

# Annual General Meeting 2021

## Successful through the corona year: Covestro 2020

From the pre-publication of the speeches  
by Dr. Markus Steilemann, CEO of Covestro AG,  
and Dr. Thomas Toepfer, CFO and Labor Director of Covestro AG  
(Please check against delivery)

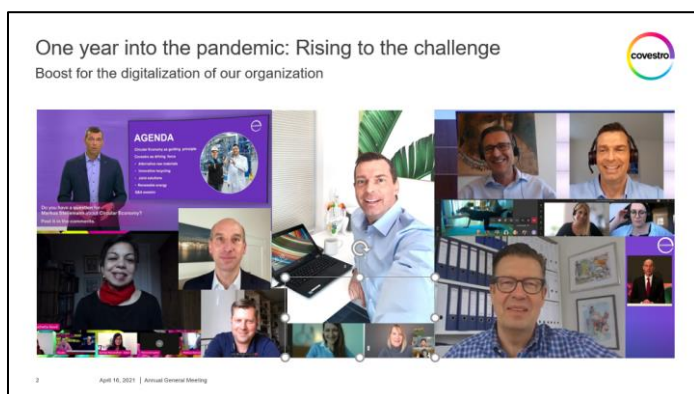
*As of: April 14, 2021*

### Slide 1: Successful through the corona year: Covestro 2020



### Speech by Dr. Markus Steilemann

### Slide 2: One year into the pandemic: Rising to the challenge



Ladies and Gentlemen,  
Dear Shareholders,

On behalf of the Board of Management of Covestro AG, I would like to warmly welcome you to our Annual General Meeting!

Just like last year, we are holding a virtual meeting once again. There is no longer anything unusual about such meetings. Virtual communication has been a fixed part of our lives for more than a year now. And that includes Covestro. The way that we communicate has changed, as has the way we work. We have focused even more intensely on digital solutions and applied them as rapidly as possible around the world. In the process, our team has become an even more tightly knit unit.

We also took another step forward in terms of digitalization during this period. At the same time, a pioneer of digitalization has set his sights on an incomparably greater task: How to avoid a climate disaster.

In a book with this title, Bill Gates, the co-founder of Microsoft, has compiled ideas and suggestions about this task which humanity faces. There is no better moment than now to think once more about this issue.

What do I like about Bill Gates's book? He does not condemn. He seeks solutions. Like us, he believes one thing: high-quality plastics can be the key to a sustainable future.

Gates talks about opportunities. About alternative raw materials. About the possibility of using CO<sub>2</sub> as a raw material for plastics. About how the use of innovative materials pays off for the climate. Such materials could be used to produce lighter vehicles or better wind turbines.

We are already intensively working on these ideas. But this should not surprise any of you. After all, this is the purpose of Covestro: We want to make the world a brighter place.

### Slide 3: Long-term goal pursued: vision defined

Long-term goal pursued: vision defined  
Strategic program around circular economy with four central areas

**We will be fully circular**

- Alternative raw materials
- Innovative recycling
- Joint solutions
- Renewable energies

April 16, 2021 | Annual General Meeting

This is our commitment – and it is a commitment from which even the coronavirus pandemic has not been able to deter us.

Our vision is clear: We will be fully circular. And we intend to be a pioneer on this path.

Today, our production is largely based on fossil raw materials. We are determined to change this by replacing raw materials such as crude oil or coal with more sustainable alternatives. Wherever possible, we are already doing this today. Innovative chemical recycling is closely related to this process.

Our vision is ambitious. And it is technologically demanding. This is why we are working very closely with partners and customers. This alliance extends well beyond our own industry. We are jointly devising new, sustainable business models, and we are making technologies usable on a broad basis. By doing so, we will accelerate our efforts to become fully circular.

Our production is also energy intensive. This is why we are dependent on renewable energies. To achieve our vision, we are driving forward the turnaround in energy policy. We use sustainable energy sources wherever possible. As part of this effort, we will cover a significant amount of our power needs in Germany with offshore wind power. We took a step towards this by signing a long-term agreement with the energy provider Ørsted in December 2019. And we are now also making the transition to renewable energies at our production operation in Antwerp. Since April 1, 2021, we have been sourcing around 45 percent of our power needs in that location with wind energy. This is how we are reducing Covestro's carbon footprint in Belgium by more than 38,500 metric tons of CO<sub>2</sub>. This is roughly the amount of emissions that 20,000 cars produce in one year. We firmly believe one thing: By taking such steps, we are generating significant momentum that will lead to more sustainable industrial production.

**Slide 4: Further action: Acquisition of DSM's RFM business**

Further action: Acquisition of DSM's RFM business  
Transaction successfully completed as of April 1, 2021

- Expand position in attractive growth markets
- Reduce dependence on individual customer industries
- Strengthen high-margin specialty chemicals business (Sales volume: + around €1.0 billion)
- Attractive valuation and synergy potential

Covestro thereby becomes a leading supplier of sustainable coating resins

Ladies and Gentlemen,

Sustainable growth is one of our core goals. One further example of this commitment is the acquisition of the resins & functional materials business – or RFM – from DSM last September. We successfully completed this transaction on April 1 of this year. We are now one of the world's market leaders when it comes to sustainable coating resins. This acquisition enabled us to reach

a key milestone in the implementation of our strategy. And we were able to do so despite all of the challenges posed by the coronavirus pandemic to our operating business last year.

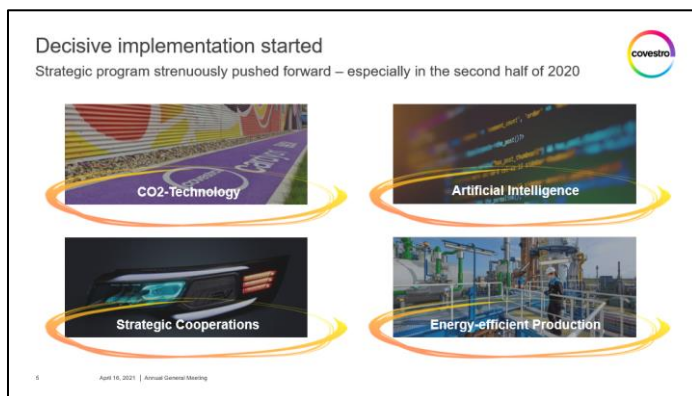
RFM is an ideal fit for us. The products and technologies perfectly complement the portfolio of our segment Coatings, Adhesives, Specialties – or CAS. In total, RFM will contribute about €1 billion to Group sales.

This acquisition will also enable us to expand the basis of our customer industries. At the same time, we will systematically expand our position in fast-growing markets.

RFM has already pursued ambitious sustainability goals as part of DSM. Today, roughly 85 percent of its portfolio already consists of sustainable technologies. As a result, this transaction represents an important step on our way to more sustainable business practices.

The integration is now underway. As a result, we expect to generate synergies totaling €120 million annually starting in 2025. The acquisition price of around €1.6 billion thus represents 5.7 times RFM's EBITDA after synergies. This means the acquisition is very attractive in financial terms as well!

## Slide 5: Decisive implementation started



Our RFM acquisition was by no means our only major development in 2020. Another example is our use of CO<sub>2</sub> as a raw material. This development is a critical step in our effort to create circular processes. Last year in Shanghai, we laid a sidewalk made of our CO<sub>2</sub>-based material Cardyon® for the first time. This material reduces the use of crude oil during production by up to one fifth. And it can be used in a wide range of areas as well, including the production of mattresses and upholstered furniture, as well as car interiors.

We also made new strides in our work with artificial intelligence. We intend to use digital technologies to increase our company's efficiency and to make it more sustainable. One example

of these efforts is the partnership which Google and Covestro initiated in the area of quantum computing. Together, we are further developing this technology to use it to solve chemical challenges. This will mean significant time savings, reduced use of resources and more efficient and environmentally conscious processes.

We have already achieved some major successes with such strategic partnerships. One of the first partnerships that comes to mind is our alliance with Neste and Borealis. Together we are working on replacing fossil raw materials with sustainable materials. And we are doing so successfully. Today, we can use certified mass-balanced raw materials to produce polycarbonate: Renewable raw materials are allocated to selected end products, thus facilitating the creation of a wide range of sustainable products.

We reached an important milestone in production as well. Since October 2020 we have been successfully operating a pilot facility in Brunsbuettel based on our new AdiP technology. This technology has eliminated the need for an external heat supply during reaction control. This helps lower the CO<sub>2</sub> emissions of our production facilities there. In Brunsbuettel we are optimizing technology from Germany for the world. This will massively improve the energy efficiency of our production.

Our awareness for the environment is continuously expanding in every area of our lives. Our customers are also demanding more sustainability. Policy initiatives like the European Green Deal are pointing the way. CO<sub>2</sub> emissions must decline. With our technologies, we are well prepared for this development. We are actively lowering the CO<sub>2</sub> emissions of our production facilities. We are also improving the carbon footprint of our value chains. We have the answers we need to become a pioneer in the chemical industry.

## Slide 6: Proper response: consistent pandemic management

Proper response: consistent pandemic management  
Measures against influences of coronavirus pandemic

Protective measures for employees

Maintenance of supply chains

Financing measures

Liquidity management

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Regardless of our long-term goals, I can certainly say that the year 2020 was dominated above all by the coronavirus pandemic. We took fast and decisive measures after the virus broke out.

The health of our employees is and will always be our highest priority. Most of our administrative staff works remotely. This is not always an option in production. For this reason, we acted very quickly and implemented a wide range of hygiene and protective measures here. One of these measures was issuing additional personal protection equipment to employees. We also minimized the contact points between individual work shifts in production. Furthermore, we are now providing employees with self-tests at our German locations.

Of course, we are supporting the German government's vaccination campaign as well. We want to offer voluntary and free immunization shots to our employees in Germany, and to make use of our infrastructure and medical facilities for this purpose. There is of course an essential prerequisite for this: sufficient supplies of vaccine, not only for our work force in the plants but also for the general population. And the necessary political framework must have been created.

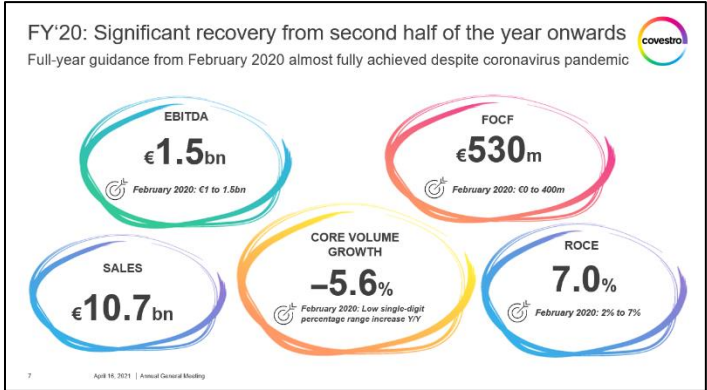
We have also actively managed our supply chains. Thanks to this, we have been able to reliably supply our customers.

We faced broad economic uncertainties particularly at the beginning of the pandemic. It was even more important to maintain our ability to act at any time. One key factor was strengthening our liquidity position. We introduced a wide range of financing measures to achieve this goal. On December 31, 2020, Covestro had an exceptionally strong liquidity position of €2.5 billion. We also created a strong liquidity reserve with our €2.5 billion syndicated credit facility. We link our financing measures to sustainability criteria wherever possible. The reason is clear: Our vision is the foundation of each entrepreneurial decision we make. Thomas Toepfer will take a detailed look at this in a few minutes.

At this point, I would like to highlight one liquidity safeguarding measure in particular. Because it impressively reflects our "we are 1" culture. In the spring of 2020, a time when the first pandemic wave was cresting, the economic outlook for the year appeared to be bleak. We agreed with the employee representatives on a special act of solidarity: a voluntary cut in wages and salaries that was combined with reduced work hours. The result: 96 percent of the company's workforce in Germany, including the Board of Management and Supervisory Board, took part in the program. Our colleagues at international Covestro locations devised similar, country-specific measures of their own. The level of wage and salary cuts varied. The fixed portion of remuneration paid to members of the Board of Management and the Supervisory Board was reduced by 15 percent for six months. The compensation of employees was reduced less on a staggered basis. We have not used the German government's temporary unemployment program or any other government support at any time. Our measures succeeded as well. In December 2020, we were able to reward to all individuals who took part in the program by making bonus payments that equaled the total amount of wages and salaries that each individual had given up. In other words, they earned the same amount of money for less work.

This is a tremendous proof of our company's team spirit. And a special word of thanks to all employees who did such exceptional work last year.

**Slide 7: FY 2020: Significant recovery from second half of the year onwards**



All these measures were really successful. This becomes particularly clear when you compare our results with the pre-corona guidance we issued in the beginning of 2020.

The pandemic slammed the brakes on global industrial production in 2020. We, too, experienced declines in core volume growth. This is largely the result of our performance in the first half of 2020. During this time, our business was massively affected by the pandemic worldwide. Beginning in the third quarter, demand rebounded strongly. And it did so in all customer industries and regions. Nevertheless, we generated our strongest quarterly performance in the past two years during the fourth quarter. Our Group sales totaled €10.7 billion. This total fell within the range that analysts had expected under pandemic conditions.

More important for us is what we ourselves could control better. Before the pandemic, we guided an EBITDA of €1.0 billion to €1.5 billion. And we generated €1.5 billion despite the pandemic. This clearly shows one thing: We took the right steps. We significantly exceeded our pre-corona guidance for free operating cash flow with a total of €530 million. At 7 percent, our return on capital employed also finished the year at the upper end of the guidance that we originally issued for 2020.

When you add it all together, you can say that we responded quickly and correctly to the crisis. We retained our ability to act at all times. And we delivered strong results.

I would now like to turn the floor over to Thomas Toepfer. He will provide you with a detailed look at the results of the past fiscal year. Thomas, the floor is yours.



## Speech by Dr. Thomas Toepfer

### Slide 8: Financial results: strong finish to an exceptional year

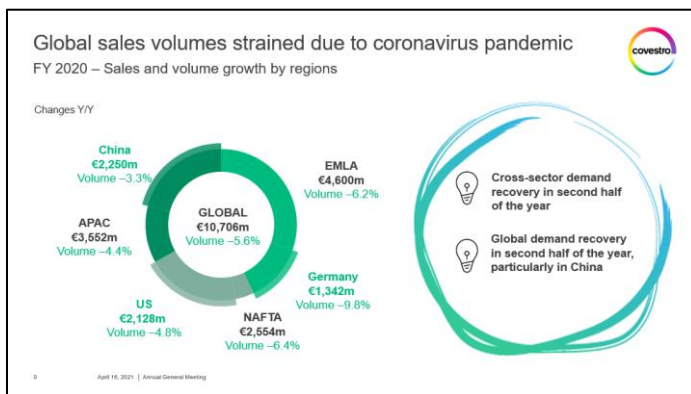


Thank you, Markus.

Dear shareholders,

I, too, would like to welcome you to our virtual Annual General Meeting. It is a great pleasure for me to present the results for fiscal year 2020 to you.

### Slide 9: Global sales volumes strained due to coronavirus pandemic



Let's start by looking at the development of our core volumes. You can see that the pandemic had a negative effect in all regions. Core volumes declined everywhere: by 4.4 percent in the Asia-Pacific region, by 6.4 percent in North America and by 6.2 percent in Europe. Overall, core volumes fell by 5.6 percent.

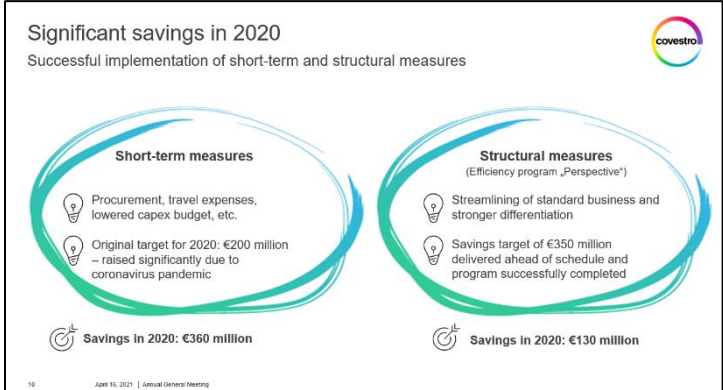
But global demand for our products rebounded strongly in the second half of the year. In Europe, we began to grow again in the third quarter year on year. North America also picked up



considerable steam in the fourth quarter year on year. In China, we even returned to the growth path starting in the second quarter.

We also generated growth in some sales industries during fiscal year 2020 in spite of corona. These sectors included the construction industry in Asia, the electronics industry in Europe and the furniture and wood industries in the United States. This shows that demand for our products remains high. And it remains so even during a global pandemic.

**Slide 10: Significant savings in 2020**

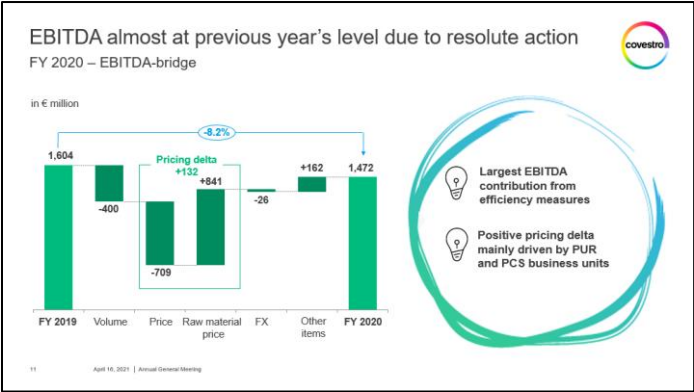


The economic downturn we experienced in the first half of the year initially created challenges for us – just as it did for all companies. Bolstering our liquidity position was a critical success factor for us in this situation. We needed to take this step to preserve our ability to act.

We responded quickly and decisively to the situation for this reason and intensified our short-term cost-saving measures. These efforts affected such areas as procurement, travel expenses and lower capex budget. We originally planned to lower costs by €200 million in 2020. We raised this goal significantly and had achieved savings of €360 million by the time the year ended.

We also profited from long-term structural measures. We continued to consistently implement our ongoing efficiency and effectiveness program "Perspective", and successfully completed it ahead of schedule at the end of the year. By streamlining our standard business, we lowered costs by an additional €130 million in 2020. Over the entire program we generated cost savings of €350 million as planned.

**Slide 11: EBITDA almost at previous year’s level due to resolute action**

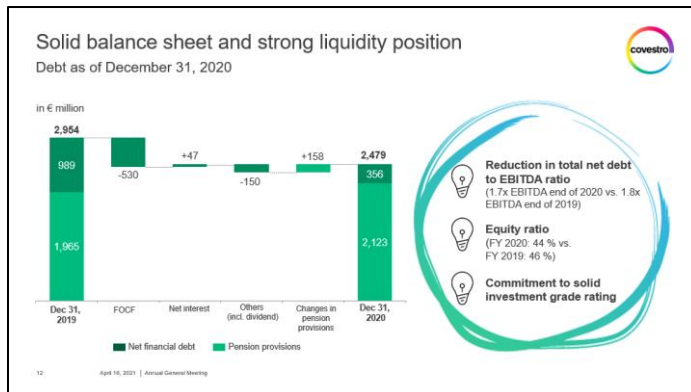


Ladies and Gentlemen,

We reacted at the right time in the face of the pandemic. Our package of measures made a significant contribution to our strong performance. This package was bolstered by a turnaround in demand that began mid-year. This enabled us to return to our growth path in the second half of the year. At approximately €1.5 billion, our earnings almost reached the level seen in the previous year. It was an incredible success for such an unusual year!

The largest negative effect in the EBITDA bridge is primarily attributable to the pandemic-related decline in sales volumes. This had a total impact of €400 million on our earnings. Exchange rate effects were slightly negative at €26 million. The price delta was slightly positive during the entire year at €132 million. The “Other items” category had the largest positive effect on EBITDA. This area includes savings produced by short-term measures and our “Perspective” efficiency and effectiveness program that totaled €350 million.

## Slide 12: Solid balance sheet and strong liquidity position

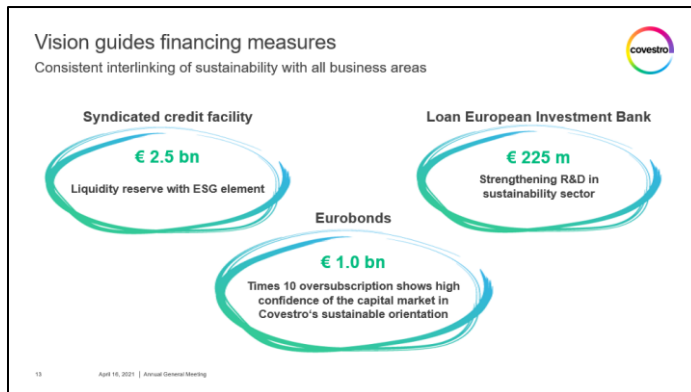


Let's now turn to the balance sheet for fiscal year 2020. Covestro is very solidly positioned. We strengthened our balance sheet last year even as we grappled with the substantial strain caused by the coronavirus pandemic. We reduced our net debt by nearly €500 million to about €2.5 billion. Our leverage ratio also declined slightly year on year. It totaled 1.7 times our EBITDA at the end of the past fiscal year. At the same time, our equity ratio remained virtually stable at a solid level of 44 percent. This is also linked to our continued commitment to maintaining a solid investment grade rating.

At €2.5 billion, Covestro has an exceptionally strong liquidity position. There are two primary reasons for this. First: strong free operating cash flow at the end of the year. Second: the capital increase we conducted in October 2020 to help refinance the RFM acquisition. As part of an accelerated placement process, we issued 10.2 million shares and generated gross proceeds of €447 million. We used these proceeds to finance part of the RFM acquisition. We also successfully issued bonds with a total volume of €1 billion in June 2020.

Our strong liquidity position helped us in particular to maintain our ability to act at any time. Even in the face of the pressures caused by corona, we were able to carry out the acquisition of RFM and bring the deal to a successful conclusion shortly before Easter this year. The pandemic, however, is not over. Even if our business has rebounded strongly in the second half of the year, overall economic conditions remain uncertain. As a result, a strong liquidity position remains all the more important this year. Our syndicated line of credit totaling €2.5 billion provides us with a robust liquidity reserve. We can tap into this reserve whenever we need to.

## Slide 13: Vision guides financing measures



This topic brings us to the issue of financing. Let me look at this issue now from a different perspective.

Covestro is becoming fully circular. This is our vision. It guides not just our operating business. It really is the foundation of all our entrepreneurial activity.

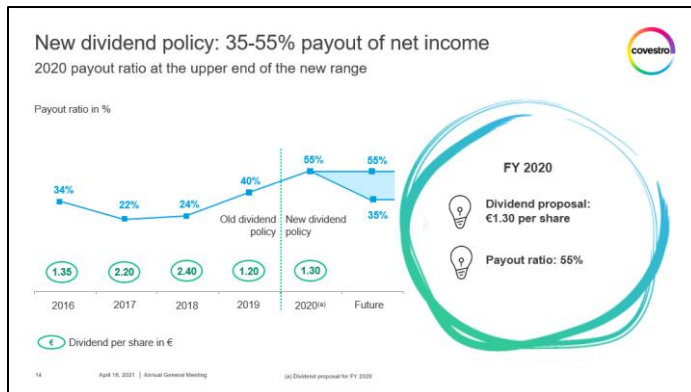
This is why we also based the financing measures we took last year on the circular economy and sustainability.

Our syndicated credit line of €2.5 billion is a good example of this approach. We linked it to an ESG rating. This means that the better we are at meeting the environmental, social and governance standards underlying the rating, the lower the interest rate component will be. In doing so, we will create further incentives for sustainable business development.

The fact that we are already well positioned in these areas is also shown by the loan of €225 million from the European Investment Bank. Loans issued by this bank are tied to the fulfillment of high technical and environmental standards. And we are investing the entire loan proceeds in sustainability-focused research projects.

As you can see, our systematic focus on the circular economy steers the actions of each of our divisions. The 10 times oversubscription of the bond we issued in June 2020 reflects investors' continued interest in our company. It was an impressive expression of the confidence that they have in the path we are following.

## Slide 14: New dividend policy: 35-55% payout of net income



Dear shareholders,

We want you to participate in the success of our company and pay out an attractive dividend. This is a tradition at Covestro. We will continue to follow this tradition in the future, too.

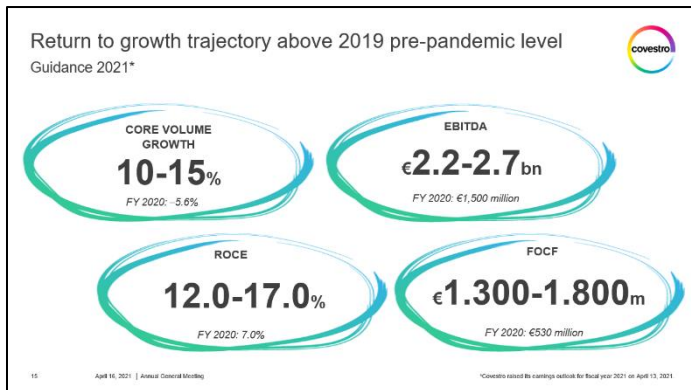
Today, we are proposing a dividend of €1.30 per share. Despite corona, this recommendation exceeds the €1.20 dividend per share that we paid for 2019.

We also plan to modify our dividend policy. In the future, we would like to distribute between 35 percent and 55 percent of our net income.

This will enable us to react more flexibly to developments in our business and to create a stronger link to the overall business situation of Covestro. In years with high earnings, we will tend to focus on the lower end of the scale while still paying high dividends. In challenging years, we will orientate the payout on the higher end of the scale. By taking this approach, we will ensure that our investors always receive an attractive dividend.

Our proposal for the past fiscal year amounts to a payout ratio of 55 percent. This puts us at the upper end of the scale.

## Slide 15: Return to growth trajectory above 2019 pre-pandemic level



Finally, let's look at our guidance for the year 2021, which we raised for our EBITDA, free operating cash flow and ROCE on April 13, 2021.

We have gained tremendous momentum since the second half of 2020 and we closed the fourth quarter very successfully. Also, we entered the new fiscal year with good impetus.

We therefore expect strong core volume growth of 10 percent to 15 percent for fiscal year 2021. The RFM business will contribute 6 percentage points to this total. Overall, we will be able to more than offset the decreases caused by the pandemic and will exceed our core volumes from 2019.

We now expect EBITDA to total between €2.2 billion to €2.7 billion, in line with our adjustment this week. Here, too, we will exceed the pre-pandemic level of €1.6 billion from 2019. We expect our return on capital employed to total between 12 percent and 17 percent. We are striving to have free operating cash flow of €1.3 billion to €1.8 billion. This represents a significant increase from 2019.

Our outlook for the first quarter of 2021 is positive as a result. Preliminary EBITDA for the first quarter is EUR 743 million, a level that represents our strongest quarter in the last two and one-half years. For the second quarter, we expect EBITDA of between EUR 730 million and EUR 870 million.

With this very positive outlook, I will now hand back over to Markus Steilemann.

## Speech by Dr. Markus Steilemann

### Slide 16: Realignment of the strategy: vision as guiding principle



Thank you, Thomas.

Ladies and Gentlemen,  
Dear shareholders,

This past year was a challenging one. For the world. For Germany. For Covestro. But we responded accordingly. And we brought this exceptional year to a successful conclusion. We reinforced our position as one of the world's leading chemical companies. We are proud of this achievement. But we will not rest on our laurels.

The world will continue to change rapidly. Digitalization is certainly one good example of this. The coronavirus pandemic acted like an accelerant here last year. Sustainability and climate protection are two other examples that are worth mentioning as well. The pandemic has overshadowed their importance only temporarily. Climate change. Environmental pollution. Dwindling resources. These areas will remain the big challenges of our time.

They will also have an impact on our customer and sales industries. I am thinking here about such things as the growing importance of electromobility. About low-energy building techniques. And about structural changes in the energy industry.

Climate and environmental protection affect us all. They are global challenges. With our high-performance products, we want to contribute to the solution. For this purpose, we are reducing our energy usage and the emissions generated during production. And we rely on sustainable raw materials.

We are firmly convinced of one thing: The circular economy is part of the response to these global challenges. This is why we are moving resolutely forward. We will not stand still. We will



respond to change. And we will position Covestro in the best possible way for the future. For this reason, we have realigned our strategy in recent months.

**Slide 17: Strategy follows the vision**



The new strategy called “Sustainable Future” follows our vision: We will become fully circular. We are fostering a climate-neutral and resource-conserving economy. With the help of circular products, we are working on ways to solve the pressing challenges of our times. In doing so, we are paving the way for tomorrow.

The new strategy consists of three chapters. In chapter one, we will become the best version of our company. We will create even more streamlined structures that will enable us to unleash our full potential.

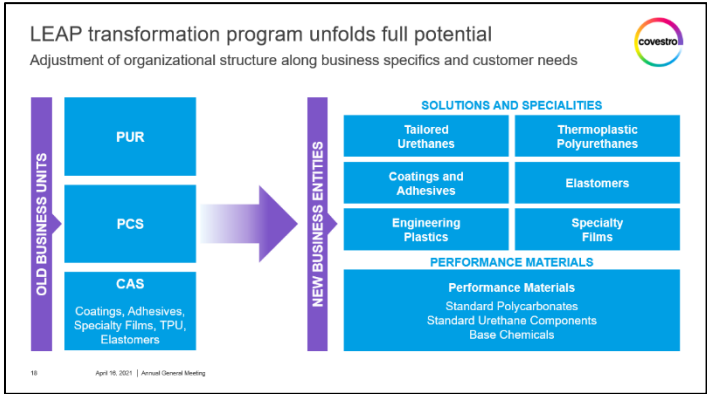
In chapter two, we will combine sustainability and efficiency. This means that we will systematically align investments and acquisitions with these goals. We will invest in attractive and sustainable market segments over the long term. However, sustainability is not the only criterion. We will also base our investments on clear profitability criteria. By taking this approach, we will create the maximum level of value for Covestro – and our shareholders.

Furthermore, we will explicitly base our research and development activities on sustainability. Eighty percent of our development projects should be based on the United Nations’ Sustainable Development Goals by 2025. We will also draw on these U.N. goals in our efforts to make our product portfolio even more sustainable. In the process, we will systematically foster sustainable growth.

The third chapter covers our vision. We intend to do our part to accelerate the transformation to a climate-neutral and resource-conserving economy. The specific aim is to move completely away from fossil raw materials. This shift will apply first of all to electricity supply. We are working intensely to become a company that obtains 100 percent of its power from renewable energy

sources. Production is a key lever in this effort as well. Over the long term, we will replace raw materials like crude oil with alternatives like biomass, CO<sub>2</sub> or recycled waste materials. By taking such steps, we will close the carbon loop and move ever closer to achieving our goal of becoming climate-neutral. This is a goal that applies not only to Covestro, but also to our upstream and downstream value-creation stages.

**Slide 18: LEAP transformation program unfolds full potential**



We are making rapid progress in implementing our new strategy. We will reach one of our first major milestones this summer. As part of the first chapter of our strategy, we will tailor our business even more closely to the needs of individual markets. And, above all, to the needs of our customers.

What does that mean specifically? As of July 1, we will restructure our organization. We will realign our three business units into seven new business entities and will operate them along their own individual success factors. The new entities will be given more entrepreneurial responsibility. We will integrate all operational activities that are critical to success directly into the new units. Sales and production will also become part of the units' areas of responsibility. They will be able to provide their customers with the best possible support as a result.

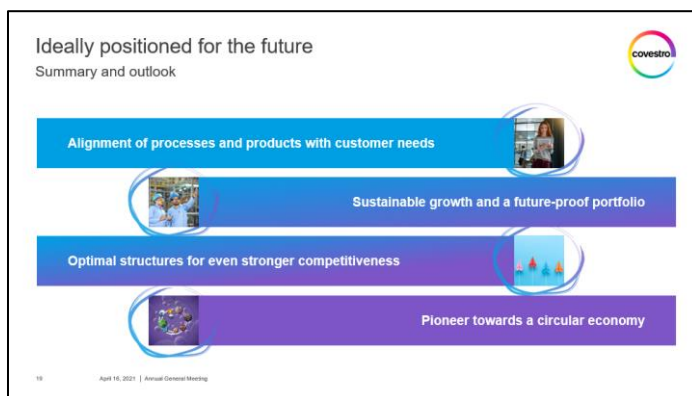
The new units will be divided into two large segments. Performance Materials on the one hand. And the Solutions and Specialties business on the other.

In taking this step, we are moving with our customers. Their requirements differ completely in both areas. In the Performance Materials area, we reliably supply customers with high-quality standard chemicals at competitive prices. The willingness of customers to change suppliers in this area is high. This will mean two things: First, we will have to expand our global cost leadership. Second, we will have to ensure the availability of our products. Optimal utilization of our production facilities will be a key to this.

On the other hand, we have the Solutions and Specialties business that involves complex products with a high level of innovation pressure. The needs of customers in this area are much more individual. We address them by offering tailored products and solutions. We draw on our technical expertise to facilitate the development and refinement of specialty products.

Our new structure will enable us to do this even better. Instead of categorizing our products on the basis of their chemical composition, they will instead be clustered according to their specific customer requirements. This will enable us to become an even better partner for our customers and to become much more competitive.

### Slide 19: Ideally positioned for the future



Let me conclude with a short summary.

We demonstrated last year that Covestro can masterfully manage a crisis. But we will not simply be content with this. Not at all. We are actively setting the right course for the future. We are focusing even more strongly on our customers. And we are basing our processes and products even more closely on their needs. In taking this step, we are determined to become the best partner our customers could ever have.

With our new strategy, we combine sustainability and efficiency. By investing in attractive and sustainable market segments, we are systematically fueling the development of a future-proof portfolio. As a result, we will generate long-term growth.

With the help of our tailored structures, we will become significantly more effective and efficient. We will become the best version of who we are, and we will become even more competitive.

In short: We are laying the optimal foundations to not only maintain our leading position, but also to expand it. In the process, we will remain, without a doubt, the driving force behind efforts to

drive a circular economy. We are pleased to have you at our side on this journey. Thank you for your attention.

**Slide 20: Thank you for your attention**

