# 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 America[2], 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 America[3] (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 industries**[1]

| | 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 $CO_2$ 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, $CO_2$, 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 $CO_2$ equivalents were significantly down on the prior-year value of 5.2 million metric tons of $CO_2$ 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 $CO_2$ equivalents and 6.1 million metric tons of $CO_2$ equivalents. In October 2022, the projected range was between 5.0 million metric tons of $CO_2$ equivalents and 5.4 million metric tons of $CO_2$ 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 $CO_2$ 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

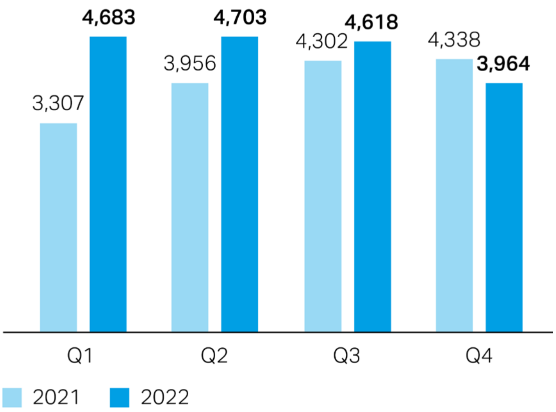
| | 4th quarter 2021 | 4th quarter 2022 | Change | 2021 | 2022 | Change |
|---|---|---|---|---|---|---|
| Sales | €4,338 million | €3,964 million | –8.6% | €15,903 million | €17,968 million | 13.0% |
| Change in sales | | | | | | |
| Volume | –0.2% | –13.2% | | 6.5% | –5.0% | |
| Price | 31.6% | 0.8% | | 34.7% | 10.1% | |
| Currency | 3.8% | 3.8% | | –0.8% | 5.9% | |
| Portfolio | 9.1% | 0.0% | | 8.1% | 2.0% | |
| **EBITDA[1]** | **€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 income[3]** | **€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 flow[5]** | **€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

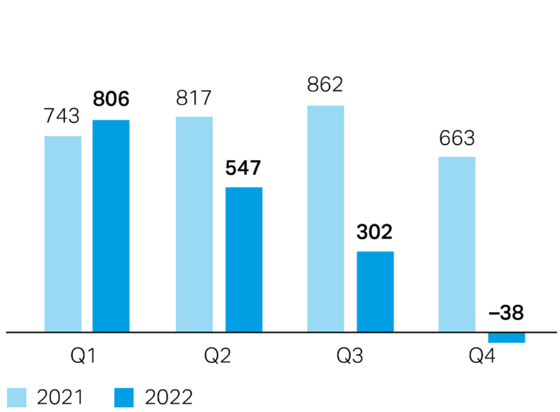
**Covestro Group**
**Quarterly sales**

€ million




**Covestro Group**
**Quarterly EBITDA**

€ million




## Sales

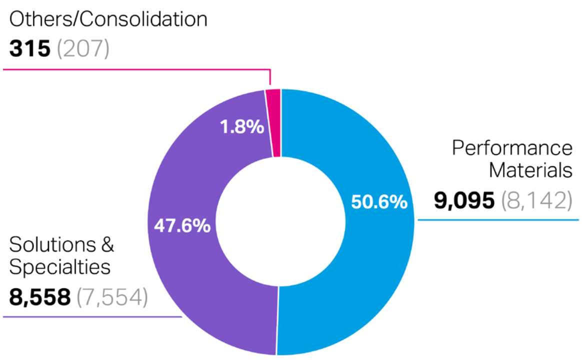
In fiscal 2022, Group sales were up by 13.0% to €17,968 million (previous year: €15,903 million), the highest ever recorded in Group's history. This was mainly due to a considerably higher selling price level, which had a positive impact on sales amounting to 10.1%. Moreover, changes in exchange rates 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.

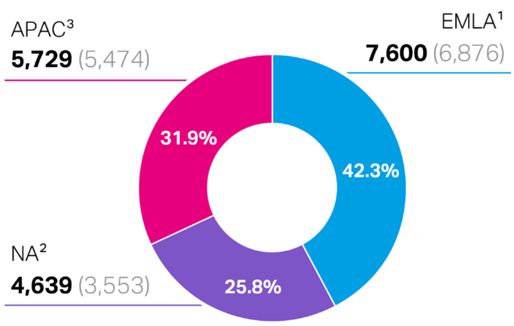
Sales in both segments were up in fiscal 2022. In the Performance Materials segment, sales rose 11.7% to €9,095 million (previous year: €8,142 million), while the Solutions & Specialties segment's sales increased 13.3% to €8,558 million (previous year: €7,554 million).

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 (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 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**

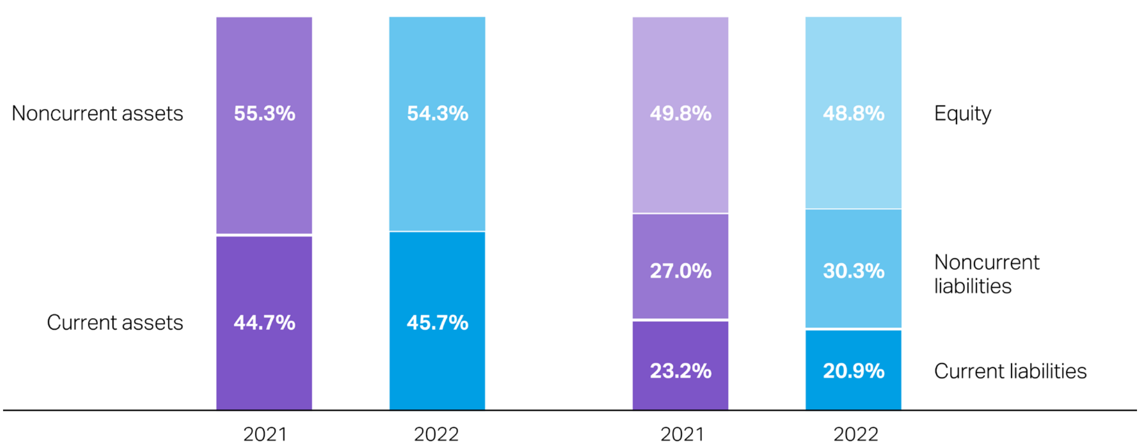
| | Dec. 31, 2021 | Dec. 31, 2022 |
|---|---|---|
| | € million | € million |
| Noncurrent assets | 8,610 | 7,916 |
| Current assets | 6,961 | 6,669 |
| **Total assets** | **15,571** | **14,585** |
| **Equity** | **7,762** | **7,122** |
| Noncurrent liabilities | 4,203 | 4,408 |
| Current liabilities | 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**

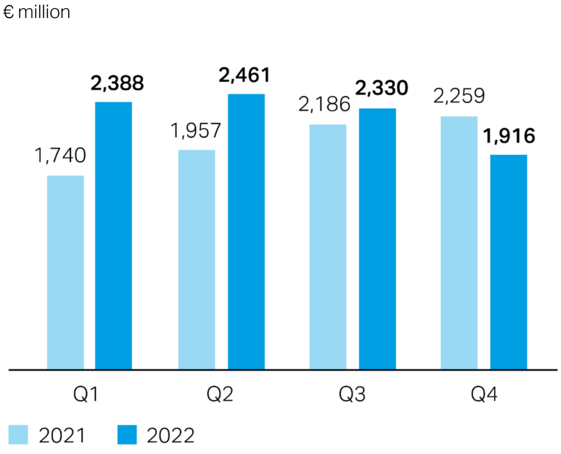
| | 4th quarter 2021 | 4th quarter 2022 | Change | 2021 | 2022 | Change |
|---|---|---|---|---|---|---|
| **Sales (external)** | **€2,259 million** | **€1,916 million** | **–15.2%** | **€8,142 million** | **€9,095 million** | **11.7%** |
| Intersegment sales[1] | €696 million | €644 million | –7.5% | €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% |
| **EBITDA[2]** | **€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 flow[3]** | **€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.

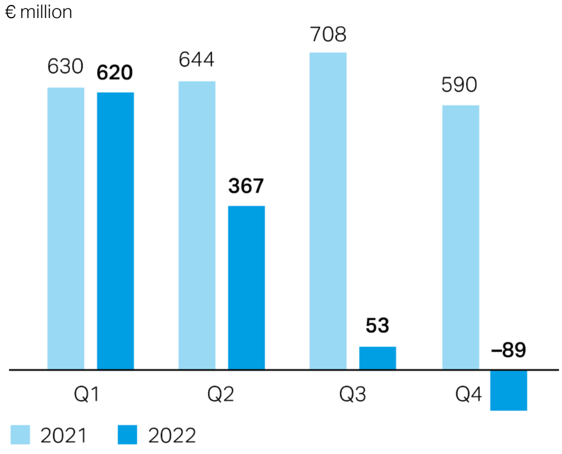
Sales in the Performance Materials segment were up 11.7% to €9,095 million in fiscal 2022 (previous year: €8,142 million). Contributing factors were both the higher selling price level, which added 10.9%, and changes in exchange rates, which accounted for an increase of 5.8%. In contrast, a decline in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




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




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

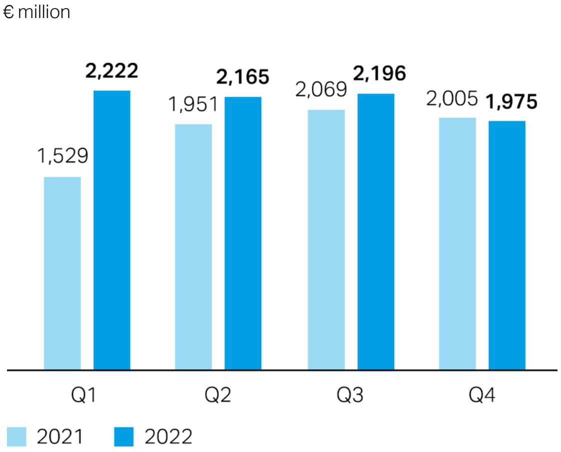
| | 4th quarter 2021 | 4th quarter 2022 | Change | 2021 | 2022 | Change |
|---|---|---|---|---|---|---|
| **Sales (external)** | **€2,005 million** | **€1,975 million** | **–1.5%** | **€7,554 million** | **€8,558 million** | **13.3%** |
| Intersegment sales[1] | €8 million | €7 million | –12.5% | €27 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.

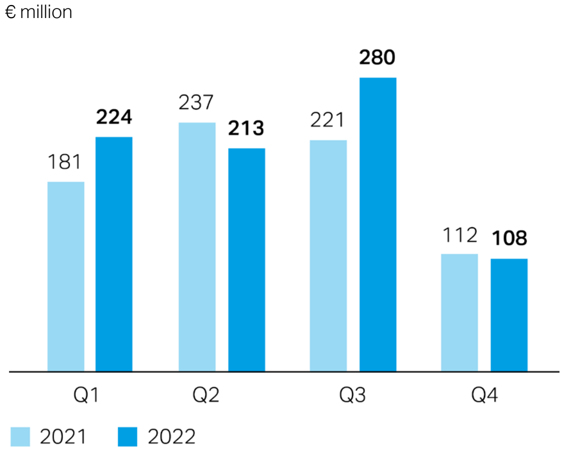
Sales in the Solutions & Specialties segment were up 13.3% to €8,558 million in fiscal 2022 (previous year: €7,554 million). A rise in the selling price level had an increasing effect on sales amounting to 9.4%. At the same time, exchange rate movements and the portfolio effect resulting from the acquisition 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**




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




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.