strong demand, the Schuldschein loans reached a total volume of €650 million equivalent, significantly exceeding the volume of €300 million originally announced. €100 million of the firm Schuldschein loan commitment will only be paid out in the first quarter of 2023.

Overall Assessment of Business Performance and Target Attainment

Negative changes in the economic environment made the fiscal year 2022 very challenging for Covestro. Driven in particular by a higher selling price level, sales were up by 13.0% year over year to €17,968 million (previous year: €15,903 million), the highest ever recorded in the Group's history. However, the sharp rise in raw material and energy prices in the course of the year, which could be passed on to customers only in part, and weak demand as a consequence of the global economic slowdown led to a 47.6% decline in EBITDA to €1,617 million (previous year: €3,085 million). Moreover, the Group's net income was weighed down in the fiscal year by impairment losses on some items of property, plant and equipment and intangible assets in an amount of €463 million and impairment losses on or the non-recognition of deferred tax assets on tax loss carryforwards in an amount of €255 million. As a result, the Group recorded its first ever net loss of €272 million (previous year: net income of €1,616 million). Free operating cash flow stood at €138 million (previous year: €1,429 million). The year-over-year decline was mainly attributable to lower cash flows from operating activities, tracking the decrease in EBITDA. In addition, ROCE above WACC was -5.0% points (previous year: 12.9% points). The year-over-year decline was attributable to significantly lower net operating profit after taxes (NOPAT) and a simultaneous substantial rise in capital employed, primarily due to the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), in the second quarter of 2021. At the same time, GHG emissions of 4.7 million metric tons of CO₂ equivalents were significantly down on the prior-year value of 5.2 million metric tons of CO₂ equivalents. This was mainly caused by the reduction in production activity and the resulting drop in energy demand, especially for electricity and steam.

In the Annual Report 2021, the Covestro Group published a forecast for key management indicators in fiscal 2022. Due to the effects of the Russian war against Ukraine and the adverse macroeconomic conditions, Covestro updated the forecast in the course of the year, on May 2, 2022 and July 29, 2022, and narrowed the guidance on October 25, 2022.

The forecast for all key management indicators was also adjusted. The Covestro Group most recently anticipated EBITDA between €1,700 million and €1,800 million after originally projecting EBITDA between €2,500 million and €3,000 million. After initially projecting FOCF of between €1,000 million and €1,500 million, in October 2022 the Covestro Group ultimately forecast a figure between €0 million and €100 million for the full year. The original forecast for ROCE above WACC was between 5% and 9%; it was recently adjusted to between –2% and –1%. For GHG emissions, the Covestro Group had originally anticipated a figure between 5.6 million metric tons of CO₂ equivalents and 6.1 million metric tons of CO₂ equivalents. In October 2022, the projected range was between 5.0 million metric tons of CO₂ equivalents and 5.4 million metric tons of CO₂ equivalents.

Covestro did not meet the original forecast of its financial performance indicators issued in the Annual Report 2021. Compared with the previous year, EBITDA decreased to €1,617 million (previous year: €3,085 million), mainly due to a considerable decline in margins. In particular, lower EBITDA also reduced free operating cash flow (FOCF), which declined to €138 million (previous year: €1,429 million). ROCE above WACC was –5.0% points (previous year: 12.9% points). The forecast of the nonfinancial key management indicator for reducing GHG emissions was exceeded. At 4.7 million metric tons of CO₂ equivalents, GHG emissions were significantly below the forecast range.

Compared to the forecast figures, which were last adjusted in October 2022, EBITDA and ROCE above WACC were lower than the ranges communicated. FOCF and GHG emissions, however, performed better than indicated in the most recent forecast. Given the potential divergence from capital market expectations, Covestro decided on January 13, 2023, to publish preliminary results.

Target attainment for fiscal year 2022

	2021	Forecast 2022 ¹	Adjusted forecast 2022 ²	Target attainment 2022
EBITDA ³	€3,085 million	Between €2,500 million and €3,000 million	Between €1,700 million and €1,800 million	€1,617 million
Free operating cash flow ⁴	€1,429 million	Between €1,000 million and €1,500 million	Between €0 million and €100 million	€138 million
ROCE above WACC ^{5,6}	12.9% points	Between 5% points and 9% points	Between –2% points and –1% point	–5.0% points
Greenhouse gas emissions ⁷ (CO ₂ equivalents)	5.2 million metric tons	Between 5.6 million metric tons and 6.1 million metric tons	Between 5.0 million metric tons and 5.4 million metric tons	4.7 million metric tons

¹ Published on March 1, 2022 (Annual Report 2021).

² Published on October 25, 2022 (Quarterly Statement as of September 30, 2022).

³ 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.

⁴ Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.

⁵ Return on capital employed (ROCE): ratio of EBIT after imputed income taxes to capital employed. Since the year 2022, imputed income taxes have been calculated by multiplying an imputed tax rate (previously: effective tax rate) of 25% by EBIT.

⁶ 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 7.0% has been taken into account for the year 2022 (2021: 6.6%).

⁷ GHG emissions (Scope 1 and Scope 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).

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

Covestro Group key data

	4th quarter 2021	4th quarter 2022	Change	2021	2022	Change
Sales	€4,338 million	€3,964 million	-8.6%	€15,903 million	€17,968 million	13.0%
Change in sales						
Volume	-0.2%	-13.2%		6.5%	-5.0%	
Price	31.6%	0.8%		34.7%	10.1%	
Currency	3.8%	3.8%		-0.8%	5.9%	
Portfolio	9.1%	0.0%		8.1%	2.0%	
EBITDA¹	€663 million	(€38 million)	.	€3,085 million	€1,617 million	-47.6%
Depreciation, amortization and impairment losses and impairment loss reversals	€218 million	€657 million	201.4%	€823 million	€1,350 million	64.0%
EBIT ²	€445 million	(€695 million)	.	€2,262 million	€267 million	-88.2%
Financial result	(€10 million)	(€25 million)	150.0%	(€77 million)	(€137 million)	77.9%
Net income³	€302 million	(€899 million)	.	€1,616 million	(€272 million)	.
Operating cash flows ⁴	€648 million	€839 million	29.5%	€2,193 million	€970 million	-55.8%
Cash outflows for additions to property, plant, equipment and intangible assets	€292 million	€289 million	-1.0%	€764 million	€832 million	8.9%
Free operating cash flow⁵	€356 million	€550 million	54.5%	€1,429 million	€138 million	-90.3%
Net financial debt ⁶				€1,405 million	€2,434 million	73.2%
Return on capital employed (ROCE) ⁷				19.5%	2.0%	
Weighted average cost of capital (WACC) ⁸				6.6%	7.0%	
ROCE above WACC^{7, 8}				12.9% points	-5.0% points	

¹ 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.

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.

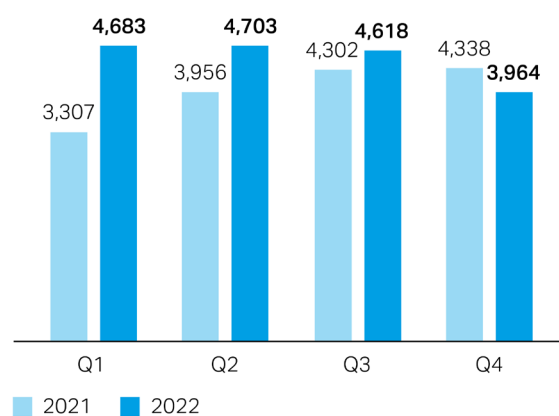
⁷ Return on capital employed (ROCE): ratio of EBIT after imputed income taxes to capital employed. Since the year 2022, imputed income taxes have been calculated by multiplying an imputed tax rate (previously: effective tax rate) of 25% by EBIT.

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

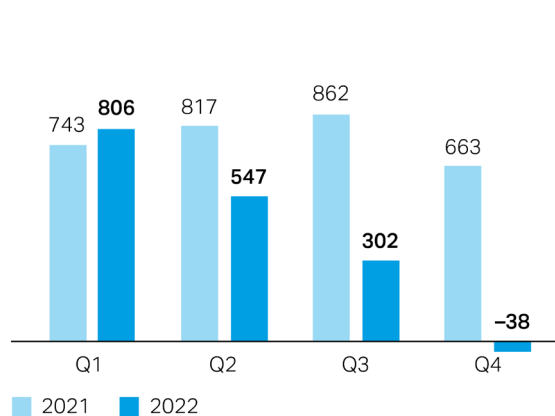
Covestro Group Quarterly sales

€ million



Covestro Group Quarterly EBITDA

€ million



Sales

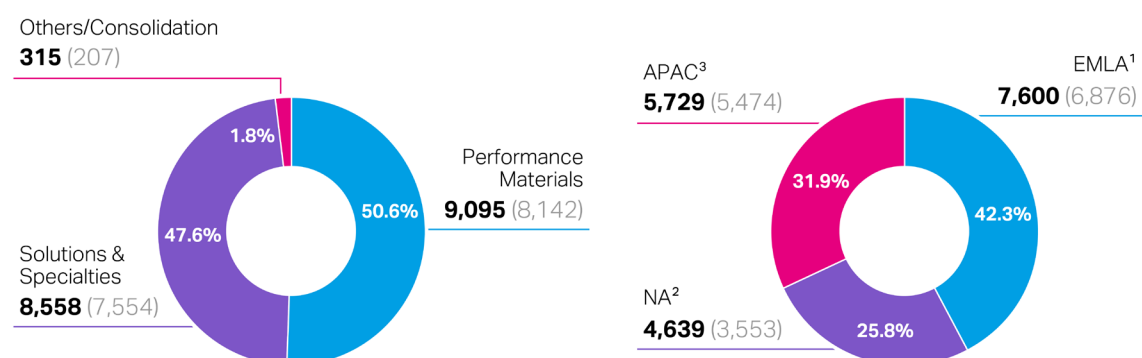
In fiscal 2022, Group sales were up by 13.0% to €17,968 million (previous year: €15,903 million), the highest ever recorded in Group's history. This was mainly due to a considerably higher selling price level, which had a positive impact on sales amounting to 10.1%. Moreover, changes in exchange rates had a positive effect of 5.9% on sales. The portfolio change resulting from the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), in the second quarter of 2021 had the effect of increasing sales by 2.0%. In contrast, the change in total volumes sold had a negative effect of 5.0% on sales.

Sales in both segments were up in fiscal 2022. In the Performance Materials segment, sales rose 11.7% to €9,095 million (previous year: €8,142 million), while the Solutions & Specialties segment's sales increased 13.3% to €8,558 million (previous year: €7,554 million).

In the EMLA region, sales climbed by 10.5% to €7,600 million (previous year: €6,876 million). Sales rose by 30.6% to €4,639 million (previous year: €3,553 million) in the NA region, and by 4.7% to €5,729 million (previous year: €5,474 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

Covestro Group summary income statement

	2021	2022	Change
	€ million	€ million	%
Sales	15,903	17,968	13.0
Cost of goods sold	(11,475)	(15,404)	34.2
Gross profit	4,428	2,564	-42.1
Selling expenses	(1,428)	(1,604)	12.3
Research and development expenses	(341)	(361)	5.9
General administration expenses	(415)	(353)	-14.9
Other operating (expenses) and income	18	21	16.7
EBIT	2,262	267	-88.2
Financial result	(77)	(137)	77.9
Income/(loss) before income taxes	2,185	130	-94.1
Income taxes	(566)	(411)	-27.4
Income/(loss) after income taxes	1,619	(281)	.
attributable to noncontrolling interest	3	(9)	.
attributable to Covestro AG shareholders: net income/(net loss)	1,616	(272)	.

There was a 34.2% rise in cost of goods sold – especially due to higher raw material and energy costs and the impairment losses on property, plant and equipment – to €15,404 million (previous year: €11,475 million); as a result, the ratio of cost of goods sold to sales increased to 85.7% (previous year: 72.2%).

Gross profit fell 42.1% to €2,564 million (previous year: €4,428 million), driven by the above-mentioned increase in raw material and energy costs, which could be passed on to customers only in part, the impairment losses mentioned earlier, and a decline in total volumes sold. On the other hand, the rise in the selling price level and positive effects of exchange rate movements boosted earnings.

Selling expenses were up 12.3% to €1,604 million (previous year: €1,428 million); the figure included impairment losses on intangible assets in the reporting year. The ratio of selling expenses to sales was 8.9% (previous year: 9.0%). Research and development (R&D) expenses were up 5.9% to €361 million (previous year: €341 million). As a share of sales, this produced an R&D ratio of 2.0% (previous year: 2.1%). General administration expenses were down 14.9% to €353 million (previous year: €415 million), for a ratio of administration expenses to sales of 2.0% (previous year: 2.6%).

Lower provisions for variable compensation of €472 million boosted earnings. Another positive effect on earnings (€71 million) came from business development subsidies received in China. In connection with the acquisition of RFM, lower nonrecurring expenses and higher positive synergy effects than in the previous year, thanks in particular to an efficiency boost in sales, administration, and procurement activities had a positive effect on earnings in the mid-double-digit euro range.

Other operating income exceeded other operating expenses by €21 million (previous year: €18 million), although this item had included acquired goodwill.

EBIT declined 88.2% to €267 million (previous year: €2,262 million). The EBIT margin retreated to 1.5% (previous year: 14.2%).

EBITDA

Calculation of EBITDA

	2021	2022
	€ million	€ million
EBIT	2,262	267
Depreciation, amortization, impairment losses, and impairment loss reversals	823	1,350
EBITDA	3,085	1,617

Depreciation, amortization, impairment losses, and impairment loss reversals rose by 64% to €1,350 million in fiscal 2022 (previous year: €823 million), of which €1,194 million (previous year: €760 million) was attributable to property, plant and equipment and €156 million (previous year: €63 million) to intangible assets. This included €463 million (previous year: €5 million) in impairment losses and €1 million (previous year: €3 million) in reversals of impairment losses. The impairment losses were primarily recognized following impairment tests triggered by the deterioration of business prospects because of the energy crisis and the decline in demand.

EBITDA decreased 47.6% year-over-year in the full-year period, declining to €1,617 million (previous year: €3,085 million). This was attributable to the 63.0% fall in EBITDA, to €951 million (previous year: €2,572 million), in the Performance Materials segment. In contrast, the Solutions & Specialties segment's EBITDA rose by 9.9% to €825 million (previous year: €751 million).

Net Income

In the fiscal year, the financial result stood at €-137 million (previous year: €-77 million) and largely consisted of net interest expense of €61 million (previous year: €41 million). In view of the financial result, income before income taxes went down to €130 million (previous year: €2,185 million). Income tax expense amounted to €411 million (previous year: €566 million). A decline due to the change in income was set against impairment losses on, or the non-recognition of, deferred tax assets on tax loss carryforwards in an amount of €255 million. After income taxes and noncontrolling interests, the net loss amounted to €272 million (previous year: net income of €1,616 million).

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

Calculation of ROCE above WACC

		2021	2022 ¹
EBIT	€ million	2,262	267
Imputed tax rate ²	%	25.9	25.0
Imputed income taxes ³	€ million	586	67
Net operating profit after taxes (NOPAT)	€ million	1,676	200
Average capital employed	€ million	8,598	9,785
ROCE	%	19.5	2.0
Weighted average cost of capital (WACC)	%	6.6	7.0
ROCE over WACC	% points	12.9	-5.0

¹ An imputed tax rate of 25% has been used since the year 2022 (previous year: effective tax rate). If the effective tax rate of 316.2% had been used, imputed income taxes would have amounted to €844 million for the year 2022, resulting in net operating profit (NOPAT) of €-577 million. ROCE would consequently have amounted to -5.9% and ROCE above WACC would have been -12.9% points.

² The effective tax rate (applied to the previous year) is presented in note 11 "Taxes" in the Notes to the Consolidated Financial Statements.

³ 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 €200 million (previous year: €1,676 million), and average capital employed amounted to €9,785 million (previous year: €8,598 million). The resulting ROCE was 2.0% (previous year: 19.5%), significantly lower than the increased WACC of 7.0% (previous year: 6.6%).

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

Calculation of average capital employed

	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2022
	€ million	€ million	€ million
Goodwill	255	757	729
Other intangible assets	109	706	603
Property, plant and equipment	5,175	6,032	5,801
Investments accounted for using the equity method	173	172	185
Other noncurrent financial assets ¹	5	6	3
Other receivables ²	309	447	470
Deferred tax assets ³	253	301	277
Inventories	1,663	2,914	2,814
Trade accounts receivable	1,593	2,343	2,011
Claims for income tax refunds	55	128	115
Assets held for sale ⁴	36	–	18
Gross capital employed	9,626	13,806	13,026
Other provisions ⁵	(360)	(843)	(349)
Other liabilities ⁶	(269)	(333)	(394)
Deferred tax liabilities ⁷	(177)	(293)	(307)
Trade accounts payable	(1,241)	(2,214)	(2,016)
Income tax liabilities	(162)	(337)	(175)
Liabilities directly related to assets held for sale ⁸	(7)	–	(2)
Capital employed	7,410	9,786	9,783
Average capital employed	7,475	8,598	9,785

¹ Other noncurrent financial assets were adjusted for nonoperating assets.

² Other receivables were adjusted for nonoperating and financial receivables.

³ Deferred tax assets were adjusted for deferred taxes from defined benefit plans and similar obligations recognized in other comprehensive income.

⁴ Assets held for sale were adjusted for nonoperating and financial assets.

⁵ Other provisions were adjusted for provisions for interest payments.

⁶ Other liabilities were adjusted for nonoperating and financial liabilities.

⁷ Deferred tax liabilities were adjusted for deferred tax liabilities from defined benefit plans and similar obligations recognized in other comprehensive income.

⁸ Liabilities directly related to assets held for sale were adjusted for nonoperating and financial liabilities.

Financial Position

Statement of Cash Flows

Covestro Group summary statement of cash flows

	4th quarter 2021	4th quarter 2022	2021	2022
	€ million	€ million	€ million	€ million
EBITDA	663	(38)	3,085	1,617
Income taxes paid	(237)	(92)	(546)	(538)
Change in pension provisions	1	36	31	54
(Gains)/losses on retirements of noncurrent assets	1	(3)	(3)	(3)
Change in working capital/other noncash items	220	936	(374)	(160)
Cash flows from operating activities	648	839	2,193	970
Cash outflows for additions to property, plant, equipment and intangible assets	(292)	(289)	(764)	(832)
Free operating cash flow	356	550	1,429	138
Cash flows from investing activities	(498)	(407)	(1,995)	(477)
Cash flows from financing activities	(2)	492	(965)	64
Change in cash and cash equivalents due to business activities	148	924	(767)	557
Cash and cash equivalents at beginning of period	496	292	1,404	649
Change in cash and cash equivalents due to exchange rate movements	5	(18)	12	(8)
Cash and cash equivalents at end of period	649	1,198	649	1,198

Cash Flows from Operating Activities/Free Operating Cash Flow

Net cash flows from operating activities amounted to €970 million (previous year: €2,193 million). This was driven mainly by a significant decline in EBITDA, while a smaller amount of cash was tied up in working capital. Lower cash inflows from operating activities and higher cash outflows for additions to property, plant, equipment, and intangible assets of €832 million (previous year: €764 million) led to a decrease in free operating cash flow to €138 million (previous year: €1,429 million).

→ [Additional information on the calculation of indicators is available in "Key Management Indicators."](#)

Cash Flows from Investing Activities

In fiscal 2022, net cash used in investing activities totaled €477 million (previous year: €1,995 million). The prior-year period had been affected in particular by the net purchase price payments of €1,469 million to acquire the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands). The main factors driving the cash outflows in the year 2022 were payments for additions to property, plant, equipment and intangible assets of €832 million (previous year: €764 million) and noncurrent financial assets of €124 million. In contrast, cash inflows stemmed from the net proceeds of short-term bank deposits maturing in an amount of €372 million and cash inflows of €65 million from the net sale of money market fund units.

Capital expenditures in fiscal 2022 were targeted at maintenance and improvement of existing plants as well as new capacity in both segments. In the Performance Materials segment, construction of Covestro's own chlorine production facility, where energy-conserving technologies will be used, continued at the site in Tarragona (Spain), as it had in fiscal 2021. In addition, capital expenditure related to increasing capacity at the site in Antwerp (Belgium) to expand the production of aniline, a precursor for diphenylmethane diisocyanate (MDI). At the sites in Baytown, Texas (United States), and Shanghai (China), capital expenditure was moreover targeted at equipment maintenance and the installation of new catalysts. Strategic capital expenditure in the Solutions & Specialties segment was aimed at the construction of a plant for mechanical recycling of polycarbonates at the Shanghai (China) site and at increasing capacity for precursors in the Vulkollan® product group at the site in Map Ta Phut (Thailand).

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

	2021	2022
	€ million	€ million
Performance Materials	488	547
Solutions & Specialties	273	277
Others/Consolidation	3	8
Covestro Group	764	832

Cash Flows from Financing Activities

Net cash inflow from the Covestro Group's financing activities amounted to €64 million in fiscal 2022 (previous year: net cash outflow of €965 million). Cash inflows resulted from the successful placement of the Schuldschein loans of around €550 million in October 2022 and the issuance of a bond of €500 million on the basis of the Green Financing Framework published in the year 2022. In addition, net borrowing of €75 million generated further cash inflows.

In contrast, dividend payments of €654 million resulted in cash outflows, of which an amount of €651 million was attributable to Covestro AG shareholders. Other factors contributing to cash outflows were payments for lease liabilities in an amount of €160 million, the buyback of 3,479,956 treasury shares at a value of €150 million under the announced share buyback program, and interest payments of €131 million.

Net Financial Debt**Net financial debt**

	Dec. 31, 2021	Dec. 31, 2022
	€ million	€ million
Bonds	1,492	1,988
Liabilities to banks	275	922
Lease liabilities	761	746
Liabilities from derivatives	11	32
Other financial liabilities	2	1
Receivables from derivatives	(34)	(42)
Financial debt	2,507	3,647
Cash and cash equivalents	(649)	(1,198)
Current financial assets	(453)	(15)
Net financial debt	1,405	2,434

In comparison with December 31, 2021, the Covestro Group's financial debt increased by €1,140 million to €3,647 million as of December 31, 2022 (previous year: €2,507 million). In addition to an increase in liabilities to banks by €647 million, mainly due to the issuance of the Schuldschein loans and net borrowing of €75 million, this was driven by the issuance of bonds of €500 million under the Green financing Framework.

Cash and cash equivalents were up €549 million in comparison with the figure on December 31, 2021, to €1,198 million. The rise was mainly driven by positive operating cash flows amounting to €970 million, cash inflows from the issuance of Schuldschein loans in an amount equivalent to around €550 million, the issuance of a bond of €500 million under the Green Financing Framework, from the net proceeds of short-term bank deposits of €372 million, by net borrowing of €75 million, and the net sale of money market fund units of €65 million. The positive effects on cash and cash equivalents was offset above all by cash outflows 832 million for additions to property, plant, equipment and intangible assets of €832 million and dividend payments of €654 million. At the same time, the net proceeds of short-term bank deposits maturing and the net sale of money market fund units led to a €438 million decrease in current financial assets.

As a result, net financial debt increased by €1,029 million to €2,434 million in fiscal 2022 (previous year: €1,405 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 are to be used to fund sustainable projects that contribute to the circular economy and originate in areas such as renewable energy, energy efficiency, and sustainable building.

Covestro also issued its first-ever Schuldschein loans on October 7, 2022. Linked to an ESG rating, these loans were issued in tranches comprising fixed and variable interest rates with terms of three, five, and seven years. The issue is denominated in U.S. dollars and euros. Driven by strong demand, the Schuldschein loans reached a total volume of €650 million equivalent, significantly exceeding the volume of €300 million originally announced. €100 million of the firm Schuldschein loan commitment will only be paid out in the first quarter of 2023. The Schuldschein loans are also linked to an ESG rating.

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, 2022.

On August 26, 2022, Covestro additionally established a Euro Commercial Paper Programme (ECCP) 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, 2022, no commercial paper was outstanding under the ECCP.

On May 10, 2022, the rating agency Moody's Investors Service confirmed Covestro AG's Baa2 investment-grade rating and 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" and note 24.2 "Financial Risk Management and Information on Derivatives" in the Notes to the Consolidated Financial Statements.

Net Assets

Covestro Group summary statement of financial position

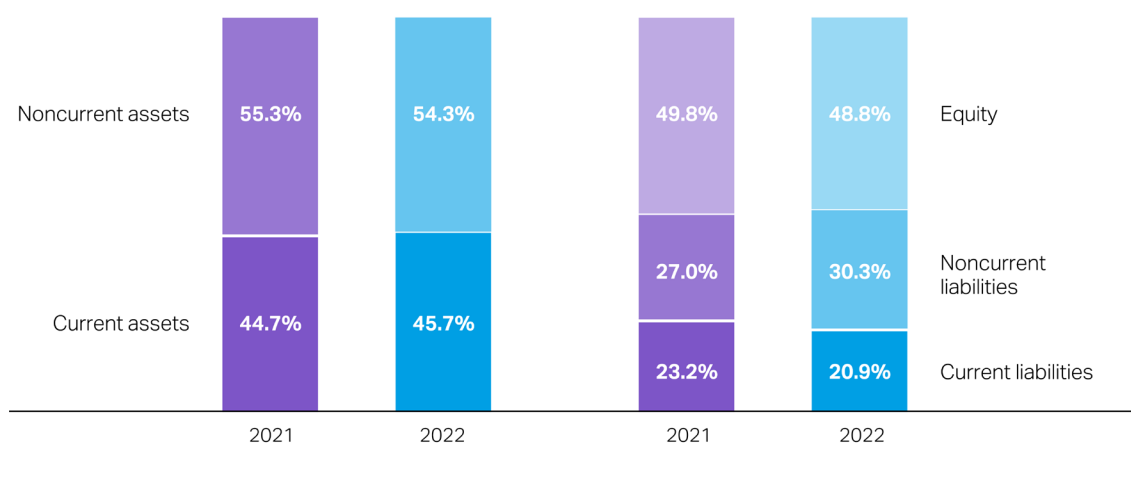
	Dec. 31, 2021	Dec. 31, 2022
	€ million	€ million
Noncurrent assets	8,610	7,916
Current assets	6,961	6,669
Total assets	15,571	14,585
Equity	7,762	7,122
Noncurrent liabilities	4,203	4,408
Current liabilities	3,606	3,055
Liabilities	7,809	7,463
Total equity and liabilities	15,571	14,585

Total assets declined by €986 million from €15,571 million as of December 31, 2021, to €14,585 million as of December 31, 2022.

Noncurrent assets decreased by €694 million to €7,916 million (previous year: €8,610 million) and accounted for 54.3% (previous year: 55.3%) of total assets. This change is mainly due to the impairment loss on deferred tax assets and lower property, plant and equipment and intangible assets. This was in particular the result of impairment losses recognized as part of impairment testing in the fiscal year under review.

Current assets were down €292 million to €6,669 million (previous year: €6,961 million), and their ratio to total assets was 45.7% (previous year: 44.7%). This change is mainly due to a decline in current financial assets, trade accounts receivable, and inventories, while cash and cash equivalents increased year over year.

Structure of the Covestro Group's statement of financial position



Equity decreased by €640 million to €7,122 million as of December 31, 2022 (previous year: €7,762 million). The equity ratio at the reporting date was 48.8% (previous year: 49.8%). The main reasons for the decline in equity were the dividend distribution for fiscal 2021, income after income taxes for fiscal 2022, and the acquisition of treasury shares. Conversely, the remeasurement of the net defined benefit liability for post-employment benefits was a predominant factor increasing equity.

Noncurrent liabilities went up by €205 million to €4,408 million as of the reporting date (previous year: €4,203 million) and accounted for 30.3% (previous year: 27.0%) of total capital and 59.1% (previous year: 53.8%) of liabilities. This is primarily due to an increase in noncurrent financial liabilities. Lower provisions for pensions and other post-employment benefits had an offsetting effect.

Net defined benefit liability for post-employment benefit plans

	Dec. 31, 2021	Dec. 31, 2022
	€ million	€ million
Provisions for pensions and other post-employment benefits	1,199	486
Net defined benefit asset	(4)	(56)
Net defined benefit liability	1,195	430

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 €765 million in the reporting year to €430 million (previous year: €1,195 million). This was due to actuarial gains, especially those attributable to the increase in the discount rate in Germany and the United States, offset by actuarial losses on plan assets.

Current liabilities went down by €551 million to €3,055 million (previous year: €3,606 million) and therefore accounted for 20.9% (previous year: 23.2%) of total capital and 40.9% (previous year: 46.2%) of liabilities. This decline was mainly driven by lower provisions for short-term variable compensation and trade accounts payable, offset by higher current financial liabilities.

Performance of the Segments

Performance Materials

Performance Materials key data

	4th quarter 2021	4th quarter 2022	Change	2021	2022	Change
Sales (external)	€2,259 million	€1,916 million	-15.2%	€8,142 million	€9,095 million	11.7%
Intersegment sales ¹	€696 million	€644 million	-7.5%	€2,608 million	€2,967 million	13.8%
Sales (total)	€2,955 million	€2,560 million	-13.4%	€10,750 million	€12,062 million	12.2%
Change in sales (external)						
Volume	0.5%	-17.5%		1.6%	-5.0%	
Price	37.6%	-1.3%		48.1%	10.9%	
Currency	3.6%	3.6%		-0.8%	5.8%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
Sales by region (external)						
EMLA	€1,039 million	€785 million	-24.4%	€3,878 million	€4,152 million	7.1%
NA	€582 million	€516 million	-11.3%	€1,926 million	€2,447 million	27.1%
APAC	€638 million	€615 million	-3.6%	€2,338 million	€2,496 million	6.8%
EBITDA²	€590 million	(€89 million)	.	€2,572 million	€951 million	-63.0%
EBIT ²	€445 million	(€600 million)	.	€2,003 million	(€28 million)	.
Cash flows from operating activities ³	€665 million	€563 million	-15.3%	€1,875 million	€1,091 million	-41.8%
Cash outflows for additions to property, plant, equipment and intangible assets	€168 million	€187 million	11.3%	€488 million	€547 million	12.1%
Free operating cash flow³	€497 million	€376 million	-24.3%	€1,387 million	€544 million	-60.8%

¹ In accordance with internal reporting to the Board of Management since July 1, 2022, these figures also include sales recognized in the amount of cost of goods sold. To ensure comparability, the segment data is presented on a consistent basis.

² EBITDA and EBIT include the effect on earnings of intersegment sales.

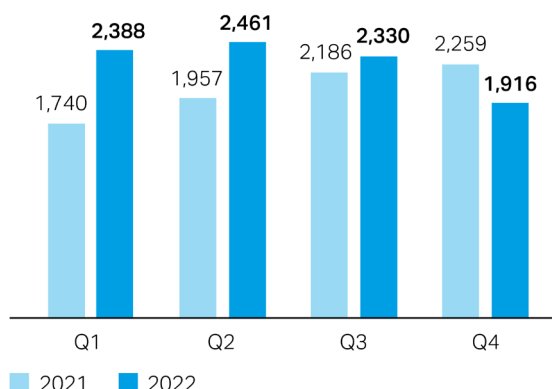
³ Since the year 2022, an imputed tax rate of 25% has been used to calculate taxes paid by the reportable segments (previous year: expected effective tax rate); see note 4 "Segment and Regional Reporting" in the Notes to the Consolidated Financial Statements.

Sales in the Performance Materials segment were up 11.7% to €9,095 million in fiscal 2022 (previous year: €8,142 million). Contributing factors were both the higher selling price level, which added 10.9%, and changes in exchange rates, which accounted for an increase of 5.8%. In contrast, a decline in volumes sold, mainly because of a downturn in demand, reduced sales by 5.0%.

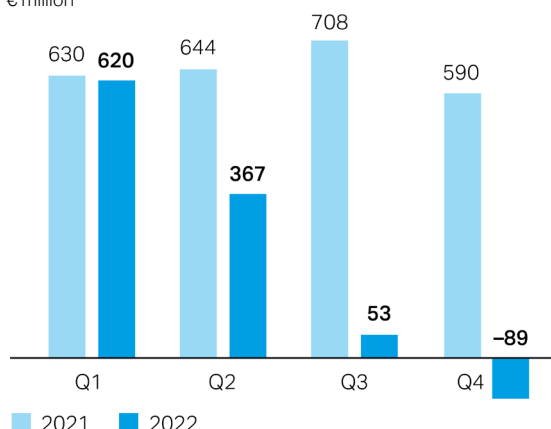
The EMLA region's sales increased by 7.1% to €4,152 million (previous year: €3,878 million), driven by higher average selling prices, which led to a significant increase in sales. A decline in volumes sold, in contrast, resulted in a considerable decrease in sales. Exchange rate movements had no notable effect on sales. Sales in the NA region were up 27.1% to €2,447 million (previous year: €1,926 million). Changes in exchange rates and a higher selling price level both had a significant positive effect on sales. The trend in volumes sold had a neutral effect on sales overall. In the APAC region, sales climbed by 6.8% to €2,496 million (previous year: €2,338 million). Exchange rate movements drove up sales considerably. At the same time, the expansion of volumes sold had a slight positive effect on sales. This was offset by a decline in average selling prices, which reduced sales slightly.

Performance Materials**Quarterly sales**

€ million

**Performance Materials****Quarterly EBITDA**

€ million



EBITDA in the Performance Materials segment fell by 63.0% over the prior-year period to €951 million (previous year: €2,572 million). This was primarily driven by a decline in margins, since higher selling prices offset increased raw material and energy prices only to a small extent. This change was primarily attributable to the energy crisis, which is affecting Europe in particular. At the same time, the drop in volumes sold also reduced earnings. In contrast, lower provisions for short-term variable compensation and exchange rate movements both boosted earnings.

EBIT declined to €-28 million (previous year: €2,003 million), tracking mainly a reduction in EBITDA. Moreover, impairment losses of €387 million, recognized primarily as a result of impairment tests, weighed on the EBIT of Performance Materials in the year under review.

Free operating cash flow was down 60.8% to €544 million (previous year: €1,387 million), due mainly to lower EBITDA. The change in working capital, by contrast, had a positive effect on free operating cash flow, where cash tied up in the previous year is set against cash freed up in the year under review, mainly stemming from inventories and trade accounts receivable.

Solutions & Specialties

Solutions & Specialties key data

	4th quarter 2021	4th quarter 2022	Change	2021	2022	Change
Sales (external)	€2,005 million	€1,975 million	-1.5%	€7,554 million	€8,558 million	13.3%
Intersegment sales ¹	€8 million	€7 million	-12.5%	€27 million	€35 million	29.6%
Sales (total)	€2,013 million	€1,982 million	-1.5%	€7,581 million	€8,593 million	13.3%
Change in sales (external)						
Volume	-3.4%	-8.9%		11.8%	-6.3%	
Price	25.6%	3.3%		21.3%	9.4%	
Currency	4.1%	4.1%		-0.9%	6.0%	
Portfolio	19.9%	0.0%		17.1%	4.2%	
Sales by region (external)						
EMLA	€722 million	€676 million	-6.4%	€2,835 million	€3,198 million	12.8%
NA	€457 million	€533 million	16.6%	€1,594 million	€2,140 million	34.3%
APAC	€826 million	€766 million	-7.3%	€3,125 million	€3,220 million	3.0%
EBITDA^{2,3}	€112 million	€108 million	-3.6%	€751 million	€825 million	9.9%
EBIT ^{2,3}	€41 million	(€37 million)	.	€503 million	€461 million	-8.3%
Cash flows from operating activities ^{3,4}	€175 million	€514 million	193.7%	€418 million	€472 million	12.9%
Cash outflows for additions to property, plant, equipment and intangible assets	€122 million	€99 million	-18.9%	€273 million	€277 million	1.5%
Free operating cash flow^{3,4}	€53 million	€415 million	683.0%	€145 million	€195 million	34.5%

¹ In accordance with internal reporting to the Board of Management since July 1, 2022, these figures also include sales recognized in the amount of cost of goods sold. To ensure comparability, the segment data is presented on a consistent basis.

² EBITDA and EBIT include the effect on earnings of intersegment sales.

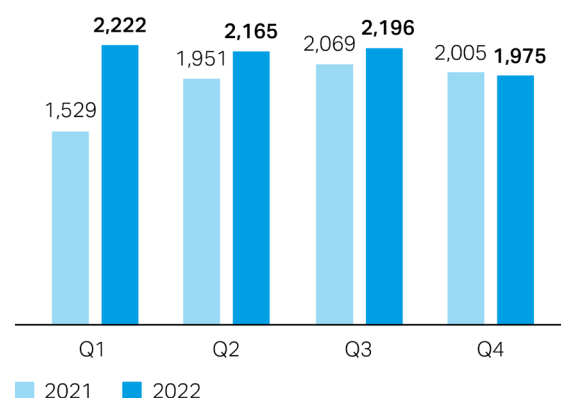
³ Since the year 2022, an imputed tax rate of 25% has been used to calculate taxes paid by the reportable segments (previous year: expected effective tax rate); see note 4 "Segment and Regional Reporting" in the Notes to the Consolidated Financial Statements.

Sales in the Solutions & Specialties segment were up 13.3% to €8,558 million in fiscal 2022 (previous year: €7,554 million). A rise in the selling price level had an increasing effect on sales amounting to 9.4%. At the same time, exchange rate movements and the portfolio effect resulting from the acquisition of the Resins & Functional Materials (RFM) business from Koninklijke DSM N.V., Heerlen (Netherlands), in the year 2021 both had a positive impact, increasing sales by 6.0% and 4.2% respectively. In contrast, a decline in volumes sold had a decreasing effect on sales amounting to 6.3%.

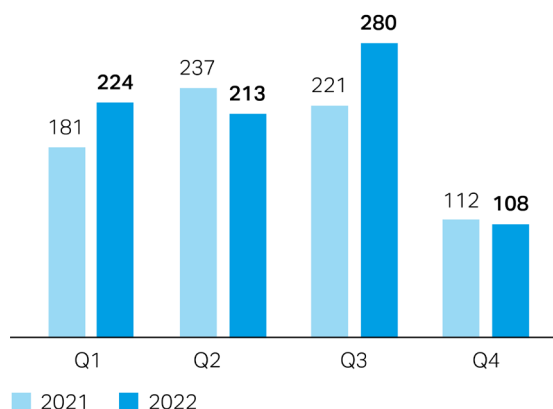
Sales in the EMLA region were up by 12.8% to €3,198 million (previous year: €2,835 million). This was largely driven by the increase in average selling prices and the aforementioned portfolio effect, both factors that increased sales significantly. This was set against a drop in volumes sold, which had a considerable negative effect on sales. Exchange rate movements had no notable effect on sales overall. The NA region grew sales by 34.3% to €2,140 million (previous year: €1,594 million). Exchange rate movements and the higher selling price level both drove up sales considerably. At the same time, the aforementioned portfolio effect had a slight positive effect on sales, while the change in volumes sold remained stable compared with the prior-year period. Sales in the APAC region were up 3.0% to €3,220 million (previous year: €3,125 million). This is primarily due to exchange rate movements, which drove up sales significantly, and the aforementioned portfolio effect, which had a slight impact. In contrast, a drop in total volumes sold had a significant negative effect on sales. Average selling prices remained stable compared with the prior-year period.

Solutions & Specialties**Quarterly sales**

€ million

**Solutions & Specialties****Quarterly EBITDA**

€ million



In fiscal 2022, EBITDA in the Solutions & Specialties segment was up 9.9% on the prior-year period, rising to €825 million (previous year: €751 million). Lower provisions for short-term variable compensation, exchange rate movements, and the share of business development subsidies received in China attributable to the segment were factors contributing to the increase in EBITDA. In connection with the acquisition of RFM, lower nonrecurring expenses and higher positive synergy effects than in the previous year, thanks in particular to an efficiency boost in sales, administration, and procurement activities, both had a positive effect on earnings in the mid-double-digit million euro range. A rise in raw material and energy prices was largely offset by higher selling prices, and this led to slightly lower margins. A decrease in total volumes sold additionally reduced earnings.

EBIT declined 8.3% to €461 million (previous year: €503 million). Impairment losses of €76 million recognized primarily as a result of impairment tests weighed on the EBIT of Solutions & Specialties in the year under review.

Free operating cash flow increased by 34.5% year over year to €195 million (previous year: €145 million). This was driven in particular by the rise in EBITDA, while a larger amount of cash was tied up in working capital.

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

	2021	2022
	€ million	€ million
Income from investments in affiliated companies – net	757	(153)
Interest expense – net	(23)	(15)
Other financial income – net	(7)	(8)
Net sales	22	23
Cost of services provided	(22)	(24)
General administration expenses	(80)	(56)
Other operating income	33	1
Other operating expenses	(3)	–
Result from operations	677	(232)
Income taxes	(29)	(84)
Net income/(loss)	648	(316)
Retained earnings brought forward from prior year	–	5
Allocation to/withdrawal from other retained earnings	9	311
Distributable profit	657	–

In fiscal 2022, Covestro AG generated a net loss of €316 million (previous year: net income of €648 million). The change compared with the prior year was largely attributable to the loss from investments in affiliated companies of €153 million (previous year: income of €757 million). Income from investments in affiliated companies was solely due to the loss absorbed under the control and profit and loss transfer agreement with Covestro Deutschland AG.

In addition to interest expense of €23 million (previous year: €23 million) for the euro bonds issued and interest expense on loans from third parties, the interest result included mainly interest income of €28 million (previous year: €2 million) on loans extended to Covestro Deutschland AG.

Other financial income and expenses mainly comprised bank fees totaling €7 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, as well as nonrecurring fees relating to the issuance of the new bond and Schuldschein loans.

General administration expenses totaling €56 million (previous year: €80 million) mainly consisted of personnel expenses for the employees of the Group holding company and members of the Board of Management. The decline in general administration expenses in fiscal 2022 resulted mainly from lower expenses for short-term variable compensation, a decrease in costs associated with setting up the new organizational structure as of July 1, 2021, and a decline in expenses for the integration of the Resins & Functional Materials (RFM) business acquired from Koninklijke DSM N.V., Heerlen (Netherlands).

Other operating income related primarily to reversals of unutilized personnel-related provisions. In the previous year, other operating income had been materially affected by a one-time transfer of costs amounting to €33 million in connection with the acquisition of the RFM business to Group company Covestro (Netherlands) B.V., Nieuwegein (Netherlands).

The decrease in other operating expenses mainly resulted from nonrecurring expenses associated with the acquisition of the RFM business in the amount of €3 million incurred in the previous year.

The result of operations was €-232 million (previous year: €677 million) and led to income taxes of €84 million (previous year: €29 million). After adding retained earnings brought forward from the prior year of €5 million (previous year: €0 million) and withdrawing €311 million from other retained earnings (previous year: €9 million), distributable profit amounted to €0 million (previous year: €657 million). The Board of Management will not submit a proposal for the use of the distributable profit.

For fiscal 2022, net income was expected to far exceed the level in fiscal 2021 in line with our forecast from the Annual Report 2021. Given the net loss of €316 million for fiscal year 2022, business performance was different from the expectations at the end of the year 2021; this is mainly attributable to the Russian war against Ukraine and the resulting effects on energy prices. Moreover, a sharp decline in demand was recorded in the European market in the second half of 2022. This led in particular to a decrease in the investment income generated from the control and profit and loss transfer agreement with Covestro Deutschland AG.

Net Assets and Financial Position

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

	Dec. 31, 2021	Dec. 31, 2022
	€ million	€ million
ASSETS		
Noncurrent assets	1,767	1,983
Intangible assets, property, plant and equipment	1	–
Financial assets	1,766	1,983
Current assets	5,371	5,361
Trade accounts receivable	67	36
Receivables from affiliated companies	5,219	5,281
Other assets	85	44
Deferred charges	12	13
Excess of plan assets over pension liability	5	1
Total assets	7,155	7,358
EQUITY AND LIABILITIES		
Equity	5,222	4,112
Issued capital	193	190
Capital stock	193	193
Own shares	–	(3)
Capital reserve	3,944	3,805
Other retained earnings	428	117
Distributable profit	657	–
Provisions	129	65
Provisions for pensions	9	21
Provisions for taxes	92	35
Other provisions	28	9
Liabilities	1,804	3,181
Bonds	1,500	2,000
Liabilities to banks	275	907
Trade accounts payable	12	11
Payables to affiliated companies	4	155
Other liabilities	13	108
Total equity and liabilities	7,155	7,358

Covestro AG had total assets of €7,358 million as of December 31, 2022 (previous year: €7,155 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 (27.0% of total assets), receivables from affiliated companies (71.8% of total assets), and bonds and liabilities to banks.

Receivables from affiliated companies were up €62 million to €5,281 million (previous year: €5,219 million). The rise was mainly attributable to an increase in the intercompany loan to Covestro Deutschland AG, which was set against the receivable from the control and profit and loss transfer agreement with Covestro Deutschland AG recognized in the previous year. In contrast, as of December 31, 2022, Covestro Deutschland AG's loss was reported under liabilities to affiliated companies.

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

Intangible assets and property, plant and equipment were immaterial. Trade accounts receivable of €36 million (previous year: €67 million) and prepaid expenses of €13 million (previous year: €12 million) were also immaterial in relation to total assets. Other assets of €44 million (previous year: €85 million) mainly included income tax and VAT receivables.

Covestro AG's equity amounted to €4,112 million (previous year: €5,222 million). This corresponds to an equity ratio of 56.0% (previous year: 73.0%). Share buybacks in the first half of the year caused the capital reserve to decline by €139 million in the fiscal year. This was offset by the issuance of treasury shares to employees under the share-based participation program (Covestment). The net loss of €316 million was covered by the profit of €5 million carried forward from fiscal 2021 and a withdrawal of €311 million from retained earnings. The payment of dividends for fiscal 2021 in the amount of €651 million also reduced equity.

Equity was set against provisions of €65 million (previous year: €129 million) and liabilities of €3,181 million (previous year: €1,804 million).

Provisions comprised provisions for pensions of €21 million (previous year: €9 million), tax provisions of €35 million (previous year: €92 million), and other provisions of €9 million (previous year: €28 million).

The main reasons for the increase in liabilities was the issuance of a euro bond of €500 million in November 2022 and the raising of Schuldschein loans of around €550 million. The euro bonds totaling €2.0 billion have the following maturities: €1.0 billion mature in one to five years and another €1.0 billion mature in 2028 or later. Moreover, liabilities to banks totaling €131 million are due in 2023, €739 million are due in one to five years, and €37 million in the year 2028 or later. Other liabilities amounting to €107 million are due in fiscal 2023, and €1 million are 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

Compared with the reporting year, under the weight of the continuing Russian war against Ukraine, the global economy is expected to experience persistently high inflation, further tightening of monetary policy, and weaker – yet slightly positive – growth in the year 2023. Our growth forecast for the year 2023 is 1.5%. Most of the leading industrialized countries are expected to fall into a mild recession in fiscal 2023. The relaxation of the zero-COVID policy in China offers opportunities for improved global growth prospects, but also risks if there are high rates of infection.

Economic growth¹

	Growth 2022	Growth ¹ forecast 2023
	%	%
World	3.1	1.5
Europe, Middle East, Latin America², Africa (EMLA)	3.6	0.6
of which Europe	3.3	0.2
of which Germany	1.9	–0.2
of which Middle East	6.0	2.7
of which Latin America ²	3.7	0.3
of which Africa	3.4	2.4
North America³ (NA)	2.2	–0.1
of which United States	2.1	0.0
Asia-Pacific (APAC)	3.3	3.4
of which China	3.0	4.5

¹ Real growth of gross domestic product; source: Oxford Economics, as of February 2023.

² Latin America (excluding Mexico).

³ North America (Canada, Mexico, United States).

We believe growth in the EMLA region will underperform the global pace. High inflation and the continuing energy crisis make a recession likely in Europe. Germany's export-oriented economy should see negative growth of 0.2% in the year 2023. In the Middle East, 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 fall below the global level, because weaker global demand and tighter domestic policies are likely to have a negative effect on economic stability. In Africa, we forecast economic growth to outpace the global growth rate.

For the NA region, we anticipate a mild recession. In the United States, significant increases in the federal funds rate will lead to a continuing rise in the cost of borrowing and therefore 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 0.0% in the year 2023.

Economic growth in the APAC region will likely outperform the global economy. We anticipate economic growth of 4.5% for China in fiscal 2023. The relaxation of the zero-COVID policy and economic stimulus measures taken by the government in China should lead to a gradual recovery of macroeconomic performance in the region, even though risks to economic performance remain in the case of higher infection rates.

Main Customer Industries

In 2023, we forecast growth of 4.6% for the global automotive industry. High order backlogs will again counteract an economic downturn in the industry in the year 2023. Growth will likely be driven by the EMLA and NA regions, while the APAC region is expected to have only slightly positive growth.

We anticipate positive expansion of 0.8% in the global construction industry in the year 2023. Poor economic growth, the high cost of construction materials, labor shortages, and rising inflation will continue to weigh on the construction industry in the year 2023. We anticipate slightly positive growth for the APAC region, while the growth rate will be stable in the EMLA region and slightly negative in the NA region.

In the year 2023, we anticipate that the global electrical, electronics, and household appliances industry will grow by 2.0%. Due to shifts in consumer spending from goods to services, weak demand for electronics and electrical components is expected to continue in fiscal 2023. We anticipate negative performance for the EMLA and NA regions and slightly positive growth rates for the APAC region.

In 2023, we anticipate positive growth of 0.3% 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 2023. We anticipate negative performance for the EMLA and NA regions and slightly positive growth rates for the APAC region.

Growth in main customer industries¹

	Growth 2022	Growth forecast 2023
	%	%
Automotive	6.9	4.6
Construction	1.2	0.8
Electrical, electronics and household appliances	4.9	2.0
Furniture	-3.6	0.3

¹ Covestro's estimate, based on the following sources: LMC Automotive Limited, 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 2023.

Forecast for the Covestro Group and Covestro AG

Covestro Group

The following forecast for the 2023 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

	2022	Forecast 2023
EBITDA ¹	€1,617 million	Significantly down on previous year
Free operating cash flow ²	€138 million	Significantly down on previous year
ROCE above WACC ^{3, 4}	-5.0% points	Significantly down on previous year
Greenhouse gas emissions ⁵	4.7 million metric tons of CO ₂ equivalents	Similar to previous year ⁶

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. Since the year 2022, imputed income taxes have been calculated by multiplying an imputed tax rate of 25% (previously: effective tax rate) by EBIT.

⁴ 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 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.

As for EBITDA of the Covestro Group and the Performance Materials segment, we expect a figure well below that of the year 2022. In the Solutions & Specialties segment, we project an EBITDA on a level with the year 2022.*

We anticipate that FOCF will be significantly below the 2022 figure for both the Covestro Group and the Performance Materials segment. In the Solutions & Specialties segment, however, we project FOCF to be significantly higher than the amount of the year 2022.

We forecast ROCE above WACC to be well down on the year 2022.

We anticipate that the Covestro Group's GHG emissions, measured in CO₂ equivalents, will be similar to those recorded for the year 2022.*

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 higher equity investment income expected in fiscal 2023, we forecast that the net loss generated by Covestro AG will be significantly lower than that of the year 2022.

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

Opportunities and Risks Report

As a company with global operations, Covestro is exposed to opportunities and risks on a daily basis. Addressing them is an integral part of our business operations. We regard an opportunity as an internal or external development or event that could cause a positive change in the Group's forecasts or targets. Conversely, 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 System

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. 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 pursuant to Section 91, Paragraph 2 of the German Stock Corporation Act (AktG).

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 Group policies 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 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 various systems are described below.

Main Features of the 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, nonfinancial 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.

An ICS network has been established in the Group to identify and evaluate risk in a consistent and coordinated way and to develop and implement appropriate countermeasures. The 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.

In addition to controls that have to be regularly performed, the control environment also includes self-assessments relating to the controls as well as 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.

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, relationships with government officials, and relationships with certain business partners such as sales agents were identified as being especially risk-relevant. A corruption risk analysis was performed in the year under review for all companies in which Covestro holds a majority interest. 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 ICS processes for accounting and financial reporting. 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 individual risks to the risk bearing capacity.

Risks are identified, evaluated, and controlled in the operating divisions 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 2022 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.

Financial 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. 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 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.

Nonfinancial risks associated with our own business activities, business relations, or products are also recorded. The extent of losses associated with these risks is evaluated on a quantitative and/or qualitative basis. In quantitative evaluation, any potential EBITDA loss is estimated. This also takes into consideration any countermeasures that have a mitigating effect on the potential extent of losses or the probability of the risk. A qualitative assessment of the impact is made on the basis of criteria such as strategic effect, influence on our reputation, or possible loss of confidence among groups of stakeholders.

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

Potential accumulated impact (qualitative or quantitative in € million) ¹	Likelihood of occurrence within 1 year				
	Very low	Low	Medium	High	Very high
Critical/ >1,000					
Significant/ >300–1,000					
High/ >150–300					
Moderate/ ≥50–150					

Weighted risk occurrence: ■ Low ■ Moderate ■ High

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 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 at regular intervals 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

Particularly in the year 2022, Covestro's business environment was severely affected by geopolitical events, such as the Russian war against Ukraine, a rise in inflation trends around the world, higher energy and raw material prices, disrupted global supply chains, and the global acceleration in recessionary trends. However, 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/tcfd22

Risk categories by weighted risk occurrence

Risk categories...	Weighted risk occurrence		
	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 2022, we saw geopolitical tensions between regional powers, whose effects included a decline in product demand, rising energy and raw material prices, and disruptions in the supply chains. 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 are often caused 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. These are followed by a decline of industry-wide utilization rates.

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.

Competition

An economic downturn, changes in competitor behavior, or the emergence of new competitors can lead to greater competition and, as a result, overcapacities in the market or increased pressure on prices. These risks are rated lower at the moment than in the previous year.

Further opportunities and risks may also arise if actual market developments vary from those we predict in the "Economic Outlook" section. Where macroeconomic developments deviate from forecasts, this may either positively or negatively impact our sales and earnings expectations. Continuous analysis of the economic environment and of economic forecasts enables us to utilize the identified opportunities and to mitigate risks by adjusting our business strategy.

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 "Sustainability in the Supply Chain" and "Human Rights."

The Code 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, as they did in the year under review. 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 Technology 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.

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" and "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 through comprehensive human resources marketing, including an employer branding campaign. 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.

→ See "Health and Safety."

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 "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 20 “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 in the areas of value creation; sustainability; innovation; employees; 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 on 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 2022:

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

The recommendations of the Commission of the German Corporate Governance Code, as amended on December 16, 2019, published by the Federal Ministry of Justice and Consumer Protection on March 20, 2020 in the official part of the Federal Gazette have been complied with since the last Declaration of Conformity was issued in December 2021. The recommendations of the Commission of the German Corporate Governance Code, as amended on April 28, 2022, published by the Federal Ministry of Justice and Consumer Protection on June 27, 2022 in the official part of the Federal Gazette are being complied with. Covestro AG will continue to comply with these recommendations in the future.

Leverkusen, December 2022

For the Board of Management

For the Supervisory Board

Dr. Markus Steilemann

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 2022 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 21, 2022, 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 also 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 2022 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: <https://www.covestro.com/rulesofprocedure2022>

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 and its Chair. The Board of Management currently has no committees. In the fiscal year 2022, the composition of the Board of Management was as follows:

Areas of responsibility¹

Name	Position	Areas of responsibility	Memberships ²
Dr. Markus Steilemann	Chief Executive Officer	<ul style="list-style-type: none"> • Communications • Corporate Audit • Human Resources • Strategy • Sustainability & Public Affairs • Group Innovation 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Fuchs Petrolub SE³ (since May 2022)
Sucheta Govil	Chief Commercial Officer	<ul style="list-style-type: none"> • Performance Materials • Tailored Urethanes • Coatings & Adhesives • Engineering Plastics • Specialty Films • Elastomers • Thermoplastic Polyurethanes • Supply Chain & Logistics EMLA, NA, APAC 	<ul style="list-style-type: none"> • Independent non-executive director of Eurocell plc (United Kingdom)³ (until July 2022)
Dr. Klaus Schäfer	Chief Technology Officer	<ul style="list-style-type: none"> • Engineering • Process Technology • Group Health, Safety and Environment • Group Procurement 	<ul style="list-style-type: none"> • Member of the Supervisory Board of TÜV Rheinland AG⁴
Dr. Thomas Toepfer	Chief Financial Officer Labor Director	<ul style="list-style-type: none"> • Accounting • Controlling • Finance & Insurance • Information Technology & Digitalization • Investor Relations • Law, Intellectual Property & Compliance • Portfolio Development • Taxes 	<ul style="list-style-type: none"> • Member of the Supervisory Board of CLAAS KGaA mbH⁴ (since January 2022) • Member of the General Partners' Committee of CLAAS KGaA mbH⁴ (CLAAS-group)

¹ As of December 31, 2022.

² Memberships on supervisory boards and memberships in comparable supervising bodies of German or foreign corporations.

³ Listed.

⁴ Non-listed.

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 2022. The Board of Management additionally meets the education and professional background requirements. The Board of Management's members ranged in age from 50 to 60 in fiscal 2022. 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 petroleum and chemical industries. 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, these may not correspond to fractions.

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, 2022, 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 first target attainment period on June 30, 2017, the Supervisory Board had decided on a target quota of at least 40% for women on the Board of Management of Covestro AG and an implementation period through June 30, 2022. As of June 30, 2022, the Board of Management had four members, including one woman. Two new members were appointed to Board of Management functions during the implementation period through June 30, 2022. In the selection for and appointment to these functions, the main consideration was the best possible professional and technical qualification, taking the appropriate skills profile into account; in cases of equal qualification, the Supervisory Board acts on the understanding that preference should be to the underrepresented gender. Against this backdrop, Dr. Thomas Toepfer was first appointed as Chief Financial Officer in 2018 and Sucheta Govil as Chief Commercial Officer in 2019. During the implementation period through June 30, 2022, the Supervisory Board saw no reason to doubt the professional and technical qualifications of the respective Board of Management members or to appoint new candidates to these Board of Management positions, including when employment contracts with members of the Board of Management were extended. Nevertheless, on the basis of having one female member of the Board of Management, Covestro AG met the legal minimum quota in accordance with Section 76 (3a) AktG as of June 30, 2022.

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, 2022, one woman and three men served on the Board of Management. Women therefore made up 25% of the Board of Management.

In fiscal 2017, the Board of Management had set new targets for the first two management levels below the Board of Management. For the period through June 30, 2022, the goal of Covestro AG and the Covestro Group was to achieve a minimum of 30% women at both levels.

Target setting for proportion of women in the first two management levels below the Board of Management as of June 30, 2022

	Covestro AG		Covestro Group	
	As of June 30, 2022	Target by June 30, 2022	As of June 30, 2022	Target by June 30, 2022
	%	%	%	%
Proportion of women in management level 1 ¹	0	30	24	30
Proportion of women in management level 2 ²	26	30	24	30

¹ Direct reports to the Board of Management with management responsibilities.

² Direct reports to management level 1 with management responsibilities.

Since the target was set in the year 2017, the proportion of women in the Covestro Group increased considerably overall on both management levels (management level 1: from 13% in fiscal 2017 to 24% in fiscal 2022 and management level 2: from 20% in fiscal 2017 to 24% in fiscal 2022). At Covestro AG, the proportion of women on management level 2 increased from 26% in fiscal 2017 to 30% in fiscal 2022. However, some conditions changed, especially in the second half of the implementation period, and this had an effect on the management structure. This included a challenging economic environment caused, for example, by the coronavirus pandemic, various reorganizations, and restructuring. This also led to adjustments to the hiring policy. Due to reorganizations, vacancies on the first management level were not filled at Covestro AG. Overall, this meant that Covestro AG's and the Covestro Group's targets were not met by June 30, 2022.

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.

Target setting for proportion of women in the first two management levels below the Board of Management as of June 30, 2027

	Covestro AG		Covestro Group	
	As of Dec. 31, 2022	Target by June 30, 2027 ³	As of Dec. 31, 2022	Target by June 30, 2027 ³
	%	%	%	%
Proportion of women in management level 1 ¹	0.0	25.0	24.1	31.0
Proportion of women in management level 2 ²	23.5	31.6	23.6	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 following employee numbers: Covestro AG, management level 1: 1 woman out of a total of 4 employees, management level 2: 6 women out of a total of 19 employees; Covestro Group, management level 1: 9 women out of a total of 29 employees, management level 2: 54 women out of a total of 179 employees.

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 "Promoting Diversity, Equity, and Inclusion."

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: <https://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.

The effectiveness and efficiency review of the Supervisory Board was for the first time conducted with external support in the reporting year 2022. As a supplement to the regular review performed as a self-assessment based on a written questionnaire answered by Supervisory Board members, this year's review comprised in particular a written survey of the individual Board of Management members conducted by external parties as well as individual interviews with all members of the Board of Management and Supervisory Board. The main topics covered were the members' understanding of their roles; the objectives and values of the Supervisory Board; the organization of, and provision of information to, the Supervisory Board; cooperation with the Board of Management; and the Supervisory Board's debate culture. The findings obtained from this process were discussed in an externally facilitated two-day workshop of the Supervisory Board in October 2022. The workshop also included an in-depth discussion of cooperation between shareholder and employee representatives, the agenda for the year 2023, and additionally the Supervisory Board's skills profile and qualification matrix. The resulting actions include, for example, the introduction of a feedback round at the end of Supervisory Board meetings during which members comment on the content and process of the meeting and make suggestions for future meetings. This action has already been implemented. On the whole, the Supervisory Board's activity was evaluated and found to be effective and efficient.

+ See Capital Market, section "Meetings of the Full Supervisory Board and Member Attendance."

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.

+ Additional information is available at: www.covestro.com/rulesofprocedure2022

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. On April 21, 2022, the Annual General Meeting elected Dr. Sven Schneider as successor to Prof. Rolf Nonnenmacher, who stepped down from the Supervisory Board. 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. The meeting of delegates accordingly elected Dr. Christoph Gürtler and Frank Löllgen as first-time members and reelected Petra Kronen, Irena Küstner, Petra Reinbold-Knape, and Marc Stothfang to the Supervisory Board; their terms of office also began on April 21, 2022. After assuming office, the new members elected to the Supervisory Board of Covestro AG took part in the onboarding process, during which they were given key information on the company as well as further information on the business and structure of the company, depending on individual needs.

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 members¹

Name/function	Membership on the Supervisory Board	Position	Memberships ²
Dr. Richard Pott (Chair)	Member of the Supervisory Board since August 2015	<ul style="list-style-type: none"> • Member of various supervisory boards 	<ul style="list-style-type: none"> • Chair of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of Freudenberg SE⁴ • Member of the Supervisory Board of SCHOTT AG⁴
Petra Kronen (Vice Chair)	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Vice Chair of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of MTU Aero Engines AG³ • Member of the Supervisory Board of TÜV SÜD AG⁴ • Member of the Supervisory Board of Siemens Energy AG³ • Member of the Supervisory Board of Siemens Energy Management GmbH⁴ (Siemens Energy group)
Dr. Christine Bortenlänger	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> • Executive Member of the Board of Deutsches Aktieninstitut e.V. 	
Dr. Christoph Gürtler	Member of the Supervisory Board since April 2022	<ul style="list-style-type: none"> • Chair of the Managerial Employees' Committees of Covestro Deutschland AG and of the Covestro Group (since April 2022) • Managerial Employee of Covestro Deutschland AG 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5}
Lise Kingo	Member of the Supervisory Board since April 2021	<ul style="list-style-type: none"> • Member of various supervisory boards, governing bodies and committees 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Independent Board Director of Sanofi SA³, France • Independent Board Director of Aker Horizons ASA³, Norway • Independent Board Director of Danone SA³, France (since December 2022)
Irena Küstner	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5}
Dr. Ulrich Liman	Member of the Supervisory Board from January 2018 until April 2022	<ul style="list-style-type: none"> • Chair of the Managerial Employees' Committee of Covestro Deutschland AG (until April 2022) • Managerial employee of Covestro Deutschland AG 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} (until April 2022)
Frank Löllgen	Member of the Supervisory Board since April 2022	<ul style="list-style-type: none"> • North Rhine District Secretary of the German Mining, Chemical and Energy Industrial Union (IG BCE), Düsseldorf 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of Bayer AG³
Prof. Dr. Rolf Nonnenmacher	Member of the Supervisory Board from August 2015 until April 2022	<ul style="list-style-type: none"> • Member of various supervisory boards 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} (until April 2022) • Member of the Supervisory Board of Continental AG³ • Member of the Supervisory Board of ProSiebenSat.1 Media SE³
Petra Reinbold-Knape	Member of the Supervisory Board since January 2020	<ul style="list-style-type: none"> • Secretary at IG BCE • Chair of the Board of August-Schmidt-Stiftung 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of Bayer AG³ (until April 2022)

(Continued on next page)

			<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of Infineon Technologies Austria AG⁴, 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)
Dr. Sven Schneider	Member of the Supervisory Board since April 2022	• Chief Financial Officer at Infineon Technologies AG	
			<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Member of the Supervisory Board of CECONOMY AG³ (until February 2022) • Member of the Supervisory Board of Leoni AG³ (until May 2022) • Director of SPIE SA³, France • Member of the Supervisory Board of SPIE Deutschland und Zentraleuropa GmbH⁴ (SPIE Group)
Regine Stachelhaus	Member of the Supervisory Board since October 2015	<ul style="list-style-type: none"> • Member of various supervisory boards • Chair of the Works Council of Covestro at the Brunsbüttel site 	
Marc Stothfang	Member of the Supervisory Board since February 2017	<ul style="list-style-type: none"> • Member of Covestro-European Forum • Employee of Covestro Deutschland AG 	
			<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} • Non-Executive Director (Chair) of Johnson Matthey plc³, United Kingdom • Non-Executive Director of Akzo Nobel N.V.³, Netherlands
Patrick Thomas	Member of the Supervisory Board since July 2020	• Member of various supervisory boards	
	Member of the Supervisory Board from September 2016 until April 2022	<ul style="list-style-type: none"> • District Manager of the German Mining, Chemical and Energy Industrial Union (IG BCE) – district Dortmund-Hagen 	<ul style="list-style-type: none"> • Member of the Supervisory Board of Covestro Deutschland AG^{4,5} (until April 2022)
Frank Werth			

¹ As of December 31, 2022, 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.

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) (since April 2022), Prof. Dr. Rolf Nonnenmacher (Chair) (until April 2022), 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), Petra Kronen, Dr. Christoph Gürtler (since April 2022), Dr. Ulrich Liman (until April 2022), 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 (since April 2022), Dr. Ulrich Liman (until April 2022), 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 the company's website and updated annually.

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

+ Additional information is available at: <https://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 matrix¹

		Supervisory Board members											
Category	Field of expertise	C. Bortenlänger ²	C. Gürtler ³	L. Kingo ²	P. Kronen ³	I. Küstner ³	F. Löligen 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												
	Leadership in an international enterprise												
Management- and leadership experience	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 (reporting year 2022 minus year of birth)	56	55	61	58	56	61	69	63	56	67	56	65
	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 "Main Features of the Internal Control System," "Internal Control System to Ensure Compliance," and "Risk Management System."

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 of the Covestro Group, 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 and interim reports for 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 opening of the Annual General Meeting by the meeting chair and follow the report of the Board of Management live online.

The Annual General Meeting on April 21, 2022, was held virtually due to the ongoing coronavirus pandemic. In that year, all of the company's shareholders and interested members of the public could watch the entire Annual General Meeting live online. All documents and information on the Annual General Meeting such as the invitation, including the agenda, and the annual report are available on Covestro's website as well.

+ The live feed of the opening of the Annual General Meeting and the report of the Supervisory Board are available at: <https://www.covestro.com/en/investors/financial-calendar/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: <https://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 €193,200,000 as of December 31, 2022, and is composed of 193,200,000 no-par value bearer shares. Each share confers equal rights and one vote at the Annual General Meeting (AGM).

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 disappplied 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 disappplied. 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 3,479,956 treasury shares in two tranches at a total cost of €150 million (excluding transaction costs) in the period from March 21, 2022, up to and including June 23, 2022; this corresponds to a proportional share of 1.8% of the company's registered capital stock in an amount of €193,200,000.

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.

Compliance

Compliance Management System

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.

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. 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.

Communications and Compliance

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.

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.

[Supplementary information >](#)

Tax Compliance

Principles and Targets of Tax Compliance

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 C³ 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.

Tax Compliance Organization

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.

Covestro expressly encourages employees to openly discuss any concerns about proper conduct by the company 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 "Communications and Compliance."

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 "Main Features of the Internal Control System" and "Risk Management System."

[< Supplementary information](#)

DISCLOSURES ON SUSTAINABILITY REPORTING AND GRI INDEX

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.

Our sustainability reporting 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) in our Group Management Report and supplement this information with additional content, which meets the requirements of the "with reference to" reporting option of the Global Reporting Initiative's (GRI) Sustainability Reporting Standards (SRS); this option has been available since the year 2022. We voluntarily report the management approaches for material topics in accordance with GRI 3-3 (2021). We plan to check whether the use of voluntary GRI reporting under the "in accordance with GRI" option is appropriate against the backdrop of regulatory developments.

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 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 and in consideration of their significance and implementation 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 of medium or high relevance to Covestro and on the aspects of which Covestro's business activities have a medium or high impact. 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. 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."

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
Circular economy	Environmental matters, social matters	"Strategy," "Circular Economy," "Innovation."
Climate neutrality	Environmental matters, social matters	"Strategy," "Management," "Climate Neutrality."
Sustainable R&D based innovation portfolio	Environmental matters, social matters	"Management," "Innovation."
Sustainable products & product stewardship	Environmental matters, social matters	"Strategy," "Sustainable Products and Product Stewardship."
Employer attractiveness	Employee matters	"Employees."
Compliance	Environmental matters, fighting corruption and bribery, respect for human rights	"Opportunities and Risks Report," "Compliance."
Diversity, equity & inclusion	Employee matters, respect for human rights, social matters	"Employees."
Inclusive business	Social matters	"Social Responsibility."
Human rights	Respect for human rights, social matters	"Social Responsibility."
Sustainability in sourcing	Environmental matters, social matters, fighting corruption and bribery, respect for human rights	"Procurement," "Sustainability in the Supply Chain."
Health & safety	Employee matters, environmental matters, social matters	"Integrated Management System for Health, Safety, Environment, Energy, and Quality," „Health & Safety."

As an integral part of the Group Management Report, the nonfinancial Group statement was audited by the financial statement auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (Germany), as part of the audit of the Consolidated Financial Statements based on an expansion of the audit engagement.

A nonfinancial statement or nonfinancial report does not have to be provided at this time for Covestro AG.

EU Taxonomy

The European Union's Taxonomy Regulation 2020/852 (EU Taxonomy), and particularly its delegated acts, are the basis for various current and future initiatives by the European Union (EU) to facilitate sustainable financial reporting. The Covestro Group is required to submit a nonfinancial statement and must therefore, in accordance with Article 8(1) of the Taxonomy Regulation, disclose information about how and the extent to which our activities are associated with economic activities which qualify as environmentally sustainable economic activities based on the Taxonomy Regulation. To this end, the Taxonomy Regulation introduces key performance indicators (KPIs) to enable and improve performance measurement.

In fiscal 2022, our report includes information in line with the Taxonomy Regulation and its delegated acts applicable at the reporting date. For fiscal 2021, we exercised the exemptions that allowed us initially to report only on our taxonomy-eligible economic activities associated with the first two environmental objectives. Taxonomy-aligned activities are reported for the first time for the year 2022. Some legal concepts in the EU Taxonomy have not been defined conclusively, which has led to continuing uncertainty regarding their interpretation.

Taxonomy-Eligible Economic Activities

In the fiscal year under review, we centrally identified at Group level the following taxonomy-eligible economic activities associated with the environmental objective of climate change mitigation: 3.10 – Manufacture of hydrogen, 3.13 – Manufacture of chlorine, 3.14 – Manufacture of other organic basic chemicals, 3.16 – Manufacture of nitric acid, and 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: 4.30 – High-efficiency co-generation of heat/cool and power from fossil gaseous fuels. Taxonomy-eligible economic activities result in connection with CapEx and operating expenditure (OpEx) (categories b and c): 6.5 – Transport by motorbikes, passenger cars and light commercial vehicles, 7.1 – Construction of new buildings, and 7.7 – Acquisition and ownership of buildings.

No taxonomy-eligible economic activities associated with the climate change adaptation environmental objective were identified, since our business model in the activities covered by the Taxonomy Regulation are aimed at climate change mitigation. Parts of our portfolio are not covered by the EU 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.

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 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 contain specific guidance for this as well and specific TSCs have been defined for each of the environmental objectives. For fiscal 2022, the TSCs for the environmental objectives of climate change mitigation and climate change adaptation were in force. The European Commission is expected to publish the TSCs for the other environmental objectives in the course of the year 2023. In addition, compliance with the minimum safeguards pursuant to Article 18 of the Taxonomy Regulation must be examined.

Substantial Contribution

In the year 2021, Covestro assessed whether its economic activities are taxonomy-eligible; in fiscal 2022 we conducted an analysis centrally to determine taxonomy-aligned activities. In this process, we examined the taxonomy-eligible products identified to determine whether they make a substantial contribution to the environmental objective of climate change mitigation. To assess whether the criteria of substantial contribution (and furthermore also the criteria relating to doing no significant harm) are met, the analysis was conducted centrally at the level of the sites. The reason is that the review of the criteria for the same product can deliver different results, depending on the production site (e.g., because power consumption or the energy mix is different at the sites). In such cases, the taxonomy-aligned proportions are allocated to the KPIs according to the production volume at the sites.

For economic activity 3.10 – Manufacture of hydrogen, we potentially make a substantial contribution to the environmental objective of climate change mitigation for selected sites. 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 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 to establish any possible environmental damage at site level. 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. As a result, compliance is currently not bound by any criteria. The criteria for ensuring that no significant harm is done for the environmental objective of pollution prevention and control were reviewed in two steps. Employees with the relevant professional expertise examined compliance with the requirements for the environmental objective of climate change mitigation set out in Appendix C of Annex 1 of the Commission Delegated Regulation on climate change mitigation in connection with the specified guidelines and regulations. At the same time, 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, 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.

For activity 3.10 – Manufacture of hydrogen, proof could be provided for 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. 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.

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. These requirements 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, including those relevant to the minimum safeguards of the EU Taxonomy, 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 "Corporate Policies," "Health and Safety," "Sustainability in the Supply Chain," "Human Rights," "Compliance," and note 26 "Legal Risks" in the Notes to the Consolidated Financial Statements.

The review of the minimum safeguards for human rights relates to Covestro's overarching management approach to respecting human rights, and primarily to the risk analysis conducted as part of the human rights due diligence. In addition to the company's own business activities, this also covers our direct suppliers. It also considers the upstream supply chain, especially if there are specific allegations. The comprehensive and ongoing risk analysis covers all of Covestro's own sites, the supply chain, as well as the use phase and end-of-life of our products. Depending on the respective risk assessments, various measures are agreed with the suppliers, e.g., supplier assessments under the TFS initiative* or special human rights training.

→ See "Sustainability in the Supply Chain" and "Human Rights."

In addition, as part of the review to establish compliance with the minimum safeguards, we verified at Group level that no final court judgments have been handed down against Covestro in connection with the above issues. Although no economic activities were reported as taxonomy-aligned in the year 2022, there are no indications based on the review described above to suggest that Covestro does not meet the minimum safeguards under Article 18 of the EU Taxonomy Regulation.

We are planning further activities to be undertaken by our cross-functional Human Rights Task Force, such as additional training for buyers, the completion of guidance for buyers with various measures for suppliers prioritized during the risk analysis, or the introduction of a Group-wide guideline on our human rights-related management system.

Result of the Alignment Check

In fiscal 2022, we did not identify any taxonomy-aligned economic activities associated with the environmental objective of climate change mitigation.

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 way in which we define and document these KPIs and run the data queries for the calculations prevents double-counting amounts when allocating turnover, CapEx, and OpEx to our economic activities. Where data could not be definitively allocated or KPIs had to be split between economic activities, we applied allocation models appropriate for the particular process to reflect the technical circumstances in the KPI calculation. The taxonomy KPIs are determined with system support in processes established for the purpose. 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 "Main Features of the 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 for fiscal 2022 was then calculated for the identified products 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."

* STOXX Europe 600 Chemicals: Sector index by index issuer STOXX; the STOXX Europe 600 comprises 600 European companies.

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 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 "Goodwill and Other Intangible Assets" and note 14 "Property, Plant and Equipment" in the Notes to the Consolidated Financial Statements.

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. These financing instruments are to be used to finance products or projects with a clear benefit for the environment and/or society. Under the Green Financing Framework, a bond amounting to €500 million was issued in fiscal 2022. No taxonomy-aligned CapEx or OpEx is currently being financed with the green bond.

+ 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 "Organization and Business Model," "Management," "Sustainability," "Circular Economy," "Climate Neutrality," "Sustainable Products," and "Innovation."

The calculation of the KPIs considers separately the activities of the Resins & Functional Materials business (RFM) acquired from Koninklijke DSM N.V., Heerlen (Netherlands), in the year 2021. Due to the ongoing systems integration process, they could not be analyzed in detail in fiscal 2021 and were therefore not included in the taxonomy-eligible share of Covestro's activities. The share attributable to RFM (for OpEx only where available) was included in the denominator of all of KPIs for the year 2021. Completion of the system integration in June 2022 meant that RFM's products could also be fully included in the OpEx denominator. In the assessment of taxonomy-eligible and taxonomy-aligned activities (numerator), RFM's products could be included for turnover for the full year and for CapEx and OpEx from the date of completion of the system integration. Since the system integration was completed, RFM has been reflected in full.

The year-over-year rise in the taxonomy-eligible share of CapEx is primarily due to the fact that the acquisition of the RFM business was included in the numerator and denominator in the previous year.

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 2022

Economic activities	Code(s)	Absolute turnover	Proportion of turnover	Substantial contribution criteria							Do no significant harm (DNSH) criteria						Taxonomy-aligned proportion of turnover in 2022	Taxonomy-aligned proportion of turnover in 2021	Category "enabling activity"	Category "transitional activity"
				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				
		€ million	%	%	%	%	%	%	%	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)																				
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Manufacture of hydrogen	3.10	48	0.3																	
Manufacture of chlorine	3.13	145	0.8																	
Manufacture of organic basic chemicals	3.14	< 1	< 0.1																	
Manufacture of nitric acid	3.16	21	0.1																	
Manufacture of plastics in primary form	3.17	5,699	31.7																	
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	4.30	8	< 0.1																	
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		5,921	33.0														-		-	-
Total (A.1 + A.2)		5,921	33.0														-		-	-
B Taxonomy-non-eligible activities		12,047	67.0																	
Turnover of Taxonomy-non-eligible activities (B)		12,047	67.0																	
Total (A+B)		17,968	100.0																	

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering fiscal 2022

Economic activities	Code(s)	Absolute CapEx	Proportion of CapEx	Substantial contribution criteria							Do no significant harm (DNSH) criteria							Taxonomy-aligned proportion of CapEx in fiscal 2022	Taxonomy-aligned proportion of CapEx in fiscal 2021 ¹	Category "enabling activity"	Category "transitional activity"
				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					
		€ million	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T	
A Taxonomy-eligible activities ²																					
A.1 Environmentally sustainable activities (Taxonomy-aligned)																					
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																					
Manufacture of hydrogen	3.10	< 1	< 0.1																		
Manufacture of chlorine	3.13	53	5.5																		
Manufacture of organic basic chemicals	3.14	< 1	< 0.1																		
Manufacture of nitric acid	3.16	18	1.9																		
Manufacture of plastics in primary form	3.17	152	15.6																		
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	4.30	6	0.7																		
Transport by motorbikes, passenger cars and light commercial vehicles	6.5	1	0.1																		
Construction of new buildings	7.1	1	0.1																		
Acquisition and ownership of buildings	7.7	30	3.1																		
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		262	26.9														-		-	-	
Total (A.1 + A.2)		262	26.9														-		-	-	
B Taxonomy-non-eligible activities		711	73.1																		
CapEx of Taxonomy-non-eligible activities (B)		711	73.1																		
Total (A+B)		973	100																		

¹ Based on recent findings, the CapEx denominator does not include the proportion of acquired goodwill. This results in a proportion of 10.2% for the year 2021. The numerator remains unchanged.

² 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 2022

Economic activities	Code(s)	Absolute OpEx	Proportion of OpEx	Substantial contribution criteria							Do no significant harm (DNSH) criteria							Taxonomy-aligned proportion of OpEx in fiscal 2022	Taxonomy-aligned proportion of OpEx in fiscal 2021	Category "enabling activity"	Category "transitional activity"
				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					
		€ million	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T	
A Taxonomy-eligible activities ¹																					
A.1 Environmentally sustainable activities (Taxonomy-aligned)																					
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																					
Manufacture of hydrogen	3.10	8	0.6																		
Manufacture of chlorine	3.13	54	4.2																		
Manufacture of organic basic chemicals	3.14	< 1	< 0.1																		
Manufacture of nitric acid	3.16	16	1.3																		
Manufacture of plastics in primary form	3.17	272	21.1																		
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	4.30	< 1	< 0.1																		
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		350	27.2														-		-	-	
Total (A.1 + A.2)		350	27.2														-		-	-	
B Taxonomy-non-eligible activities		939	72.8																		
OpEx of Taxonomy-non-eligible activities (B)		939	72.8																		
Total (A+B)		9,386	100.0																		

¹ 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.

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 activities¹

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	8	0.1	0	0.0	8	0.1	6	2.3	0	0.0	6	2.3	< 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	5,913	99.9	0	0.0	5,913	99.9	256	97.7	0	0.0	256	97.7	350	100.0	0	0.0	350	100.0
8	Total amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activities in the denominator of the applicable KPI	5,921	100.0	0	0.0	5,921	100.0	262	100.0	0	0.0	262	100.0	350	100.0	0	0.0	350	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	12,047	100.0	711	100.0	939	100.0
8	Total amount and proportion of taxonomy-non-eligible economic activities in the denominator of the applicable KPI	12,047	100.0	711	100.0	939	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	<ul style="list-style-type: none"> • Employees • Employees – Human Resources Guiding Principles and Strategy – “Proud to Belong” Action Area - Employee Metrics on Diversity and Internationality 		
2-8	Workers who are not employees			<p>Around the world, Covestro has about 350 temporary employees, corresponding to approximately 2.0% of our workforce.</p> <p>In addition, a number of people work for Covestro externally through contracts for work or service agreements.</p> <p>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.</p>
2-22	Statement from the most senior decision-maker	<ul style="list-style-type: none"> • Foreword 		
2-23	Policy Commitments	<ul style="list-style-type: none"> • Management – Corporate Policies 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Opportunities and Risks Report – Opportunities and Risks • Compliance – Compliance Management System 		In fiscal 2022, 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	<ul style="list-style-type: none"> • Circular Economy – Global and Regional Promotion and Advocacy of the Circular Economy • Sustainable Products and Product Stewardship – Product Stewardship 	<ul style="list-style-type: none"> • Sustainability – Sustainability Management – Stakeholder Dialogue 	
2-29	Approach to stakeholder engagement	<ul style="list-style-type: none"> • Sustainability- Materiality Assessment – Materiality Assessment Process • Sustainability – Sustainability Management – Monitoring 	<ul style="list-style-type: none"> • Sustainability – Sustainability Management – Stakeholder Dialogue 	
2-30	Collective bargaining agreements	<ul style="list-style-type: none"> • Employees - Human Resources Guiding Principles and Strategy – “Committed to Perform” Action Area 	<ul style="list-style-type: none"> • Employees - Human Resources Guiding Principles and Strategy – “Committed to Perform” Action Area 	

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	<ul style="list-style-type: none"> • Strategy – Group Strategy • Management – Management System 		
201-1	Direct economic value generated and distributed	<ul style="list-style-type: none"> • Consolidated Financial Statements and Notes 		
GRI 204 – Procurement Practices (2016)				
3-3	Management Approach	<ul style="list-style-type: none"> • Company Profile – Procurement • Sustainability – Materiality Assessment • Sustainability in the Supply Chain • Social Responsibility – Human Rights • Opportunities and Risks Report – Opportunities and Risks 		
204-1	Proportion of spending on local suppliers	<ul style="list-style-type: none"> • Company Profile – 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	<ul style="list-style-type: none"> • Sustainability – Materiality Assessment • Compliance – Compliance Management System 	<ul style="list-style-type: none"> • Management – Corporate Policies 	
205-1	Operations assessed for risks related to corruption	<ul style="list-style-type: none"> • Opportunities and Risks Report – Group-wide Opportunities and Risk Management System • Compliance – Compliance Management System 		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	<ul style="list-style-type: none"> • Opportunities and Risks Report – Opportunities and Risks • Compliance – Compliance Management System 	<ul style="list-style-type: none"> • 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 2022.
GRI 207 – Tax (2019)				
3-3	Management Approach		<ul style="list-style-type: none"> • Compliance – Tax Compliance 	
207-1	Approach to tax		<ul style="list-style-type: none"> • Compliance – Tax Compliance 	
207-2	Tax governance, control, and risk management	<ul style="list-style-type: none"> • Opportunities and Risks Report – Group-wide Opportunities and Risk Management System 	<ul style="list-style-type: none"> • Compliance – Tax Compliance 	
207-3	Stakeholder engagement and management of concerns related to tax	<ul style="list-style-type: none"> • Compliance – Compliance Management System 	<ul style="list-style-type: none"> • Compliance – Tax Compliance 	
207-4	Country-by-country reporting			A country-by-country report is not currently provided.

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
GRI 300 – Environmental topics				
GRI 302 – Energy (2016)				
3-3	Management Approach	<ul style="list-style-type: none"> • Sustainability – Materiality Assessment • Climate Neutrality • Opportunities and Risks Report – Opportunities and Risks 	• Management – Corporate Policies	
302-1	Energy consumption within the organization	• Climate Neutrality – Energy Usage		
302-3	Energy intensity	• Climate Neutrality – Energy Usage		
302-4	Reduction of energy consumption	• Climate Neutrality – 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	<ul style="list-style-type: none"> • Sustainability – Materiality Assessment • Environmental Impact of Own Operations – Water and Wastewater 	• Environmental Impact of Own Operations – Water Usage	
303-1	Interactions with water as a shared resource	• Environmental Impact of Own Operations – Water and Wastewater	• Environmental Impact of Own Operations – Water Usage	
303-2	Management of water discharge-related impacts	• Environmental Impact of Own Operations – Water and Wastewater	• Environmental Impact of Own Operations – Water Usage	The standards to be applied are oriented to local laws.
303-3	Water withdrawal	• Environmental Impact of Own Operations – Water and Wastewater	• Environmental Impact of Own Operations – Water Usage	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. This water 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	<ul style="list-style-type: none"> • Sustainability – Materiality Assessment • Climate Neutrality • Opportunities and Risks Report 		
305-1	Direct (Scope 1) GHG emissions	• Climate Neutrality – Greenhouse Gas Emissions		Biogenic CO ₂ emissions are not reported because they are irrelevant.
305-2	Energy indirect (Scope 2) GHG emissions	• Climate Neutrality – Greenhouse Gas Emissions		
305-3	Other indirect (Scope 3) GHG emissions	• Climate Neutrality – Greenhouse Gas Emissions		
305-4	GHG emissions intensity	• Climate Neutrality – Greenhouse Gas Emissions		Disclosure as CO ₂ equivalent of specific GHG. Emissions of sulfur hexafluoride (SF ₆) have been recorded.
305-5	Reduction of GHG emissions	• Climate Neutrality – Greenhouse Gas 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 Scopes 1 and 2 because otherwise any shifts between the categories would lessen the informative value of the results.

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		<ul style="list-style-type: none"> Environmental Impact of Own Operations – Air Quality 	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	<ul style="list-style-type: none"> Sustainability – Materiality Assessment Circular Economy Environmental Impact of Own Operations – Waste 	<ul style="list-style-type: none"> Environmental Impact of Own Operations – Waste and Recycling 	
306-1	Waste generation and significant waste-related impacts	<ul style="list-style-type: none"> Environmental Impact of Own Operations – Waste 	<ul style="list-style-type: none"> Environmental Impact of Own Operations – Waste and Recycling 	
306-2	Management of significant waste-related impacts	<ul style="list-style-type: none"> Circular Economy Environmental Impact of Own Operations – Waste 	<ul style="list-style-type: none"> Environmental Impact of Own Operations – Waste and Recycling 	
306-3	Waste generated		<ul style="list-style-type: none"> Environmental Impact of Own Operations – Waste and Recycling 	
306-5	Waste diverted from disposal		<ul style="list-style-type: none"> Environmental Impact of Own Operations – Waste and Recycling 	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				
3-3	Management Approach	<ul style="list-style-type: none"> Sustainability in the Supply Chain Opportunities and Risks Report – Opportunities and Risks 		
308-2	Negative environmental impacts in the supply chain and actions taken	<ul style="list-style-type: none"> Sustainability in the Supply Chain – Supplier Evaluation Results 	<ul style="list-style-type: none"> Sustainability in the Supply Chain – Detailed Results of the Supplier Evaluations 	
GRI 400 – Social topics				
GRI 401 – Employment (2016)				
3-3	Management Approach	<ul style="list-style-type: none"> Management – Corporate Policies Employees – Corporate Values and Corporate Culture; Human Resources Guiding Principles and Strategy - "Place to Be" Action Area Opportunities and Risks Report – Opportunities and Risks 		
401-1	New employee hires and employee turnover		<ul style="list-style-type: none"> Employees – Human Resources Guiding Principles and Strategy - "Place to Be" Action Area 	In fiscal 2022, 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.

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
GRI 403 – Occupational Health and Safety (2018)				
3-3	Management Approach	<ul style="list-style-type: none"> • Management – Integrated Management System for Health, Safety, Environment, Energy, and Quality • Employees – Human Resources Guiding Principles and Strategy - "Proud to Belong" Action Area • Health and Safety – Health and Safety of Our Workforce • Opportunities and Risks Report – Opportunities and Risks 		
403-1	Occupational health and safety management system	<ul style="list-style-type: none"> • Management – Integrated Management System for Health, Safety, Environment, Energy, and Quality • Health and Safety – Occupational Health and Safety 		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	<ul style="list-style-type: none"> • Health and Safety – Occupational Health and Safety • 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	<ul style="list-style-type: none"> • Employees – Human Resources Guiding Principles and Strategy - "Proud to Belong" Action Area 		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	<ul style="list-style-type: none"> • Health and Safety 		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.
403-5	Worker training on occupational health and safety	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Employees – Human Resources Guiding Principles and Strategy - "Proud to Belong" Action Area • Health and Safety – Occupational Health and Safety 		Voluntary services for the promotion and maintenance of health are made available only to Covestro employees.

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	<ul style="list-style-type: none"> • Management – Integrated Management System for Health, Safety, Environment, Energy, and Quality • Health and Safety • Sustainability in the Supply Chain 		
403-9	Work-related injuries	<ul style="list-style-type: none"> • Health and Safety – Occupational Health and Safety 		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	<ul style="list-style-type: none"> • Management – Corporate Policies • Employees – Human Resources Guiding Principles and Strategy - "Ready to grow" Action Area • Opportunities and Risks Report – Opportunities and Risks 		
404-2	Programs for upgrading employee skills and transition assistance programs	<ul style="list-style-type: none"> • Employees – Human Resources Guiding Principles and Strategy - "Ready to grow" Action Area 	<ul style="list-style-type: none"> • Employees – Human Resources Guiding Principles and Strategy - "Committed to Perform" Action Area 	
GRI 405 – Diversity and Equal Opportunity (2016)				
3-3	Management Approach	<ul style="list-style-type: none"> • Sustainability – Materiality Assessment • Employees – Human Resources Guiding Principles and Strategy - "Proud to Belong" Action Area • Opportunities and Risks Report – Opportunities and Risks 		
405-1	Diversity of governance bodies and employees	<ul style="list-style-type: none"> • Declaration on Corporate Governance – Composition, Duties and Activities of the Board of Management and Supervisory Board 	<ul style="list-style-type: none"> • Employees – Human Resources Guiding Principles and Strategy - "Proud to Belong" Action Area 	At the end of the year 2022, 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 2022, 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.
GRI 406 – Non-discrimination (2016)				
3-3	Management Approach	<ul style="list-style-type: none"> • Sustainability – Materiality Assessment • Employees – Human Resources Guiding Principles and Strategy - "Proud to Belong" Action Area • 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.

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
GRI 407 – Freedom of Association and Collective Bargaining				
3-3	Management Approach	<ul style="list-style-type: none"> • Sustainability in the Supply Chain • Social Responsibility – Human Rights • Compliance – Compliance Management System 		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	<ul style="list-style-type: none"> • Sustainability in the Supply Chain – Supplier Evaluation Results 	<ul style="list-style-type: none"> • Sustainability in the Supply Chain – Detailed Results of the Supplier Evaluations 	In fiscal 2022, no significant cases were reported using formal grievance mechanisms. There was no high risk for the sites in the year 2021, 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	<ul style="list-style-type: none"> • Sustainability in the Supply Chain • Opportunities and Risks Report – Opportunities and Risks 		
414-2	Negative social impacts in the supply chain and actions taken	<ul style="list-style-type: none"> • Sustainability in the Supply Chain – Supplier Evaluation Results 	<ul style="list-style-type: none"> • Sustainability in the Supply Chain – Detailed Results of the Supplier Evaluations 	
GRI 415 – Public Policy (2016)				
3-3	Management Approach	<ul style="list-style-type: none"> • Sustainability – Materiality Assessment 	<ul style="list-style-type: none"> • Management – Corporate Policies 	
415-1	Political contributions		<ul style="list-style-type: none"> • Management – Corporate Policies 	
GRI 416 – Customer Health and Safety (2016)				
3-3	Management Approach	<ul style="list-style-type: none"> • Sustainability – Materiality Assessment • Management – Integrated Management System for Health, Safety, Environment, Energy, and Quality • Sustainable Products and Product Stewardship – Product Stewardship • Opportunities and Risks Report – Opportunities and Risks • Compliance – Compliance Management System 		
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	<ul style="list-style-type: none"> • Sustainable Products and Product Stewardship – Product Stewardship 		No significant incidents were reported through internal reporting in fiscal 2022.

Specific Standard Disclosures

Disclosure number	Disclosure title	Section in Annual Report	Section in supplementary information on sustainability	Explanation/omission
GRI 417 – Marketing and Labeling (2016)				
3-3	Management Approach	<ul style="list-style-type: none"> • Company Profile – Marketing and Sales • Sustainability – Materiality Assessment 		
417-1	Requirements for product and service information and labeling	<ul style="list-style-type: none"> • Management – Integrated Management System for Health, Safety, Environment, Energy, and Quality • Sustainable Products and Product Stewardship – Product Stewardship • Opportunities and Risks Report – Opportunities and Risks • Compliance – Compliance Management System 		
417-2	Incidents of non-compliance concerning product and service information and labeling	<ul style="list-style-type: none"> • Sustainable Products and Product Stewardship – Product Stewardship 		No significant incidents were reported through internal reporting in fiscal 2022.