

COMPENSATION REPORT

Compensation Report	210
Independent Auditor's Report	230

Compensation Report

The Compensation Report outlines the principles for determining the compensation for the members of the Board of Management and the Supervisory Board of Covestro AG and explains the compensation of the individual members. The Report was prepared by the Board of Management and the Supervisory Board in accordance with the requirements of section 162 of the German Stock Corporation Act (AktG) and conforms to the recommendations of the German Corporate Governance Code (GCGC) as amended on April 28, 2022. Relevant information is published on Covestro's website. Moreover, in terms of content and structure, the report is based on the Compensation Report for the year 2021, which was approved by the Annual General Meeting (AGM) on April 21, 2022 with a majority of 92.57%.

+ Additional information on the details of the compensation system, the report on the audit of the compensation report, and the resolution of the Annual General Meeting approving the compensation system is available at: www.covestro.com/en/company/management/corporate-governance

The AGM had approved the compensation system for Board of Management members on April 16, 2021. The Supervisory Board of Covestro AG resolved in December 2021 to propose to the AGM, effective January 1, 2022, to revise the system on one point, by adjusting the performance criteria for short-term variable compensation for the years 2022 to 2024 in line with Covestro's new strategy and by adding, among other criteria, a sustainability component for this purpose. The revised compensation system for the Board of Management members was approved by the AGM on April 21, 2022, with a majority of 88.75%; it is available on the company's website.

+ Additional information is available at: www.covestro.com/compensation-system

Compensation of the Board of Management

The following section reports the compensation of the Board of Management of Covestro AG for fiscal 2022. The members of the Board of Management of Covestro AG are the same as the members of the Board of Management of Covestro Deutschland AG, which is a wholly owned subsidiary of Covestro AG. Compensation is not paid for the members' work on the Board of Management of Covestro Deutschland AG.

Guiding Principles for Compensation

The compensation system for the Board of Management of Covestro AG is based on the corporate strategy and designed to facilitate a long-term increase in the company's value and responsible corporate governance. We aim to position Covestro as an attractive employer in the competition for highly qualified executives and, at the same time, ensure statutory and regulatory compliance. Board of Management compensation is in line with the basic principles of the Covestro Group's compensation structure, which is standardized for all Covestro employees in line with our "We are 1" corporate culture:

- The variable compensation of the Board of Management and all participating employees is based on a uniform system and identical criteria.
- Differences exist only in the target percentages related to fixed compensation.

The variable compensation is based on Covestro's corporate performance, which is measured based on financial and environmental targets and share performance:

- The system and criteria for short-term variable compensation are closely aligned to Covestro's annual performance.
- The system and the criteria are agreed upon and binding for a three-year period. The Covestro Profit Sharing Plan (Covestro PSP) is a bonus system based on the company's average expected performance. The Covestro PSP is designed in such a way that an average payout level of 100% can be achieved over a period of up to 10 years. Effective January 1, 2022, a sustainability component is for the first time included in addition to the financial performance indicators.

- In very successful years, high payout percentages are achieved (such as 239.5% for fiscal 2021), while in challenging years they are significantly lower, or no short-term variable compensation is paid at all (such as for fiscal 2022).
- The Prisma share-based compensation program for long-term variable compensation is based on the absolute performance of Covestro AG shares, including the dividend, as well as the relative performance compared with the STOXX Europe 600 Chemicals* index; since fiscal 2021, it has also included a sustainability component.

The determination of variable compensation is simple, transparent, and based on objective criteria:

- The relation between target attainment and payout has been defined for the criteria used and documented in the Compensation Report.
- The payout is calculated on the basis of financial criteria and sustainability targets that are also included in the company's Management Report; the calculation is also documented in the Compensation Report.

Compensation system and structure at a glance

	% of total direct compensation ¹ (figures in % rounded)	Target compensation in € thousand	Modifiers / target compensation	Further components
Approx. 30% fixed	Approx. 30% Fixed annual compensation²	CEO ³ : 1,246 OBM ³ : 628–762	Fixed	Fringe benefits
Approx. 70% variable	Approx. 30% Covestro PSP	CEO: 1,246 OBM: 628–762	<div> <div>EBITDA 0–300%</div> <div>ROCE over WACC 0–300%</div> <div>FOCF 0–300%</div> <div>ESG criteria 0–300%</div> </div> <div>1/4 + 1/4 + 1/4 + 1/4</div> <div>Cap: 250%</div>	Malus (100%) Clawback (up to 3 years)
	Approx. 40% Prisma	CEO: 1,620 OBM: 816–991	<div> <div>Prisma target</div> <div>Total shareholder return factor</div> <div>CO₂ factor 25%</div> <div>Outperformance factor 75%</div> </div> <div>Cap: 200%</div>	
	100%¹	CEO: 4,112 OBM: 2,072–2,515	Severance cap: 2 times annual compensation	Share ownership guidelines: 100% of fixed annual compensation within 3 years (CEO & OBM)
	Pension benefits⁴	CEO: 328 OBM: 168–246	Defined Benefit Plan with fixed contributions (company pension): 8–10% of total direct compensation ¹	
	Total target compensation⁵	CEO: 4,440 OBM: 2,240–2,761	Max. compensation limit (incl. fringe benefits and pension): €9,000 thousand (CEO); €5,500 thousand (OBM)	

¹ Fixed compensation plus variable target values.

² Excluding fringe benefits.

³ Chief Executive Officer (CEO), ordinary Board of Management member (OBM).

⁴ Expected pension service cost (IFRSs).

⁵ Fixed compensation plus variable target values.

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

Basic Principles for Determining Compensation

Determining Target Compensation

The Supervisory Board determines the total target compensation for the upcoming fiscal year for each Board of Management member in accordance with the compensation system. This compensation is appropriate in view of the Board of Management member's duties and takes into account Covestro's financial situation, performance, and future prospects.

As of January 1, 2022, the fixed compensation of Board of Management members was increased based on the change in the previous year's consumer price index (2.21% from November 2020 to October 2021). The target compensation of individual Board of Management members based on the compensation system in effect is outlined below.

Total target compensation of individual Board of Management members¹

	Dr. Markus Steilemann (Chair)				Sucheta Govil (Sales and Marketing)				Dr. Klaus Schäfer (Technology)				Dr. Thomas Toepfer (Finance and Labor Director)			
	2021		2022		2021		2022		2021		2022		2021		2022	
	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%
Fixed annual compensation	1,219	25.8	1,246	27.9	614	27.4	628	27.3	614	26.3	628	27.7	746	27.4	762	27.3
Fringe benefits ²	30	0.6	30	0.7	30	1.3	30	1.3	30	1.3	30	1.3	30	1.1	30	1.1
Total	1,249	26.4	1,276	28.5	644	28.8	658	28.6	644	27.6	658	29.0	776	28.5	792	28.4
Short-term variable compensation ³																
for fiscal 2021	1,219	25.8			614	27.4			614	26.3			746	27.4		
for fiscal 2022			1,246	27.9			628	27.3			628	27.7			762	27.3
Long-term variable compensation ⁴																
2021–2024 Prisma tranche	1,585	33.5			798	35.7			798	34.2			970	35.6		
2022–2025 Prisma tranche			1,620	36.2			816	35.5			816	35.9			991	35.5
Pension expense ⁵	679	14.3	328	7.3	182	8.1	198	8.6	280	12.0	168	7.4	235	8.6	246	8.8
Total target compensation	4,732	100.0	4,470	100.0	2,238	100.0	2,300	100.0	2,336	100.0	2,270	100.0	2,727	100.0	2,791	100.0

¹ Due to commercial rounding, percentages do not always add up to exactly 100%.

² Included: Annual mobility allowance of €24 thousand and normally expected costs (e.g., of a health screening examination, and maintenance and repair of security systems installed).

³ Target value: 100% of fixed annual compensation.

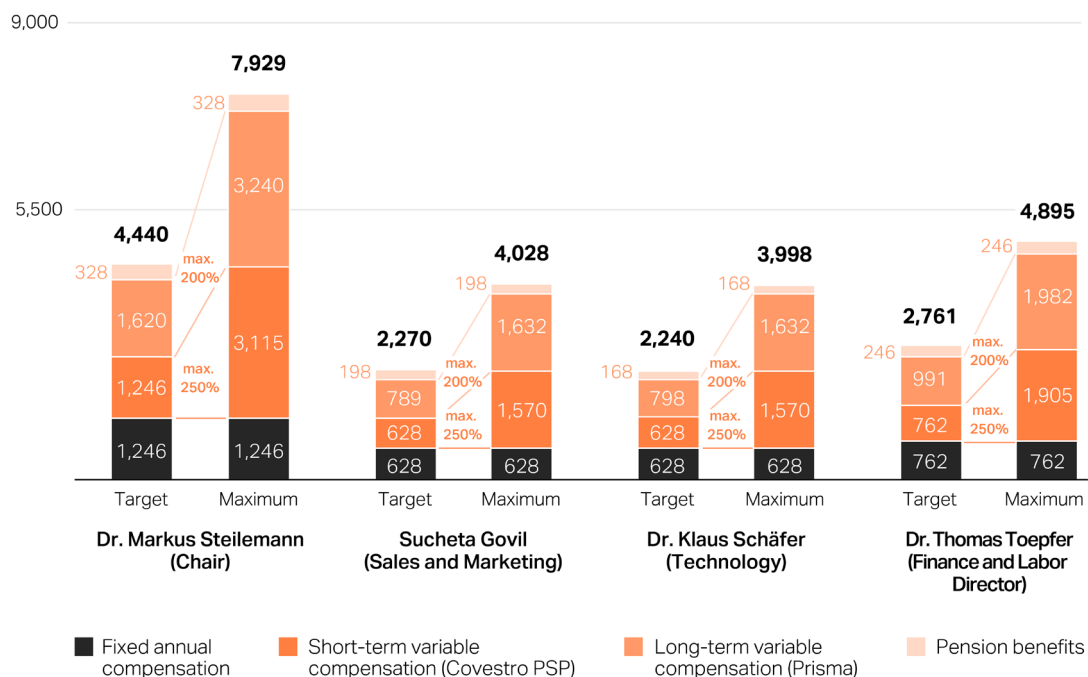
⁴ Target value: 130% of fixed annual compensation.

⁵ Expected pension service cost (employer portion) under IFRSs.

Compliance with Maximum Compensation Limit

Pursuant to Section 87a, Paragraph 1, Sentence 2, No. 1 of the German Stock Corporation Act (AktG), the Supervisory Board stipulated maximum total compensation for the Board of Management members for the first time for fiscal 2021. The absolute amount in euros for the maximum possible payout includes fixed compensation, fringe benefits (e.g., mobility allowance, payments toward the cost of security equipment, screening examinations, etc.), capped variable compensation components, and pension expenses. As a result, the maximum total compensation for a full fiscal year for the Chair of the Board of Management amounts to €9.0 million, while this amount for the regular Board of Management members is €5.5 million.

A report cannot be provided on compliance with this maximum compensation limit until fiscal 2025, when the Board of Management members are entitled to receive a payout from the 2021–2024 tranche of the Prisma long-term variable compensation program. The possible maximum compensation for fiscal 2022, taking into account the respective caps of 250% for short-term and 200% for long-term variable compensation, is outlined below. Based on these two caps and the fact that fringe benefits do not normally exceed an amount of €30 thousand, the aforementioned amounts are guaranteed not to exceed the maximum total compensation for Board of Management members.

Target compensation and maximum compensation for the Board of Management for fiscal 2022 (€ thousand)¹

¹ For purposes of clarity, fringe benefits are not included, but since these generally do not exceed €30 thousand, they do not contribute to meeting or surpassing the maximum thresholds.

Review of Appropriateness

The Supervisory Board commissioned an expert opinion from an independent third-party consultant firm to ensure the compensation is appropriate compared to other companies. Since on the basis of relevant KPIs (sales, employees, and market capitalization), Covestro is positioned in the bottom quartile of DAX-listed companies and was included in the MDAX prior to its admission to the DAX in the year 2018, the entire group of DAX and MDAX companies was used as the peer group. Banks and insurance companies were, however, excluded because of their limited comparability. Based on these equally weighted KPIs, Covestro ranks 37th (out of 84), or in the 57th percentile of this group. The following Board of Management compensation components were compared with the market value for each, i.e., the compensation of board of management members in the peer group:

- Fixed annual compensation
- Target cash compensation = Fixed annual compensation + Target value for short-term variable compensation
- Target direct compensation = Target cash compensation + Target value for long-term variable compensation
- Total target compensation = Target direct compensation + Company pension plan

The costs of the company pension plan were determined by using actuarial methods to calculate a company pension plan premium. This premium indicates the amount that would have to be paid to a third-party pension plan to purchase the relevant pension benefits. Using the same parameters for the calculation, the premium amount, and therefore the costs, can be compared to the pension benefits of the board of management members of other companies.

Based on the expert opinion, the target and maximum compensation of the Board of Management was deemed to be in line with the market standard on the whole and therefore appropriate within the meaning of the AktG.

Furthermore, the Supervisory Board reviewed the company's compensation structure and, for this purpose, compared the fixed annual compensation, target cash compensation, and target direct compensation of the Board of Management members with the corresponding compensation components of the Executive Leadership Team (executives at the two highest contract levels below of the Board of Management) and the workforce as a whole (employees subject and not subject to collective bargaining agreements, including the Executive Leadership Team) at Covestro in Germany. The internal compensation structure was also determined to be appropriate in view of this comparison, which covered the period from the year 2016 to the year 2022. No adjustment was therefore made to the compensation structure or maximum compensation, except for the aforementioned increase in fixed annual compensation.

Application of the Compensation System in the Reporting Period

The application of the compensation system in fiscal 2022 is presented below.

Nonperformance-Related Components

Fixed Annual Compensation, Fringe Benefits

The adjustment to fixed annual compensation at the start of the fiscal year was described above in "Determining Target Compensation." Fringe benefits mainly comprise a mobility allowance, maintenance and repair of security installations, as well as reimbursement of the cost of an annual screening examination. Sucheta Govil additionally received reimbursement of the cost of tax preparation by an external consulting firm. Fringe benefits are reported at cost or the amount of the taxable benefit gained.

Post-Employment Benefits

Dr. Markus Steilemann and Dr. Klaus Schäfer, who were appointed to the Board of Management in the year 2015, will receive lifelong pension benefits after they step down from the Covestro Group, but not before they reach the age of 62. These pension payments will be made monthly. The arrangements for surviving dependents basically provide for a widow's/widower's pension amounting to 60% of the member's pension entitlement, and an orphan's pension amounting to 12% of the member's pension entitlement for each child.

The annual pension entitlement is based on defined contributions. From September 1, 2015, onward, Covestro has provided a hypothetical benefit amounting to 33% of the respective fixed compensation beyond the relevant income threshold in the statutory pension plan. This percentage comprises a 6% basic contribution and an additional amount of three times the personal contribution chosen by the Board of Management member. This contribution is limited to a maximum of 9% so that the matching contribution by the company can be no higher than 27%. The total annual contribution is converted into a pension module according to the annuity table for the applicable tariff of the Rheinische Pensionskasse VVaG, Leverkusen (Germany), pension fund. The annual pension entitlement upon retirement is the total amount of the accumulated pension modules, including an investment bonus.

Dr. Klaus Schäfer has additionally been granted a vested entitlement to a fixed annual pension of €126,750.

The actual pension entitlement cannot be precisely determined in advance. It depends on the development of the member's compensation, the number of years of service on the Board of Management, and the return on the assets contributed to the Rheinische Pensionskasse VVaG. Certain assets are administered under a pension trust, providing additional insolvency protection for pension entitlements resulting from direct commitments for the members of the Board of Management in Germany. As a rule, future pension payments are adjusted by at least 1% per year. Depending on the pension obligation, an additional adjustment may be made if the investment bonus of the Rheinische Pensionskasse VVaG or the consumer price index exceeds 1% per year.

Since April 1, 2021, Sucheta Govil and Dr. Thomas Toepfer have earned pension benefits under a defined contribution plan. Covestro and the Board of Management members will each contribute 3% of their fixed annual compensation up to the social security contribution ceiling to a statutory pension plan. For the portion of compensation exceeding the contribution ceiling, Covestro will provide a basic contribution of 6% and a match of up to 30%, three times the Board of Management member's own contribution of up to 10%. Covestro invests the capital contributed on the capital market according to an age-based lifecycle model. The contributions made are guaranteed. On leaving the Board of Management, but not before the age of 62, the accumulated capital is paid out to the Board member, normally as a one-time payment. The aforementioned pension arrangement, which continues to apply for Dr. Markus Steilemann and Dr. Klaus Schäfer, applied to these two members for the period from the date they joined Covestro to March 31, 2021.

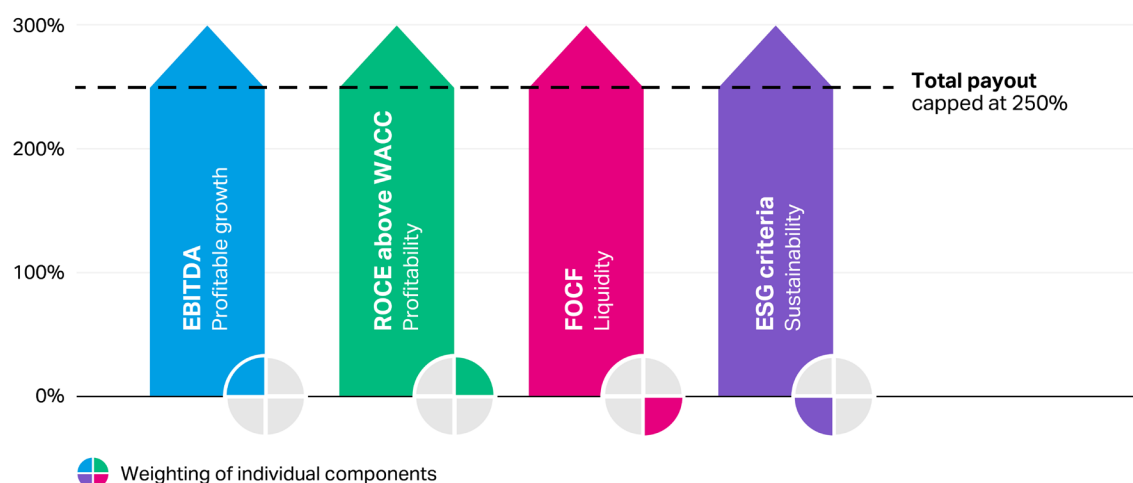
Short-Term Variable Compensation

The target value of the short-term variable compensation is currently 100% of the fixed annual compensation. The award is based on the four criteria of profitable growth, liquidity, profitability, and sustainability, which are used as part of Covestro's management system to plan, manage, control, and report on business performance. This means that short-term variable compensation is directly linked to the Covestro Group's success.

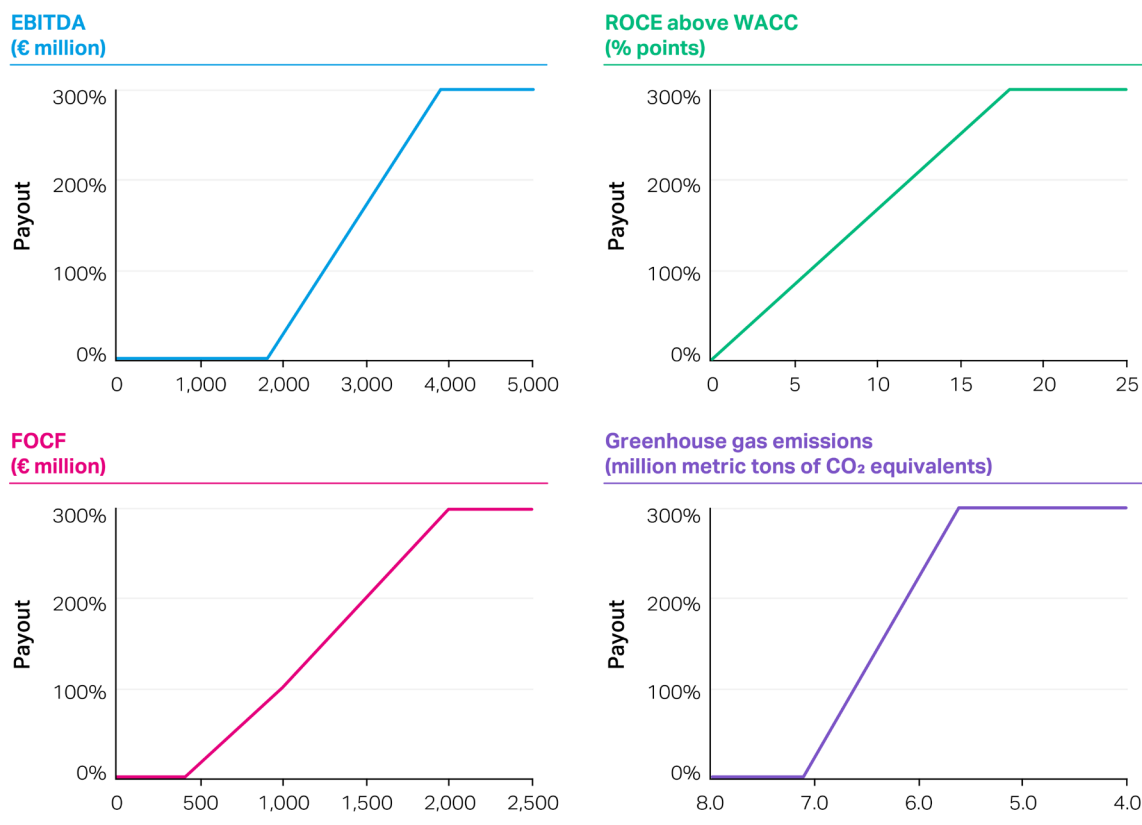
These performance indicators are applied to the Group-wide short-term Covestro Profit Sharing Plan (Covestro PSP). The Covestro PSP was introduced in fiscal 2016 and is applicable to all of Covestro's employees worldwide (with a few exceptions due to stipulations in collective bargaining agreements). Board of Management members also currently participate in the Covestro PSP. The four components are taken into account in this process on an equally weighted basis: Profitable growth measured in terms of EBITDA (earnings before interest, taxes, depreciation and amortization), liquidity measured in terms of free operating cash flow (FOCF), profitability measured in terms of return on capital employed (ROCE) above the weighted average cost of capital (WACC), and sustainability measured in terms of selected environmental, social, and governance (ESG) criteria. In the year 2022, the sustainability component was determined by direct and indirect Scope 1 and 2 greenhouse gas (GHG) emissions (CO₂ equivalents, CO₂e) of the main sites. Other components relating to social criteria and corporate governance are also to be incorporated in the future.

→ See "Key Management Indicators" and "Scope 1 and Scope 2 GHG Emissions."

Components of short-term variable compensation



In fiscal 2021, the Supervisory Board defined the global values for the threshold, 100% payout, and the maximum amount for each performance indicator, which are applied for a multi-year period from the year 2022 to the year 2024. Between these values, linear interpolation is used to determine the payout. There will be no adjustment after the fact.

Relation between payout and profitable growth (EBITDA), liquidity (FOCF), profitability (ROCE above WACC), and sustainability (greenhouse gas emissions)


For each individual performance indicator, the payout can be between 0% (failure to meet minimum requirements) and 300%. The total payout is the arithmetic mean of the individual payouts for all four components. However, it is limited to 250% of the target value corresponding to a maximum payout of 2.5 times the fixed annual compensation. This wide bandwidth ties the short-term variable compensation to the normally cyclical course of our business and ensures that successful years result in attractive payouts, while in challenging ones, it can be lower or even zero.

Components of the Covestro Profit Sharing Plan 2022–2024

	Profitable growth: EBITDA	Liquidity: FOCF	Profitability: ROCE above WACC ¹	Sustainability: GHG emissions
Threshold (0%)	€1,800 million	€400 million	0% points	7.1 million metric tons of CO ₂ equivalents
100% target attainment	€2,500 million	€1,000 million	6% points	6.6 million metric tons of CO ₂ equivalents
Ceiling (300%)	€3,900 million	€2,000 million	18% points	5.6 million metric tons of CO ₂ equivalents

¹ An imputed tax rate of 25% has been used, e.g., for calculating ROCE, since the year 2022 (previous year: effective tax rate).

On the basis of the values achieved for the reporting year 2022, a payout percentage of 75% would have been calculated; the table below shows how it was determined. However, since the thresholds of the three financial indicators (ROCE above WACC < 0) were not reached and the capital costs were therefore not earned in the reporting year, the Supervisory Board used the discretion it was given by the last criterion mentioned and reduced the payout to 0%. Following a resolution of the Board of Management, this figure was also used to calculate the bonus payout for employees, with the result that neither the Board of Management nor employees receive short-term variable compensation for the year 2022.

Calculated payout of the Covestro Profit Sharing Plan for the year 2022

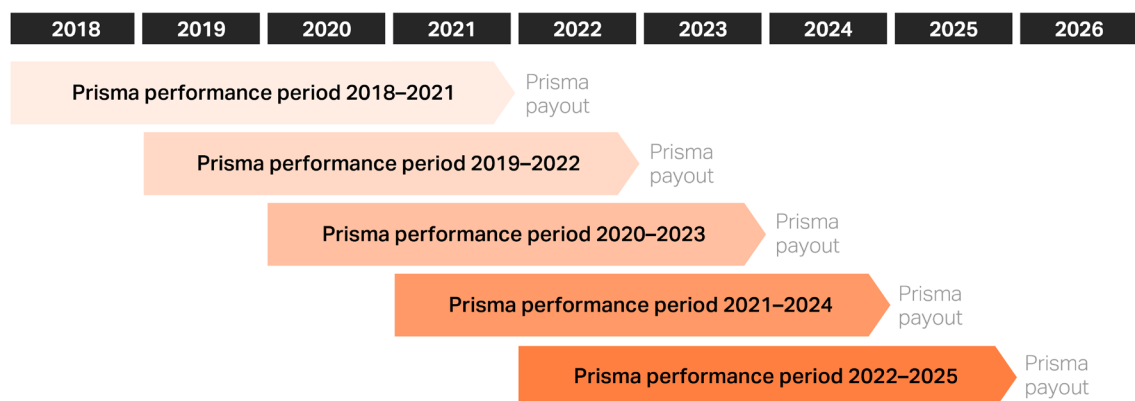
	Profitable growth: EBITDA	Liquidity: FOCF	Profitability: ROCE above WACC ¹	Sustainability: GHG emissions
Achieved value	€1,617 million	€138 million	-5% points	4.7 million metric tons of CO ₂ equivalents
Resulting payout	0.0%	0.0%	0.0%	300.0%
Total payout (arithmetic mean)	75.0%			

¹ An imputed tax rate of 25% has been used for calculating ROCE, 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. Since the criterion for the Board of Management and Supervisory Board to exercise discretion (ROCE above WACC < 0) has been met for both tax rates, the change in the calculation of ROCE described here does not affect the decision on the payout of short-term variable compensation. Otherwise, as in previous years, the effective tax rate would have been used to calculate ROCE for variable compensation. The expected tax rate (applied since the year 2022) and the effective tax rate (applied to the previous year) are presented in note 11 "Taxes" in the Notes to the Consolidated Financial Statements in the Annual Report 2022.

Long-Term Variable Compensation

The Prisma share-based compensation program for long-term variable compensation (LTI) takes into account the performance of Covestro shares, including the dividend (total shareholder return) and outperformance against the STOXX Europe 600 Chemicals* index over a period of four years. In fiscal 2021, the LTI plan was expanded to also include a sustainability component. The long-term variable compensation is geared toward the sustained, future-oriented, and continuous growth of the company's value and guarantees the implementation of Covestro's Sustainable Future corporate strategy, particularly since the introduction of the sustainability component. Prisma is applicable to both members of the Board of Management and to Covestro executives. The LTI target value amounts to 130% of fixed annual compensation for members of the Board of Management, and participation requires that they fulfill the share ownership guidelines applicable to them.

A new Prisma tranche with a four-year performance period is issued for each fiscal year. At the beginning of this performance period, the Supervisory Board stipulates the performance criteria for outperformance and sustainability as well as the relative weighting of these two criteria, which are linked to the overall criterion of total shareholder return (TSR) as multipliers.

Prisma performance periods

The payout is determined by calculating three factors: the TSR factor, the outperformance factor, and the CO₂ factor.

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

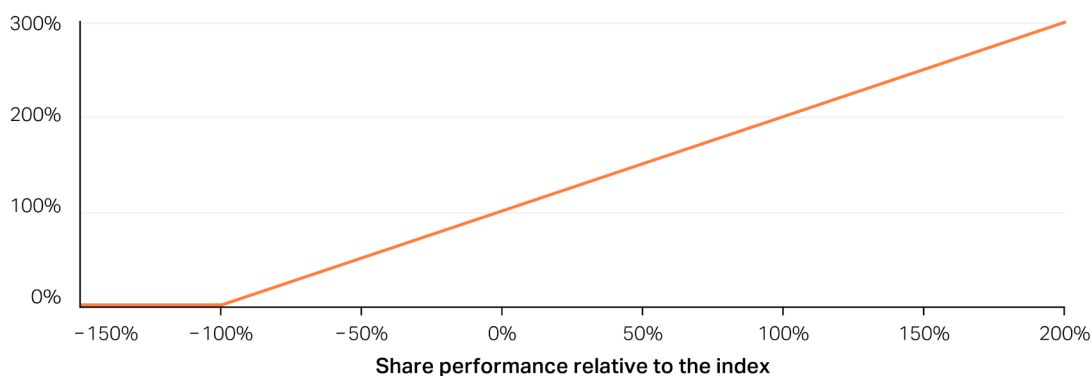
The TSR factor is the return generated by a share expressed as a percentage (total of the final price of the Covestro share and all dividends distributed per share during the four-year performance period divided by the initial price).

The outperformance factor is based on the performance of Covestro shares during the performance period relative to the performance of the STOXX Europe 600 Chemicals index. For the tranche beginning in fiscal year 2022, the following was determined:

- The outperformance factor amounts to 100% if Covestro's share performance (in %) matches the performance of the index (in %).
- The outperformance factor is 0% if the performance of Covestro shares (in %) underperforms the index by 100 percentage points or more.
- The outperformance factor increases in proportion with the deviation if Covestro's share performance falls within ± 100 percentage points of the performance of the index. The same is true if it outperforms the index by more than 100 percentage points.

Relation between the outperformance factor and Covestro's share performance

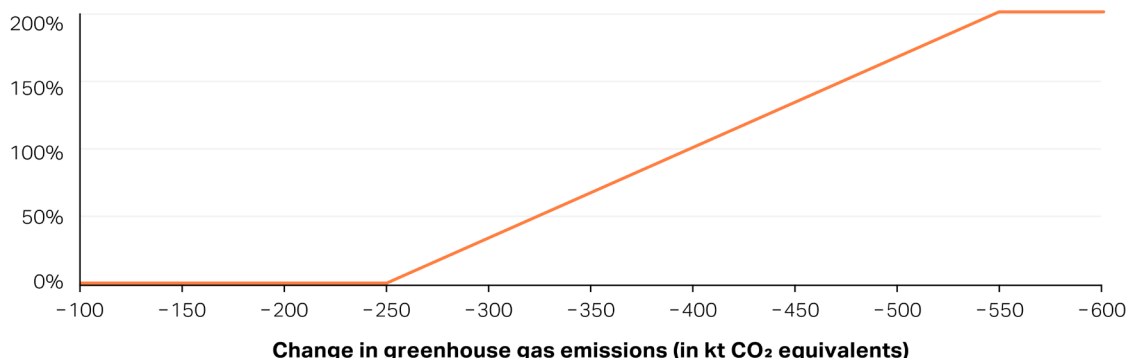
Outperformance factor



Starting with the tranche issued in fiscal 2022, the sustainability component applied is a reduction target for annual greenhouse gas (GHG) emissions (CO₂ equivalents) classified in Scope 1. The CO₂ factor amounts to 100% if these emissions are reduced by 400 kilotons (kt) by the end of fiscal 2025 in relation to the baseline year of 2020. This corresponds to an emissions reduction of 32%. If the annual emissions are reduced by less than 250 kt, the CO₂ factor is 0%. Starting with a reduction of 550 kt, it reaches the maximum value of 200%. Between these values, linear interpolation is used to determine the factor. The Supervisory Board considers the defined reduction targets as significant in relation to the company's actual Scope 1 emissions.

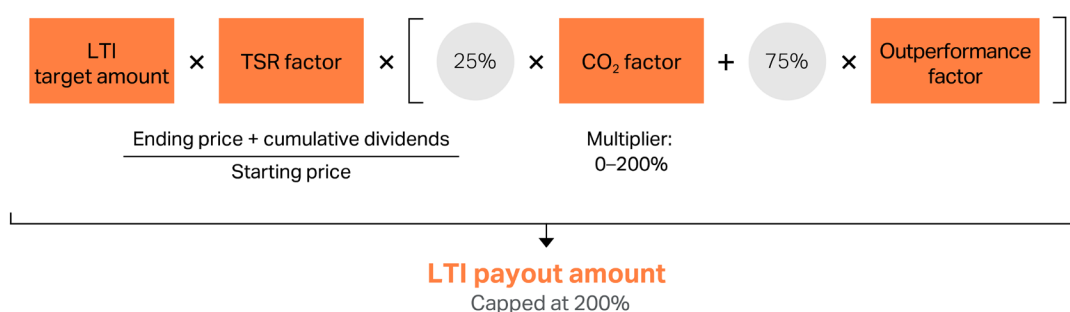
Relation between emissions and CO₂ factor

CO₂ factor



In order to calculate the total payout for the tranche beginning in fiscal 2022, the LTI target opportunity is multiplied by the TSR factor, the outperformance factor weighted at 75%, and the CO₂ factor weighted at 25%. The total distribution is limited to no more than 200% of the target opportunity. With the target opportunity being defined as 130% of the fixed compensation, the maximum payout is therefore 260% of the fixed annual compensation.

Components of the long-term variable compensation



In the case of tranches before the year 2021, which did not include a sustainability component, the payout factor is determined by multiplying the TSR factor and outperformance factor. The total payout in this case is also capped at a maximum of 200% of the target opportunity.

2018–2021 and 2019–2022 Prisma Tranche Payouts

In January of the reporting period 2022, Dr. Markus Steilemann, Dr. Klaus Schäfer, and Dr. Thomas Toepfer received payouts from the 2018–2021 Prisma tranche. The payout factor amounted to 17.7%. Sucheta Govil was entitled for the first time to participate in the 2019–2022 Prisma tranche, which ended on December 31 of the reporting year 2022 with a payout factor of 27.0%.

The following chart and table illustrate how the aforementioned payout factors are calculated.

Calculation of the 2018–2021¹ Prisma tranche

		Ending price	+	Cumulative dividends 2018–2021	=	Total shareholder return (TSR) factor
		Starting price				
		€53.53	+	€7.10	=	71.9%
		€84.34				

100%	+	(Change in Covestro share price ²	–	Change in index price ³)	=	Outperformance factor
100%	+	(–36.5%	–	38.9%)	=	24.6%

TSR factor	x	Outperformance factor	=	Prisma payout
71.9%	x	24.6%	=	17.7%

¹ The relevant prices are calculated as the average of the applicable ending prices during the months of November and December in the years 2017 and 2021.

² Percentage change in the ending price of Covestro share for the year 2021 (€84.34) as compared with the starting price of Covestro share for the year 2018 (€53.53).

³ Percentage change in the ending price of the STOXX Europe 600 Chemicals index for the year 2021 (€1,336.97) as compared with the starting price of the STOXX Europe 600 Chemicals index for the year 2018 (€962.86).

Calculation of the payout factors for the 2018–2021 and 2019–2022 Prisma tranches

		2018–2021 Prisma tranche	2019–2022 Prisma tranche
Starting price, Covestro	€	84.34 ¹	50.22 ²
Ending price, Covestro	€	53.53 ³	36.40 ⁴
Change	%	–36.5	–27.5
Starting price, index	€	962.86 ¹	832.55 ²
Ending price, index	€	1,336.97 ³	1,183.59 ⁴
Change	%	38.9	42.2
Cumulative dividend	€	7.10	8.30
TSR factor	%	71.9	89.0
Outperformance factor	%	24.6	30.3
Payout factor	%	17.7	27.0

¹ November/December 2017.

² November/December 2018.

³ November/December 2021.

⁴ November/December 2022.

The dividend payments for individual years can be accessed on Covestro's website.

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

The amounts calculated for these two tranches, including those for former CEO Patrick Thomas, are shown in the following table.

Resulting amounts for 2018–2021 and 2019–2022 Prisma tranches

	2018–2021 Prisma tranche		2019–2022 Prisma tranche	
	Target value ¹	Payout in January 2022 (payout factor 17.7%)	Target value ²	Entitlement in January 2023 (payout factor 27.0%)
	€ thousand	€ thousand	€ thousand	€ thousand
Dr. Markus Steilemann ²	730	129	1,550	418
Sucheta Govil ³			327	88
Dr. Klaus Schäfer	730	129	780	211
Dr. Thomas Toepfer ⁴	930	165	948	256
Patrick Thomas ⁵	1,140	202		

¹ The target value is based on the position and the corresponding fixed compensation of the respective Board Member at the beginning of each tranche.

² CEO since June 1, 2018; previously Board of Management member for Sales and Marketing.

³ Member of the Board of Management since August 1, 2019 and therefore proportional payout from the 2019–2022 Prisma tranche.

⁴ Member of the Board of Management since April 1, 2018.

⁵ CEO and member of the Board of Management until May 31, 2018.

At the time of preparing this Compensation Report, the company is verifying whether and to what extent Covestro Deutschland AG and companies affiliated with Covestro Deutschland AG can or will take advantage of relief benefits under the German Electricity Price Cap Act (StromPBG) or the German Gas and Heating Price Cap Act (EWPBG). The acts specify prohibitions on bonuses, starting from a certain level of relief, and this could have an impact on the granting of variable compensation components to members of the company's management. In order not to restrict any of the scope for action of Covestro Deutschland AG and companies affiliated with Covestro Deutschland AG, given that the verification process is currently under way, and to enable any unresolved issues relating to both acts to be clarified with the appropriate due diligence, the Board of Management members in office have agreed to postpone the payouts from the 2019–2022 Prisma tranche until April 2023 for now.

Overview of Current Prisma Tranches

The three currently running Prisma tranches with their starting prices and fair values calculated as of the reporting date (market value of the relevant tranche determined with a Monte Carlo simulation) are explained below. For the 2023–2026 Prisma tranche, the annual reduction target for annual GHG emissions (CO₂ equivalents) for the sustainability component has been extended from Scope 1 emissions to cover Scope 1 and Scope 2 emissions.

Current Prisma tranches

		2020–2023 Prisma tranche	2021–2024 Prisma tranche ¹	2022–2025 Prisma tranche ¹
Covestro share				
Starting price	€	43.36	47.05	53.53
As of December 31, 2022	€		36.55	
STOXX Europe 600 Chemicals				
Starting price	€	1,010.32	1,088.78	1,336.97
As of December 31, 2022	€		1,141.37	
Fair value, December 2022	%	71.0	89.2	57.4

¹ The fair value was calculated assuming a value of 100% for the CO₂ factor first introduced with the 2021–2024 tranche.

Share Ownership Guidelines and Shareholdings

As a rule, the members of the Board of Management are contractually obligated to acquire Covestro shares equivalent to 100% of the fixed compensation (as set at the start of their term) on their own account within three years of their initial appointment and to hold these shares for the duration of their service on the Board of Management. If their contracts are extended, this obligation is increased to the amount of the new fixed compensation. The Board of Management member in question must acquire Covestro shares equivalent to the difference within four years of starting the new period of service. The aforementioned rule has been applied since fiscal 2021. The previously applied share ownership guidelines are currently still applicable to Dr. Klaus Schäfer. They required him to purchase Covestro shares to the value of half of his LTI target by a predefined date, and he has already fully met this requirement. He has to hold the shares he purchased for the duration of his Board of Management activities.

The following table lists the number of Covestro shares held by currently serving Board of Management members as of the reporting date.

Number of shares held by Board of Management members at reporting date

Board of Management member	Number of Covestro shares held	Total value as of end of December, 2022 in € thousand	Number of Covestro shares held
Dr. Markus Steilemann	30,000	1,097	fulfilled
Sucheta Govil	14,912	545	fulfilled
Dr. Klaus Schäfer	5,730	209	fulfilled
Dr. Thomas Toepfer	9,500	347	in progress; 82% fulfilled

Malus and Clawback Clauses

According to the malus and clawback rules introduced in the year 2021, the Supervisory Board can withhold short-term and/or long-term variable compensation or request the return of variable compensation already paid out, either in whole or in part, at its discretion in the event of serious breaches of duty or compliance violations. Moreover, a clawback is possible when the calculation and payout was based on incorrect data.

The Supervisory Board has not exercised the right to claw back variable compensation, because no circumstances arose either before or during the reporting year 2022 that would have triggered this provision.

Benefits Associated with Ending Board of Management Service

If the term of Board of Management service is terminated early without good cause, the company fulfills its commitments up to the time the member leaves the company. In this case, payments to the Board of Management member, including fringe benefits, may not exceed two times annual compensation and may not compensate more than the remaining term of the employment contract (severance cap). Outstanding variable compensation components are paid out at the originally agreed times and conditions, i.e., they are not paid out in advance.

In the event of a change of control that results in a material change of status of an individual Board of Management member – e.g., change in company strategy or change in the Board of Management's job responsibilities – the Board of Management member has the right to terminate the employment contract within 12 months of the change of control. When this right of termination is exercised or if the employment relationship is ended by mutual agreement on the company's initiative within 12 months of the change of control, the Board of Management member is entitled to payment of severance of 2.5 times the fixed annual compensation. The amount of the severance payments, including fringe benefits, is limited to the remaining compensation up to the expiration of the employment contract and is subject to the severance cap.

Third-Party Benefits

In the reporting year, the Board of Management members were not promised nor did they receive, any benefits from third parties for their activities on the Board of Management.

Board of Management Compensation in the Fiscal Year Compensation Awarded and Due

The compensation for the fiscal year awarded and due is outlined below in accordance with Section 162, Paragraph 1 AktG. The amounts of short-term and long-term variable compensation are given for the fiscal year in which the activity for which the compensation is paid was performed in full.

Even if the pension expense for the company pension plan is not classified as compensation awarded and due within the meaning of Section 162 AktG, to ensure transparency, we additionally disclose the pension service cost according to IFRSs in the table below.

Compensation awarded and due to individual Board of Management members (AktG)¹

	Dr. Markus Steilemann (Chair)				Sucheta Govil (Sales and Marketing)				Dr. Klaus Schäfer (Technology)				Dr. Thomas Toepfer (Finance and Labor Director)			
	2021		2022		2021		2022		2021		2022		2021		2022	
	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%
Fixed annual compensation	1,219	28.4	1,246	73.7	614	29.1	628	84.2	614	27.5	628	72.7	746	27.4	762	73.0
Fringe benefits	28	0.7	27	1.6	29	1.4	30	4.0	28	1.3	25	2.9	28	1.0	26	2.5
Total	1,247	29.1	1,273	75.3	643	30.5	658	88.2	642	28.7	653	75.6	774	28.5	788	75.5
Short-term variable compensation																
for fiscal 2021	2,909	67.9			1,465	69.5			1,465	65.5			1,780	65.5		
for fiscal 2022			–	0.0			–	0.0			–	0.0			–	0.0
Long-term variable compensation																
2018–2021 Prisma tranche	129	3.0							129	5.8			165	6.1		
2019–2022 Prisma tranche ²			418	24.7			88	11.8			211	24.4			256	24.5
Total compensation awarded and due pursuant to section 162 AktG	4,285	100.0	1,691	100.0	2,108	100.0	746	100.0	2,236	100.0	864	100.0	2,719	100.0	1,044	100.0
Service cost ³	954		835		348		248		381		348		491		330	
Total compensation (including service costs)	5,239		2,526		2,456		994		2,617		1,212		3,210		1,374	

¹ Due to commercial rounding, percentages do not always add up to exactly 100%.

² As explained above, the payout of the amounts listed for this tranche in January 2023 has been postponed for now.

³ Including Board of Management members' own contributions derived from deferred fixed compensation.

Prisma Long-Term Variable Compensation

The fair value when granted of the long-term variable compensation (2022–2025 Prisma tranche) is €3,743 thousand (previous year: €4,176 thousand for the 2021–2024 Prisma tranche).

Provisions amounting to €5,626 thousand (previous year: €5,391 thousand) were recognized as of December 31, 2022, for all current tranches of long-term variable compensation in which active Board of Management members participate. No provisions were recognized for former Board of Management members (previous year: €202 thousand).

Long-term variable compensation (IFRSs)

	Board of Management members serving as of Dec. 31, 2022								Former Board of Management member			
	Dr. Markus Steilemann (Chair)		Sucheta Govil (Sales and Marketing)		Dr. Klaus Schäfer (Technology)		Dr. Thomas Toepfer (Finance and Labor Director)		Patrick Thomas		Total	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
	€ thou- sand	€ thou- sand	€ thou- sand	€ thou- sand	€ thou- sand	€ thou- sand	€ thou- sand	€ thou- sand	€ thou- sand	€ thou- sand	€ thou- sand	€ thou- sand
Total expenses/revenues in the reporting period for long-term variable compensation	847	301	447	222	405	152	489	185	(69)	–	2,119	860

Pension Entitlements

The current pension service cost for the members of the Board of Management recognized in the reporting year totaled €1,761 thousand (previous year: €2,174 thousand) according to IFRSs. The service cost depends on the actuarial assumptions made, in particular the relevant discount rate. The contributions to pension commitments actually made are recognized as cash outflows in the operating cash flow. The service cost, present value of the pension obligations, and contributions made in accordance with pension plan rules are shown in the table below.

Pension entitlements (IFRSs)

	Service cost for pension entitlements earned in the respective year		Present value of defined pension obligation as of Dec. 31		Actual contribution made in the respective year in accordance with pension plan rules	
	2021	2022	2021	2022	2021	2022
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Dr. Markus Steilemann	954	835	5,036	3,267	381	390
Sucheta Govil	348	248	485	630	189	198
Dr. Klaus Schäfer	381	348	5,997	4,277	181	186
Dr. Thomas Toepfer	491	330	1,076	1,006	235	246
Total	2,174	1,761	12,594	9,180	986	1,020

Compensation of Former Members of the Board of Management

The compensation awarded and due to former Board of Management members for the fiscal year is outlined below in accordance with Section 162, Paragraph 1 AktG.

Compensation awarded and due to former Board of Management members (AktG)

	Patrick Thomas (until May 31, 2018)			
	2021		2022	
	€ thousand	in %	€ thousand	in %
Fixed annual compensation				
Fringe benefits				
Pensions			23	100.0
Total			23	100.0
Short-term variable compensation				
for fiscal 2021				
for fiscal 2022				
Long-term variable compensation				
2018–2021 Prisma tranche	202	100.0		
2019–2022 Prisma tranche				
Total	202	100.0	23	100.0

A provision of €5,447 thousand (previous year: €7,696 thousand) is recognized in the Consolidated Financial Statements as of December 31, 2022, for current pensions for former Board of Management members. The settlement value of direct and indirect pension obligations in the Financial Statements of Covestro AG amounted to €7,048 thousand (previous year: €6,921 thousand).

Compensation of the Supervisory Board

Compensation System of the Supervisory Board

The compensation of the Supervisory Board is in line with the provisions of the Articles of Incorporation, which were approved by the Annual General Meeting (AGM) on April 21, 2022 with a majority of 99.30%. Among other things, this resulted in a 20% increase in the Supervisory Board's fixed compensation effective January 1, 2022.

The members of the Supervisory Board now each receive fixed annual compensation of €120 thousand (previous year: €100 thousand) plus reimbursement of their expenses.

In accordance with the recommendations of the GCGC, additional compensation is paid to the Supervisory Board Chair and Vice Chair, and for chairing and membership in committees. The Supervisory Board Chair receives fixed compensation of €360 thousand (previous year: €300 thousand), while €240 thousand is paid to the Vice Chair (previous year: €150 thousand). This compensation includes chairmanship of and membership in committees. The other members of the Supervisory Board are entitled to additional compensation for membership in or chairmanship of committees. The Chair of the Audit Committee receives an additional €90 thousand (previous year: €50 thousand), the other members of the Audit Committee €45 thousand (previous year: €25 thousand) each. The Chairs of the Presidial and Nominations Committees receive €30 thousand each, while members of these two committees receive €15 thousand each. Additional compensation of €60 thousand is paid to the chairs of other committees and of €30 thousand to all other committee members. Work on committees is eligible for compensation for no more than three committees. If this cap is exceeded, compensation is paid for the three highest paid positions. If changes are made to the Supervisory Board and/or its committees during the year, members receive compensation on a prorated basis. The members of the Supervisory Board also receive an attendance fee of €1 thousand each time they attend a meeting of the Supervisory Board or a committee. Attendance at a meeting is also considered to be participation by telephone or video conference or using other comparable customary means of telecommunication. The attendance fee is limited to €1 thousand per day.

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

Compensation of the Supervisory Board for the Fiscal Year

The following table outlines the components of each Covestro AG Supervisory Board member's compensation for the reporting period 2022 and the prior-year period:

Compensation of the members of the Supervisory Board of Covestro AG

	Fixed compensation		Attendance fee		Total	
	2021	2022	2021	2022	2021	2022
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Ferdinando Falco Beccalli (until April 2021)	29	–	0	–	29	–
Dr. Christine Bortenlänger	125	165	1	9	126	174
Dr. Christoph Gürtler (since April 2022)		126		8	0	134
Lise Kingo (since April 2021)	82	180	2	9	84	189
Petra Kronen (Vice Chair)	150	240	2	11	152	251
Irena Küstner	125	165	2	9	127	174
Dr. Ulrich Liman (until April 2022)	127	55	2	4	129	59
Frank Löllgen (since April 2022)		84		4	0	88
Prof. Dr. Rolf Nonnenmacher (until April 2022)	150	64	3	3	153	67
Dr. Richard Pott (Chair)	300	360	2	8	302	368
Petra Reinbold-Knape	145	180	2	10	147	190
Dr. Sven Schneider (since April 2022)		147		7	0	154
Regine Stachelhaus	140	180	2	8	142	188
Marc Stothfang	107	150	0	6	107	156
Patrick Thomas	132	210	–	15	132	225
Frank Werth (until April 2022)	100	36	2	2	102	38
Total	1,712	2,341	20	113	1,732	2,454

In addition to their compensation as members of the Supervisory Board, those employee representatives who are employees of Covestro Group companies receive compensation unrelated to their service on the Supervisory Board. The total amount of such compensation was €1,253 thousand in the year 2022 (previous year: €667 thousand).

No compensation was paid or benefits granted to members of the Supervisory Board for personally performed services such as consulting or agency services. The company has purchased insurance for the members of the Supervisory Board to cover their personal liability arising from their service on the Supervisory Board. The relevant recommendation has been eliminated from the version of the GCGC dated December 16, 2019, so the Supervisory Board's rules of procedure were amended accordingly in the subsequent year. No deductible for liability insurance has applied since then.

Comparative Presentation of Annual Changes in Compensation and Earnings

The following is the presentation of the annual changes in compensation awarded and due to current and former Board of Management and Supervisory Board members compared with the company's earnings performance and the average compensation of employees (FTEs) from fiscal years 2018 to 2022 as required by Section 162, Paragraph 1, Sentence 2, No. 2 AktG.

Five-year comparison of compensation awarded and due to Board of Management members (AktG)¹

	2018	2019		2020		2021		2022	
	€ thou- sand	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%
Board of Management members as of December 31, 2022									
Dr. Markus Steilemann (Chair)	3,458	3,168	−8.4	1,643	−48.1	4,285	160.8	1,691	−60.5
Sucheta Govil (since August 1, 2019)	–	320		693		2,108	204.2	746	−64.6
Dr. Klaus Schäfer	1,724	2,462	42.8	985	−60.0	2,236	127.0	864	−61.4
Dr. Thomas Toepfer (since April 1, 2018)	3,329	1,014	−69.5	849	−16.3	2,719	220.3	1,044	−61.6
Former Board of Management members									
Patrick Thomas (until May 31, 2018)	2,266	3,260	43.9	597	−81.7	202	−66.2	23	−88.6
Frank H. Lutz (until June 2, 2017)	–	2,111	.	148	−93.0				
Total	10,777	12,335	14.5	4,915	−60.2	11,550	135.0	4,368	−62.2

¹ Percentage changes always refer to the change from the respective previous year.

Five-year comparison of compensation awarded and due to Supervisory Board members (AktG)¹

	2018		2019		2020		2021		2022	
	€ thou- sand		€ thou- sand	%	€ thou- sand	%	€ thou- sand	%	€ thou- sand	%
Supervisory Board members as of December 31, 2022										
Dr. Christine Bortenlänger	105		106	1.0	111	4.7	126	13.5	174	38.1
Dr. Christoph Gürtler (since April 2022)										
Lise Kingo (since April 2021)							84		189	125.0
Petra Kronen (Vice Chair)	160		160	0.0	152	-5.0	152	0.0	251	65.1
Irena Küstner	134		134	0.0	127	-5.2	127	0.0	174	37.0
Frank Löllgen (since April 2022)										
Dr. Richard Pott (Chair)	310		309	-0.3	302	-2.3	302	0.0	368	21.9
Petra Reinbold-Knape (since January 2020)					141		147	4.3	190	29.3
Dr. Sven Schneider (since April 2022)										
Regine Stachelhaus	125		126	0.8	129	2.4	142	10.1	188	32.4
Marc Stothfang	105		106	1.0	101	-4.7	107	5.9	156	45.8
Patrick Thomas (since July 2020)					53		132	149.1	225	70.5
Former Supervisory Board members										
Dr. Ulrich Liman (until April 2022)	127		128	0.0	121	-5.5	129	6.6	59	-54.5
Prof. Dr. Rolf Nonnenmacher (until April 2022)	159		159	0.0	153	-3.8	153	0.0	67	-56.3
Frank Werth (until April 2022)	105		106	1.0	101	-4.7	102	1.0	38	-62.3
Ferdinando Falco Beccalli (until April 2021)	104		106	1.9	102	-3.8	29	-71.6		
Johannes Dietsch (until July 2020)	155		154	-0.6	86	-44.2				
Peter Hausmann (until December 2019)	153		153	0.0						
Total	1,742		1,747	0.3	1,679	-3.9	1,732	3.2	2,454	41.7

¹ Percentage changes always refer to the change from the respective previous year.**Five-year comparison of relevant performance indicators (AktG)¹**

	2018		2019		2020		2021		2022	
Net income/(loss) Covestro AG	€496 million		€623 million	25.6%	(€45 million)	.	€648 million	.	(€316 million)	.
EBITDA ²	€3,200 million		€1,604 million	-49.9%	€1,472 million	-8.2%	€3,085 million	109.6%	€1,617 million	-47.6%
Free operating cash flow ³	€1,669 million		€473 million	-71.7%	€530 million	12.1%	€1,429 million	169.6%	€138 million	-90.3%
ROCE above WACC ^{4,5}	22.8% points		1.6% points		-0.3% points		12.9% points		-5.0% points	
Greenhouse gas emissions ⁶ (CO ₂ equivalents)	-		-		-		5.2 million metric tons		4.7 million metric tons	-9.6%
Core volume growth ⁷	1.5%		2.0%		- 5.6%		10.0%			

¹ Percentage changes always refer to the change from the respective previous year.² Earnings before interest, taxes, depreciation and amortization (EBITDA): EBIT plus depreciation, amortization, and impairment losses; less impairment loss reversals on intangible assets and property, plant and equipment.³ Free operating cash flow (FOCF): cash flows from operating activities less cash outflows for additions to property, plant, equipment and intangible assets.⁴ Return on capital employed (ROCE): ratio of EBIT after imputed income taxes to capital employed. An imputed tax rate of 25% has been used, e.g., for calculating ROCE, 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. Since the criterion for the Board of Management and Supervisory Board to exercise discretion (ROCE above WACC < 0) for fiscal 2022 has been met for both tax rates, the change in the calculation of ROCE described here does not affect the decision on the payout of short-term variable compensation. Otherwise, as in previous years, the effective tax rate would have been used to calculate ROCE for variable compensation. The expected tax rate (applied since the year 2022) and the effective tax rate (applied to the previous year) are presented in note 11 "Taxes" in the Notes to the Consolidated Financial Statements in the Annual Report 2022.⁵ Weighted average cost of capital (WACC): weighted average cost of capital reflecting the expected return on the company's equity and debt capital. A figure of 7.0% has been taken into account for the year 2022 (2021: 6.6%). ROCE above WACC has been a key management indicator since the year 2022.⁶ GHG emissions (Scope 1 and 2, GHG Protocol) at main production sites (responsible for more than 95% of our energy usage).⁷ Until the year 2021, core volume growth, which refers to the core products in the operational reporting segments, was a key management indicator. It is calculated as the percentage change in externally sold volumes compared with the prior year. Covestro also takes advantage of business opportunities outside its core business, for example the sale of precursors and by-products such as hydrochloric acid, sodium hydroxide solution, and styrene. These transactions are not included in core volume growth. Retroactive calculation based on the definition of the core business as of March 31 of each subsequent year.

In addition to the net income/net loss of Covestro AG (which is legally required to be reported), earnings performance also includes the key figures of the Covestro Group underlying short-term variable compensation (EBITDA, free operating cash flow, ROCE above WACC, absolute annual direct and indirect Scope 1 and Scope 2 GHG emissions (CO₂ equivalents), and core volume growth). Since the year 2022, core volume growth has been replaced by EBITDA as a key management indicator.

Employee compensation was calculated by dividing personnel expenses (wages and salaries plus social expenses and expenses for pensions and other benefits) disclosed in the Consolidated Financial Statements for the relevant period by the number of employees expressed as full-time equivalents (FTEs) as of the reporting date.

Five-year comparison of employee compensation (AktG)¹

	2018	2019		2020		2021		2022	
Personnel expenses	€1,958 million	€1,762 million	-10.0%	€1,723 million	-2.2%	€2,298 million	33.4%	€1,995 million	-13.2%
Employees ²	16,770 FTE	17,201 FTE	2.6%	16,501 FTE	-4.1%	17,909 FTE	8.5%	17,985 FTE	0.4%
Personnel expenses per FTE	€117 thousand	€102 thousand	-12.3%	€104 thousand	1.9%	€128 thousand	22.9%	€111 thousand	-13.6%

¹ Percentage changes always refer to the change from the respective previous year.

² The number of permanent or temporary employees is stated in full-time equivalents (FTEs). Part-time employees are included on a pro-rated basis in line with their contractual working hours. The figures do not include employees in vocational training.

Other Information

There were no advances or loans to members of the Board of Management or the Supervisory Board outstanding as of either December 31, 2021, or December 31, 2022.

Leverkusen, March 1, 2023

Covestro Aktiengesellschaft

For the Board of Management:

For the Supervisory Board:

Dr. Markus Steilemann

Dr. Thomas Toepfer

Dr. Richard Pott

Independent Auditor's Report

To Covestro AG, Leverkusen

Report on the Audit of the Compensation Report

We have audited the attached compensation report of Covestro AG, Leverkusen, for the financial year from January 1 to December 31, 2022, including the related disclosures, prepared to meet the requirements of Section 162 AktG [Aktiengesetz: German Stock Corporation Act].

The compensation report contains cross-references that are not required by law and which are marked as unaudited. We have not audited the cross-references and the information to which the cross-references refer.

Responsibilities of Management and the Supervisory Board

The management and the Supervisory Board of Covestro AG are responsible for the preparation of the compensation report, including the related disclosures, in accordance with the requirements of Section 162 AktG. The management and the Supervisory Board are also responsible for such internal controls that they consider necessary for enabling the preparation of the compensation report, including the related disclosures, that is free from material misstatement, whether due to fraud (i.e. fraudulent financial reporting and misappropriation of assets) or error.

Auditor's responsibilities

Our responsibility is to express an opinion on this compensation report, including the related disclosures, based on our audit. We conducted our audit in accordance with the German Generally Accepted Standards of Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report, including the related disclosures, is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts, including the related disclosures, in the compensation report. The procedures selected depend on the auditor's professional judgment. This includes an assessment of the risks of material misstatement, whether due to fraud or error, in the compensation report, including the related disclosures. In assessing these risks, the auditor considers the internal control system relevant for the preparation of the compensation report, including the related disclosures. The objective is to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the Supervisory Board, as well as evaluating the overall presentation of the compensation report, including the related disclosures.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our assurance opinion.

Opinion

In our opinion, on the basis of the knowledge obtained in the audit, the compensation report for the financial year from January 1 to December 31, 2022, including the related disclosures, complies in all material respects with the financial reporting requirements of Section 162 AktG.

Our opinion on the compensation report does not extend to the cross-references, which are marked as unaudited and not required by law, and the information to which the cross-references refer.

Other matter – formal examination of the compensation report

The substantive audit of the compensation report described in this independent auditor's report includes the formal examination of the compensation report required by Section 162 (3) AktG, including issuing an assurance report on this examination. As we have issued an unqualified opinion on the substantive audit of the compensation report, this opinion includes the conclusion that the disclosures pursuant to Section 162 (1) and (2) AktG have been made, in all material respects, in the compensation report.

Limitation of liability

The terms governing this engagement, which we fulfilled by rendering the aforesaid services to Covestro AG, are set out in the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms] as amended on January 1, 2017. By taking note of and using the information as contained in this auditor's report, each recipient confirms to have taken note of the terms and conditions laid down therein (including the limitation of liability of EUR 4 million for negligence under Clause 9 of the General Engagement Terms) and acknowledges their validity in relation to us.

Düsseldorf, March 1, 2023

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Ufer
Wirtschaftsprüfer
[German Public Auditor]

Dr. Ackermann
Wirtschaftsprüferin
[German Public Auditor]