<u>Annual General Meeting on April 16, 2021</u>

Report by the Board of Management to the Annual General Meeting under Section 203, Paragraph 2 in conjunction with Section 186, Paragraph 4, Sentence 2 of the German Stock Corporation Act on item 7 of the agenda

A proposal will be made to the Annual General Meeting to create Authorized Capital 2021 totaling up to € 57,960,000.00 by issuing new no-par value bearer shares. The new Authorized Capital 2021 is intended to be available for capital increases in return for both cash contributions and contributions in kind, and can also be used in installments, although the total amount may not be exceeded. The new Authorized Capital 2021 will replace Authorized Capital 2020, which the company partially used in October 2020. It will enable the company to act quickly and flexibly without having to wait for the Annual General Meeting or call an extraordinary shareholders' meeting. The proposed amount of the new Authorized Capital 2021 would correspond to a 30 % increase in the current capital stock if used in full.

When authorized capital is used, the shareholders are generally entitled to subscription rights. To simplify settlement, the new shares will also be offered to credit institutions or companies within the meaning of Section 186, Paragraph 5, Sentence 1 of the German Stock Corporation Act with the obligation to offer them for subscription to shareholders. The proposal also calls for the Board of Management to be authorized to disapply subscription rights in the cases listed in the proposal with the approval of the Supervisory Board.

In the case of capital increases in return for contributions in kind, the authorization proposes disapplying all subscription rights with the approval of the Supervisory Board to give the company the option of quickly and flexibly offering Covestro shares to fulfill claims arising from the preparation, performance, execution or settlement of contractual or legal acquisition processes and of mergers of companies without having to turn to the market. Covestro AG is a global competitor and must be in the position at all times to quickly and flexibly act in the interests of its shareholders in international and regional markets. This includes being able to quickly acquire companies, businesses, divisions of companies, equity interests or other assets or claims to the acquisition of assets, including receivables in respect of the company or its Group companies, to improve its competitive position. Granting shares as compensation can be expedient or even required to maintain liquidity or meet buyer expectations. The proposed disapplication of the subscription rights of shareholders in the case of contributions in kind serves this purpose. The dilutive effect of the disapplication of subscription rights will be balanced out by the fact that the expansion of business achieved by reinforcing the company's equity position is being financed by third parties. The existing shareholders, although they will hold smaller shares of equity and voting rights than before, will benefit from the company's growth, which, if subscription rights had been granted, they would have had to finance from their own resources. Stock exchange listing also generally gives each shareholder the opportunity to increase their stake again by acquiring additional shares.

In the case of a capital increase in return for cash contributions, the authorization proposes permitting the Board of Management, with the approval of the Supervisory Board, to disapply subscription rights when new shares are issued in an amount that does not fall significantly below the market price of the company's shares already listed. Taking into consideration current market conditions, the management will endeavor to keep any discount from the stock market price as low as possible when determining the issuing volume. This authorization enables the company to quickly and flexibly take advantage of market opportunities and to meet capital requirements fast. The company aims to be able to issue new shares to one or more institutional investors or for the purpose of attracting new groups of investors, including what are known as anchor investors. Disapplying subscription rights makes a placement close to the market price possible, so there is no discount as is common in rights issues. The proportionate amount of the capital stock attributable to the shares issued under this type of simplified disapplication of subscription rights is not permitted to exceed 10% of the capital stock either at the date the authorization enters into force – or if this amount is lower – at the date the authorization is exercised. This addresses the shareholders' requirement for protection against the dilution of their shareholdings. Moreover, all shareholders have the basic opportunity to maintain their stake by acquiring shares from the market at comparable terms. The shares to be included in calculating the 10% limit are those that are issued or sold during the term of this authorization up to the date of its exercise by direct or analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. In addition, shares issued or granted or to be issued or granted based on a convertible bond or warrant bond issued during the term of this authorization under the simplified disapplication of subscription rights in accordance with this provision are also included in this calculation.

The proposed authorization also stipulates that the Board of Management may disapply subscription rights for fractions with the approval of the Supervisory Board. This type of reasonable disapplication of subscription rights for fractions in line with market practice facilitates exercise of the authorization in whole amounts and therefore guarantees easier settlement. Because it is limited to fractions, the possible dilutive effect is very minimal as a rule.

Moreover, subscription rights can be disapplied, with the approval of the Supervisory Board, to grant the holders or creditors of warrants/conversion rights on shares of the company or corresponding exercise/conversion obligations arising from bonds issued or guaranteed by Covestro AG or its Group companies subscription rights to compensate for dilution to the extent to which they would be entitled after exercising these warrants/conversion rights or after fulfilling these exercise/conversion obligations. This enables the company to provide the holders or creditors of such instruments a standard market form of dilution protection. They are put in the same position as if they were already shareholders. Shareholders' subscription rights to these shares must be disapplied to structure the bonds with this kind of dilution protection.

There are currently no concrete plans to use the new Authorized Capital 2021. The Board of Management will carefully review in all cases whether using the new Authorized Capital 2021 is in the best interests of the company and its shareholders. The Board of Management will report to the Annual General Meeting on the use of Authorized Capital 2021.

Leverkusen, March 2021

Covestro AG
The Board of Management